



**Final Report**

**SEQ Interim Price Monitoring  
Information Requirements for 2010/11**

**December 2009**

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## TABLE OF CONTENTS

	PAGE
<b>1. OVERVIEW</b>	<b>1</b>
1.1 Ministerial Direction	1
1.2 Scope of the Review	1
1.3 Process to Date	1
1.4 Information Requirements for 2010/11	1
1.5 Interim Framework	3
<b>APPENDIX 1 - MINISTERIAL DIRECTION</b>	<b>5</b>
<b>APPENDIX 2 - STAKEHOLDER COMMENTS ON THE INFORMATION REQUIREMENTS</b>	<b>8</b>
<b>APPENDIX 3 – INFORMATION REQUIREMENTS FOR 2010/2011</b>	<b>13</b>

## 1. OVERVIEW

### 1.1 Ministerial Direction

The Premier and the Treasurer have directed the Authority (**Appendix 1**) to recommend the interim price monitoring framework to apply to the South East Queensland (SEQ) water and wastewater distribution and retail activities (the Activities) from July 2010 to no later than 30 June 2013. In particular, the Authority is required to recommend:

- (a) a form of interim price monitoring, consistent with Part 3 of the *Queensland Competition Authority Act 1997* (the QCA Act), including the information requirements, nature and frequency of reporting;
- (b) the process and criteria to assess capital expenditure for inclusion in the regulated asset base from 1 July 2010; and
- (c) the commencement date for final regulatory arrangements, being no earlier than 1 July 2012 and no later than 1 July 2013.

### 1.2 Scope of the Review

Interim price monitoring is to be applied to the three new SEQ retail/distribution entities comprised of the following council groups:

- (a) Brisbane, Scenic Rim, Ipswich, Somerset and Lockyer Valley (Central Entity, or Queensland Urban Utilities (QUU));
- (b) Gold Coast, Logan and Redlands (Southern Entity, or WB3); and
- (c) Sunshine Coast and Moreton Bay (Northern Entity, or Northern SEQ Distributor-Retailer Authority (NSDRA)).

There are two Activities for each entity – water retail/distribution and wastewater retail/distribution. Water and wastewater activities are comprised of a variety of different services, including the supply of drinking water and sewerage services via a physical network, services provided on an as-needed basis, contestable services, and bundled retail/distribution services.

### 1.3 Process to Date

The Authority released a Draft Report on the proposed interim framework and information requirements, particularly the information requirements for 2010/11, on 30 November 2009.

Submissions on the information requirements for 2010/11 were sought by Friday 11 December 2009. Two workshops on the Draft Report were held prior to the due date for submissions to canvass the views of stakeholders and to facilitate their submissions. Representatives of the Queensland Water Commission, Queensland Treasury, the Council of Mayors (South East Queensland) and each of the three retail/distribution entities attended. Stakeholder comments were subsequently received and considered in the preparation of this Final Report (**Appendix 2**).

### 1.4 Information Requirements for 2010/11

The rationale for the information requirements for 2010/11 is explained in the Draft Report (in particular, chapters 3 and 4). Essentially, the Information Requirements for 2010/11 (**Appendix 3**):

- 
- (a) reflect the scope of the price monitoring required, which involves reporting and reviewing of prices, costs and service quality;
  - (b) take into account the magnitude of the task involved in establishing the new entities, and the establishment of accounting practices and policies, against the background of the amalgamation of the water and wastewater activities of the 17 councils into 10 councils and now into three new entities;
  - (c) establish an initial basis for disaggregating revenue and cost categories so that, by the end of the interim period, the framework should provide for timely and transparent information on the costs and other factors underlying each price;
  - (d) take into account the nature and frequency of reporting, and the proposed criteria to assess capital expenditure for inclusion in the regulated asset base from 1 July 2010, proposed in the Draft Report; and
  - (e) take into account stakeholder submissions prior to the Draft Report and comments on that Draft Report. Stakeholder comments on the draft Information Requirements, and the Authority's response, forms **Appendix 2**.

For 2010/11, the Authority proposes to report revenues and costs by Activity for each entity, for each of the amalgamated council geographic areas (or their component systems/catchments), for each of the identified core services, and aggregate non-core and regulated services and revenues for each customer group. Figure 1 refers.

The information is required for a three-year forecast period, as a minimum. While the Authority is not setting prices, such information is required to provide a context for the assessment of annual revenues. Where the entities pursue price smoothing, or costs can only reasonably be assessed in the context of a longer term capital or operating program, information for the corresponding period is required.

For 2010/11, information is required by the Authority by 1 July 2010. Actual revenues and costs are typically required for the year ending 30 June 2009, while it is accepted that in many instances actual data will not be available for the year ended 30 June 2010. In this latter instance, estimated actual data will be required. Information in respect of these prior periods will be required to the extent that records and information have been provided to the entities by the participating Councils.

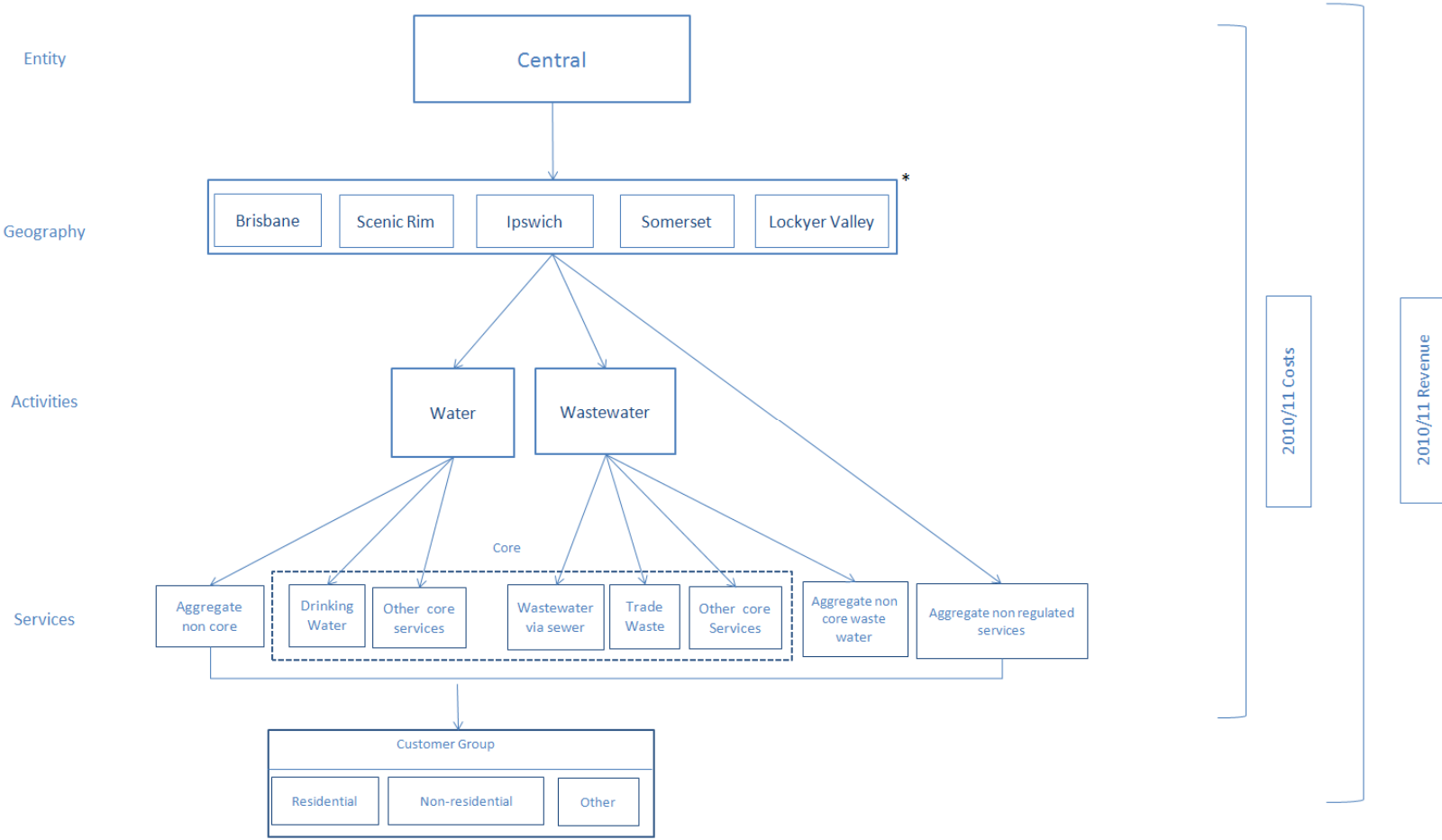
Stakeholders have also raised a number of issues in submissions which may have a bearing on the recommended Information Requirement for 2010/11 but which need to be resolved in the context of a consideration of proposed interim price monitoring framework, a report on which is due to Ministers by 30 April 2010.

