QUEENSLAND
COMPETITION
AUTHORITY

Electricity Distribution: Regulatory Reporting Guidelines

Version 4.0
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1. OVERVIEW

The Authority originally released its Electricity Distribution: Regulatory Accounting and Information Guidelines as part of its Final Determination on Regulation of Electricity Distribution in May 2001 and in accordance with Authority's Electricity Distribution: Ring-Fencing Guidelines released in September 2000. The Final Determination and the Ring-fencing Guidelines required Distribution Network Service Providers (DNSPs) to submit annual audited regulatory accounts for the entire business of the DNSP, including a separate set of accounts for each business segment of the regulated DNSP. These accounts were to be prepared in accordance with Regulatory Accounting and Information Guidelines developed and published by the Authority.

The Guidelines were initially presented as Appendix D of the Authority's 2001 Final Determination on Regulation of Electricity Distribution. The Authority then engaged in a consultation process with the DNSPs to work through the practical implementation of the Guidelines. This process identified some amendments.

The Guidelines were released as a stand alone document in May 2002 with version 3.0. This version was revised again in August 2003 (version 3.1) and in September 2004 (version 3.2).

The Authority flagged some substantial changes to the Guidelines in its 2005 Draft Determination and confirmed these in it 2005 Final Determination. Among the changes proposed was a change of name to the Regulatory Reporting Guidelines which are issued here in version 4.0. The changes contained in this version are aimed at ensuring the reporting of more consistent and comparable financial information over time. These Guidelines are to take effect for the 2005-06 reporting period and thereafter.

The Guidelines will continue to be revised from time to time and the Authority welcomes comments, discussion, or suggestions for amendments to these Guidelines, from any interested party. Any contribution in this regard should be addressed to:

The Queensland Competition Authority
Level 19
12 Creek Street
Brisbane 4000
Email: electricity@qca.org.au
Facsimile: (07) 3222 0599

2. INTRODUCTION

These Guidelines detail the financial information that a ***DNSP*** must report to the ***Authority***.

The financial information provided to the ***Authority*** pursuant to these Guidelines will enable the ***Authority*** to:

- ensure the correct allocation of revenue and costs between ***DNSP*** and ***Non-DNSP Entities*** and among ***DNSP Business Segments***;
- inform ***Price Determinations***;
- measure actual financial performance of ***DNSPs*** against forecast;
- publish information on the financial performance of ***DNSPs***;
- improve the level(s) of transparency in regulatory processes;
- generally give effect to the objectives of the ***Authority*** as stated in the ***Code*** and the *Electricity Act 1994*; and
- perform other functions under the ***Code*** and other Acts.

To ensure that the information obtained pursuant to these Guidelines is relevant, the ***Authority*** proposes to amend the Guidelines from time to time to meet the changing needs of the ***Authority*** and to reflect evolving regulatory practice and experience.

The ***Authority*** will consult with the ***Licensees*** and other interested parties in respect of such amendments.

The ***Authority*** acknowledges that there may be commercial sensitivity attached to the disclosure of information concerning the non-regulated activities of the ***DNSPs*** and/or ***Non-DNSP Entities*** and has no present intention of disclosing such information, other than where it is necessary to explain the allocation of common costs. The ***Authority*** will consult with the ***Licensees*** in respect of the disclosure of information about their regulated activities.

3. THE NATURE OF THE GUIDELINES

3.1 Authority and Purpose

The authority to publish these Guidelines is contained in clause 6.10.6 of the ***Code*** that provides for the ***Authority*** to obtain certified financial statements in a form determined by the ***Authority*** under the ***Code*** and supports the ***Authority's*** objectives as stated in Chapter 6 Part D of the ***Code***.

Clause 7 of the ***Distribution Licences*** requires that the ***DNSP*** must provide the ***Authority*** with any information the ***Authority*** requests relating to the ***Licensee's*** activities conducted under or in connection with this authority granted under the ***Distribution Licence***.

Paragraphs 1(c), (d) and (e) of the ***Authority's*** *Electricity Distribution: Ring-Fencing Guidelines* require that a ***DNSP*** must:

- establish and maintain a separate set of accounts in respect of its ***Prescribed Services Segments***;

- establish and maintain a separate consolidated set of accounts in respect of the entire business of the ***DNSP***, including establishing and maintaining a separate set of accounts in respect of ***Excluded Services*** supplied by the ***DNSP***; and

- allocate any costs that are shared between an activity that is covered by a set of accounts for the ***Prescribed Services Segments*** and any other activity, including any activity performed by another ***entity***, in a manner that ensures there is no cross-subsidy, and according to a method for allocating costs that is approved by the ***Authority***, is generally consistent with the objectives of the ***Code*** and is otherwise fair and reasonable.

The focus of these Guidelines is on financial information requirements.

The Guidelines include financial information requirements relating to ring-fence regulated activities, but do not address structural issues regarding ring-fencing. The ***Authority's*** *Electricity Distribution: Ring-Fencing Guidelines* address such issues.

The ***Authority*** also needs information about a ***DNSP's*** service quality performance. The associated information is required to be submitted in accordance with the ***Authority's*** *Electricity Distribution: Service Quality Reporting Guidelines*.

These Guidelines stipulate the minimum financial information requirements of the ***Authority***. The obligation of a ***DNSP*** to comply with these Guidelines:

- is additional to any obligation imposed under any other law applying to a ***DNSP's*** business; and

- does not derogate from such an obligation.

3.2 The Authority's Objectives

Chapter 6 Part D of the ***Code*** sets out the objectives and principles of the economic regulation regime to be administered by the ***Authority***.

Clause 6.10.2 defines aspects that the economic regulation of distribution networks must seek to achieve. In particular, it states that, with respect to the form of regulation, and practical implementation, the following outcomes are particularly relevant:

- an efficient and cost-effective regulatory environment;
- an incentive-based regulatory regime which:
  - provides an equitable allocation between distribution network users and distribution network owners of efficiency gains reasonably expected by jurisdictional regulators to be achievable by the distribution network owners;
- reasonable recognition of pre-existing policies of governments which are distribution network owners regarding distribution asset values, revenue paths and prices;
- reasonable and well defined regulatory discretion which permits an acceptable balancing of the interests of distribution network owners, distribution network users and the public interest; and
- promotion of competition in upstream and downstream markets and promotion of competition in the provision of ***Distribution Services*** where economically feasible.

Principles of the ***Code*** with respect to the economic regulation of distribution networks (clause 6.10.3) that are relevant to the definition of regulated activities, form and period of regulation, and practical application of that form, include that the regulatory regime must:

- wherever economically efficient and practicable address concerns over monopoly pricing in respect of the distribution network through the introduction of competition in the provision of ***Distribution Services***;
- provide distribution network owners with incentives and reasonable opportunities to increase efficiency;
- take account of and be consistent with the allocation of risk between network owners and network users;
- provide a fair and reasonable risk-adjusted cash flow rate of return to distribution network owners on efficient investment given efficient operating and maintenance practices on the part of the distribution network owners;
- balance the interests of network users and network owners; and
- take account of relevant previous regulatory decisions made by authorised persons including:
  - the initial revenue setting and asset valuation decisions made by a government at a time at which that government was a distribution network owner in the context of industry reform pursuant to the Competition Principles Agreement;
  - decisions made by jurisdictional regulators and any regulatory intentions previously expressed; and
  - decisions made by Ministers under jurisdictional legislation.

Giving effect to the objectives of clause 6.10.2 involves, among other things:

- providing historical and forecast financial information to inform periodic ***Price Determinations***;

- providing information to inform the public, at least annually, about the financial performance and compliance of the ***DNSP***;
- ensuring correct separation between ***Distribution*** and ***Non-Distribution Services*** costs;
- enabling measurement of actual performance against forecast; and
- assisting in meeting the objectives and performing the functions of the ***Authority*** as stated in the ***Code***.

3.3 Definitions and Interpretation

In these Guidelines:

- words and phrases presented in bold italic font ***such as this*** are defined in the glossary to these Guidelines at Appendix A and have the meaning given to them in that glossary; and
- the words "shall" and "must" indicate mandatory requirements, unless the overall meaning of the phrase in which one of these words appears is otherwise.

Explanations in these Guidelines as to why certain information is required are a guide only. They do not limit in any way the ***Authority's*** objectives, functions or powers.

3.4 Confidentiality

The ***Authority's*** obligations regarding confidentiality and the disclosure of information provided to it by the ***Licensee*** are governed by:

- sections 187, 207 and 239 of the *Queensland Competition Authority Act 1997*; and
- clauses 6.10.7 and 6.18.2 of the ***Code***.

3.5 Processes for Revision

The ***Authority*** proposes to amend and expand the Guidelines from time to time to meet the needs of ***Licensees***, customers and the ***Authority***, in the context of:

- changing circumstances including changes in the regulatory framework;
- developments at the national level and State level;
- the creation of new services and products by ***Licensees*****;** and
- changes to organisational structures by ***Licensees.***

In revising these Guidelines, the ***Authority*** will, generally:

- state its intention;
- call for input from industry participants and other interested parties;
- have regard to that input, develop a draft and publish it for comment by industry participants and other interested parties; and

- have regard to the comments received on the draft, develop and publish revised Guidelines.

