



Final Report

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

December 2009

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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 waste water distribution and retail entities. A copy of that report can be downloaded from the Authority's website at 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.

For 2010/11, information is to be submitted by 1 July 2010, and incorporate actual financial information for the year ending 30 June 2009 and *estimated actual* 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;

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 An *entity* must provide historical information as requested by the Authority to the extent that the information has been made available by participating Councils.

2.2 Preparation of Returns

- 2.2.1 An *entity* must prepare *price monitoring information returns* in accordance with the templates in Section 8¹.
- 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.

¹ 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. Is this realistic as accounting records are based on actual transactions whereas regulatory accounts are based on benchmark parameters and/or economic principles ie Regulatory WACC is unlikely to be same as Business WACC, asset values and depreciation will be different, therefore tax will be different etc. 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:

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- (a) separately identifying items associated with the supply of services which are *non-regulated services*;
- (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. Can this be limited to those items which variances are not expected? Reconciling differences between accounting and regulatory accounts for asset values, depreciation, tax and financing costs will be time consuming and complex, and increasingly so as time goes on with greater divergences emerging. Accounting records are based on actual transactions whereas regulatory accounts are based on benchmark parameters ie Regulatory WACC is unlikely to be same as Business WACC, asset values and depreciation will be different, therefore tax will be different etc

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*. - see above, this may not always be the case

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: see comment in sec 3.2.3

- (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: does this contradict with section 3.2?

- (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*.

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

5.1 Statutory Accounts and Budget

an *entity* must provide each of the statutory accounts listed below for the preceding year. Very confusing sentence In addition, Budget documentation is required relating to the year under review.

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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.

5.1.1 Profit And Loss

- (c) 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/loss from sales of assets
 - (iv) Contributions
 - (v) Operating expenditure
 - (vi) Depreciation
 - (vii) Bad debts
 - (viii) Borrowing costs
- (d) 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 in accordance with the 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 Standards²

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

- (a) service standards for each year from 1 July 2008 to 30 June 2010, as approved by other agencies³;
- (b) service standards 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 is to take place, and the standards that would apply before and after the change.

² The Authority will also obtain details of 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.

³ 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.

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 the 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); subject to this information being made available by participating Councils - needs a blanket application to all data prior to 1 July 2010
- (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 2008⁴:

- (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.⁵ Bulk water assets should be excluded;
- (b) audited written down asset values for each asset or asset group; and
- (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.⁶

⁴ Where audited asset values are not available as at 1 July 2008 (eg 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.

⁵ The values of asset groups should be able to be reconciled with the underlying individual asset values in an entity's detailed asset registers.

⁶ 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.

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 formula⁷:

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

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;
- (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.

⁷ The roll-forward formula is intended to be integrated within the templates to be developed in early 2010..

(b) Efficiency

For the purpose of establishing efficient capital expenditure, information is required on projects with a value greater than the threshold value of \$10m:

- (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 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 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 change 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 2009 using the ABS Consumer Price Index (all groups, Brisbane) and from 1 July 2009 to 30 June 2010 the 2009/10 Queensland State Budget inflation forecast may be used; 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 ;
- (b) forecast operating expenditure (including taxes and establishment costs) from 1 July 2010 to 30 June 2013;

according to:

- (a) bulk water costs;

retail & distribution costs are required to be separately identified when QCA stated at the workshop on 8 Dec 09 it was not requiring such

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- (b) retail operating costs (including direct labour and materials and allocated overheads)

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- (i) customer service and billing;
- (ii) regulated demand management costs;
- (iii) community service obligation costs;
- (iv) other costs;
- (c) distribution operating costs
 - (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.

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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*. Any commercially confidential information, as identified by the entity, will not be disclosed by the QCA

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:

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- (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;

-
- (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
 - (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
- (b) costs associated with property required for workshops and for network assets.

Cost category means a group of activities as listed and defined in Attachment B.

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. Examples are provided in Attachment 1.

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. Why is this required? This will introduce new practices & procedures with additional costs so the benefits need to be understood?

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. Why is this required? This will introduce new practices & procedures with additional costs so the benefits need to be understood?

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

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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
- (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**

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This statement is for historical information only and cannot include forecasts as it is unreasonable to expect a Director to sign off forecasts which are 'drawn up so as to fairly represent....' when many unknowns and assumptions underpin forecasts. This statement can only come into effect for reporting on 1 July 2011 when the Directors will report on the historical results for the first year of the new entity ie 2010/11.

The QCA regime is based on the ESC model and the ESC model is not a price monitoring regime, so a direct fit is not possible or sensible. The Director's Statement attests to the returns to the ESC for the prior financial year and does not include any forecasts. Forecasts and RAB analysis are included in the Water Plan that each business prepares for each price review period.

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 supports the above attestation.

8. PRICE MONITORING ACCOUNTING STATEMENT TEMPLATES

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

ATTACHMENT 1

Potential Further Disaggregation of Operating Costs

The ESC has identified a wide range of operating costs items some of which may be required in the future for SEQ. Such disaggregation may be required to provide a basis for effectively allocating operating costs according to the various categories forming 3.4.2 of the Information Requirement or to promote conformance with yet to be established pricing principles. They are provided for exposition only.

Operations and maintenance

Operation and maintenance costs could include:

- (a) operating dams, reservoirs, bores, river intakes and associated works;
- (b) water transfer between storages and general catchment management activities;
- (c) pumping, repairing bursts, leaks and addressing spills;
- (d) treatment or disinfection that occurs within the distribution system;
- (e) staffing of monitoring and control centres;
- (f) logistics and stores;
- (g) IT costs directly attributable to the operation and maintenance of a network;
- (h) SCADA labour costs;
- (i) plant and materials.

Treatment

Treatment costs could include:

- (a) the treatment of water before it enters the distribution network ;
- (b) the treatment and disposal of sewage and trade waste;
- (c) logistics and stores;
- (d) labour costs;
- (e) materials.

Greenhouse Gas Offsets

An entity is required to provide details of all expenditure related to offsetting the business's greenhouse gas emissions, that have been incurred during the year, including:

- (a) purchasing green energy;
- (b) purchasing renewable energy certificates (RECs) as part of RET;

- (c) any other greenhouse sequestration activities that the business has implemented during the year.

Customer service and billing

Customer service and billing categories could include:

- (a) meter reading and calculating and forwarding invoices;
- (b) preparing consolidated statements including invoices, credits and payments;
- (c) billing retail customers and revenue collection from retail customers;
- (d) payments made to agencies for collecting revenue from customers;
- (e) account enquiries;
- (f) provision of customer information on customer billing changes;
- (g) handling of small customer complaints about billing;
- (h) provision of assistance schemes for customers with payment difficulties;
- (i) administration of delivery of concessions to eligible customers;
- (j) contact with the Queensland Ombudsman;
- (k) managing accounts receivable;
- (l) managing credit and bad debt collection;
- (m) the reporting to the entity of network faults and safety hazards, and complaints about the quality and reliability of supply;
- (n) responding to queries, for example from customers, builders and contractors, on new connections, disconnections and reconnections;
- (o) responding to queries, for example from customers, builders and contractors, on improving asset utilisation;
- (p) operating a customer information service that is directly attributable to or caused by the provision of any of the above services;
- (q) managing and liaising with customer service committees;
- (r) processing of water ordering and water trading.

