



## ANNUAL REPORTING REGULATORY INFORMATION NOTICE – SCHEDULE 1

### 1.1 (a) Information Templates

Provide the information required in the *Financial Information Templates* in the Microsoft Excel workbook attached at Appendix B.

Please refer to worksheets in Attachment 1, prepared from the Microsoft Excel workbook provided at Appendix B of the Annual Reporting Regulatory Information Notice (the Notice).

### 1.1 (b) Information Templates

Provide the information required in the *Non-Financial Information Templates* in the Microsoft Excel workbook attached at Appendix B.

Please refer to worksheets in Attachment 1, prepared from the Microsoft Excel workbook provided at Appendix B of the Notice.

### 1.1 (c) (i) Information Templates

Provide a Microsoft Excel workbook or other information that reconciles and explains *Adjustments* between the *Audited Statutory Accounts* and the *Financial Information Templates*. *Essential Energy* must separately list each *Adjustment* made to derive the *Financial Information Templates*. For each *Adjustment* made, specify the amount of the *Adjustment*.

and

### 1.1 (c) (ii) Information Templates

Provide a Microsoft Excel workbook or other information that reconciles and explains *Adjustments* between the *Audited Statutory Accounts* and the *Financial Information Templates*. *Essential Energy* must separately list each *Adjustment* made to derive the *Financial Information Templates*. For each *Adjustment* made, describe the nature and basis of each *Adjustment*.

Financial Template Item	Amount \$	Description
<b>Table 8.1.1.1 – Revenue</b>		
Contributions	170,756,543	Customer Contributions were classified as Unregulated Services.
Interest income	3,481	Amount allocated to Unregulated Services through application of CAM to audited trial balance.
Other Revenue	50,525,974	Amount allocated to Unregulated Services through application of CAM to audited trial balance.
<b>Table 8.1.1.2 – Expenditure</b>		
Depreciation	6,644,514	Amount allocated to Unregulated Services through application of CAM to audited trial balance.
Finance charges	2,730,707	Amount allocated to Unregulated Services through application of CAM to audited trial balance.
Impairment losses	7,338,287	Amount allocated to Unregulated Services through application of CAM to audited trial balance.
Loss from sale of fixed assets	296,107	Amount allocated to Unregulated Services through application of CAM to audited trial balance.
Operating expenditure excluding maintenance expenditure	9,167,350	Amount allocated to Unregulated Services through application of CAM to audited trial balance.
<b>Table 8.1.1.3 – Profit</b>		

Income tax expenses (/ benefit)	59,123,585	Amount allocated to Unregulated Services through application of CAM to audited trial balance.
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The Regulatory Accounting Statements reconcile back to the Audited Statutory Accounts.

The Financial templates are populated in accordance with the Cost Allocation Methodology (CAM) previously approved by the AER. The financial information consists of:

- The data from audited statutory financial statements of Essential Energy for the year ended 30 June 2015.
- The data from the customer billing system of Essential Energy audited by the Auditor-General.

The CAM is applied to the audited trial balance with combinations of general ledger fields grouped to complete the various line items of the RIN template. The CAM also calculates the percentage of financial transactions attributable to the standard control and alternate control services of Essential Energy's distribution business. This information is audited against the CAM and back to the Statutory Accounts by our financial auditor as required in the RIN.

"Adjustments" in the *Financial Information Templates* consist chiefly of items allocated to the Non-Regulated segment of the business which is made up of the Water business and other non-regulated activities.

**1.1 (d) (i) Information Templates** Provide a *Basis of Preparation* which must, for all information provided in Appendix B, demonstrate how the information provided is consistent with the requirements of this *Notice*.

and

**1.1 (d) (ii) Information Templates** Provide a *Basis of Preparation* which must, for all information provided in Appendix B, explain the source from which *Essential Energy* obtained the information.

and

**1.1 (d) (iii) Information Templates** Provide a *Basis of Preparation* which must, for all information provided in Appendix B, explain the methodology *Essential Energy* applied to provide the required information, including any assumptions *Essential Energy* made.

and

**1.1 (d) (iv) (1) Information Templates** Provide a *Basis of Preparation* which must, for all information provided in Appendix B, explain, in circumstances where *Essential Energy* cannot provide *Actual Information*, why it was not possible for *Essential Energy* to provide *Actual Information*.

and

**1.1 (d) (iv) (2) Information Templates** Provide a *Basis of Preparation* which must, for all information provided in Appendix B, explain, in circumstances where *Essential Energy* cannot provide *Actual Information*, what steps *Essential Energy* is taking to ensure it can provide the information in the future.

and

**1.1 (d) (iv) (3) Information Templates**

Provide a *Basis of Preparation* which must, for all information provided in Appendix B, explain, in circumstances where *Essential Energy* cannot provide *Actual Information* and if an estimate has been provided, the basis for the estimate, including the approach used, assumptions made and reasons why the estimate is *Essential Energy's* best estimate, given the information sought in this *Notice*.