3.6 Input from Interested Parties

The ***Authority*** welcomes comments, discussion, or suggestions for amendments to these Guidelines from any interested party. Any contribution in this regard should be addressed to:

The Queensland Competition Authority
Level 19
12 Creek Street
Brisbane 4000
Email: electricity@qca.org.au
Facsimile: (07) 3222 0599

3.7 Version History and Effective Date

Every version of the Guidelines will be identified by an issue number and date of issue.

This is Version No. 4.0 of these Guidelines, released in May 2005 to take effect from 1 July 2005.

4. GENERAL PRINCIPLES

The ***Authority*** requires both:

- historic financial information in the form of ***Regulatory Reporting Statements***; and
- forecast financial information in the form of ***Regulatory Financial Forecasts***.

This Section sets out general principles common to both forms of financial information. These principles have been developed to assist a ***Licensee*** and/or its advisors or ***Auditors*** in the preparation of the financial information required by the ***Authority***.

4.1 Nature of a DNSP

Financial information required by the ***Authority*** must be prepared for a ***DNSP*** by the ***Licensee***.

The ***DNSP*** is not defined by legal entity structures but by the activities undertaken to fulfil the obligations set out in the ***Distribution Licence*** by the ***Licensee*** and/or a ***Related Party*** of the ***Licensee***, that is, to supply electricity using its supply network within a defined distribution area.

Any revenues earned (including revenue earned by the ***Revenue Cap Regulated Services Segment*** from the use of ***Revenue Cap Regulated Assets*** by ***Non-Regulated*** users), assets utilised or costs incurred in fulfilling a ***Distribution Licence*** obligation by the ***Licensee*** and/or a ***Related Party*** of the ***Licensee*** must be reported in the ***Regulatory Reports*** and the ***Regulatory Reporting Statements***. The same basis of reporting must be adopted for the ***Regulatory Financial Forecasts***. Each revenue, cost element, asset and liability (excluding ***Financial Forecasts***) that when combined constitute the sum of the ***DNSP's*** *activities**,*** and any associated adjustment to these, must have its origin in an audited ***Statutory Account*** although not necessarily all from the same set of ***Statutory Accounts***.

4.2 Regulatory Reporting Principles and Policies

Regulatory Reporting Statements and ***Regulatory Financial Forecasts*** are to be prepared using ***Regulatory Reporting Principles and Policies***.

Such ***Regulatory Reporting Principles and Policies*** shall conform to the principles set out in these Guidelines.

Except where these Guidelines prescribe otherwise, the ***Regulatory Reporting Principles and Policies*** should also comply with applicable Australian accounting standards.

<u>Explanation</u>

Preparation of the regulatory reports is additional to any other statutory obligations of regulated businesses to prepare financial statements. In fact, when regulatory reports are being prepared, if there is any conflict between Regulatory Reporting Guidelines and Australian Accounting Standards, then the Regulatory Reporting Guidelines must take precedence.

Regulatory Reporting Guidelines must take precedence because they are designed specifically to consider the regulatory reporting issues involved in the preparation of regulatory reports. Australian Accounting Standards are designed to apply to the reports of all corporations and, as such, are a general framework of accounting principles. By contrast, Regulatory Reporting Guidelines are designed for the specific purpose of providing accounting information for one type of company (namely a regulated business). Regulatory reports by their nature provide *information that is more focused than statutory accounts, relating only to regulated businesses or activities. The statutory accounts relate to the regulated corporation as a whole and are more focused on the requirements of investors.*

Regulatory Reporting Principles and Policies must be selected and applied by a ***Licensee:***

- to ensure compliance with the objectives stated in section 3.3 of these Guidelines;
- such that there is a recognisable and rational economic basis that underlies their utilisation; and
- in a manner which ensures that the resultant financial information satisfies the concepts of:
  - relevance – where the information reported has the capacity to make a difference in its informational or accountability role;
  - reliability – where the information reported corresponds with the actual underlying transactions and events, is capable of independent verification and is reasonably free from error and bias;
  - consistency – where the information reported enables valid comparisons to be made for the same ***Entity*** over periods of time; and
  - comparability – where the information reported enables valid comparisons to be made between different ***Entities***.

<u>Explanation</u>

These key attributes of best practice reporting are stressed in the Australian Accounting Standards Board (AASB), Statement of Accounting Concepts SAC 3 <u>Qualitative Characteristics of Financial Information</u> (August 1990).

A ***Licensee's Regulatory Reporting Principles and Policies*** must be disclosed to the ***Authority*** in a manner which ensures that the ***Authority*** may understand the resultant ***Regulatory Reporting Statements*** and ***Regulatory Financial Forecasts***, and can make comparisons between them over time and among the ***DNSPs***.

4.3 Materiality and Relevance

The ***Authority*** requires that all ***Material*** items must be disclosed in the ***Regulatory Reporting Statements*** or ***Regulatory Financial Forecasts***.

An item is ***Material*** if:

- its omission, misstatement or non-disclosure has the potential to prejudice the understanding of the financial position and nature of the ***DNSP*** gained by reading the ***Regulatory Reporting Statements*** or ***Regulatory Financial Forecasts***; or
- it may result in the allocation of costs between ***Revenue Cap Regulated Services*** and ***Non-Regulated Services*** which is not strictly in accordance with the ***DNSP's Approved Cost Allocation Methods and Procedures.***

These Guidelines shall apply to all ***Material*** items in the ***Regulatory Reports***, ***Regulatory Reporting Statements*** and ***Regulatory Financial Forecasts*** of a ***DNSP***.

4.4 Consistency and Comparability

Regulatory Reporting Principles and Policies must be consistent from year to year, and between ***Regulatory Reporting Statements*** and ***Regulatory Financial Forecasts***.

Regulatory Reporting Principles and Policies must ensure on-going comparability in financial information between ***DNSPs***.

Time Consistent Application of Regulatory Reporting Principles and Policies

The Authority will approve a DNSP's ***Regulatory Reporting Principles and Policies*** as part of each Price Determination. A ***DNSP*** may vary its ***Regulatory Reporting Principles and Policies*** from those approved as part of the preceding ***Price Determination*** only if:

- a revision of these Guidelines should require such a change; or
- the ***Authority*** issues written approval after receiving an application from a ***DNSP*** for a variation at least three months prior to the ***Regulatory Reporting Period*** in which the change is to take effect, if the ***Authority*** is satisfied that such an application :
  - includes a sufficient explanation of why the proposed change is not in conflict with the objectives set out in Section 3.2;
  - will not jeopardise the comparability of the resultant financial information with that being provided to the ***Authority*** by other ***DNSPs***; and
  - the impact of the proposed change can be quantified and provided to the ***Authority***.

Whenever changes are permitted or approved, a ***DNSP*** should restate the previous year's ***Regulatory Reporting Statements*** and the preceding ***Regulatory Financial Forecasts*** on a basis consistent with the changed ***Regulatory Reporting Principles and Policies.***

If a ***DNSP*** fails in its application to vary its ***Regulatory Reporting Principles and Policies*** from those used previously on the grounds that it is unable to quantify the impact of the proposed change to the ***Authority's*** satisfaction, further consideration of such a change must be deferred until the next ***Price Determination*** review.

Discretionary Headings

Subject to the provisions of this sub-section, a ***DNSP*** shall apply any discretionary headings consistently to subsequent ***Regulatory Reporting Statements***.

These discretionary headings should be as consistent as possible with those applied in its preceding ***Regulatory Financial Forecasts***.

Discretionary headings shall agree with, or be traceable to, the account headings in a ***DNSP's*** general ledger or chart of accounts that underpin its ***Statutory Accounts***.

A ***DNSP*** shall meet with the ***Authority*** before submitting ***Regulatory Reporting Statements***, and ***Regulatory Financial Forecasts*** so that the ***Authority*** can assess whether a ***DNSP's*** proposed discretionary headings meet its requirements.

A ***DNSP*** may vary the discretionary headings from those used in a preceding ***Regulatory Reporting Period*** only if:

- a revision of these Guidelines should require such a change; or
- the ***Authority*** issues written approval after receiving an application from a ***DNSP*** for a variation at least three months prior to the ***Regulatory Reporting Period*** in which the change is to take effect if the ***Authority*** is satisfied that such an application:
  - will not jeopardise the comparability of the resultant financial information with that being provided to the ***Authority*** by other ***DNSPs***; and
  - includes a sufficient explanation of the relationships between revised account headings and their predecessors.

4.5 Reliability

Information shall be presented in ***Regulatory Reporting Statements*** and in ***Regulatory Financial Forecasts*** in the most understandable manner, without sacrificing relevance or reliability.

A ***DNSP*** shall ensure that all financial information provided to the ***Authority*** is (as appropriate) verifiable or reasonably free from bias. At a minimum, 'verifiable' means that information can be traced to a source document or assumption by an independent party such as an ***Auditor***. 'Reasonably free from bias' means that an independent party would judge any estimates of financial values as having been derived on a best endeavours basis.

4.6 Format of Information

A ***DNSP*** must submit all required information to the ***Authority*** in both electronic and printed form.

Before doing so, a ***DNSP*** must ensure that its information can be transmitted in an electronic format compatible with the ***Authority's*** information systems.