Further refinement of the Information Requirements proposed for 2010/11 may therefore be required to accommodate such considerations as well as those which follow from the Ministers' decision relating to the Authority's recommendations, and the outcome of Authority consultation with stakeholders relating to the proposed information template. Under current proposals, the information requirements may also be refined by the Authority on its own initiative, in response to a proposal by an entity or other stakeholder or as a result of a review of the price monitoring information, subject to consultation with the entities and other stakeholders and giving reasonable notice

## **1.5 Interim Framework**

Submissions on the remaining issues in the Draft Report (relating to the interim framework) are sought by **Friday 29 January 2010**. The Authority's Final Report to the Ministers on the interim price monitoring framework is due by 30 April 2010.

Figure 1: Disaggregation of Revenues and Costs



\* system (catchment) basis if available

**APPENDIX 1 - MINISTERIAL DIRECTION**

9 October 2009]

QUEENSLAND GOVERNMENT GAZETTE No. 46

439

**QUEENSLAND COMPETITION AUTHORITY ACT 1997  
Section 10 (e)  
MINISTERS' DIRECTION NOTICE****Direction**

As the Premier and the Treasurer of Queensland, pursuant to section 10(c) of the *Queensland Competition Authority Act 1997* (the QCA Act), we direct the Queensland Competition Authority (the Authority) to investigate and report on a recommended price monitoring framework to apply to the SEQ water and waste water distribution and retail activities (the Activities) from July 2010 to no later than 30 June 2013. The Authority is directed to:

1. develop and propose a form of interim price monitoring arrangement, consistent with Part 3 of the QCA Act, including the information requirements, nature and frequency of reporting;
2. recommend the process and criteria it proposes to apply to assess capital expenditure for inclusion in the regulated asset base from 1 July 2010;
3. recommend a commencement date for the final regulatory arrangements for each Activity, being no earlier than 1 July 2012 and no later than 1 July 2013; and
4. provide a report on the above matters.

**Objectives and Matters to be Accepted**

The interim arrangement is intended to apply from 1 July 2010 and the final regulatory arrangement is intended to apply from no later than 1 July 2013.

The interim arrangement price monitoring investigations must:

- (a) provide timely and transparent information to customers about the costs and other factors underlying the annual increase in water prices, including distinguishing the bulk and distribution/retail components;
- (b) recognise the Government's policy that the prices charged by the SEQ Water Grid Manager for bulk water storage, treatment and delivery are to be passed through to customers in full;
- (c) consider the availability of information from the Activities and the emerging capability of the Activities to provide information;
- (d) monitor each Activity's water and waste water revenues having regard to the maximum allowable revenue over the interim period, based on the total costs of carrying on the Activity including each of the following:
  - (i) the operational costs incurred in carrying on the activity;
  - (ii) depreciation; and
  - (iii) return on capital employed.

- (e) provide a process and criteria for recommending the roll-forward of the regulated asset base using the following principles:
- (i) Council distribution/retail asset valuations, establishing the initial regulated asset base as at 1 July 2008 are to be as advised by the Minister for Natural Resources, Mines and Energy and Minister for Trade;
  - (ii) the opening regulated asset base for each subsequent year must be rolled forward annually in accordance with the following formula:
 
$$RAB_t = (RAB_{t-1} + \text{Capital Expenditure}_t - \text{Regulatory Depreciation}_t - \text{Disposal}_t + \text{Indexation}_t)$$
 where  $t = \text{the year under consideration}$ ;
  - (iii) to assess Capital Expenditure in (ii) above, the Authority must assess actual and prudent capital expenditure (including for information technology systems). The Authority must accept as prudent:
    - actual capital expenditure, excluding establishment costs, for water and waste water as included in Council financial accounts for the period 1 July 2008 to 30 June 2010; and
    - contributed, donated and gifted assets; and
    - allowable establishment costs for inclusion in the regulated asset base as advised by the Minister for Natural Resources, Mines and Energy and Minister for Trade.
  - (iv) to assess Regulatory Depreciation in (ii) above, the Authority must take into account for the period 1 July 2008 to 30 June 2010 the apportionment of Council distribution/retail valuations in (i) above to individual assets and evidence that regulatory depreciation on the physical assets has been calculated using existing useful lives attaching to the individual assets; and
  - (v) to assess the Indexation in (ii) above, the Authority must take into account the latest available Australian Bureau of Statistics Consumer Price Index (all groups, Brisbane), however, for the period 1 July 2009 to 30 June 2010, the 2009-10 Queensland State Budget inflation forecast may be used.

#### Consultation

The Authority must undertake an open consultation process with all parties considered relevant to the review and consider submissions within the timetable for the review and reports. All reports and submissions must be made publicly available.

9 October 2009]

QUEENSLAND GOVERNMENT GAZETTE No. 46

441

**Timing**

The Authority must provide the following to the Ministers and the Minister for Natural Resources, Mines and Energy and Minister for Trade:

- a) a Final Report identifying the information requirements for the Activities for 2010-11 by 31 December 2009;
- b) a Draft Report by 31 January 2010; and
- c) a Final Report by 30 April 2010.

**Other issues**

We may, by written notice, given to the Authority, withdraw or amend this Direction at any time prior to receiving the Final Report.

The Authority may use Division 2, Part 6 of the QCA Act to conduct the review.

**ANNA BLIGH**  
Premier  
Minister for the Arts

**ANDREW FRASER**  
Treasurer  
Minister for Employment  
and Economic Development

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**APPENDIX 2 - STAKEHOLDER COMMENTS ON THE INFORMATION REQUIREMENTS**


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**Stakeholder Concerns****Authority Response****Initial Submissions**

1. Request a **second consultation period** when final Board is established in May 2010 (QUU)

The Authority's Final Report on the Information Requirements for 2010/11 is due by 31 December 2009 and the Final Report on the Interim Price Framework is due by 30 April 2010.

Nevertheless, under s1.5, the Authority may amend the Information Requirements in response to a proposal by an entity (or of its own accord).

2. The **provision of historical data** is dependent on that information being made available to QUU. QUU has no authority to correct, amend or represent the information that precedes the transfer of the water businesses (under the Transfer Scheme) to the entity on 1 July 2010 (QUU). Similar comments were made by WB3 and NSDRA.

Historical data provides important context for any review of forecasts, especially over the interim period, and is also required to roll forward the regulatory asset base from 1 July 2008 in accordance with the Ministerial Direction. However, as the provision of historical data is dependent on council records, the Information Requirements have been amended to require past information to be provided by the entities where available from the records and information that have been provided by participating Councils (sections 1.4 and 5).

Further, the year ended 30 June 2010 will not be finalised as at 1 July 2010. Estimated actual data should be required, or a delay until audited information (NSDRA). A similar comment was made by QUU.

To ensure timely information to stakeholders, the Authority has amended the Information Requirements to require estimated actual information for the year immediately preceding the reporting year. Audited actual information on that year should be provided by 30 September in the reporting year (section 1.4).

3. Information provided in regards to demonstrate **capital efficiency** for the first interim assessment will be limited to the information provided by the Participating Councils (QUU).

As above.

4. Directors are unable to make a statement that the information submission, which is largely based on historical information, is "**true and fair**". (QUU, NSDRA, WB3).

A statement that the information submission is "fairly presented" as suggested by QUU is proposed (section 7).

5. For future years, the use of "true and fair" in the context of **forecast information** is also of concern. (QUU, NSDRA, WB3).

Amended as proposed by QUU in response to 4 above. (section 7).

6. The **disaggregation of costs and assets at the service level** is only readily available for a few very specific direct costs that would generally not be material. It can only be achieved through an allocation of the activity level based on some metric but the only common metric available is revenue. Such an allocation may then not support a review for pricing/revenue purposes (QUU). Similar concern about cost allocation and suggestion that Authority develop methodology where required (WB3).

An evolving program of disaggregation over the interim period is necessary to enable the entities to manage their business effectively and to provide transparent information to customers on the costs and other factors underlying prices. By the end of the interim period, this information should be available on each price.

For 2010/11, the entities are required to disaggregate costs and assets to core services, the aggregate of non-core and the aggregate of non-regulated services (section 3.4). The entities are to allocate costs using directly attributable, causal and other factors and to identify these factors. The Authority will consider whether guidance on cost allocation is required in the future.

7. **Disaggregation of information by shareholder location** may restrict the ability of the business to streamline financial accounts and has the potential to retain political influence and decision-making in price setting. It is not considered relevant if the Authority is to adopt common pricing (NSDRA).

The Authority has requested information to be disaggregated on the basis of council boundaries or catchments (which can be summed to these boundaries) for 2010/11 to provide information to customers and other stakeholders on the costs and other factors underlying prices. It is recognised that pricing principles are yet to be established but we need to maintain maximum flexibility to enable nodal pricing if that is what eventuates.