Please refer to Attachment 2.

**1.1 (e) Information Templates**

Provide the *Regulatory Accounting Principles and Policies* for the *Relevant Regulatory Year*.

Essential Energy applies the approved Cost Allocation Method (CAM) to the trial balance. This is done manually and agreed back to the statutory accounts and verified by independent auditors.

There is no actual statement of policy for this procedure.

**1.1 (f) Information Templates**

Provide the *Capitalisation Policy* for the *Relevant Regulatory Year*.

Please refer to Attachment 7.

**1.1 (f) Information Templates**

Provide a statement of policy for determining the allocation of overheads in accordance with the approved *Cost Allocation Method* for the *Relevant Regulatory Year*.

Essential Energy applies the approved Cost Allocation Method (CAM) to the trial balance. This is done manually and agreed back to the statutory accounts and verified by independent auditors.

There is no actual statement of policy for this procedure.

**1.2 (a) Information Templates**

Identify all *material* changes between the *Regulatory Accounting Principles and Policies* provided in the response to paragraph 1.1(e), for the *Relevant Regulatory Year* and the previous regulatory year. For each change identified, explain the nature of the reasons for the change.

Essential Energy applies the approved Cost Allocation Method (CAM) to the trial balance. This is done manually and agreed back to the statutory accounts and verified by independent auditors.

There is no actual statement of policy for this procedure. The procedure did not change from the previous regulatory year for the preparation of the 2014-15 Annual Reporting RIN.

**1.2 (b) Information Templates**

Identify all *material* changes between the *Regulatory Accounting Principles and Policies* provided in the response to paragraph 1.1(e), for the *Relevant Regulatory Year* and the previous regulatory year. For each change identified, quantify the effect of the change on information in the *Financial Information Templates* for the *Relevant Regulatory Year*.

Essential Energy applies the approved Cost Allocation Method (CAM) to the trial balance. This is done manually and agreed back to the statutory accounts and verified by independent auditors.

There is no actual statement of policy for this procedure. The procedure did not change from the previous regulatory year for the preparation of the 2014-15 Annual Reporting RIN.

**1.3 (a) Information Templates**

Identify all *material* changes between the statements of the policy for determining the allocation of overheads in accordance with the approved *Cost Allocation Method*, for the *Relevant Regulatory Year* and the previous regulatory year. For each change identified, explain the nature of the reasons for the change.

and

**1.3 (b) Information Templates**

Identify all *material* changes between the statements of the policy for determining the allocation of overheads in accordance with the approved *Cost Allocation Method*, for the *Relevant Regulatory Year* and the previous regulatory year. For each change identified, quantify the effect of the change on information in the *Financial Information Templates* for the *Relevant Regulatory Year*.

Essential Energy applies the approved Cost Allocation Method (CAM) to the trial balance. This is done manually and agreed back to the statutory accounts and verified by independent auditors.

There is no actual statement of policy for this procedure. The procedure did not change from the previous regulatory year for the preparation of the 2014-15 Annual Reporting RIN.

**1.4 Information Templates**

If *Essential Energy* has previously provided the AER with the policies sought in paragraphs 1.1(e), (f) or (g) it is not necessary for *Essential Energy* to provide each policy again or unless it identified a *material* change in response to paragraphs 1.2, 1.3 or 5.1.

There are no actual Essential Energy policies as sought in paragraphs 1.1(e) and (g). Please refer to Attachment 7 for the Capitalisation Policy sought in paragraph 1.1(f).

**1.5 (a) Information Templates**

Identify each difference (where the difference is equal to or greater than 10 per cent) between the amount reported in the *Financial Information Templates* and the amount provided for in the *2014-19 Distribution Determination* for total actual operating expenditure and total forecast operating expenditure.