5. HISTORIC FINANCIAL INFORMATION PRINCIPLES

5.1 Introduction

This Section sets out the principles that a ***Licensee*** must follow to complete the pro forma ***Regulatory Reporting Statements*** and other pro formas set out in the ***Regulatory Reporting Templates***.

5.2 Regulatory Reporting Statements

Regulatory Reporting Statements shall be prepared for the ***DNSP.***

The ***Regulatory Reporting Statements*** incorporate the:

- Regulatory Statement of Financial Returns;
- Regulatory Statement of Financial Position; and
- associated supporting schedules, worksheets and work papers as requested in these Guidelines.

5.3 Regulatory Reporting Periods

The ***Regulatory Reporting Statements*** shall be prepared for each ***Regulatory Reporting Period.***

A ***Regulatory Reporting Period*** shall be a financial year unless the ***Authority*** should specify otherwise.

A ***Regulatory Reporting Period*** shall cover a continuous period.

5.4 Regulatory Adjustments

The ***Regulatory Reporting Statements*** shall be derived from the ***Statutory Accounts*** or their equivalent of the ***Licensee*** and ***Related Parties*** of the ***Licensee*** that contain the entirety of the activities of the ***DNSP***.

In preparing the ***Regulatory Reporting Statements***, a ***DNSP*** will apply ***Regulatory Adjustments*** to the ***Statutory Accounts*** that may be:

- required by these Guidelines; or
- considered appropriate by a ***Licensee***.

Where a ***Regulatory Adjustment*** is initiated by a ***Licensee***, that adjustment may be used when preparing the ***Regulatory Reporting Statements*** only if the ***Authority*** issues written approval after receiving an application from a ***DNSP*** for such an adjustment at least three months prior to the ***Regulatory Reporting Period*** in which the change is to take effect, if the ***Authority*** is satisfied that such an application:

- includes a sufficient explanation of why the proposed adjustment is not in conflict with the objectives set out in Section 3.2;
- will not jeopardise the comparability of the resultant financial information with that being provided to the ***Authority*** by other ***DNSPs***; and

- the impact of the proposed adjustment can be quantified and provided to the ***Authority***.

5.5 Relationship to the Statutory Accounts

Except as otherwise provided by these Guidelines, ***Regulatory Reporting Statements*** must, in so far as is reasonably practicable, be prepared in accordance with the general rules and format, and use the accounting principles and policies, applicable to the ***Statutory Accounts***.

The ***Regulatory Reporting Statements*** shall be derived from the ***Statutory Accounts*** by:

- eliminating ***Non-Distribution Services*** costs from ***Prescribed Services***;
- eliminating ***Regulatory Adjustments*** not permitted by these Guidelines or otherwise not approved by the ***Authority***;
- including ***Regulatory Adjustments*** that are required by these Guidelines or otherwise required by the ***Authority***;
- not consolidating amounts from the ***Statutory Accounts*** of different ***Entities***; and
- consolidating or disaggregating ***Statutory Account*** amounts within an ***Entity*** in order to conform to the prescribed form of ***Regulatory Reporting Statements***.

Where a ***Statutory Account*** amount has been consolidated or disaggregated in the ***Regulatory Reporting Statements***, a worksheet must accompany the ***Regulatory Reporting Statements*** reconciling the ***Statutory Account*** amount shown in the ***Regulatory Reporting Statement*** to the ***Statutory Account*** amount in the ***Statutory Accounts*** of the ***Entity***.

The movement from the ***Statutory Account*** to the ***Regulatory Account*** will be clearly reported in the ***Regulatory Reporting Statements***.

If some or all of the activities of a ***DNSP*** are carried out in an ***Entity*** that does not have ***Statutory Accounts***, all financial representations of ***Distribution Services*** in such an ***Entity*** must be audited by the external independent ***Auditors*** engaged to undertake the ***Regulatory Audit*** in a manner identical to the auditing of ***Statutory Accounts***.

5.6 Disaggregation—Reporting by Business Segment

Regulatory Reporting Statements are to be prepared by disaggregating the ***Statutory Accounts***.

As a minimum disaggregation requirement, the ***Authority*** requires that the ***Regulatory Reporting Statements*** be separated to demonstrate reporting on the following ***DNSP Business Segments***:

- ***Revenue Cap Regulated Services Segment***, comprising:
  - ***Distribution Use of System (DUOS) Services***; and
  - ***Non-DUOS Services***; and
- ***Excluded Services Segment***.

5.7 Allocation Principles

The allocation of the ***Statutory Accounts*** between ***DNSP*** and ***Non-DNSP Entities*** and across ***DNSP Business Segments*** shall be based on the principle that:

- items which are ***Directly Attributable*** to the ***DNSP*** and ***DNSP Business Segments*** are assigned accordingly; and

- items not ***Directly Attributable*** shall be allocated to the ***DNSP*** and ***Non-DNSP Entities*** (where applicable) and across ***DNSP Business Segments*** using an appropriate allocator, as indicated in the following paragraphs.

An item may be ***Directly Attributable*** to the ***DNSP*** but not ***Directly Attributable*** to a ***DNSP Business Segment***. In this circumstance, the allocation across ***DNSP Business Segments*** will be made using an appropriate allocator as indicated in the following paragraphs.

If ***Account Headings*** used in the ***Regulatory Reporting Statements*** are not the same as in the ***Statutory Accounts***, they should be traceable or reconcilable to the chart of accounts and the ***Statutory Accounts***.

Account headings shall be sufficiently descriptive to explain why ***Statutory Accounts*** records that have been directly attributable to ***Business Segments*** are uniquely associated with the ***Business Segments***.

Items that are not ***Directly Attributed*** are to be allocated on a ***Causation Basis***.

A ***Licensee*** shall produce for each item that has not been ***Directly Attributed*** to the ***DNSP*** and/or a ***DNSP Business Segment*** a supporting worksheet that includes:

- the amounts that have been allocated on a ***Causation Basis*** to the ***DNSP*** and ***Non-DNSP Entities*** (where applicable) and/or ***DNSP Business Segments*** and amounts that have not been so allocated;

- a description of the method of allocation and reasons for choosing that method; and

- the numeric value of each allocator.

If an item is ***Immaterial*** and a ***Causal Relationship*** cannot be established without undue cost and effort, the ***Licensee*** shall provide the ***Authority*** with a separate list of these items indicating a description and amount. The ***Licensee*** may effect an allocation of these items on a ***Non-Causal Basis***, provided it is accompanied by a supporting work paper documenting, for each such item:

- a defensible basis of allocation;

- the reason for choosing that basis;

- an explanation why no ***Causal Relationship*** could be established; and

- a numeric value of the allocator applied to each ***Business Segment*** and in total.

Non-causal Bases of allocation shall only be applied to the extent that the aggregate of all items subject to all ***Non-causal Bases*** of allocation is not ***Material*** to the ***Regulatory Reporting Statements***. Section 4.3 sets out the ***Authority's*** standard of materiality.

Non-causal Bases of allocation will be subject to the specific approval of the ***Authority***. The ***Authority*** expects to only approve a ***Non-causal Basis*** if a ***Licensee*** can demonstrate that there is likely to be a strong positive correlation between the ***Non-Causal Basis*** and the actual cause of resource or service consumption or utilisation that those costs represent.

Where it has been necessary for the ***DNSP*** to use estimates in the preparation of the ***Regulatory Reporting Statements*** this will be clearly indicated by the ***DNSP***. An explanation of the estimation process should also be provided in an accompanying note. The estimate and accompanying explanation are not themselves subject to audit opinion.

5.8 Approved Cost Allocation Methods and Procedures

Where the cost allocation methods and procedures used by a ***Licensee*** for the purpose of preparing ***Regulatory Reporting Statements*** are based on methods and procedures proposed by the ***Licensee***, such methods and procedures may be used for this purpose only if the ***Authority*** issues written approval that it is satisfied that those methods and procedures comply with the requirements of Section 5.7 (and related sections) of these Guidelines.

The allocation of costs in the ***Regulatory Reporting Statements*** shall be consistent with the ***DNSP's Approved Cost Allocation Methods and Procedures***, unless otherwise approved by the ***Authority***.

Where revenue and expenditure amounts are allocated in accordance with the shared cost section of the **DNSP's** ***Approved Cost Allocation Methods and Procedures*** and associated Appendices, the allocators and quantities of all revenue and expenditure items so allocated must be verified by the ***Auditor***, unless otherwise approved in writing by the ***Authority***.

The Authority will approve a DNSP's ***Cost Allocation Methods and Procedures*** as part of each ***Price Determination***. A ***DNSP*** may vary its ***Cost Allocation Methods and Procedures*** from those approved by the ***Authority*** as part of the preceding ***Price Determination*** only if:

- a revision of these Guidelines should require such a change; or
- the ***Authority*** issues written approval after receiving an application from a ***DNSP*** for a variation at least three months prior to the ***Regulatory Reporting Period*** in which the change is to take effect, if the ***Authority*** is satisfied that such an application :
  - includes a sufficient explanation of why the proposed change is not in conflict with the objectives set out in Section 3.2;
  - will not jeopardise the comparability of the resultant financial information with that being provided to the ***Authority*** by other ***DNSPs***; and
  - the impact of the proposed change can be quantified and provided to the ***Authority***.