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Stakeholder Concerns	Authority Response
8. <b>Costs will be difficult to disaggregate</b> for trade waste services as it utilises the same collection network etc as sewerage/wastewater (NSDRA).	As noted above, entities are to identify the factors adopted to allocate common costs. The Authority will consider whether guidance on cost allocation is required in the future.
9. An alternate additional level of disaggregation available for the wastewater activity is the <b>separation of collection and treatment costs and asset values</b> (QUU).	The existing definition of asset class separately identifies treatment and other distribution infrastructure.
10. A <b>separation of recycled water</b> is also available for revenue, costs and specific recycled water assets (QUU).	The costs (and revenues) for each core service are to be identified separately, including recycled water. See section 3.4.2(c) of the Information Requirement and the related definition.
11. <b>Definition of non-residential</b> customers appears to include community organisations and this is a departure for many councils who have traditionally considered these ‘other’ customers (NSDRA). The definition of non-residential customers should therefore make reference to community and council connections.	Revenues are to be allocated to customer groups (section 3.4). For 2010/11, this is by residential, non-residential and other groups. Each tariff structure and associated sales consistent with these revenues is to be provided. No further disaggregation of each group is proposed. The relevant customer groups may develop in line with pricing principles.  The definition of non-residential customers has been clarified as proposed. However further disaggregated information may be provided by the entities to provide transparent information to stakeholders on the costs and other factors underlying prices.
12. <b>Non-regulated services</b> should not be separated into the water and wastewater activities (QUU, NSDRA)).	The Authority agrees there is no need to separate out non-regulated services into water and wastewater activities. Amended definition and Figure 1 as proposed
13. <b>Initial regulatory asset base</b> to be allocated to assets based on any method which is sound, practical and verifiable (QUU).	A common approach to allocation of the initial regulatory asset base is required at a minimum to allow for comparability between entities. However, additional information on alternative sound, practical and verifiable approaches may also be provided (see footnote added to section 5.5).
14. For merged councils, 2007/08 financial accounts cover 1 July 2007 to <b>14 March 2008</b> . The 2008/09 financial accounts cover from 15 March 2008 to 30 June 2009. Asset registers only exist for these councils as at 14 March 2008 and 30 June 2009 (QUU and NSDRA).	The Ministerial Direction states that the initial regulatory asset base will be advised as at 1 July 2008. The draft information requirements have been amended to reflect that, where audited asset values are not available as at 1 July 2008, audited values should be rolled forward to 1 July 2008 in a manner consistent with the formulae in the Ministerial Direction (see footnote added to section 5.5).
15. Information on <b>projected demand for developments</b> and development sequencing as well as corresponding infrastructure charging rates more appropriate (than estimates of capital contributions and related assets) (NSDRA, WB3)	Section 5.7 has been amended as proposed to more clearly reflect a requirement for revenues, charges and demand consistent with these revenues, and underlying schedules and policy statements. Details of the basis for infrastructure charges are necessary to enable the Authority to verify estimates.
16. It may not be possible to <b>allocate the RAB</b> to individual assets and WB3 prefers allocation at the group level (for the purpose of establishing the regulatory asset base) (WB3).	The Ministerial Direction refers to the apportionment of the initial regulatory asset base to individual assets. The provided values of any asset groups of a common type must therefore be able to be reconciled with the underlying individual asset values in an entity’s detailed asset registers (s. 5.5).
17. Clarification is required as to what point in time the <b>useful lives</b> are required to be estimated (WB3).	Under s. 5.8 of the Information Requirement, the estimate of the useful life is required from at 1 July 2008 and estimates in subsequent years should be consistent (unless there are significant reasons for a change).
18. Definition of <b>related party</b> refers to other entities that would be subject to the control of QUU and covers potential subsidiaries. If the intention is to cover	The definition of a related party has been clarified to ensure that transactions with participating councils are covered as a related party transaction. The entity is to provide available information

Stakeholder Concerns	Authority Response
participating councils, then the requirement to demonstrate that the value reflects that which would be paid by two companies dealing at arms length and market testing is not likely to be met for transitional service agreements. A description of the service provided may not be able to be provided in relation to the Workforce Framework obligations (QUU).	including on any obligations it is required to perform in relation to related parties.
19. <b>Retail and distribution costs</b> incorporate a mixture of activity and expenses which could create confusion as expenses could fit into one or more categories. Propose inclusion of an activity split. (QUU).	Proposal to separate operating costs by activity (retail and distribution) is accepted (section 5.11).
20. The entities may be directed by council to provide higher <b>standards of service</b> than those approved by other agencies (QUU).	Where Council has directed that service standards be superior to those approved by other agencies, it is appropriate for these to form the basis for reporting. However, the entity needs to provide the direction and to demonstrate to the Authority that these standards are indeed superior and approved by Council (see amended section 5.3).
21. Require clearer <b>definition of “activity”</b> and perhaps a prescriptive list of defined “activities” (NSDRA).	The activities to be subject to price monitoring will be defined in the Ministerial Declaration referring them for price monitoring.
22. Require clarification as to whether details of <b>asset classes and drivers</b> are required only where specifically requested (NSDRA).	Details are only required as requested. Such a requirement relates to capital expenditure (section 5.6.2) and for depreciation (section 5.8.1).
23. Require clarification as to whether <b>“non-residential” customer group</b> is to be further split between commercial, industrial and community groups (NSDRA).	No such disaggregation is required for 2010/11. However, as noted above, further disaggregated information may be provided and will be considered by the Authority.
24. Require clarification as to whether <b>balance sheet</b> is to be disaggregated by deemed categories	High level details of the balance sheet are required (section 5.1). Disaggregation of the balance sheet by deemed categories is not required. However, information relating to deemed categories must be consistent with that in the balance sheet (see amended section 5.1.2).
25. Concern relating to request for reporting of <b>service standards</b> in SWIM database in that it requires duplication with DERM requirements (NSDRA).	The Authority will require sufficient information on past standards of service to explain changes in costs for each deemed category. Future standards of service for deemed categories are required to allow for a review of underlying costs (section 5.3). The Authority anticipates that the entities will draw on their Strategic Asset Management Plan or Total Management Plan.
	In relation to past performance against these standards, the Authority will access the SWIM database and there is no need to provide additional data to the Authority.
26. Clarification required as to the <b>appropriate measure of demand</b> to be reported (litres, kilolitres or mega litres) (NSDRA).	Proposed templates will provide guidance on relevant measures of demand.
27. Clarification sought to whether <b>information technology</b> is to be treated as part of corporate costs, material and services or as a separate item (NSDRA).	Under the proposals, information technology costs are to be separated according to relevant areas.
28. Clarification sought as to the degree of <b>disaggregation of operating costs</b> for each deemed category (NSDRA).	Under the proposals, operating costs are to be disaggregated to the level identified in 5.11.1 (b) according to the levels indicated by the roman numerals.

Stakeholder Concerns	Authority Response
<p>29. A <b>generic template</b> would be very useful and will be required (if mandated in its application) early in 2010 to feed into financial and pricing decisions for 2010/11.</p>	<p>In the Draft Report, the Authority recommended that, after the Government makes its decision on the interim price monitoring framework, it should develop a generic template information return and model, to assist in the reporting process.</p> <p>The Authority now notes that this template and model will need to be developed earlier than this in order to be used by the entities to provide information on 1 July 2010. The Authority intends to commence this work in early 2010. This amendment has been reflected in section 8 of the Information Requirements.</p>
<b>Subsequent Submissions</b>	
<p>1. The ability to secure the necessary <b>information from the participating</b> councils remains a concern (QUU). QUU will make further submissions to the Authority in January 2010 (QUU).</p>	<p>The Authority will be consider further submissions from QUU in regards to this matter in the preparation of the Final Report due 30 April 2010.</p>
<p>2. <b>Standards of service set by participating councils</b> have evolved over time and are not necessarily laid out in specific documents. QUU have committed to investigate the best way to demonstrate that these levels of service are set by Councils and may make further representations in January 2010. (QUU).</p>	<p>The Authority will consider further submissions from QUU in regards to this matter in the preparation of the Final Report due 30 April 2010.</p>
<p>3. Noted that <b>transitional service level agreements</b> are to be considered related party transactions. QUU indicated it is unlikely to be able to demonstrate that these are effectively commercially valued transactions and they will make further representations on this matter in January 2010 (QUU).</p>	<p>The Authority will consider further submissions from QUU in regards to this matter in the preparation of the Final Report due 30 April 2010.</p>
<p>4. Request for a <b>blanket exclusion</b> regarding the new entities providing any information required when not supplied to it by participating Councils. (WB3).</p>	<p>While Authority accepts there will be difficulty, it expects that entities will make a positive effort. The Authority has amended section 5 in this respect .</p>
<p>5. Maintaining <b>consistency with statutory accounts</b> will be problematic and complex. Regulatory accounts and statutory accounts will deviate, particularly in relation to asset valuation, depreciation and taxation. (WB3).</p>	<p>This requirement for consistency between statutory and regulatory accounts is standard regulatory practice and is required to ensure the veracity of the information being provided to the Authority.</p>
<p>6. Suggested <b>\$10 million threshold</b> be placed on capital projects which require a more detailed provision of information to demonstrate efficiency and prudence. (WB3).</p>	<p>This matter will be taken into account in the preparation of the Final Report due 30 April 2010.</p>
<p>7. <b>Operating costs</b> are requested to be broken down between retail and distribution activities contrary to a previous undertaking by the Authority not to do so (WB3).</p>	<p>The Authority removed references to the need to separate retail and distribution activities and their relevance to third party access. This position has been maintained. The QUU indicated that the operating cost categories were considered to mix activities and expenses and suggested their disaggregation on the basis incorporated in the revised Information Requirement (which the Authority proposes to adopt).</p>
<p>8. Request that a clause be included that provides assurances that the QCA will not disclose any information which is <b>commercially sensitive</b> such as information relating to non-regulated services provided in a competitive market.(WB3).</p>	<p>This is not an issue for the Information Requirements for 2010/2011. This is an issue for the reporting of information and will be further considered in the preparation of the Final Report due 30 April 2010.</p>

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**Stakeholder Concerns**

**Authority Response**

9. Requirement to sign off 3 year forecasts in the **Director's Statement** - which 'fairly represent' is not reasonable or appropriate given the inherent uncertainties associated with any type of forecasts. (WB3).