All material differences between the amount reported in the *Financial Information Templates* and the amount provided for in the *2014-19 Distribution Determination* for total actual operating expenditure and total forecast operating expenditure have been identified in Table 8.4.3 of the *Financial Information Templates*.

**1.5 (b) Information Templates**

Identify each difference (where the difference is equal to or greater than 10 per cent) between the amount reported in the *Financial Information Templates* and the amount provided for in the *2014-19 Distribution Determination* for total actual capital expenditure and total forecast capital expenditure.

All material differences between the amount reported in the *Financial Information Templates* and the amount provided for in the *2014-19 Distribution Determination* for total actual operating expenditure and total forecast operating expenditure have been identified in Table 8.2.2 of the *Financial Information Templates*.

**1.6 Information Templates**

Explain the reasons for each difference identified in the response to paragraph 1.5.

The reasons for each difference identified in the responses to paragraphs 1.5 (a) and (b) have been explained in Table 8.4.3 (for operating expenditure) and Table 8.2.2 (for capital expenditure) of the *Financial Information Templates*.

**1.7 Information Templates**

Identify each difference (where the difference is equal to or greater than 10 per cent) between the target performance measure specified in *the service target performance incentive scheme* and actual performance reported in the response to paragraph 1.1(b).

and

### 1.8 Information Templates

Explain the reasons for each difference identified in the response to paragraph 1.7.

The Service Target Performance Incentive Scheme did not apply to Essential Energy for 2014-15.

### 2.1 Compliance

Explain the procedures and processes used by *Essential Energy* to ensure that the *distribution services* have been classified as determined in the *2014-19 Distribution Determination*.

Combinations of general ledger fields are used to identify the classification of services against financial transactions.

Each year a review is undertaken to identify changes to the business as a whole and specific general ledger fields, to ensure the fields have retained integrity in relation to business operations. This is included in the financial audit.

### 2.2 Compliance

Explain the procedures and processes used by *Essential Energy* to ensure that the *negotiated distribution service criteria*, as set out in the *2014-19 Distribution Determination*, have been applied.

Essential Energy does not have any negotiated services.

### 2.3 Compliance

Describe the process *Essential Energy* has in place to identify negative change events under clause 6.6.1(f) of the *NER* and the materiality threshold applied to these events.

Essential Energy's regulatory and communications teams receive notification from all regulatory and government bodies of proposed or actual changes to any Rules, Regulations or Legislation that may impact the electricity sector. These are maintained in a register and assigned to the appropriate team for review and notification to the business of any new or changed requirements in relation to Essential Energy's distribution business. This register is reviewed on a weekly basis by the Regulatory team.

In addition a monthly meeting is held between the Regulatory and Finance and Risk teams to ensure that any changes to accounting standards, reporting or taxation laws are communicated to the Regulatory team.

Through a regular review of this register and liaison with other areas of the business, Essential Energy can confirm that none of the negative pass through events listed in 6.6.1(f) of the *NER* or the *2014-2019 NSW Distribution Determination* have occurred during the 2014-15 year that would have resulted in a 1 per cent of revenue (approximately \$14m) change in the cost of providing direct control services. These events are listed below.

#### NER 6.6.1(f)

A negative change event for a *Distribution Network Service Provider* or a *pass through event* that materially reduces the costs of providing *direct control services*:

Any of the following is a pass through event:

- a regulatory change event;
- a service standard event;
- a tax change event; or
- a retailer insolvency event.

In addition the following were approved as pass through events in the *2014-2019 NSW Distribution Determination*:

- Insurance cap event;
- Terrorism event;
- Natural disaster event; or
- Insurer's credit risk event.

#### **2.4 Compliance**

Describe the process *Essential Energy* has in place to monitor compliance with the Independent Pricing and Regulatory Tribunal of NSW, *Distribution Ring Fencing Guidelines*, 19 February 2003 (or any Ringfencing Guideline the *AER* may develop under clause 6.17.2 of the *NER*). List all instances of non-compliance, including the date of the non-compliance event, reason for non-compliance, impact on customers, impact on competitors, and any remedial action taken by *Essential Energy*.

Essential Energy complies with CEOP2074 Regulatory Compliance Procedure, which has been written in accordance with AS3806 Australian Standard Compliance Programs, to monitor compliance with all of its obligations. In addition, revenue and expenditure is costed and classified in such a way to allow performance monitoring by department and business unit. Essential Energy is not aware of any instances of non-compliance.