5.9 Time Consistent Application of Accounting Policies, Unless Approved Otherwise

A ***Licensee*** shall present on a consistent and comparable basis, from the accounting records that underlie its ***Regulatory Reports,*** the costs, revenues, assets employed and liabilities that may be reasonably attributed to the ***DNSP***.

- A ***Licensee*** shall provide to the ***Authority*** full and detailed documentation of

any ***Regulatory Reporting Principles and Policies*** that may be additional to or in place of the accounting principles and policies outlined in these Guidelines.

A ***DNSP*** may vary its ***Regulatory Reporting Principles and Policies*** from those used in the preceding ***Regulatory Reporting Period*** only if authorised to do so in accordance with the procedures laid down in Section 5.8.

5.10 Account Headings

The pro forma ***Regulatory Reporting Statements*** and other pro formas set out in the ***Regulatory Reporting Templates*** specify for the ***Regulatory Reporting Statements***:

- minimum disclosure requirements; and
- ***Mandatory Headings***.

Subject to the relevant provisions of Section 5.7, a ***DNSP*** may, within the context of the ***Mandatory Headings***, define discretionary headings that are most appropriate to conveying an understanding of the ***DNSP's*** business.

5.11 Accounting Records

A ***Licensee's Directors*** are responsible for the preparation and presentation of the ***Regulatory Reports*** and ***Regulatory Reporting Statements*** and the information they contain.

A ***Licensee's Directors*** shall ensure that a ***Licensee*** keeps accounting records that:

- correctly record and explain the transactions and financial position of the ***DNSP***;
- enable ***Regulatory Reports*** and ***Regulatory Reporting Statements*** to be prepared in accordance with these Guidelines (for example, the disaggregation of the ***Statutory Accounts*** and any regulatory adjustments); and
- allow an ***Auditor*** to conveniently and properly form an opinion on the ***Regulatory Reports*** and ***Regulatory Reporting Statements*** in accordance with the requirements of these Guidelines.

A ***Licensee's Directors*** shall also ensure that the ***Licensee*** retains the accounting records from which ***Regulatory Reports*** and ***Regulatory Reporting Statements*** are prepared for a period of no less than seven years after the completion of the transactions to which they relate.

All accounting records shall be made available to the ***Authority*** when requested.

5.12 Directors' Responsibility Statement

A ***Directors' Responsibility Statement*** shall be attached to a ***DNSP's Regulatory Reporting Statements.***

The ***Directors' Responsibility Statement*** shall be signed and dated by a ***Director*** of the ***Licensee***.

The ***Directors' Responsibility Statement*** prepared specifically for regulatory financial statements must also include adherence to the specific requirements of these Guidelines and assurances relating to the full disclosure to the ***Authority*** of:

- related party transactions; and
- third party benefit transactions.

Appendix B sets out the format of a ***Directors' Responsibility Statement***.

5.13 Information Provided Shall be Verifiable

A ***DNSP*** shall ensure that all historic financial information provided to the ***Authority*** is verifiable.

A ***DNSP*** must maintain accounting and reporting arrangements which:

- enable ***Regulatory Reporting Statements*** to be prepared; and
- provide information in the ***Regulatory Reporting Statements*** that can be verified by reference to the ***Statutory Accounts***.

If the ***Authority*** requires more detailed information than a ***DNSP*** provides, the ***Authority*** reserves the right to request access to the underlying schedules and accounting records.

5.14 Audit Assurances

The information presented in the ***Regulatory Reporting Statements*** must be adequately and independently audited.

Unless specified otherwise by the ***Authority***, a ***DNSP*** must submit a regulatory audit report on its ***Regulatory Reporting Statements*** and other statements, schedules and work papers listed in the ***Templates***.

Primary Duty of Care to the Authority

Audits should be conducted objectively and independently. This is guaranteed in large part by the competence and professionalism of the audit firm.

Additional measures are needed to reinforce the integrity of the audit process and promote stakeholder confidence in it. This is particularly important given that the ***Auditors*** are paid by the ***Licensee***.

Accordingly, the ***Auditor*** must have a formal duty of care to the ***Authority*** to conduct audits independently and objectively. ***Auditors*** may be placed in a position of conflict between their duty to the ***Licensee*** and their duty to the ***Authority***; in such an event, the ***Auditor's*** primary duty must be to the ***Authority***.

An engagement letter, issued to the ***Licensee***, must detail the scope of the audit and shall establish the ***Auditor's*** duty of care in relation to the ***Authority*** as well as the relationship between the ***Auditor***, the ***Authority*** and the ***Licensee***.

Appointing the Auditor

The audit firm selected by the ***Licensee*** will require formal approval from the ***Authority***.

To obtain approval of the ***Auditor***, the ***Licensee*** must submit an annual request to the ***Authority*** for approval. Satisfactory execution of previous audits will be an important consideration in the ***Authority's*** decisions on the approval of auditors.

The audit team must be led by a senior member of the audit firm. The team leader must sign and take responsibility for the ***Audit Report***.

The audit team must be comprised of qualified, experienced personnel possessing no less a standard of expertise than would be required to conduct ***Statutory Account*** audits acceptable to the Australian Securities and Investments Commission.

The Guidelines' requirements, including those for independence, extend to any sub-contractors engaged by the audit firm.

Audit Objectives

The ***Auditor's*** primary objective is to ensure that ***Regulatory Reporting Statements*** fairly present the financial performance and results of the licensee in accordance with these Guidelines and in accordance with the ***DNSP's Approved Allocation Methods and Procedures***.

Regulatory Reporting Statements for ***Regulatory Reporting Periods*** from 1 July 2001 shall be subject to an ***Auditor's*** opinion in accordance with the requirements of these Guidelines. The following items are required to be provided by the DNSPs as part of the ***Regulatory Reporting Statements*** but are not subject to audit opinion:

- estimates used by the DNSPs in the preparation of the ***Regulatory Reporting Statements***; and

- worksheets and papers requested in these Guidelines (including explanations of any estimates used and explanations of variances between forecast and actual amounts in the ***Regulatory Reporting Statements***).

Licensees are responsible for ensuring that a signed ***Regulatory Audit Report*** and a ***Report to the Authority and the Licensee*** (where appropriate) are delivered to the ***Authority*** by the end of the fifth calendar month following the end of the ***Regulatory Reporting Period***.

Appendix C shows the form of the ***Regulatory Audit Report***.

Where the audit process is critical of or highlights deficiencies in ***Regulatory Reporting Statements***, the ***Authority***, ***Licensee*** and ***Auditor*** shall meet to discuss those issues prior to the ***Audit Report*** being issued.

Specific note must be taken of the definition of a ***DNSP*** and the scope of the ***Regulatory Reporting Statements*** as defined by these Guidelines.

Audit of costs allocated in accordance with the shared cost section of the DNSP's Approved Cost Allocation Method and Procedures

Where costs are allocated in accordance with the shared cost section of the ***DNSP's Approved Cost Allocation Method and Procedures***, the ***Auditor*** will check that each and every allocation of costs is in accordance with this section of the ***Approved Cost Allocation Method and Procedures*** unless an alternate treatment has been agreed in writing by the Authority.

6. FORECAST FINANCIAL INFORMATION PRINCIPLES

Regulatory Financial Forecasts refer to financial information based on assumptions about events that may occur in the future and possible actions by a ***DNSP***.

This Section sets out specific principles for ***Regulatory Financial Forecasts*** prepared by a ***DNSP*** for the ***Authority***.

6.1 Regulatory Financial Forecasts

Regulatory Financial Forecasts shall be prepared for the ***DNSP*** when from time to time requested by the ***Authority***.

6.2 Accounting Principles and Policies

Unless otherwise authorised or required by the ***Authority***, the ***DNSP*** must prepare its ***Regulatory Financial Forecasts*** consistent with the ***Regulatory Reporting Statements*** prepared in accordance with these Guidelines for the most recent ***Regulatory Reporting Period***.

A ***DNSP*** may use accounting principles and policies to prepare its ***Regulatory Financial Forecasts*** that differ from those used to prepare the preceding ***Regulatory Reporting Statements*** or ***Regulatory Financial Forecasts*** only if:

- a revision of these Guidelines should require such a change; or

- the ***Authority*** issues written approval after receiving an application from a ***DNSP*** for a variation at least three months prior to the ***Regulatory Reporting Period*** in which the change is to take effect, if the ***Authority*** is satisfied that such an application :

  - includes a sufficient explanation of why the proposed change is consistent with the objectives set out in Section 3.2;

  - will not jeopardise the comparability of the resultant financial information with that being provided to the ***Authority*** by other ***DNSPs***; and

  - the impact of the proposed change can be quantified and provided to the Authority.

6.3 Account Headings

The ***Authority*** will advise ***DNSPs*** from time to time of its requirements regarding, for ***Regulatory Financial Forecasts***:

- minimum disclosure requirements; and

- ***Mandatory Headings***.

Subject to the relevant provision of Section 5.7, a ***DNSP*** may, within the context of the ***Mandatory Headings***, define discretionary headings that are most appropriate to conveying an understanding of the ***DNSP's*** business.

6.4 Forecasts Provided Shall be Unbiased

A ***DNSP*** shall ensure that all forecast financial information provided to the ***Authority*** is unbiased.