The Authority has revised statement of Director's sign-off in response as proposed by QUU. This is required to ensure that information provided has the required veracity for the Authority to consider annual information in a relevant context.

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**APPENDIX 3 – INFORMATION REQUIREMENTS FOR 2010/2011****1. INTRODUCTION****1.1 Purpose**

- 1.1.1 These Information Requirements (Requirements) have been developed by the Queensland Competition Authority (the *Authority*) to assist the SEQ Distributor-Retailer Authorities (*entities*) to provide information to the Authority for the purposes of the interim price monitoring framework.
- 1.1.2 The Requirements should be read in conjunction with the Authority's Draft Report on SEQ Interim Price Monitoring which sets out the proposed framework to apply to SEQ water and wastewater distribution and retail entities. A copy of that report can be downloaded from the Authority's website at [www.qca.org.au](http://www.qca.org.au).
- 1.1.3 The Requirements apply to the interim price monitoring period (interim period) which commences on 1 July 2010 and ends on 30 June 2013 with a particular focus on the information required for 2010/2011. Potential information requirements for subsequent years have also been identified to provide a context for compliance and to assist the *entities* to understand the potential demands on their information systems.

**1.2 Authorising Provision**

- 1.2.1 The price monitoring framework has been approved by the Ministers pursuant to Part 3 of the *Queensland Competition Authority Act 1997* (the QCA Act).

**1.3 The Entities**

- 1.3.1 The entities are as follows:
- (a) Northern SEQ Distributor-Retailer Authority - Sunshine Coast Regional Council and Moreton Bay Regional Council.
  - (b) Central SEQ Distributor-Retailer Authority - Brisbane City Council, Ipswich City Council, Scenic Rim Regional Council, Lockyer Valley Regional Council and Somerset Regional Council; and
  - (c) Southern SEQ Distributor-Retailer Authority - Gold Coast City Council, Redland City Council and Logan City Council.

**1.4 Commencement and Application**

- 1.4.1 These Requirements take effect on 1 July 2010 and apply to each entity.
- 1.4.2 The Requirements apply to 2010/11 other than where indicated to apply for subsequent years (as bolded).
- 1.4.3 The *entities* must comply with these Requirements from, and in respect of, each financial year relevant to a particular review.
- (a) For 2010/11, information is to be submitted by 1 July 2010, and incorporate financial information for the year ending 30 June 2009 and estimated actuals for the year ending 30 June 2010, to the extent that records and information have been provided to the entities by participating Councils,, and forecasts for each year to 30 June 2013; or,

where an entity chooses to set revenues and prices over a longer period, for that period. Audited information in respect of 2009/10 is to be provided by 30 September 2010;

- (b) **For subsequent years** of the interim period, information in respect of the reporting year is to be submitted by 1 July of that year and for each of the next three financial years; or, where an entity chooses to set revenues and prices (and smooth) over a longer period, for that period. Audited information in respect of the immediately prior year is to be provided by 30 September of the reporting year.

## **1.5 Amendment to these Information Requirements**

- 1.5.1 The Authority may amend these Requirements on its own initiative, in response to a proposal by an entity or other stakeholder or as the result of a review of the price monitoring information returns submitted by the entities.
- 1.5.2 The Authority will not make material amendments to these Requirements until entities and other stakeholders have had an opportunity to comment on the nature of any proposed amendment and those comments have been considered.
- 1.5.3 The Authority will give reasonable notice to each entity of any amendments to these Requirements.

## **2. REQUIREMENTS**

### **2.1 General Obligation**

- 2.1.1 An *entity* must prepare, maintain and submit *price monitoring information returns* to the Authority in accordance with these Requirements.
- 2.1.2 An *entity* must ensure that it keeps information that enables it to prepare *price monitoring information returns* which properly record and explain the transactions and financial position of that entity in accordance with these Requirements.
- 2.1.3 Subject to section 5, an *entity* must provide historical information as requested by the Authority.

### **2.2 Preparation of Returns**

- 2.2.1 An *entity* must prepare *price monitoring information returns* in accordance with the templates in Section 8<sup>1</sup>.
- 2.2.2 Where required by the templates, an *entity* must prepare explanatory notes which explain the basis of the information recorded in the *price monitoring information returns*.

### **2.3 Submission of Returns**

- 2.3.1 An *entity* must submit *price monitoring information returns* in respect of a reporting year to the Authority in hardcopy and electronic format by 1 July of that year, unless the Authority has agreed in writing to an extension of time prior to that date. From the 2011/12 reporting year onwards, the entity will also provide the Authority with audited financial accounts (*statutory accounts*) in respect of the immediately prior year by 30 September of the reporting year.

### **2.4 Retention of Accounting Records**

- 2.4.1 An *entity* must retain all accounting records from which *price monitoring information returns* were prepared for five *financial years* immediately following the reporting year in respect of which the *price monitoring information returns* were submitted.

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<sup>1</sup> Section 8 will be developed by the Authority and provided to the entities in early 2010.

### 3. PRINCIPLES

#### 3.1 Substance of Transactions

- 3.1.1 *Price monitoring information returns* must report the substance of transactions.
- 3.1.2 If the substance of a transaction differs from the legal form of the transaction, the substance of the transaction must be reported.
- 3.1.3 For the purposes of determining the substance of a transaction, a group or series of transactions which achieves, or is designed to achieve, an overall commercial effect must be reported in a consistent manner.

#### 3.2 Returns to be derived from Statutory Accounts and Budget

- 3.2.1 The price monitoring information returns must be consistent with the statutory accounts and Budget of the entity.
- 3.2.2 The *price monitoring information returns* must include any revenue earned, asset utilised and liability or cost incurred in relation to the supply of the *monopoly business activities* by:
- (a) separately identifying cost items associated with the supply of services which are *non-regulated services* (but not disaggregated by service);
  - (b) eliminating adjustments not permitted by these Requirements;
  - (c) including adjustments required by these Requirements; and
  - (d) allocating or disaggregating details as required in clause 3.4.2 and section 5.
- 3.2.3 Movements from an *entity's statutory accounts* and Budget must be clearly reported in the *price monitoring information returns* of that *entity*.
- 3.2.4 *Price monitoring information returns* must contain information that is consistent with the *general ledger* which records the actual *statutory account* costs of the relevant *entity*.
- 3.2.5 An *entity* must ensure that the *price monitoring information returns* referred to in clause 2.3.1 above are able to be reconciled with:
- (a) the *statutory accounts* and Budget in respect of the *entity*;
  - (b) the *chart of accounts* and trial balance underlying the *statutory accounts*; and
  - (c) a statement of all price monitoring accounting principles and policies which were used by the *entity* to prepare the *price monitoring information returns*.

#### 3.3 General principles

- 3.3.1 An *entity* must adopt price monitoring accounting principles and policies in the preparation of *price monitoring information returns* so that:
- (a) there is a recognisable and rational economic basis that underlies the utilisation of those principles; and
  - (b) the *price monitoring information returns* satisfy the accounting concepts of relevance and reliability.

### 3.4 Allocation Principles

- 3.4.1 The *price monitoring information returns* of an *entity* must provide information that is consistent with the *statutory accounts* and Budget in accordance with the allocation principles referred to in this clause.
- 3.4.2 For 2010/11, the details in chapter 5 must be disaggregated by each *entity* according to the following deemed categories:
- (a) each Activity;
  - (b) each geographic area;
  - (c) each *core service* and (in aggregate) *non-core service* and (in aggregate) *non-regulated services*. **For subsequent years**, *non-core services* are to be allocated as determined by the Authority;
  - (d) each *asset class* and cost driver as required; and
  - (e) **for subsequent years**, for each *customer group*. For 2010/11, revenues are also to be allocated to customer groups.
- 3.4.3 Allocations are required in relation to:
- (a) revenue;
  - (b) the regulatory asset base;
  - (c) capital expenditure; and
  - (d) operating costs.
- 3.4.4 The allocations in 3.4.2 must be based on the principle that:
- (a) amounts are directly attributable to that category;
  - (b) amounts which are not directly attributable to a category must be allocated on a *causal* basis, except where a *causal* relationship cannot be reasonably established. Amounts may be allocated on a non-*causal* basis provided that:
    - (i) 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; or
    - (ii) the cost to derive the causal allocation outweighs the benefits of allocating items on that basis; and
    - (iii) the aggregate of all amounts allocated on a non-causal basis is not material to the *price monitoring information returns*.

3.4.5 The *entity* must report the basis for the allocation of amounts. **For subsequent years**, a more detailed and consistent basis for the allocation of these amounts may need to be defined.