#### **3.1 Cost Allocation to the Distribution Business**

Identify each expenditure or revenue item in Worksheet 8.1 of the *Financial Information Templates* that is *directly attributable* to the *Distribution Business*.

Expenditure and revenue items are attributed directly to the *Distribution Business*, as directed by the application of the approved Cost Allocation Method (CAM) to the trial balance.

#### **3.2 (a) Cost Allocation to the Distribution Business**

Identify each *Item* in the *Financial Information Templates* that is not *directly attributable* but is allocated on a causation basis to the *Distribution Business*.

These items are listed in Table 2.10.1 Network Overheads Expenditure of the 2014-15 Category Analysis RIN template. They are allocated on a causation basis as directed by the approved Cost Allocation Methodology (CAM).

#### **3.2 (b) Cost Allocation to the Distribution Business**

Identify each *Item* in the *Financial Information Templates* that is not *directly attributable* and cannot be allocated on a causation basis to the *Distribution Business*.

These items are any overheads which have the following allocators applied to them:

- Direct Labour
- Full Time Equivalents (FTEs)
- Fleet Usage

These are included in the figures reported in Table 2.10.1 of the 2014-15 Category Analysis RIN template, referred to in 3.2(a). They are treated as directed by the approved Cost Allocation Methodology (CAM).

#### **3.3 (a) Cost Allocation to the Distribution Business**

For each *Item* identified in the response to paragraph 3.2 (a), state the amount of the *Item* that has been allocated.

These items are listed in Table 2.10.1 Network Overheads Expenditure of the 2014-15 Category Analysis RIN template.

**3.3 (b) Cost Allocation to the Distribution Business**

For each *Item* identified in the response to paragraph 3.2 (a), explain the method of allocation and reasons for choosing that method.

and

**3.3 (c) Cost Allocation to the Distribution Business**

For each *Item* identified in the response to paragraph 3.2 (a), state the numeric amount of the allocator(s) used.

These items are allocated on a causation basis using the methodologies directed by the approved Cost Allocation Methodology (CAM) and for the reasons stated in that document.

**3.4 (a) Cost Allocation to the Distribution Business**

For each *Item* identified in the response to paragraph 3.2 (b), state the amount of the *Item* and whether it was *material*.

These are included in the figures reported in Table 2.10.1 of the 2014-15 Category Analysis RIN template, referred to in 3.2(a).

**3.4 (b) Cost Allocation to the Distribution Business**

For each *Item* identified in the response to paragraph 3.2 (b), explain the method of allocation and reasons for choosing that method.

and

**3.4 (c) Cost Allocation to the Distribution Business**

For each *Item* identified in the response to paragraph 3.2 (b), explain the reason(s) why it cannot be allocated on a causation basis.

These items are allocated using the methodologies directed by the approved Cost Allocation Methodology (CAM) and for the reasons stated in that document.

**4.1 (a) Cost Allocation to Service Segments**

Identify each *Item* in *the Financial Information Templates* that is *directly attributable* from the *Distribution Business* to a service segment.

Items are attributed directly from the *Distribution Business to a service segment*, as directed by the application of the approved Cost Allocation Method (CAM) to the trial balance.

**4.1 (b) Cost Allocation to Service Segments**

Identify each *Item* in *the Financial Information Templates* that is not *directly attributable* but is allocated on a causation basis from the *Distribution Business* to a service segment.

These items are listed in Table 2.10.1 Network Overheads Expenditure of the 2014-15 Category Analysis RIN template. They are allocated on a causation basis as directed by the approved Cost Allocation Methodology (CAM).

**4.1 (c) Cost Allocation to Service Segments**

Identify each *Item* in *the Financial Information Templates* that is not *directly attributable* and cannot be allocated on a causation basis from the *Distribution Business* to a service segment.

These items are any overheads which have the following allocators applied to them:

- Direct Labour
- Full Time Equivalents (FTEs)
- Fleet Usage

These are included in the figures reported in Table 2.10.1 of the 2014-15 Category Analysis RIN template, referred to in 4.1(b). They are treated as directed by the approved Cost Allocation Methodology (CAM).