A DNSP must maintain accounting and reporting arrangements which enable ***Regulatory Financial Forecasts*** (according to the headings specified in Section 6.3) to be prepared.

A ***DNSP*** must give the ***Authority*** the following minimum information to support its forecast information:

- the assumptions on which all material forecast information are based; and
- a full and detailed explanation of the basis of preparation of the forecast information.

If the ***Authority*** requires more detailed information than a ***DNSP*** provides, the ***Authority*** reserves the right to request access to the underlying schedules and accounting records.

6.5 Audit Assurance

A ***Licensee*** will not normally be required to provide audit assurance on forecast financial information it provides to the ***Authority*** pursuant to these Guidelines.

7. GUIDANCE ON COMPLETING ANNUAL HISTORIC FINANCIAL TEMPLATES

The ***Authority*** has provided specific guidance on the structure and content of the ***Regulatory Reporting Statements*** to the ***DNSPs*** through the ***Regulatory Reporting Templates***.

The purpose of this Section is to provide assistance to a ***Licensee*** and/or its advisers or ***Auditors*** on the information that is to be included to facilitate the completion of the ***Regulatory Reporting Templates***.

7.1 Regulatory Reporting Statements

Besides providing ***Regulatory Reporting Statements*** prepared in accordance with these Guidelines, a ***Licensee*** shall also deliver to the ***Authority:***

- the section/s of the ***Statutory Accounts*** of the ***Entity*** or Entities that have been aggregated to provide the ***Regulatory Reporting Statements***;
- a ***Regulatory Audit Report*** and ***Report to the Authority and the Licensee*** (where appropriate) on ***Regulatory Reporting Statements*** for ***Regulatory Reporting Periods*** from 1 July 2001, in the form specified in Section 5.14 of these Guidelines;
- a ***Directors' Responsibility Statement*** for the ***Regulatory Reporting Statements***; and
- details of any accounting principles and policies and any details of changes or developments that may be additional to or in place of the accounting principles and policies outlined in these Guidelines.

To the extent a ***DNSP*** seeks to deviate from the ***Regulatory Reporting Templates***, the ***DNSP*** must obtain the ***Authority's*** approval on the format and structure of the ***Regulatory Reporting Statements*** prior to their submission.

In preparing the ***Regulatory Reporting Statements***, it is mandatory to provide for each cost or revenue item that has been allocated to the ***Prescribed Services Segments*** a supporting work paper that includes the following:

- the amounts that have been directly attributed to each ***Prescribed Services Segment***; and
- where amounts have been allocated to a ***Prescribed Services Segment***, the associated amounts that have been allocated to each ***Business Segment*** of the ***Licensee*** and/or ***Related Parties*** of the ***Licensee***, a description of the allocation basis and the numeric quantity of each allocator.

The suggested work paper format applicable to operating and maintenance allocations, non-current asset allocations, causal and non-causal allocations has been provided to the ***DNSPs*** as part of the ***Regulatory Reporting Templates***. Other work papers and notes as referred to in these Guidelines and the ***Regulatory Reporting Templates*** (including explanations of any estimates used in the preparation of the ***Regulatory Reporting Statements***) are to be presented by the ***DNSPs*** as part of the requirements of the ***Regulatory Reporting Statements***. These work papers and notes are required by the Authority to facilitate analysis of the ***Regulatory Reporting Statements*** and to assist in the development of an audit opinion of the ***Regulatory Reporting Statements*** but are not themselves subject to audit opinion.

7.2 Timing

A ***Licensee*** shall deliver to the ***Authority*** the ***Regulatory Reporting Statements***, including a ***Directors' Responsibility Statement***, signed ***Regulatory Audit Report*** and a ***Report to the Authority and the Licensee*** (where appropriate) within five calendar months of the end of the ***Regulatory Reporting Period*** to which the ***Regulatory Reporting Statements*** relate.

7.3 Disaggregation across Business Segments

DNSP and Non-DNSP Allocation

Any allocation of ***Statutory Account*** amounts between the ***DNSP*** and ***Non-DNSP Entities*** must be made in accordance with the allocation principles detailed in Section 5.7 of these Guidelines.

DNSP Business Segment Allocation

After the allocation of ***Statutory Account*** amounts between the ***DNSP*** and ***Non-DNSP Entities***, a further allocation across ***DNSP Business Segments*** may be necessary. This allocation must also be made in accordance with the allocation principles detailed in Section 5.7 of these Guidelines.

Inter Segmental Transactions

Transactions among ***Business Segments*** of the ***Licensee*** and/or ***Related Parties*** of the ***Licensee*** to which ***Prescribed Services Segments*** of the ***DNSP*** are a party must not be netted off. They shall be recorded in the Regulatory Statement of Financial Returns of the ***DNSP Business Segments*** in which they arise and must be separately disclosed.

7.4 Disaggregation of Revenue

Items of revenue in the ***Statutory Accounts*** must be disaggregated between ***Business Segments*** in a manner consistent with the principles set out in Section 5.7.

All revenue items are to be identified, including revenue earned by the ***Revenue Cap Regulated Services Segment*** from the use of ***Revenue Cap Regulated Assets*** by ***Non-Regulated*** users.

Revenue shall be either ***Directly Attributed*** to the ***DNSP*** and ***Non-DNSP Entities*** and/or ***DNSP Business Segments***, or allocated on a ***Causation Basis*** in accordance with the principles set out in Section 5.7 of these Guidelines. Revenue may be allocated between the ***DNSP*** and ***Non-DNSP Entities*** (where applicable) and among more than one ***Business Segment***. For the ***Non-DNSP Entity***, only revenue which is common or shared between the ***DNSP*** and ***Non-DNSP Entities*** is required to be reported. Revenue from the use of **Revenue Cap Regulated Assets** by **Non-Regulated** users shall reflect the full cost of that asset, including **Operating** and **Maintenance Costs, Depreciation** and **Return On Asset** associated with the asset.

The ***Regulatory Reporting Statements*** shall include a worksheet that discloses, for each revenue item:

- the amount of revenue within the activity area or asset category that can be ***Directly Attributed*** to the ***DNSP*** and its ***Business Segments***;
- the indirect revenues attributed by allocation and:
  - a description of the basis of allocation used;
  - a quantification of the allocators applied; and

- the corresponding amount of revenue allocated.

7.5 Operating and Maintenance Costs

Disclosure

The ***Regulatory Reporting Statements*** shall:

- disclose ***Maintenance Costs*** separately from ***Operating Costs***;
- disclose ***Operating Costs*** in a manner defined in Section 7.1;
- disclose ***Maintenance Costs*** in a manner defined in Section 7.1;
- disclose ***Operating Costs*** and ***Maintenance Costs*** associated with the use of ***Revenue Cap Regulated Assets*** by ***Non-Regulated*** users;
- disaggregate the ***Operating Costs*** and ***Maintenance Costs*** in a manner defined in Section 7.1; and
- provide or explain the link to the ***Statutory Accounts*** that is the source for amounts allocated to each activity associated with ***Operating Costs*** and each activity or asset category associated with ***Maintenance Costs***.

Cost Attribution or Allocation

Operating Costs and ***Maintenance Costs*** shall be either ***Directly Attributed*** to the ***DNSP*** and ***Non-DNSP Entities*** and/or ***DNSP Business Segments***, or allocated on a ***Causation Basis*** (except for some immaterial costs) in accordance with the principles set out in Section 5.7 of these Guidelines. Costs may be allocated between the ***DNSP*** and ***Non-DNSP Entities*** (where applicable) and among more than one ***Business Segment***. For the ***Non-DNSP Entity***, only costs which are common or shared between the ***DNSP*** and ***Non-DNSP Entities*** are required to be reported.

The allocation of a cost should reflect the consumption, or utilisation, of a resource or service as referred to in Section 5.7 of these Guidelines.

Allocation of a cost based on avoidable cost is not permitted.

Explanation

Avoidable cost as an allocation base attributes the total cost of a good or service to one cost centre on the basis that the cost will unavoidably be incurred by that cost centre irrespective of whether or not it is now shared with another cost centre. The ***Authority*** *requires that a cost be allocated across all cost centres that benefit from the service or good.*

Disclosure of Bases of Cost Allocation

In disaggregating ***Operating Costs*** and ***Maintenance Costs*** between ***DNSP*** and ***Non-DNSP Entities*** (where applicable) and across ***DNSP Business Segments***, a cost may be considered to be either:

- a cost that can be ***Directly Attributed*** wholly and exclusively; or

- an indirect cost that needs to be allocated on the bases of the principles set out in Section 5.7 of these Guidelines.

The ***Regulatory Reporting Statements*** shall include a worksheet that discloses for each ***Operating Cost*** activity area and each ***Maintenance Cost*** activity area or asset category:

- the amount of costs within the activity area or asset category that can be ***Directly Attributed*** to the ***DNSP*** and its ***Business Segments***; and
- the indirect costs attributed by allocation and:
  - a description of the basis of allocation used;
  - a quantification of the allocators applied to each ***Business Segment***; and
  - the corresponding amount of cost allocated to each ***Business Segment***.

