



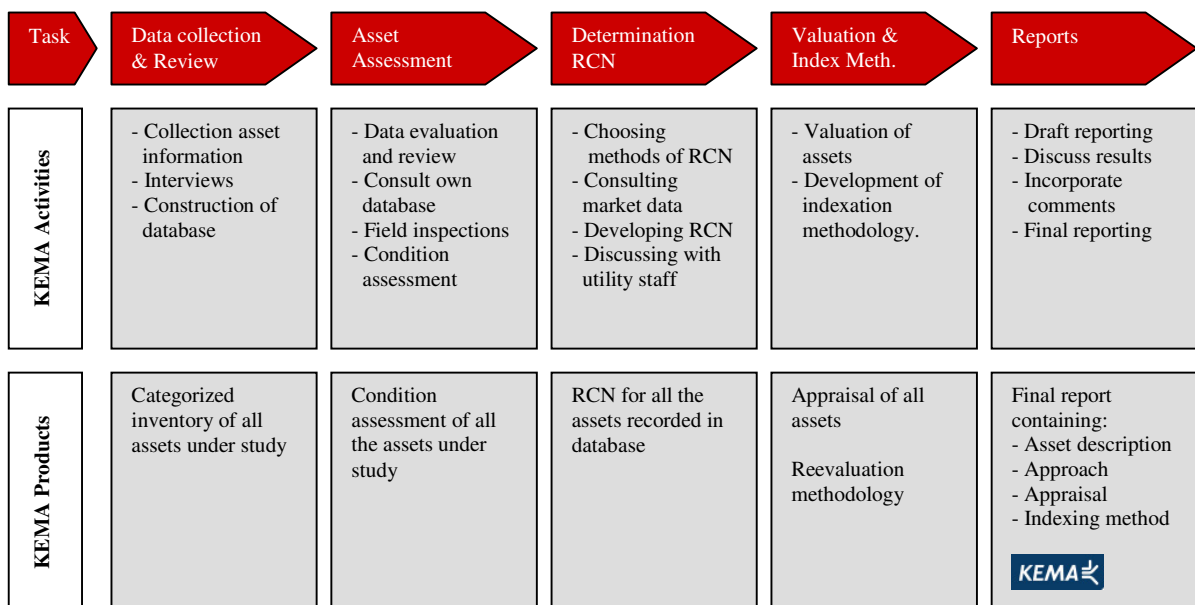
Approach and Methodology

KEMA will approach valuation studies with a team of international operating consultants with expertise in the power generation and T&D fields.

KEMA's approach to the content of the studies will include at least the following activities:

- data collection: gathering of all available data from the utility on assets being studied
- interviews with utilities personnel to gain thorough knowledge of system assets, maintenance plans and schedules, asset retirement or improvement projects planned, and all other pertinent information
- review of asset records for accuracy
- visual inspections of representative sample of equipment to determine condition and useful life
- determination of replacement costs new (RCN) for the assets
- review of depreciation records and methodologies for the assets
- valuation of assets
- development of periodic appraisal methodology for future updates
- education of utility staff in the periodic appraisal methodology if developed.

This approach is depicted in the following graphic:





Detailed Scope of Work

Following the general approach outlined above, KEMA will break the work into specific tasks. The tasks are outlined as follows:

Task 1 – Data Collection & Review

Essentially this task will be the construction of a database that will serve as the primary reference for all project work. This task will entail the collection, review and familiarization of all appropriate data by KEMA consultants. Records to be collected and reviewed will be all asset registry information, maintenance records, capital improvement projects completed and planned, asset retirements planned, current financial reports, valuations, and accounting information and all other pertinent data. This information will be used to develop listings of all assets to be valued including descriptions and ratings, commercial operation date, capital costs, expected life, planned retirements, etc. Utility staff will provide the data requested by KEMA for this task.

Task 1 will also include interviews and discussions with utility staff engineers, accountants, managers and others as necessary.

Task 1 Product: Categorized inventory of all assets under study.

Task 2 – Asset Assessment

This task will be the characterization and condition assessment of the assets under study. Data evaluation and review will determine the degree of site inspection and condition assessment required, however, there will be adequate field inspection performed to verify the condition of assets and to develop a common reference of equipment condition for the appraisal activity to follow. Field inspection will be performed at all generating stations, all substations and at a representative number of T&D structures.

Task 2 Product: Documented estimate of useful life of assets and asset groups. The useful life of the assets / asset groups will be input for the remaining lifetime model.

Task 3 – Determination of Replacement Costs

KEMA will in this task develop the database of replacement costs new (RCN) for the assets under study. Information currently held by KEMA in corporate databases as well as general market data will be used to determine RCN for the various generation



and T&D assets under study. The sources of data and methodologies used to determine RCN will be documented thoroughly for presentation to the utility as part of the final report. KEMA will also, during the course of the financial determinations, discuss methodologies with utility staff to insure understanding and agreement with the techniques being used.

Task 3 Product: Replacement cost new for the assets and asset groups under study.

Task 4 – Asset Valuations

The valuation of assets will occur in Task 4 following the determination of RCN and review and application of depreciation data from the utility. The asset value will be based on the RCN with adjustments for physical depreciation, functional (or technical) obsolescence and economic obsolescence. A remaining life time model, based on statistical grounds and adjustable for local circumstances is used to determine the physical depreciation. The final asset appraisal, as outlined by the utility, will conform to the account methodology used by the company.

Task 4 Product: Value of the assets under study.

(Optional) Task 5 - Index Methodology

This task will include the development of an indexation methodology for future updates to the appraised asset values. It is expected that the indexation will be tied to an acceptable industry and economic reference with clearly articulated adjustments based on the unique characteristics of the utilities system.

Deliverables

Final Report

The final deliverable for this project will be a detailed report. The report will, at a minimum, address the following topics:

- Characterization of the utilities system
- Methodology used in performing the study
- Explanation of any unique approach or variations from generally accepted procedures for asset valuations
- Detailed asset values with appropriate supporting detail



- Description of indexing methodology for annual adjustments to asset values (optional)

The utility will be provided a draft report for review approximately at the completion of Task 4. Preparation of a formal final report will begin following the review and comments by the utility. A presentation of the final report by the KEMA consultants is included as part of the deliverable.

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