**4.2 (a) Cost Allocation to Service Segments**

For each *Item* identified in the response to paragraph 4.1 (a), state the amount of the *Item* that has been directly attributable to a service segment.

Items are attributed directly to a service segment, as directed by the application of the approved Cost Allocation Method (CAM) to the trial balance.

**4.3 (a) Cost Allocation to Service Segments**

For each *Item* identified in the response to paragraph 4.1 (b), state the amount of the *Item* that has been allocated.

Items are attributed directly to a service segment, as directed by the application of the approved Cost Allocation Method (CAM) to the trial balance.

**4.3 (b) Cost Allocation to Service Segments**

For each *Item* identified in the response to paragraph 4.1 (b), explain the method of allocation and reasons for choosing that method.

and

**4.3 (c) Cost Allocation to Service Segments**

For each *Item* identified in the response to paragraph 4.1 (b), state the numeric amount of the allocator(s) used.

These items are allocated using the methodologies directed by the approved Cost Allocation Methodology (CAM) and for the reasons stated in that document.

**4.4 (a) Cost Allocation to Service Segments**

For each *Item* identified in the response to paragraph 4.1 (c), state the amount of the *Item* and whether it was *material*.

Items are attributed directly to a service segment, as directed by the application of the approved Cost Allocation Method (CAM) to the trial balance.

**4.4 (b) Cost Allocation to Service Segments**

For each *Item* identified in the response to paragraph 4.1 (c), explain the method of allocation and reasons for choosing that method.

and

**4.4 (c) Cost Allocation to Service Segments**

For each *Item* identified in the response to paragraph 4.1 (c), explain the reason(s) why it cannot be allocated on a causation basis.

These items are allocated using the methodologies directed by the approved Cost Allocation Methodology (CAM) and for the reasons stated in that document.



**5.1 Capitalisation Policy**

Identify all *material* changes between the *Capitalisation Policy* for the *Relevant Regulatory Year* and the previous regulatory year.

and

**5.2 (a) Capitalisation Policy**

For each change identified in the response to paragraph 5.1, state, if any, the financial impact of the change.

and

**5.2 (b) Capitalisation Policy**

For each change identified in the response to paragraph 5.1, state, the reasons for the change.

and

**5.2 (c) Capitalisation Policy**

For each change identified in the response to paragraph 5.1, explain the effect of the change, if any, on the actual operating expenditure and actual capital expenditure incurred, in comparison to the forecast operating expenditure and forecast capital expenditure determined in the *2014-19 Distribution Determination* for the *Relevant Regulatory Year*.

and

**5.2 (d) Capitalisation Policy**

For each change identified in the response to paragraph 5.1, explain the effect of the change, if any, on the actual operating and actual capital expenditure incurred, in comparison to the previous *Relevant Regulatory Year*.

There have been no material changes between the Capitalisation Policy for the current regulatory year and the previous regulatory year.

**6.1 Demand Management Incentive Allowance**

Identify each demand management project or program for which *Essential Energy* seeks approval.

and

**6.2 (a) (i) Demand Management Incentive Allowance**

For each demand management project or program identified in the response to paragraph 6.1, explain how it complies with the Demand management Innovation Allowance criteria detailed at section 3.1.3 of the *demand management incentive scheme*.

and

**6.2 (a) (ii) Demand Management Incentive Allowance**

For each demand management project or program identified in the response to paragraph 6.1, explain its nature and scope.

and

**6.2 (a) (iii) Demand Management Incentive Allowance**

For each demand management project or program identified in the response to paragraph 6.1, explain its aims and expected outcomes.

and

**6.2 (a) (iv) Demand Management Incentive Allowance**

For each demand management project or program identified in the response to paragraph 6.1, explain the process by which it was selected, including its business case and consideration of any alternatives.

and

**6.2 (a) (v) Demand Management Incentive Allowance**

For each demand management project or program identified in the response to paragraph 6.1, explain how it was/is to be implemented.

and

**6.2 (a) (vi) Demand Management Incentive Allowance**

For each demand management project or program identified in the response to paragraph 6.1, explain its implementation costs.

and

**6.2 (a) (vii) Demand Management Incentive Allowance**

For each demand management project or program identified in the response to paragraph 6.1, explain any identifiable benefits that have arisen from it, including any off peak or peak demand reductions.

and

**6.2 (b) (i) Demand Management Incentive Allowance**

For each demand management project or program identified in the response to paragraph 6.1, confirm that its associated costs are not recoverable under any other jurisdictional incentive scheme.