The total of the costs for which this information is disclosed shall agree to the total ***Operating Costs*** and ***Maintenance Costs*** disclosed by the worksheet described in Section 5.7.

7.6 Capitalisation of Costs

Unless otherwise approved by the ***Authority*** and notwithstanding the policy used when preparing the ***DNSP's statutory accounts***, expenditures should only be 'capitalised' (i.e., increase the reported value of a relevant asset) by a ***DNSP*** for the purposes of ***Regulatory Reporting Statements*** or ***Regulatory Financial Forecasts*** where to do so conforms with the policy that applied to the ***Regulatory Financial Forecasts*** prepared by the ***DNSP*** as part of the relevant preceding ***Price Determination***.

The ***Authority*** may not approve any capitalisation policy proposed by a ***DNSP*** for use when preparing ***Regulatory Reporting Statements*** or ***Regulatory Financial Forecasts*** if:

- the proposed policy is not comparable with similar policies generally used by other ***DNSPs***; or
- the proposed policy represents a ***material*** change on the policy that applied to the ***Regulatory Financial Forecasts*** prepared by the ***DNSP*** concerned for purposes of the relevant preceding ***Price Determination***.]

7.7 Depreciation

A depreciation charge should be attributed to the ***DNSP***, the ***DNSP Business Segment*** and ***Non-Regulated*** users which utilise ***Revenue Cap Regulated Assets*** that gives rise to the charge in accordance with the disaggregation of assets that give rise to these charges.

Depreciation charges on assets accounted for within the ***DNSP Business Segments*** shall:

- be accounted for on a straight-line basis; and
- use economic asset lives.

7.8 Other Revenue and Expenditure

Restatement of Principle

Other revenue and expenditure (including a charge to ***Non-Regulated*** users to reflect the ***Return on Assets*** component of ***Revenue Cap Regulated Assets*** utilised) arising in the Regulatory Statement of Financial Returns not specifically addressed elsewhere in Section 7 of these Guidelines shall be disaggregated between the ***DNSP*** and ***Non-DNSP Entities*** (where applicable) and among the ***DNSP Business Segments*** in accordance with:

- the general principles set out in Section 5.7 of these Guidelines; and
- the disclosure requirements set out in Section 7.1.

7.9 Individually Significant Items

Where they arise, individually significant items (sometimes previously referred to as abnormal or extraordinary items) should be disclosed in the ***Regulatory Reports*** and attributed or allocated in accordance with Section 5.7.

Tax Effect

The income tax attributable to individually significant items shall be separately identified and the total after-tax value of individually significant items shall be disclosed.

Explanation

The ***Authority*** *needs to understand the return on capital being earned by the* ***DNSP*** *both prior to and after income tax.*

Disaggregation

An individually significant item stated prior to related income tax should be attributed to the ***DNSP*** and the ***DNSP Business Segment*** as follows:

- if the item can be ***Directly Attributed*** to a single ***DNSP Business Segment***, or if it has discrete components that can each be so attributed, then the item or the components so identified should be ***Directly Attributed*** to the relevant ***DNSP Business Segments***;
- to the extent that an item cannot be ***Directly Attributed***, then it should be allocated to ***DNSP Business Segments*** in accordance with the requirements of Section 5.7; and
- where it is necessary to separate an item into components to effect ***Direct Attribution*** or allocation, a worksheet should be appended to the ***Regulatory Reporting Statements*** describing:
  - the monetary amount of each component; and
  - its characteristics that either allow it to be ***Directly Attributed*** to a ***DNSP Business Segment***, or require it to be allocated across ***DNSP Business Segments***.

Explanation

Individually significant items should be attributed to ***Business Segments*** *following attribution principles consistent with those applied to other account items.*

7.10 Income Tax

The ***Authority*** requires information about the actual tax paid by the ***DNSP***.

The method used to allocate the amount of tax paid to the ***DNSP*** and ***Business Segments*** will be approved by the Authority as part of the approval of the ***DNSPs' Cost Allocation Methods and Procedures***.

7.11 Interest and Dividends

The ***Authority*** does not require information about interest payable or receivable and dividends payable or receivable or any corresponding assets or liabilities that may arise in the Regulatory Statement of Financial Position.

7.12 Disaggregation of Non-current Assets

Non-current assets shall be either ***Directly Attributed*** to the ***DNSP*** and the ***Non-DNSP Entities*** (where applicable) and ***DNSP Business Segments***, or allocated on a ***Causation Basis*** (except for some immaterial costs) in accordance with the principles set out in Section 5.7 of these Guidelines. Where assets are used in both ***DNSP*** and ***Non-DNSP Entities*** and/or in more than one ***DNSP Business Segment,*** the asset will need to be appropriately apportioned between them. For the ***Non-DNSP Entity***, only non-current assets which are common or shared between the ***DNSP*** and ***Non-DNSP Entities*** are required to be reported.

Disclosure

The ***Regulatory Reporting Statements*** shall include a work paper that discloses for each asset category the value of assets that are an allocation rather than whole assets and:

- a description of the basis of allocation used;
- a quantification of the allocators applied; and
- the corresponding amount of cost allocated.

Additions and decrements shall be disclosed separately and not netted off.

Transfers between asset categories shall be disclosed separately and not netted off.

Opening non-current asset values in the ***Regulatory Reporting Statements*** must equal closing non-current asset values from the preceding ***Regulatory Reporting Period***.

The opening and closing asset balances for a ***Regulatory Reporting Period***, totalled for all ***Business Segments***, shall be capable of reconciliation to the opening and closing non-current asset balances indicated by a comparison of the ***Statutory Accounts*** for the current and preceding ***Regulatory Reporting Periods***. This reconciliation may be provided by:

- the physical asset records that underlie the ***Regulatory Reporting Statements*** and the ***Statutory Accounts***, for those asset values in the statements that are based on accounting methods or valuations not utilised in the ***Statutory Accounts***; or
- monetary amounts disclosed by accounting records for those asset values in the ***Regulatory Reporting Statements*** that are based on valuations utilised in the ***Statutory Accounts***.

7.13 Regulatory Asset Values

Unless otherwise approved by the ***Authority***, the ***Roll Forward Method*** as approved from time to time by the ***Authority*** shall be used to value non-current asset balances in the Regulatory Statement of Financial Position in the ***Regulatory Reporting Statements.***

Asset revaluations are not permitted in the ***Regulatory Reporting Statements*** unless they are specifically agreed to or required by the ***Authority***. Revaluations made in ***Statutory Accounts*** that have not been agreed to by the ***Authority*** must be eliminated via ***Regulatory Adjustments*** to ascertain the regulatory asset value.

Capital works expenditure must be recorded against the asset category appropriate to that expenditure.

Goodwill is not permitted in ***Regulatory Reports***. It will be eliminated as an adjustment between ***Statutory Accounts*** and ***Regulatory Reports***.

7.14 Capital Contributions

Where a ***DNSP*** credits capital contributions to asset values, the ***DNSP's Regulatory Reporting Statements*** shall disclose the amount of customer contributions credited to asset balances in accordance with the allocation principles defined in Section 7 of these Guidelines.

<u>Explanation</u>

*The **Authority** requires an understanding of customer contributions received and their relationship to movements in asset balances.*

7.15 Inflation Accounting Adjustments

No adjustments for inflation, unless approved by the ***Authority***, will be made to ***Regulatory Reports***.

7.16 Other Statement of Financial Position and Statement of Financial Returns Items

Restatement of Principles

Regulatory Statement of Financial Position and Regulatory Statement of Financial Returns items not specifically addressed in this Section of these Guidelines shall be disaggregated between the ***DNSP*** and ***Non-DNSP Entities*** (where applicable) and among the ***DNSP Business Segments*** in accordance with:

- the general principles set out in Section 5.7 of these Guidelines; and
- the disclosure requirements set out in Section 7.1.

7.17 Movements in Provisions

Work papers shall be added to the ***Regulatory Reporting Statements*** sufficient to provide a reconciliation and explanation of all provisions disclosed by the ***Regulatory Reporting Statements.***

The disaggregation of provisions must follow the principles set out in Section 5.7.

Disclosure

The following information shall be provided for each ***Material Provision*** and in total for all other provisions in the ***Regulatory Reports*** of the ***DNSP***:

- the balance at the beginning of the ***Regulatory Reporting Period***;
- amounts set aside to provisions;
- expenditure charged to provisions;
- amounts written back from provisions;
- the net movement charged or credited to the Regulatory Statement of Financial Returns; and
- the balance at the end of the ***Regulatory Reporting Period***.

For the purposes of determining a ***Material Provision***, all provision accounts for expenses of a similar nature or brought about by a similar cause, within a ***DNSP Business Segment*** shall be aggregated and treated as if they are components of a single provision.

Explanation

The ***Authority*** *needs to understand the effect of provisions on costs disclosed by the* ***Regulatory Reporting Statements****.*

7.18 Related Party Transactions

The ***DNSP*** is defined by its activities not by incorporation. Accordingly, ***Prescribed Services*** may, in part, be delivered by ***Entities*** outside of the ***DNSP*** structure. Transactions with ***Entities*** that are a ***Related Party*** of the ***DNSP*** are considered part of the ***DNSP's*** accounts. The principle underpinning such transactions is that the price paid by the ***DNSP*** to a ***Related Party*** should be the same as that which would be paid by two companies dealing at arm's length with each other.

