

**Draft  
Decision**

**Statement of Principles for the Regulation  
of Transmission Revenues  
Information Requirements Guidelines**

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**Commissioners:**  
Fels  
Shogren  
Cousins  
Martin  
Jones  
Bhojani



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## **Glossary**

Capex	Capital Expenditure
Code	National Electricity Code
Commission	Australian Competition and Consumer Commission
NEM	National Electricity Market
Opex	Operating and Maintenance Expenditure
Regulatory Principles	Statement of Principles for the Regulation of Transmission Revenues
TNSP	Transmission Network Service Provider

# 1. Introduction

## 1.1 The Commission's role as regulator of transmission revenues

On 1 July 1999, in accordance with its responsibilities under chapters 6 and 9 of the National Electricity Code (code), the Australian Competition and Consumer Commission (Commission) commenced responsibility for the regulation of the transmission revenues in the National Electricity Market (NEM). The timetable outlining the date at which the Commission commences responsibility in each jurisdiction is outlined below.

**Table 1.1: NEM transmission network regulation timetable**

<b>Jurisdiction</b>	<b>Commission transmission regulation start date</b>
New South Wales	1 July 1999
Victoria	1 January 2003*
Queensland	1 January 2002
South Australia	1 January 2003**
Australian Capital Territory	1 July 1999

\* The Commission will commence administration of the Victorian Tariff Order from 1 January 2001

\*\* The Commission will commence administration of the South Australian Electricity Pricing Order from 1 January 2001

Chapter 6, Part B of the code outlines the general principles and objectives for the transmission revenue regulatory regime to be applied by the Commission and prescribes the broad form of regulation to be applied to the Transmission Network Service Providers (TNSPs) revenues. It also grants the Commission the flexibility to use alternative methodologies, providing they are consistent with the code's objectives, principles, broad forms and mechanisms, and information disclosure requirements.

In assuming its role as regulator of transmission revenues in the NEM, the Commission's aim is to adopt a regulatory process which eliminates monopoly pricing, provides a fair rate of return to network owners, and creates incentives for managers to pursue ongoing efficiency gains through cost reductions. In achieving these aims, the Commission is aware of the need to ensure compliance costs are minimised and that the regulatory process is objective, transparent and as light handed as possible.

The code envisages that the Commission will develop a set of guidelines outlining how it will exercise its power to regulate transmission revenues. The draft *Statement of Principles for the Regulation of Transmission Revenues* (draft *Regulatory Principles*) was issued on 27 May 1999 in response to this provision of the code.

In accordance with the principles of best practice regulation, the Commission recognises that the regulatory process should be flexible and allow the regulatory approach to evolve over time in response to developments and innovations. As noted in the draft *Regulatory Principles*, the Commission envisages that the *Regulatory Principles* will continue to evolve in response to improvements in the regulatory regime.

## 1.2 Information disclosure requirements

Clauses 6.2.5(a) and (c) of the code require TNSPs and/or transmission network owners to submit to the Commission certified annual financial statements (in a form to be determined by the Commission), and any other information the Commission reasonably requires to perform its regulatory functions.

Information provided by the regulated TNSP will form the basis of the Commission's revenue cap decisions. The Commission will also use its information gathering powers to annually monitor the TNSPs compliance with its revenue cap. The information requirements to conduct each of these tasks are different in detail and form.

The Commission is conscious of the information asymmetry problem that it will face in both determining the revenue cap and monitoring the performance of the regulated TNSPs. This problem has the potential to bias regulatory outcomes due to incomplete, and/or misleading information used in the determination of a revenue cap. However, the information asymmetry issue can be partially addressed through independent verification of data and the ability to force disclosure of information under clause 6.2.5(d).

The Commission is also aware of the costs of complying with information requests, and the temptation facing a regulator to seek too much information. Clearly, the overall regulatory costs will be increased where excessive information is requested, including the additional time required for the regulator to analyse and process the information.

There is a need to balance the requirement of ensuring that relevant and accurate information is supplied, and requesting information that is excessive or unnecessarily detailed. The Commission believes that by adopting the principles of best practice regulation, a regulator can foster a cooperative environment, with well informed participants, and in doing so reduce the overall regulatory costs, without increasing the risks of information asymmetry.

Clause 6.2.5(e) of the code states that information provided to the Commission by the regulated TNSP is to be treated as confidential by the Commission, unless the written consent of the TNSP to release the information has been obtained. Where such written consent is not obtained by the Commission clauses 6.2.6(b)-(e) of the code allows the Commission to notify the TNSP of its intention to publicly release information. Clause 6.2.6(d) also allows for an appeals process<sup>1</sup> to be initiated by the TNSP regarding such a decision.

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<sup>1</sup> Clause 6.2.6(d) sets out that the Commission's decision to disclose information can be reviewed under the *Administrative Decisions (Judicial Review) Act 1977 (ADJR Act)* upon application to the Federal Court.