and

**6.2 (b) (ii) Demand Management Incentive Allowance**

For each demand management project or program identified in the response to paragraph 6.1, confirm that its associated costs are not recoverable under any other Commonwealth or State Government scheme.

and

**6.2 (b) (iii) Demand Management Incentive Allowance**

For each demand management project or program identified in the response to paragraph 6.1, confirm that its associated costs are not included in the forecast capital or operating expenditure approved in the *2014-19 Distribution Determination* or recoverable under any other incentive scheme in that determination.

and

**6.2 (c) Demand Management Incentive Allowance**

For each demand management project or program identified in the response to paragraph 6.1, state the total amount of the Demand Management Innovation Allowance spent in the Relevant Regulatory Year and how this amount has been calculated.

and

**6.3 Demand Management Incentive Allowance**

Provide an overview of developments in relation to projects or programs completed in previous years of the regulatory control period, and of any results to date.

Please refer to Attachment 8.

**7.1 Tax Standard Asset Lives**

Identify all tax standard asset lives applied to asset classes that differ from those contained in the AER approved PTRM for *Essential Energy's* current regulatory control period.

and

**7.2 Tax Standard Asset Lives**

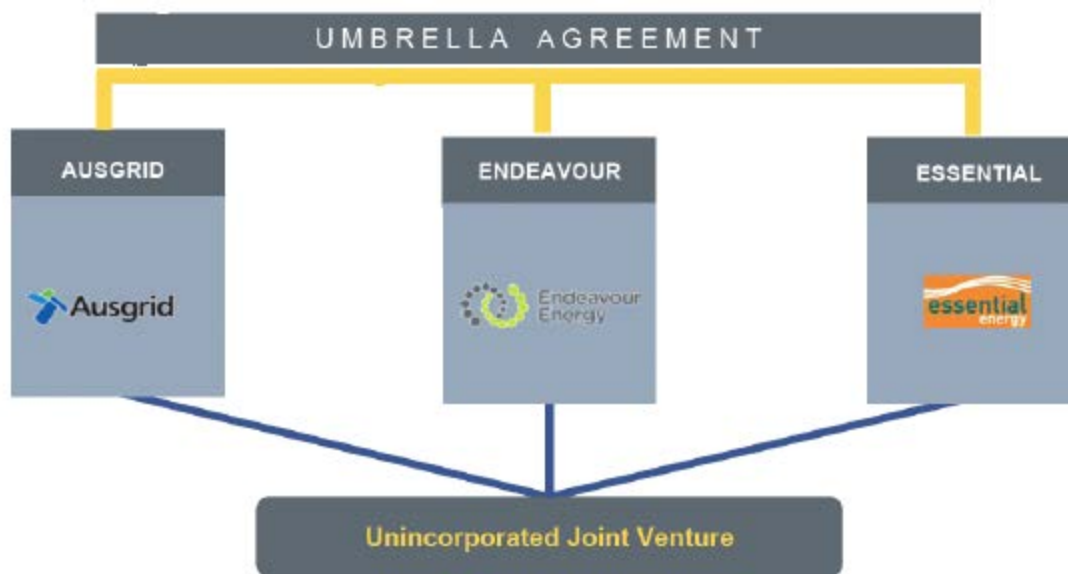
Explain the reasons for each difference identified in paragraph 7.1 including reasons for any departure from the ATO's most recent determination of effective life.

There are no tax standard asset lives applied to asset classes that differ from those contained in the AER approved PTRM for *Essential Energy's* current regulatory control period.

**8.1 (a) Charts**

Provide charts that set out the group corporate structure of which *Essential Energy* is a part.