A ***DNSP*** shall inform the ***Authority*** of the extent and nature of:

- the related party transactions attributed to the ***DNSP Business Segments*** for a ***Regulatory Reporting Period***; and
- the balances with related parties or arising from related party transactions, included in the ***DNSP's*** Regulatory Statement of Financial Position in the ***Regulatory Reporting Statements***.

Information to be provided in the ***Regulatory Reporting Statements*** associated with such transactions includes:

- the name of the ***Related Party***;
- the amount paid by the ***DNSP*** to the ***Related Party***;
- the services provided;

- demonstration that the price paid is consistent with that which would be paid by two companies dealing at arm's length with each other;
- a description of how the transaction amount was arrived at, including any market testing undertaken;
- a description of the way the transaction amount is reflected in the ***Regulatory Reporting Statements*** including where the amount is allocated; and
- a description of the allocation.

The disclosure required under this section shall be a statement attached to the ***Regulatory Reporting Statements***.

A ***DNSP*** shall also provide further detailed information on, or explanations of, transactions with related parties, as the ***Authority*** may sometimes require.

The ***Directors' Responsibility Statement*** shall include a specific affirmation that either:

- no such transactions arose; or
- the disclosure requirements of this section have been complied with.

Alternatively, at the ***DNSPs'*** discretion, all third party transactions can be recorded at cost in the ***Regulatory Reporting Statements***.

7.19 Third Party Benefits

Where the ***Licensee*** or any ***Related Party*** of the ***Licensee*** enjoys a material beneficial interest in income, or other value, which is transferred to a third party, the ***Licensee*** shall disclose for each such arrangement:

- a description of the arrangement;
- its underlying purpose;
- details of the counter party;
- details of the third parties;
- the monetary value of such transactions that arose in the ***Regulatory Reporting Period***;
- the basis of charge for the transaction entered into by the ***Licensee***;
- the basis of calculation of the corresponding benefit received by the ***Licensee*** or the ***Related Party***; and
- a summary of the associated accounting entries, analysed by ***DNSP Business Segment***, that have been recorded in the ***Regulatory Reporting Statements***.

The disclosure required under this section shall be a statement attached to the ***Regulatory Reporting Statements.***

The ***Directors' Responsibility Statement*** shall include a specific affirmation that either:

- no such transactions arose; or
- the disclosure requirements of this section have been complied with.

7.20 Disclosure of Excluded Services and Other Activities

The ***Regulatory Reporting Statements*** shall:

- disclose a statement of all ***Excluded Services*** and ***Other Activities*** provided by the ***DNSP***;
- identify the revenues, direct and indirect costs derived in respect of each ***Excluded Service*** and in aggregate for ***Other Activities***, and
- disclose the allocation of corporate overheads to ***Excluded Services*** and ***Other Activities*** consistent with Section 5.7 of these Guidelines and one that discloses:
  - a description of the basis of allocation used;
  - a quantification of the allocator(s) applied; and
  - the corresponding amount of cost allocated.

APPENDIX A: GLOSSARY

Account Heading means either an account heading used in an accounting record such as a general ledger or a higher level summarisation of such headings.

Reports means a system of financial records and recording that enable revenue earned and costs incurred in meeting the obligations under a ***Distribution Licence*** to be separately identified from any other business the ***Licensee*** or its ***Related Parties*** might be carrying on.

Approved Cost Allocation Methods and Procedures means the cost allocation methods and procedures developed by a DNSP and approved by the ***Authority*** for use in conjunction with these Guidelines.

Audit Report means either a ***Regulatory Audit Report*** or a ***Report to the Authority and the Licensee***.

Auditor means an independent registered company Auditor.

Authority means the Queensland Competition Authority.

Business Segments means the various business activities of a ***Licensee*** or its ***Related Parties***, where each activity is involved in supplying different types of services (notably: ***Revenue Cap Regulated Services Segment~~,~~ Excluded Services Segment*** and services supplied by any ***Non DNSP Entity***).

Capital Expenditure means expenditure of a capital nature in accordance with relevant Statutory Accounting principles and/or Australian Tax Office requirements and to which at least one of the following rules is applicable:

- the expenditure relates to the purchase, development or construction of a new asset;
- it is expenditure that will increase the capacity or functionality of distribution assets;
- it is expenditure that will significantly reduce the ongoing maintenance of the assets; or
- it is expenditure that will extend the service life of distribution assets beyond that expected when the assets were originally installed.

Causal or ***Causation Basis*** or ***Relationship*** means, in relation to a basis of allocation, that the allocation base is the most significant trigger of consumption or utilisation of the resources or services represented by the costs or other account item that is being allocated.

Code means the National Electricity Code.

Directly Attributable or ***Directly Attributed*** means, in relation to an item, that the item is wholly and exclusively associated with an object such as the ***DNSP*** or an asset.

Director means a director of a ***Licensee***. Where a ***Licensee*** is not a corporation that appoints directors, ***Director*** shall refer to senior managers of the ***Licensee***, whose identities shall be confirmed by the ***Licensee*** with the ***Authority*** prior to the delivery of information required by these Guidelines.

Directors' Responsibility Statement means a statement signed and dated by a ***Director*** of a ***Licensee*** which states whether, in the ***Directors'*** opinion, the ***Regulatory Reporting Statements***:

- present fairly the Regulatory Statement of Financial Returns (and the accompanying schedules) required by these Guidelines;
- present fairly the Regulatory Statement of Financial Position (and the accompanying schedules) required by these Guidelines;
- have been made out in accordance with applicable and appropriate accounting principles and policies as specified in these Guidelines;
- comply with the requirements of Section 7.18 “Related Party Transactions”; and
- comply with the requirements of Section 7.19 “Third Party Benefits”.

Disposals means the written down value of assets disposed.

Distribution Licence means a licence to distribute and supply electricity granted under section 195 of the *Electricity Act 1994*.

Distribution Services means the services supplied on an electricity distribution system which are associated with the conveyance of electricity through the distribution system.

DNSP (Distribution Network Service Provider) means the entirety of the activities undertaken by the ***Licensee*** and/or a ***Related Party*** of the ***Licensee*** in order to fulfil the obligations incurred under the ***Distribution Licence,*** that is, to supply electricity using its supply network within its distribution area as defined in the DNSP’s Distribution Authority.

DNSP Business Segments comprise the following ***Business Segments***:

- ***Prescribed Services Segment***, comprising: ***Revenue Cap Regulated Services Segment***, including:
  - ***DUOS Services***; and
  - ***Non-DUOS Services***, and
- ***Excluded Services Segment***

DUOS (Distribution Use of System) Services means those prescribed distribution services provided by distribution use of system assets (as defined in the ***Code***) and whose revenue is earned from distribution use of system charges.

Entity means a business unit, whether or not a legal entity.

Excluded Services means those ***Distribution Services*** undertaken by the ***DNSP*** in respect of which, in the opinion of the ***Authority***, the ***DNSP*** does not possess substantial market power and as a consequence could be subject to more light-handed regulation.

Excluded Services Segment means the ***Business Segment*** of the ***DNSP*** supplying ***Excluded Services***.

Immaterial item means an item that is not ***Material.***

Licensee means the holder of a ***Distribution Licence***.

Maintenance Costs means those costs which are directly and specifically attributable to the repair and maintenance of property, plant and equipment that are not ***Capital Expenditure***. ***Maintenance Costs*** can be separated into those costs which are directly and specifically attributable to a ***Business Segment*** and those costs which are common or shared among a number of ***Business Segments***.

Mandatory Heading means a mandatory ***Account Heading*** within the pro forma ***Regulatory Reporting Statements*** or as advised from time to time by the ***Authority*** with respect to the ***Regulatory Financial Forecasts.***

Material has the meaning set out at Section 4.3.

Material Provision means a provision other than a provision for:

- income tax;
- deferred taxation;
- dividends payable or receivable; or
- interest payable or receivable;
- included in the provisions reported in the ***Regulatory Reporting Statements***, which either at the beginning or end of an accounting period, have a balance of either:
- $0.5 million or more; or
- 10 per cent or more of the total provisions in the balance sheet of a ***DNSP Business Segment***.

Non-Causal or ***Non-Causation, Basis*** or ***Relationship*** in relation to a basis of allocation, is one that is other than a ***Causal*** or ***Causation, Basis*** or ***Relationship.***

Non-DNSP Entity means the entirety of the activities undertaken by a ***Related Party*** or parties of the ***Licensee*** not subject to the ***Distribution Licence*** and so not involved in the activities of a ***DNSP***. The ***Non-DNSP Entity*** includes ***Retail Activities.***

Non-Distribution Services means services provided by the ***DNSP*** which either do not involve the conveyance of electricity on an electricity distribution network or involve services on the end-use customer's side of a connection/supply point.

Non-Regulated means not subject to economic regulation via a revenue cap arrangement.

Non-Regulated Services means those services not subject to economic regulation via a revenue cap arrangement.

Not Allocated means the content of those ***Account Headings*** that are not required by these Guidelines to be allocated or attributed to specific ***DNSP Business Segments***.