### **3.5 Statement of Accounting Principles and Policies**

3.5.1 An *entity* must provide to the Authority as part of the *price monitoring information returns* full and detailed documentation and disclosure of:

- (a) details of the *accounting principles and policies* that were used to prepare the *statutory accounts* and Budget;
- (b) *any price monitoring accounting principles and policies* that were used to prepare the price monitoring information returns that are additional to, or in place of, the accounting principles and policies used to prepare its statutory accounts and Budget; and
- (c) any changes in the *accounting principles and policies* which were used to prepare its *statutory accounts* and Budget or in its *price monitoring accounting principles and policies* which occurred since the submission by the entity of the last *price monitoring information returns*. Where such a change has occurred, an entity must disclose to the Authority:
  - (i) the nature of the change;
  - (ii) the reasons for the change; and
  - (iii) the effect of the change on the *price monitoring information returns*.

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#### 4. REVIEW AND ADJUSTMENT

- 4.1.1 Each *entity* must acknowledge that the Authority or a person appointed by the Authority may review the compliance of the *price monitoring information returns* submitted by that *entity* with these Requirements.
- 4.1.2 As part of such a review and without limitation the *entity* must:
- (a) provide access to the *entity's* accounting records retained in accordance with these Requirements;
  - (b) provide any information reasonably requested by the Authority or a person appointed by the Authority; and
  - (c) provide any assistance reasonably requested by the Authority or a person appointed by the Authority.
- 4.1.3 Following review of the *entity's price monitoring information returns*, the *entity* may be required to:
- (a) make any adjustments to the *price monitoring information returns* which are required by the Authority; and
  - (b) change its *price monitoring accounting principles and policies* to ensure future compliance with the Requirements.
- 4.1.4 If at a later date information becomes available that materially changes the results or values reported in the *entity's price monitoring information returns*, the *entity* shall advise the Authority of any such change.
- 4.1.5 An *entity* must submit:
- (a) a responsibility statement in the form set out in section 7 signed by a Director of the *entity*; and
  - (b) an extract from the minutes of the *entity's* Directors that confirms the *price monitoring information returns* are fairly presented.

## 5 DETAILS

For the purpose of section 5, for 2010/11, an entity is required to provide the requested information regarding 2009/10 to the extent that records and information have been provided to the entity by the participating Councils.

If Councils do not provide required historical information, entities must seek from Councils the reason for this.

### 5.1 Statutory Accounts and Budget

For each year of the *interim price monitoring* period, an *entity* must provide each of the statutory accounts listed below for the preceding year. In addition, Budget documentation is required relating to the year under review.

#### 5.1.1 Profit And Loss

- (a) an *entity* must provide high level details of the profit and loss statement (or income statement) as recorded in the business's *statutory accounts* and Budget for the following the revenue and expenditure categories:
  - (i) Revenue
  - (ii) Investment income
  - (iii) Net profit from sales of assets
  - (iv) Contributions
  - (v) Operating expenditure
  - (vi) Depreciation
  - (vii) Bad debts
  - (viii) Borrowing costs
  - (ix) Net loss from the sale of assets; and
- (b) net loss from the sale of assets; and where appropriate an *entity* should refer the Authority to any relevant notes that are included in the entity's *statutory accounts* and Budget that will assist in interpretation of the *price monitoring information returns*.

#### 5.1.2 Balance Sheet

- (a) an *entity* must provide high level details of the balance sheet (or statement of financial position) as recorded in the business's *statutory accounts* and Budget must be consistent with that relating to the deemed categories included in the *price monitoring information template* in section 8;
- (b) where appropriate, an *entity* should refer the Authority to any relevant notes that are included in the *entity's statutory accounts* and Budget that will assist in interpretation of the balance sheet template; and
- (c) in the explanatory notes section, an *entity* is required to provide explanation of any change in accounting treatment from the previous year.

### 5.1.3 Cash flow statement

- (a) an *entity* must provide high level details of the cash flow statement as recorded in the *entity's statutory accounts* and Budget, in accordance with the categories included in the template in section 8;
- (b) where appropriate, an *entity* should refer the Authority to any relevant notes that are included in the *entity's statutory accounts* and Budget that will assist in interpretation of the cash flow statement template; and
- (c) in the explanatory notes section, an *entity* is required to provide explanation of any change in accounting treatment from the previous year.

## 5.2 Revenue

### 5.2.1 Revenue from Prices

For revenue allocated to each deemed category as in 3.4.2, an *entity* must provide details of:

- (a) actual revenues for the year ending 30 June 2009 and estimated actual revenues for the year ending 30 June 2010;
- (b) forecast revenues for each year from 1 July 2010 to 30 June 2013;
- (c) each tariff structure and associated sales consistent with the above revenues;
- (d) any pricing policy, and supporting documents, for the interim period including the rationale for any smoothing adopted; and
- (e) the expected date at which any change to forecast revenues (including tariff structure) is to take place, and the revenues (including tariff structures) that would apply before and after the change.

**For subsequent years**, for revenue allocated as in 3.4.2, an *entity* will be required to provide actual revenues for the preceding year of the review. The *entity* may also be required to further allocate this revenue between revenue sources that are determined under pricing principles.

### 5.2.2 Revenue from Other Sources

An *entity* must allocate revenue from other sources to each deemed category in 3.4.2 and further between (i) revenue that will offset prices/revenue requirement and (ii) revenue that will not offset the revenue requirement.

## 5.3 Service Standards<sup>2</sup>

- 5.3.1 An *entity* must provide details (relevant to each deemed category in 3.4.2 and for customer groups) of:

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<sup>2</sup> The Authority will also obtain details of past performance since 1 July 2008 as reported to the National Water Commission under the National Performance Reporting framework using the Statewide Information Management (SWIM) database.

- (a) service standards<sup>3</sup> for each year from 1 July 2008 to 30 June 2010, as approved by other agencies<sup>4</sup>;
- (b) service standards<sup>3</sup> for each year from 1 July 2010 to 30 June 2013, as approved by other agencies;
- (c) the expected date at which any change to service standards<sup>3</sup> is to take place, and the standards that would apply before and after the change.

5.3.2 **For subsequent years**, all details relevant to a proposed integrated performance monitoring framework.

## 5.4 Demand

5.4.1 An *entity* must provide details (relevant to each deemed category in 3.4.2 and for customer groups) of:

- (a) actual demand for this year ending 30 June 2009 and *estimated actual* demand for the year ending 30 June 2010, and corresponding non-revenue water and bulk water purchases (where relevant);
- (b) forecast demand for each year from 1 July 2010 to 30 June 2013, and corresponding non-revenue water and bulk water purchases (where relevant);
- (c) additional forecasts of demand necessary to substantiate proposed capital expenditure, and corresponding non-revenue water bulk water purchases, where relevant; and
- (d) the method adopted to forecast demand.

5.4.2 **In subsequent years**, it can be expected that the *entity* will also be required to provide actual demand for year preceding year of the review. It is anticipated that each *entity* will also be required to provide a more sophisticated basis for demand forecasting to substantiate the increased disaggregation of costs and to improve the accuracy of forecasts.

## 5.5 Regulatory Asset Base

5.5.1 Regulatory Asset Base as at 1 July 2008

An *entity* must provide for each deemed category in 3.4.2 (except for customer groups) for 1 July 2008<sup>5</sup>:

- (a) details of assets, including a description and unique identifier derived from the asset register, by individual asset or asset group of common type and function<sup>6</sup>. Bulk water assets should be excluded;
- (b) audited written down asset values for each asset or asset group; and

<sup>3</sup> Also required are details of contractual service standards, or changes in contractual service standards, between the SEQ Water Grid Manager and the distribution/retail entity.

<sup>4</sup> Where a council has directed that higher service standards be pursued than those approved by other agencies, it is appropriate for these to form the basis for reporting. However, the entity must demonstrate to the Authority that it has been directed by Council to do so and that these standards are indeed superior.

<sup>5</sup> Where audited asset values are not available as at 1 July 2008 (e.g. the values are only available as at 15 March 2008) these must be rolled forward to 1 July 2008 in a manner consistent with the formulae in the Ministerial Direction.

<sup>6</sup> The values of asset groups should be able to be reconciled with the underlying individual asset values in an entity's detailed asset registers.

- (c) values for the initial regulatory asset base (RAB), by asset or asset group of common type or function, that are consistent with the Minister for Natural Resources, Mines and Energy and Minister for Trade’s advised asset values. The RAB values should be based on audited values in (b) adjusted by the ratio of the total initial regulatory asset base as at 1 July 2008 to total written down audited values for the relevant assets<sup>7</sup>.

#### 5.5.2 Rolling Forward the RAB

- (a) an *entity* must provide for each deemed category in 3.4.2 (except for customer groups) details of rolled forward asset values for each year from 1 July 2008 to 30 June 2010, according to the following formula<sup>8</sup>:

$$\text{RAB}_t = (\text{RAB}_{t-1} + \text{Capital Expenditure}_t - \text{Regulatory Depreciation}_t - \text{Disposals}_t + \text{Indexation}_t)$$

where t = the year under consideration.

- (b) an *entity* must provide for each deemed category in 3.4.2 (except for customer groups) details of rolled forward asset values for each year from 1 July 2010 to 30 June 2013, according to the above formula.