Figure 1. Umbrella Agreement

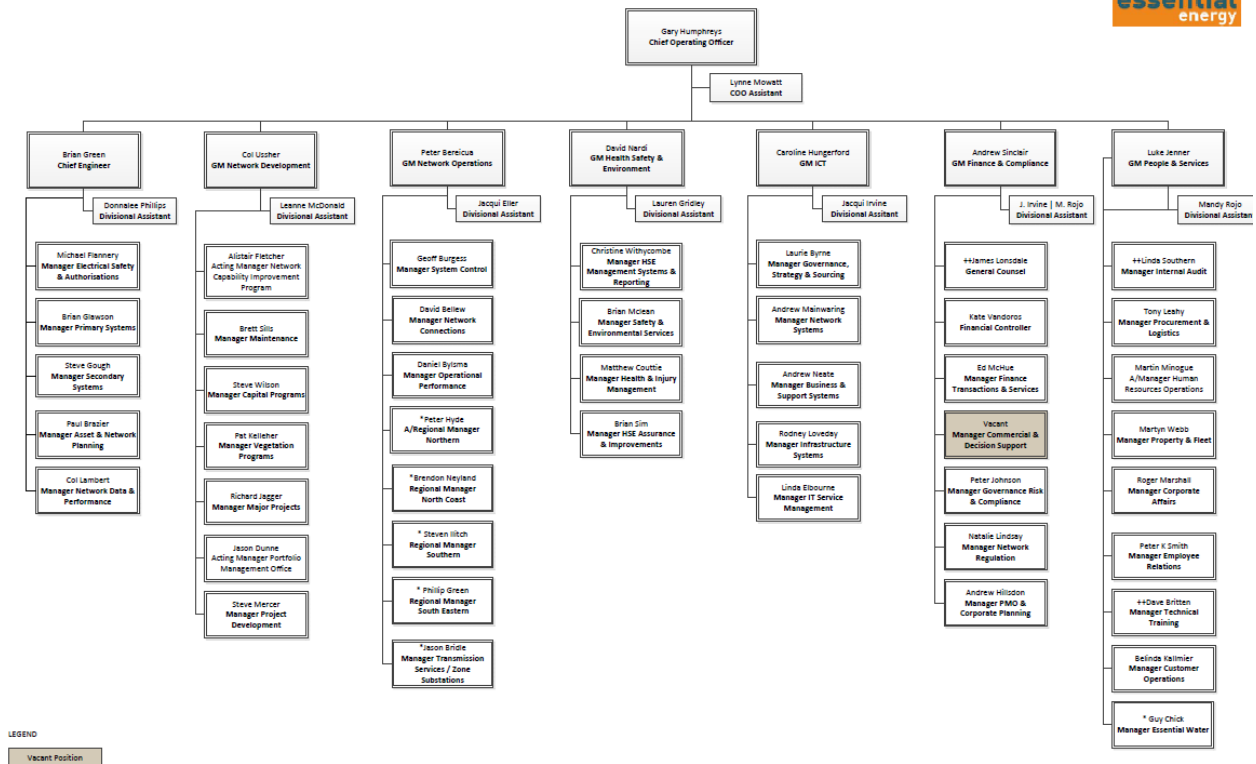


Note: This structure has since changed but was the structure under which *Essential Energy* operated for 2014-15.

**8.1 (b) Charts**

Provide charts that set out the organisational structure of *Essential Energy*.

**Essential Energy Structure to Level 4**  
8 May 2015



**9.1 (a) Audit and Review Reports**  
Provide Audit Report and Review Report(s) in the form of an Audit Report (for *Financial Information*) in accordance with the requirements set out at Appendix D.

Please refer to Attachment 4.

**9.1 (b) Audit and Review Reports**  
Provide Audit Report and Review Report(s) in the form of a Review Report (for *Non-Financial Information*) in accordance with the requirements set out at Appendix D.

Please refer to Attachment 5.

**10.1 (a) Confidential Information**  
If *Essential Energy* makes a claim for confidentiality over any information provided in accordance with this *Notice*, *Essential Energy* must comply with the requirements of *AER's Confidentiality Guideline*, as if it extended and applied to responses to this *Notice*.

Essential Energy is not making a claim for confidentiality over any information provided in accordance with this *Notice*.

**10.1 (b) Confidential Information**  
If *Essential Energy* makes a claim for confidentiality over any information provided in accordance with this *Notice*, *Essential Energy* must provide, in addition to a confidential version of any information, a version of the information that may be published by the *AER*.

Essential Energy is not making a claim for confidentiality over any information provided in accordance with this *Notice*.

**10.2 Confidential Information**

Confirm in writing that *Essential Energy* consents to the *AER* publically disclosing (including on the *AER* website) all information provided in accordance with this *Notice*, except the confidential version of information the subject of a confidentiality claim under paragraph 10.1.

Essential Energy consents to the *AER* publically disclosing (including on the *AER* website) all information provided in accordance with this *Notice*.