Operating Costs means those costs which relate to the day to day operations of the business and are not ***Maintenance Costs***. ***Operating Costs*** can be separated into those costs which are directly and specifically attributable to a ***Business Segment*** and those costs which are common or shared among a number of ***Business Segments***.

Non-DUOS Services means those prescribed distribution services that are not ***DUOS Services*** and whose revenue is earned from miscellaneous charges. For Energex these services are: recoverable works not subject to legislative provision; temporary builders services; and subdivision fees. For Ergon these services are: recoverable works not subject to legislative provision; temporary builders services; subdivision fees; and reconnection/disconnection services.

Other Activities means activities deriving non-regulated revenue by utilising, in whole or part, assets or other resources that are primarily used for activities fulfilling obligations acquired under the ***Distribution Licence***.

Prescribed Services means those ***Distribution Services*** determined by the ***Authority*** as the ***Distribution Services*** to be subject to economic regulation in one form or another.

Price Determination means an order or approval relating to the prices or pricing of ***Prescribed Services*** made by the ***Authority*** pursuant to requirements of the ***Code***.

Regulatory Reporting Date means the date on which a ***Regulatory Reporting Period*** ends.

Regulatory Reporting Period means a period spanned by ***Regulatory Reporting Statements***.

Regulatory Reporting Principles and Policies means accounting principles and policies that have been used to prepare ***Regulatory Reporting Statements*** or ***Regulatory Financial Forecasts.***

Regulatory Reporting Statements are financial reports revealing the performance and financial situation of the ***DNSP***. They show the originating ***Statutory Account*** amount, its translation into a ***Regulatory Account*** amount and its disaggregation between the ***DNSP*** and ***Non-DNSP Entities*** and among ***DNSP Business Segments***. The types of ***Regulatory Reporting Statements*** required are identified in Section 5.2.

Regulatory Reporting Templates mean the pro forma ***Regulatory Reporting Statements*** developed and published by the ***Authority***.

Regulatory Reports are financial records derived from the ***Statutory Accounts*** of the ***Licensee*** and the ***Statutory Accounts*** of ***Related Parties*** of the ***Licensee*** that are involved in the activities of a ***DNSP***.

Regulatory Audit Report means an ***Auditor's*** report on ***Regulatory Reporting Statements*** prepared in accordance with Australian Auditing Standard AUS 802.

Regulatory Financial Forecasts are forecasts of key components of the performance and financial situation of the ***DNSP*** based on reasonable and unbiased forecasting assumptions and techniques.

Regulatory Period means a period subject to a price determination by the ***Authority***.

Related Party means, in relation to a ***Licensee***:

(a) any other ***entity*** that, at any time during the reporting period, has control or significant influence over the ***licensee***;

(b) any other ***entity*** that, at any time during the reporting period, is subject to control or significant influence by the ***licensee***;

(c) any other ***entity*** that, at any time during the reporting period, is controlled by the same ***entity*** that controls the ***licensee*** — referred to as a situation in which entities are subject to common control;

(d) any other ***entity*** that, at any time during the reporting period, is controlled by the same ***entity*** that significantly influences the ***licensee***;

(e) any other ***entity*** that, at any time during the reporting period, is significantly influenced by the same ***entity*** that controls the ***licensee***;

but excludes any other where the ***related party*** relationship results solely from normal dealings of:

(i) financial institutions;

(ii) authorised trustee corporations;

(iii) fund managers;

(iv) trade unions;

(v) statutory authorities other than those described in (a) – (e) above;

(vi) government departments; or

(vii) local governments.

Remuneration means any money, consideration or benefit, received or due and receivable, in connection with the management of the affairs of the ***Licensee***, but does not include:

- amounts in payment or reimbursement of out-of-pocket expenses incurred for the benefit of the ***Licensee*** or any related business; or
- in relation to a person not resident in Australia who is an Executive emoluments received or due and receivable by the person from a holding company:
  - of which he or she is a ***Director*** or employee; and
  - that is a corporation formed or incorporated outside Australia; and
  - being emoluments received, or due and receivable, by the person as such a ***Director*** or employee.

Report to the Authority and the Licensee means a detailed report on the conduct of the audit prepared in accordance with Australian Auditing Standard AUS 710 and shall include:

- discussion of any areas of concern;
- discussion on areas of disagreement with the ***licensee***;
- assessment of the clarity and accuracy of the ***Regulatory Reporting Statements***;
- assurance that the stated objectives of these Guidelines have been met; and
- commentary on compliance with these Guidelines.

Retail Activities means those activities associated with the business of selling electricity to customers wherever the customers may be located. ***Retail Activities*** include, but are not necessarily restricted to, those parts of the business that are subject to a ***Retail Licence.***

Retail Licence means a licence to sell electricity otherwise than through the market for wholesale trading in electricity operated and administered by the National Electricity Market Management Company, granted under Section 162 of the *Electricity Industry Act 1994*.

Return on Asset means the allowed return on the ***Revenue Cap Regulated Asset*** base of the ***DNSPs*** established in the ***Authority's*** Final Determination on Regulation of Electricity Distribution (May 2001). The allowed return on assets was set at 8.05 per cent in the 2001 Final Determination.

Revenue Cap Regulated Asset means an asset required to supply those ***Prescribed Services*** that the ***Authority*** has determined are to be subject to economic regulation via a revenue cap arrangement.

Revenue Cap Regulated Services means those ***Prescribed Services*** that the ***Authority*** has determined are to be subject to economic regulation via a revenue cap arrangement.

Revenue Cap Regulated Services Segment means the ***Business Segment*** of the ***DNSP*** supplying ***Revenue Cap Regulated Services***.

Roll Forward Method means the method of updating the value of a ***DNSP's*** non-current assets from an initial value approved by the ***Authority*** by adjustment for (actual or expected, as appropriate) capital expenditure, depreciation, asset disposals and inflation.

Statutory Accounts means the audited set of accounts prepared in accordance with Australian Securities and Investments Commission (ASIC) requirements submitted to the ASIC by statutory entities.

APPENDIX B: PRO FORMA DIRECTORS' RESPONSIBILITY STATEMENT

In the opinion of the Director/s of [name of licensee]:

- the Regulatory Reporting Statements set out on pages [ ] to [ ] are drawn up so as to present fairly in accordance with the requirements of the "Regulatory Reporting Guidelines" ("the Guidelines") issued by the Queensland Competition Authority, dated [version date];
  - the results of each Business Segment for the Regulatory Reporting Period ended [period end];
  - information concerning the state of affairs at [period end], of each Business Segment;
  - information required by Section 7.17 of the Guideline; and
  - information concerning all Related Party Transactions required by Section 7.18 of the Guideline; [delete if not applicable].
  - information concerning all Third Party Benefit Transactions required by Section 7.19 of the Guideline; [delete if not applicable].
- no Related Party Transactions arose during the Regulatory Reporting Period that required disclosure under Section 7.18 of the Guideline [to be deleted only if disclosure is confirmed above]; and
- no Third Party Benefit Transactions arose during the Regulatory Reporting Period that required disclosure under Section 7.19 of the Guideline [to be deleted only if disclosure is confirmed above]; and
- the terms and definitions used in this statement accord with the definitions set out in the Guideline referred to above.

Signed in accordance with a resolution of Directors:

______________________________ ______________________________

(name of director) Dated
Director

APPENDIX C: EXAMPLE OF REGULATORY AUDIT REPORT

(Date)

REGULATORY REPORTING STATEMENTS
PERIOD ENDED *[period end]*

Scope

I have audited the Regulatory Reporting Statements of [name of Licensee] ("Licensee") for the Regulatory Reporting Period ended [period end], comprising Regulatory Statement of Financial Returns, Regulatory Statement of Financial Position and accompanying Schedules, set out on pages [__] to [__]. As per the Queensland Competition Authority's (the Authority) directive, estimates (summarised in Schedule T), work papers and notes (including explanations of any estimates used and explanations of variances between forecast and actual amounts in the Regulatory Reporting Statements) provided as part of the Regulatory Reporting Statements are not to be specifically reported upon.

The Licensee's Directors are responsible for the preparation and presentation of the Regulatory Reporting Statements and the information they contain. I have conducted an independent audit of the Regulatory Reporting Statements in order to express an opinion on them to the Authority and the Licensee on their preparation and presentation.

The Regulatory Reporting Statements have been prepared to meet the needs of the Authority and Licensee as detailed in the *Electricity Distribution: Regulatory Reporting Guidelines* provided by the Authority. This report is prepared for the Authority and the Licensee and is not to be used for any other purpose than those specified herein. We disclaim any assumption of responsibility for any reliance on this report, or on the Regulatory Reporting Statements to which it relates, to any person other than those for whom it was prepared.

The audit has been conducted in accordance with QAO Auditing Standards, which incorporate Australian Auditing Standards. The procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the Regulatory Reporting Statements, and the evaluation of significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects the Regulatory Reporting Statements are presented fairly in accordance with the requirements of the *Electricity Distribution: Regulatory Reporting Guidelines*.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In my opinion, the Regulatory Reporting Statements present fairly in accordance with the requirements of the *Electricity Distribution: Regulatory Reporting Guidelines* the financial position of [name of Licensee] as at [period end] and the results of its operations for the period then ended.

Auditor-General of Queensland Queensland Audit Office
Brisbane