### 5.6 Capital Expenditure

#### 5.6.1 An *entity* must provide for each deemed category in 3.4.2 (except for customer groups):

- (a) details of actual capital expenditure for the year ending 30 June 2009, excluding establishment costs, and *estimated actual* capital expenditure for the year ending 30 June 2010, excluding *establishment costs*, as included in council financial accounts for the period from 1 July 2008 to 30 June 2010;
- (b) details of estimated capital expenditure for each year, excluding *establishment costs*, for the period from 1 July 2010 to 30 June 2013, or further forward where required to assess proposed projects during this period; and
- (c) details of *establishment costs* approved by the Minister for Natural Resources, Mines and Energy and Minister for Trade.

#### 5.6.2 An *entity* must allocate capital expenditure items and the regulatory asset base between asset classes.

#### 5.6.3 Criteria and Processes for Capital Expenditure

- (a) Prudency

For the purposes of establishing the prudency of capital expenditure, an *entity* must allocate *capital expenditure* items between the following *cost drivers*:

- (i) growth – Capital expenditure associated with increasing the capacity of assets or construction of new assets, to meet growth in demand, or to provide additional security of supply should be included in growth;

<sup>7</sup> Alternative methods of allocating the RAB may also be provided. If so, information must be provided to explain the use and application of that methodology.

<sup>8</sup> The roll-forward formula is intended to be integrated within the templates to be developed in early 2010.

- (ii) renewal of existing infrastructure – Capital expenditure associated with replacing assets and generally maintaining service levels should be included in renewal of existing infrastructure;
  - (iii) improvements – Capital expenditure associated with improving service levels and reliability to meet customer preferences should be included in improvements;
  - (iv) compliance – Capital expenditure associated with meeting price monitoring or legislative obligations should be included in compliance.
- (b) Efficiency

For the purpose of establishing efficient capital expenditure, information is required on:

- (i) the scope of the works (a description of the characteristics of the capital item); and
- (ii) the standard of the works including the technical, design and construction standards adopted (in accordance with legislation, industry and other standards, codes and manuals);
- (iii) the cost of the defined scope and standard of works and its timing (year). This should be linked, where relevant, to the underlying cost components such as unit rates, on-costs and contingencies and any other supporting materials such as consultant reports.

(c) Expenditure Approval Processes

For the purpose of establishing the prudence and efficiency of capital expenditure (as well as operating expenditure), information is required on expenditure approval policies and procedures. In addition, links to strategic development plans, risk and asset management planning, corporate directives, evidence of external drivers, and review of procurement practices should be identified.

Evidence of any consideration of alternative investments, the substitution possibilities between capex and opex, and non-network alternatives such as demand management is required.

Further, information on the compatibility with existing and adjacent infrastructure is relevant and consideration of modern engineering equivalents and technologies. Compliance with Strategic Asset Management Plans and Total Management Plans is also relevant.

#### 5.6.4 Explanatory Notes

An *entity* is required to provide information on all capital expenditure items that have been allocated across items in section 3.4.2, including a description of the item, its value, the basis of allocation (including the percentage split), reason for choosing this basis and any relevant notes from the business's annual report.

An *entity* is required to provide an explanation of any significant shift in expenditure compared with the previous year in the explanatory notes section.

### 5.6.5 Exclusions:

- (a) Asset revaluations or adjustments for impairment (whether the adjustments would have the effect of increasing or decreasing asset values) are not permitted in price monitoring accounts unless they are specifically agreed to or required by the Authority.
- (b) Goodwill and any related impairments are not permitted in price monitoring information returns.

## 5.7 Contributed, Donated and Gifted Assets

### 5.7.1 An *entity* must provide for each deemed category in 3.4.2 (except for customer groups) details of:

- (a) actual contributed, donated and gifted assets for the year ending 30 June 2009 and *estimated actuals* for the year ending 30 June 2010;
- (b) contributed, donated and gifted assets in each year from 1 July 2010 to 30 June 2013;
- (c) actual capital contributions (cash and infrastructure charges) approved under the *Integrated Planning Act 1997* for the year ending 30 June 2009 and *estimated actuals* for the year ending 30 June 2010;
- (d) forecast capital contributions (cash and infrastructure charges) approved under the *Integrated Planning Act 1997* for each year from 1 July 2010 to 2013;
- (e) actual planning scheme policy charges received for to the year ending 30 June 2009 and estimated actuals for the year ending 30 June 2010;
- (f) forecast planning scheme policy charges expected to be received for each year from 1 July 2010 to 2013;
- (g) each infrastructure charge and planning scheme policy charge and associated demand consistent with the above;
- (h) any infrastructure charges schedule or planning scheme policy, and supporting documents with the details of related assets where available, for the interim period including the rationale for any smoothing adopted; and
- (i) the expected date at which any changes to forecast revenues is to take place (including the basis for the change) and the revenues (including tariff structures) that would apply before and after the change.

## 5.8 Depreciation

### 5.8.1 An *entity* must provide the following information for each deemed category in 3.4.2 (except for customer groups):

- (a) details of depreciation of RAB values and capital expenditure for the period 1 July 2008 to 30 June 2010 on the physical assets calculated using existing useful lives attaching to the individual assets from 1 July 2008. Individual assets should be grouped by *asset class*; and
- (b) details of depreciation of RAB values and capital expenditure for each year of the interim period from 1 July 2010 to 30 June 2013 calculated using remaining useful lives

on the basis of individual assets (on the same basis as for (a) above or, if different asset lives are adopted, with appropriate supporting information).

## **5.9 Indexation**

5.9.1 An *entity* must index:

- (a) the RAB values and capital expenditure for each year from 1 July 2008 to 30 June 2010 using the ABS Consumer Price Index (all groups, Brisbane); and
- (b) the forecast RAB values and capital expenditure for each year of the interim period from 1 July 2010 to 30 June 2013 using forecasts of CPI as determined by the difference between the RBA return on the market rate for five year bonds and five year capital indexed bonds.

## **5.10 Return on Capital**

An *entity* must provide details of the target return on capital for each year of the interim period from 1 July 2010 to 30 June 2013, including the values attached to the key underlying parameters and the method of WACC calculation.

5.10.2 An *entity* must provide details of the following for each from 1 July 2010 to 30 June 2013:

- (a) borrowing costs;
- (b) dividends.

## **5.11 Operating costs**

5.11.1 For 2010/11

An *entity* must provide details, allocated between the deemed categories in 3.4.2, of:

- (a) actual operating costs (including taxes and establishment costs) for the year ending 30 June 2009 and estimated actual operating costs (including taxes and establishment costs) for the year ending 30 June 2010; and
- (b) forecast operating expenditure (including taxes and establishment costs) from 1 July 2010 to 30 June 2013;

according to:

- (a) bulk water costs;
- (b) retail operating costs (including direct labour and materials and allocated overheads):
  - (i) customer service and billing;
  - (ii) regulated demand management costs;
  - (iii) community service obligation costs;
  - (iv) other costs;
- (c) distribution operating costs;

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- (i) employee expenses;
  - (ii) contractor expenses;
  - (iii) GSL Payments;
  - (iv) materials and services (not relating to capital expenditure), including:
    - the hire of equipment to undertake maintenance works
    - purchase of materials (including chemicals);
    - electricity charges;
    - plant operation;
    - vehicle running costs;
    - information technology;
    - insurance; and
    - other;
  - (v) licence or regulatory fees;
  - (vi) natural resources management costs;
  - (vii) corporate costs.

#### 5.11.2 Comparative Data

An *entity* is required to provide an explanation of any significant change in expenditure in the explanatory notes section.

#### 5.11.3 Explanatory notes

An *entity* is required to provide information on all operating expenditure items that have been allocated across *entity business segments* or asset categories, including a description of the item, the value in thousands of dollars, the basis of allocation (including the percentage split), reason for choosing this basis and any relevant notes from the business's annual report.

An *entity* is also required to provide the reasons for anticipated changes in operating costs and taxes over the period from 1 July 2010 to 30 June 2013.

An *entity* is also required to provide further explanation of significant one-off expenditure items or any allocations made that would assist the Authority in its assessment of the *entity's price monitoring information returns*.

#### 5.11.4 Subsequent Years

**For subsequent years**, a greater level of disaggregation of operating expenditure may be required. For that to be effected, a substantial effort may be required to allocate costs to their appropriate category. The degree of detail required by the ESC in Victoria for example forms Attachment 1.

## 5.12 Third Party Transactions

5.12.1 Where an *entity* enters into transactions with a *third party* which total greater than \$1,000,000 of operating expenditure in aggregate, or \$10,000,000 of *capital expenditure* in aggregate for the *financial year*, the *entity* must disclose:

- (a) the name of the *third party*;
- (b) a description of the services provided by the *third party*;
- (c) the value of the payments made to the *third party*;
- (d) a description of how the basis for the payment was determined; and
- (e) a description of how the payment is reflected in the *price monitoring information returns*, including the asset class or cost category that the costs are included in.

## 5.13 Related Party Transactions

5.13.1 Where an *entity* enters into a transaction with a *related party* the *price monitoring information returns* must disclose for each transaction:

- (a) the name of the *related party* which incurred the cost in providing the service to the *entity* and a description of the *entity's* interest in the *related party*;
- (b) a description of the service provided or received by the *related party*;
- (c) the value of the payments for the service;
- (d) demonstration that the value reflects that which would be paid by two companies dealing at arm's length dealing with each other;
- (e) a description of how the value was arrived at, including any market testing undertaken;
- (f) description of how the payment for the service is reflected in the *price monitoring information returns*; and
- (g) a description of how shared costs have been allocated.

5.13.2 For the purposes of this clause, a payment made under a contract with a party who was a *related party* at the time the contract was entered into, even if that party is no longer a *related party* (including, but not limited to, where the *related party* was sold to another party) must be recorded as a related party transaction.

## 5.14 Non-regulated Services

5.14.1 An *entity* is required to list all services provided during each financial year that do not fall within those services defined as *monopoly business activities*, being services that the Authority does not monitor under the QCA Act.

5.14.2 An *entity* is required to provide revenue, operating and capital expenditure values related to its *non-regulated services* at an aggregated level.

5.14.3 If costs to a non-regulated *revenue source* are not directly attributable, an *entity* should allocate costs based on the principles in clause 3.4.

- 5.14.4 Explanatory notes – An *entity* is required to provide explanation of the basis of any allocations made to *non-regulated services* that would assist the Authority in its assessment of the business' *price monitoring information returns*.

## 6 DEFINITIONS AND INTERPRETATION

### 6.1 Definitions

**Accounts** means a system that records the financial transactions of a business, including revenue earned, costs incurred, and changes in assets, liabilities and equity on which a business's financial statements are based.

**Accounting principles and policies** mean principles and policies that are used by an *entity* to prepare the statutory accounts and budget.

**Activity** means each of the water retail/distribution activities and wastewater retail/distribution activities, pending any declaration of activities as monopoly business activities under Part 3.

**Asset class** means a group of assets with common characteristics and asset lives. As a minimum, asset classes are:

- (a) distribution infrastructure not included in the following categories:
- (b) reservoirs;
- (c) pump stations;
- (d) treatment;
- (e) associated telemetry and control systems;
- (f) meters;
- (g) billing systems;
- (h) corporate Systems;
- (i) sundry property, plant and equipment;
- (j) land; and
- (k) buildings other than infrastructure housing.

**Authority** means the Queensland Competition Authority established under the *Queensland Competition Authority Act 1997*.

**Budget** means the budget adopted by the entity at the commencement of the reporting year.

**Bulk water costs** means all direct and indirect operating expenditure associated with the purchase of bulk services including costs associated with: the purchase of bulk water from the Water Grid Manager and other entities; and the purchase of bulk sewerage services.

**Capital Contribution** means cash (potentially in the form of an infrastructure charge payment) contributed to an *entity* with the expectation of a future benefit (either in the form of a price offset or future rebate from an *entity*).

**Capital expenditure** means any expenditure, which has been disclosed as a non-current asset in the balance sheet of the *entity's statutory accounts* and Budget provided that the expenditure conforms with at least one of the following:

- 
- (a) the expenditure relates to the purchase, development or construction of a new non-current asset of the *entity*;
  - (b) the expenditure will increase the capacity or functionality of the *entity's* non-current assets;
  - (c) the expenditure will significantly reduce the ongoing maintenance of the *entity's* non-current assets; and/or
  - (d) the expenditure will extend the service life of the *entity's* non-current assets beyond that expected when the assets were originally installed.

**Causal** means, in relation to a relationship or 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 item that is being allocated.

**Chart of accounts** means the detailed listing of all accounts represented in the *general ledger*.

**Chemical costs** means all chemical costs incurred in the process of treating water, sewerage or recycled water during the year.

**Contributed assets** means assets contributed to an *entity* with the expectation of a future benefit (either in the form of a price offset or future rebate from an *entity*).

**Contractor expenses** means a person (or team of persons) who provides services including consultancy and agency staff) to the business but is not directly employed by the business. This does not include contractors engaged in the provision of IT maintenance and support services (these are to be included in the IT expenditure allocation category).

**Core service** is a monopoly service provided by the business to customers on a continuous basis. Each core service is typically differentiated by a standard description that defines the type, characteristics and attributes that logically separates that service from all other core services. Core services for water include: the supply of drinking water delivered by the distribution network, and the supply of recycled water via a separate distribution network. Core services for wastewater include acceptance and disposal of sewerage directly from users' premises to the sewer network (core wastewater service) and acceptance and disposal of trade waste from users' premises to the sewer network.

**Corporate costs** means general corporate expenditure that cannot be reasonably allocated to other cost types, including such costs associated with:

- (a) personnel in the corporate group/division;
  - (b) general management;
  - (c) board members;
  - (d) legal counsel;
  - (e) company secretary;
  - (f) quality/business improvement;
  - (g) corporate relations;
  - (h) strategy and planning;
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- (i) human resource management;
  - (j) risk management;
  - (k) insurance management;
  - (l) environment management;
  - (m) property management;
  - (n) financial management;
  - (o) support staff for the corporate office;
  - (p) costs incurred by the corporate office, including:
    - (i) property rental, repair and maintenance, utilities, and taxes for the corporate office;
    - (ii) printing and stationery;
    - (iii) telephone and fax;
    - (iv) travel expenses;
    - (v) legal fees;
    - (vi) consultants;
    - (vii) auditing;
    - (viii) board fees;
    - (ix) brand advertising and corporate image making;
    - (x) corporate/community sponsorships and donations;
    - (xi) internal communication;
    - (xii) membership fees for industry or trade organisations;
    - (xiii) freight, courier and postage;
  - (q) membership fees for industry or trade organisations;
  - (r) IT systems other than costs associated with the SCADA (Supervisory Control and Data Acquisition control system);
  - (s) telemetry and other 'operational' IT costs should be allocated to the relevant activity area; and
  - (t) price monitoring staff, providing information requested by the Authority, preparing submissions in response to consultations conducted by the Authority, non-financial audits and the preparation of price monitoring accounts.
-

Costs associated with the following items must be excluded, and separately identified, from corporate costs:

- (a) management fees which are a transfer of profit rather than a fee for service; and
- (b) costs associated with property required for workshops and for network assets.

**Customer group** means, for example, residential, *non-residential*, or *other customer group* that is the source of revenue. Where there are commercially negotiated arrangements, these also need to be separately identified. Revenues from commercially negotiated arrangements include revenue that is *directly attributable* to the provision of services for which a price is not included in an *entity's* pricing schedule.

**Customer service and billing** means all direct and indirect operating expenditure (including labour) associated with customer service and the generation of bills and collection of revenue from an *entity's* customers.

**Directly attributable** means, in relation to the allocation of an item, that the item is wholly and exclusively associated with the *activity* or *service*.

**Director** means a person appointed to the board of a water business.

**Distribution activity** means activities related to the transmission, reticulation and treatment of water and wastewater.

**Dividend** means any dividend payments either paid or payable that relate to the profit earned during the financial year. For the avoidance of doubt, any dividend payments made during the financial year that relate to profits earned in previous financial years should not be reported.

**Donated assets** means assets provided to an *entity* with the expectation of a future benefit (either in the form of a price offset or future rebate from an *entity*). There may be instances where such a benefit is not anticipated. Details of the nature of the arrangement are required in this instance.

**Electricity charges** means all electricity costs that have been incurred during the year, including, as a separate item, renewable or green electricity expenditure.

**Employee expenses** means wages and costs related to employees directly employed by the business with the exception of labour costs for the provision of IT services and customer service and billing. Any agency staff or labour expenses incurred on contractors should be included in the 'Contractor expenses' category. Employee expenses should be disaggregated according to:

- (a) superannuation;
- (b) WorkCover;
- (c) long service leave;
- (d) payroll tax;
- (e) training;
- (f) study assistance;
- (g) overtime.

**Entity** means a SEQ Distributor-Retailer Authority created by the *South-East Queensland Water (Distribution and Retail Restructuring) and Natural Resources Provisions Act 2009* listed under clause 1.3 of these requirements or its successor.

**Establishment Costs** means the costs involved in establishing the entities. Criteria for these costs will be advised by the Queensland Water Commission. Only the establishment costs approved by the Minister for Natural Resources, Mines and Energy and Minister for Trade can be included in the *entities' price monitoring information returns*.

**Estimated actual means** the expected year end results for the year immediately prior to the reporting year as estimated at the time of drafting the price monitoring information returns.

**Financial year** means a standard *financial year* beginning 1 July and ending 30 June the following year.

**General ledger** means the detailed set of *accounts* of an *entity* upon which the detailed transactional information for each cost category and *revenue source* is recorded.

**Geographic area** means each of the ten amalgamated council boundaries, and by system (catchment) where available. There are 38 water supply systems and 64 wastewater systems (Synergies 2009).

**Gifted assets** means assets provided to an *entity* with the expectation of a future benefit (either in the form of a price offset or future rebate from an *entity*). There may be instances where such a benefit is not anticipated. Details of the nature of the arrangement are required in this instance.

**GSL payments** mean gross payments made to customers under a GSL Scheme approved by the approved by the Minister under section 94(1)(b) of the *South-East Queensland Water (Distribution and Retail Restructuring) and Natural Resources Provisions Act 2009*.

**Information Technology** means all information technology costs that have been incurred during the year. This includes such items as software (where classified as an operating expenditure by the business), IT licence costs, IT maintenance and support arrangements and SCADA operating costs. Entities should also allocate any direct or contracted labour expenses related to the provision of IT services to this category. IT related to billing systems should be recorded separately under billing systems.

**Licence and regulatory fees** means fees paid to the Department of Environment, Resources and Mines or other relevant agency. Fees must be identified on the basis of the agency to which they relate. Licence fees must exclude membership fees for industry or trade organisations (to be included corporate costs).

**Material** means, in relation to an item, that the omission, misstatement or non-disclosure of the item has the potential to prejudice the understanding of the financial position and nature the entity and allocations between entity business segments and activity areas.

**Material and Services** includes:

- (a) the hire of equipment to undertake maintenance works;
- (b) expenditure on concrete;
- (c) expenditure on steel and other metals or alloys;
- (d) expenditure on cables and other electrical *materials* ;

- (e) expenditure on wood or timber products;
- (f) expenditure on nuts, bolts and screws;
- (g) expenditure on any other plant or materials that can be reasonably justified by the business for inclusion in this category.

**Ministers** means the Premier and the Treasurer.

**Ministerial Direction** means the Ministers’ Direction Notice made under Section 10 (e) of the *Queensland Competition Authority Act 1997* and published in the Queensland Government Gazette Vol. 352, No. 46 on Friday 9 October 2009.

**Monopoly business activity** is an activity declared for the purposes of price monitoring under Part 3 of the QCA Act. To avoid doubt, *monopoly business activities* include core services and non-core services.

**Natural Resource Management Costs** means costs associated with the following:

- (a) Environmental flows means operating expenditure relating to their environmental flows that are in accordance with a water resource plan approved under section 50 of the *Water Act 2000*;
- (b) Seasonal Water Assignments means any expenditure related to the purchase of seasonal water assignments;
- (c) Water Conservation means any expenditure related to water conservation programs that have been incurred during the year, including labour costs. Water conservation programs are designed to promote more efficient water use, or reduce unaccounted-for-water, by either domestic or non-domestic customers. Specific examples of water conservation expenditure will differ from business to business, but the Authority expects water conservation expenditure to include, at a minimum, expenditure related to:
  - (i) the promotion and enforcement of water restrictions;
  - (ii) the promotion of behavioural change campaigns, such as those campaigns designed to encourage water users to remain within a water consumption ‘target’;
  - (iii) leakage management programs that have been specifically created to improve water conservation and are additional to standard maintenance expenditure;
  - (iv) expenditure related to promoting, distributing or installing water efficient devices such as showerheads and washing machines;
  - (v) contribution to Government or industry programs that target water conservation; and
  - (vi) development of water efficiency plans or water audit regimes for non-domestic customers.

**Non-core service** means a monopoly service provided by the business and available to customers on an ‘as-needed’ basis. These typically have separate charges but only account for a minor part of total revenue and are accessed by a relatively smaller group of customers. Non-core water services could include: meter supply, meter installation, meter testing, leakage testing, special meter reading, water restriction fines, and standpipe services. Non-core

wastewater services could include acceptance and disposal of waste at a wastewater treatment plant and effluent sales. Non-core services are to be disaggregated between water and wastewater.

**Non-regulated service** means a service provided by an *entity* that is not required to satisfy any specified legal obligation or is provided by other service providers in a competitive market in which the business has no legal power to influence a customer's selection of the business as the service provider. For example, this could include laboratory services. Non-regulated services are not to be disaggregated between water and wastewater.

**Non-residential customer** means commercial and industrial customers and community or council groups.

**Operating Costs** means those costs which relate to the day to day operations of the *entity*.

**Other Customer group** means customers other than residential and non-residential (commercial and industrial) and typically includes the provision of irrigation, irrigation drainage, domestic and stock, surface water diversions and groundwater diversions.

**Other Expenses** means all other operating expenditure accounts not already included in the previous operating expenditure categories. The Authority anticipates that this category would include a number of smaller expenditure accounts (to the extent that they are considered to be incurred in the provision of specified services), including, but in no way limited to:

- (a) membership fees;
- (b) advertising;
- (c) subscriptions and publications fees;
- (d) sponsorships;
- (e) entertainment;
- (f) meal expenses; and
- (g) travel and accommodation.

**Price monitoring information returns** means financial records derived from an *entity's statutory accounts* and Budget that record transactions associated with the *Activities* and services of the *entity*.

**Price monitoring accounting principles and policies** means *accounting principles and policies* that are used by an *entity* to prepare *price monitoring information returns* that are additional or in place of the accounting principles used to prepare the *statutory accounts* and budget.

**QCA Act** means the *Queensland Competition Authority Act 1997*.

**Related party** means in relation to an *entity* any other party that, at any time during the reporting period, is subject to (or may exert) control or significant influence by (or upon) the *entity*. For the avoidance of doubt, a related party would include an *entity's* participating councils.

**Residential Customer** means a person who provides revenue in exchange for services directly attributable to the provision of services to residences.

**Revenue from other sources** means:

- (a) Revenue that will offset prices/revenue requirement
  - (i) Proceeds from asset disposals (to be deducted from RAB) - Revenue collected from the disposal of assets used to provide monopoly business activities should be included in proceeds from asset disposals.
  - (ii) Government contributions (operating) - Government grants that are intended to offset prices for purposes other than capital expenditure should be included in government contributions (operating).
  - (iii) Government contributions (capital) - Government grants for capital purposes that are intended to offset prices should be included in government contributions (capital);
- (b) Revenue that will not offset prices/revenue requirement
  - (i) Proceeds from sale of assets (with no impact on the RAB) - Revenue collected from the disposal of assets used to provide non-regulated services should be included in proceeds from asset disposals.
  - (ii) Other non-regulated revenue - Revenue that is directly attributable to the provision of non-regulated services should be included in other non-regulated revenue (non-regulated revenue includes interest on investments, but not interest paid by customers on overdue accounts).

**Service** can be *core* or *non-core* or *non-regulated*, as per above definitions.

**Statutory accounts** means the *statutory accounts* of an *entity*, audited where available.

**Statutory account amount** means amounts taken from the *statutory accounts* for the purposes of allocating or disaggregating those amounts as required by these requirements.

**Subsequent price monitoring accounting period** means, from time to time, the price monitoring period directly following the interim price monitoring period.

**Third party** means any party other than a *related party* contracted by the *entity* to provide services in order for the entity to fulfil its obligations.

**Treatment** means the treatment and disposal of sewage and trade waste.

**Vehicle Fleet running costs** means all fuels and other vehicle fleet running and maintenance costs. Fuels include petrol, diesel, liquefied petroleum gas (LPG) or any other fuel used to power motor vehicles. Any labour costs incurred by the business in managing its fleet, should be included in the 'Labour costs' expenditure allocation category, rather than in this expenditure allocation category.

## 6.2 Interpretation

Headings are for convenience only and do not affect interpretation. The following rules apply unless the context requires otherwise.

- (a) The singular includes the plural, and the converse also applies.

- (b) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (c) A reference to a person includes a corporation, trust, partnership, unincorporated body or other entity, whether or not it comprises a separate legal entity.
- (d) A reference to a clause or appendix is a reference to a clause of or appendix to, this document.
- (e) A reference to an agreement or document (including a reference to this document) is to the agreement or document as amended, supplemented, innovated or replaced, except to the extent prohibited by this document or that other agreement or document.
- (f) A reference to an Act, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.
- (g) If a period of time is specified and commences on a given day or on a day of an act or event, the period of time is to be calculated inclusive of that day.
- (h) Any 'notice' to be given or matter to be 'notified' must be in writing.

**7 PROFORMA DIRECTOR'S RESPONSIBILITY STATEMENT**

In the opinion of the Director/s of [name of *entity*]:

- (a) The *price monitoring information returns* set out on pages [ ] to [ ] are drawn up so as to fairly represent, in accordance with the requirements of the SEQ Water Industry Information Requirements issued by the Queensland Competition Authority, ("Information Requirements"):
- (i) the results of each entity business segment for the current price monitoring information period ended [period end];
  - (ii) the state of affairs at [period end], of each deemed category;
  - (iii) the information required by the Information Requirements;
  - (iv) the information on *related party* transactions required;
  - (v) the information on *third party* transactions required by the Information Requirements; and
- (b) no related party transactions of the type described in the Information Requirement arose during the current price monitoring accounting period that require disclosure under the Information Requirements (to be deleted only if disclosure is confirmed above);
- (c) no third party transactions of the type described in the Information Requirement occurred during the current price monitoring period that require disclosure under the Information Requirements (to be deleted only if disclosure is confirmed above); and
- (d) the terms and definitions used in this statement accord with the definitions set out in the Information Requirements.

Signed in accordance with a resolution of the Directors:

(name of Director)

Dated

Please append an extract of the Minutes of the Board Meeting that the above attestation.

## **8 PRICE MONITORING ACCOUNTING STATEMENT TEMPLATES**

Suitable templates will be developed by the Authority in early 2010.