## **2. Summary of the draft regulatory principles**

### **2.1 Information requirements for determining the revenue cap**

In the draft *Regulatory Principles* the Commission outlined the process by which the regulated TNSP must submit a regulatory application to the Commission, including the information required to set a revenue cap.

Generally, the Commission noted that it will rely on the information provided by the regulated TNSP, public consultation and submissions in undertake its revenue cap process. However, to ensure the veracity of the information provided by the TNSP, the Commission placed the onus upon the regulated TNSP to provide verifiable, relevant and accurate information. The Commission also specified that the TNSP must provide all information in both electronic and written format, which must be compatible with the Commission's computing systems in use at the time.

In terms of its financial requirements, the Commission stated that the regulated TNSP must provide the Commission with forecasts of key financial information. The Commission considered that it is important that the presentation of forecast financial information be in the same format as historical financial information, enabling inter-temporal comparisons. Further, in order for any forecast financial information to be properly assessed and utilised it must include the rationale and explanations of how the forecasts have been derived.

Appendix 2 of the *Draft Regulatory Principles* set the information requirements for the regulatory accounts, with the proformas set out in Appendix 5.

In addition to the financial information specified, the Commission argued that it required supporting non-financial information to provide assurances on the relevance and veracity of the financial information, in addition to determining appropriate levels of service standards. The Commission also specified that the TNSPs were responsible for ensuring that the Commission receives sufficient assurances from the auditors that the regulatory accounts can be relied upon for regulatory purposes.

### **2.2 Ongoing information requirements for compliance monitoring**

In order for the regulatory regime to be effective, the Commission will undertake compliance monitoring on the regulated TNSPs. The Commission is aware that provision of information by regulated TNSPs to enable the Commission to monitor compliance with the regulatory regime will impose costs on the TNSPs. For this reason, the Commission noted that it will undertake annual, rather than six monthly, assessments of the TNSP's financial situation, and compliance with the revenue cap, including the service standards. It also stated that the annual assessments will be timed to coincide with the financial reporting period of each TNSP, with compliance monitoring information to be provided to the Commission within four months of the end of the annual financial reporting period.

The details of the information required for annual reporting compliance were set out in Appendix 3, with the proformas set out in Appendix 5.

## 2.3 Information disclosure

The Commission considered that the information disclosure regime is vital to ensuring that opportunities for exploiting information asymmetries by the TNSP are minimised, and the Commission undertakes a transparent regulatory process. Disclosure of information contained in the regulatory application will assist the Commission in its assessment of the information, via comments and analysis from interested parties, and lead to both better information supplied and better regulatory outcomes.

## 2.4 Direction for the future

The Commission noted that it will continue to develop the information disclosure requirements over time. It stated that the development of the information disclosure requirements would reflect changes that occur in the transmission sector, in regulatory practice and the information needs of the Commission, and developments in accounting theory and standards.

Following the release of the *Draft Regulatory Principles*, the Commission received submissions from interested parties outlining their concerns with the proposed information requirements.

In addition, since the release of the *Draft Regulatory Principles*, the Commission has established revenue caps for three transmission networks: TransGrid; EnergyAustralia; and the Snowy Mountains Hydro-Electric Authority. As a result of these processes, the financial model and information needs have been refined.

The Commission engaged KPMG Consulting to review the proposed revenue information requirements and annual compliance reporting principles in the *Draft Regulatory Principles* and develop a revised set of information guidelines. The guidelines have been amended to more clearly meet the specific regulatory functions outlined in the *Draft Regulatory Principles* and the Commission believes that the revised guidelines will provide the Commission with adequate information to conduct incentive-based regulation, whilst reducing the compliance cost for transmission networks.

The Commission acknowledges that these guidelines will be subject to change following appropriate consultation with interested parties, and after the completion of the first round of revenue cap decisions on 1 January 2003.



### **3. What the interested parties say**

A number of interested parties commented on the information requirement guidelines as outlined in the *Draft Regulatory Principles*. The Commission has broken down the comments into the various elements.

#### **3.1 Information requirements for determining the revenue cap**

ElectraNet, NSW Treasury, Powerlink and SA Treasury express concerns with the treatment of forecast requirements. They contend that forecast information is generally at a higher level than statutory and other reporting information and argue that this may create an unreasonable financial burden for TNSPs to reformat and expand their information set. Powerlink suggests that the format of forecast information should be consistent, but not identical with historic accounting format. It argues that this reflects that forecast information is not produced with the same detail as information recorded. SA Treasury believes that the TNSP will only be able to provide specific forecast information after the regulatory environment has implemented.

NSW Treasury contends that forecast information, by its very nature, cannot be audited and recommends that the Commission consider a standardised audit report. Western Power also expresses concern over the audit requirements stating that detailed regulatory accounts could not be created from annual audited accounts. Powerlink added that proposed reporting requirements impose a significant audit burden and that the changing regulatory purpose will make it difficult to develop audit opinions.

#### **3.2 Ongoing information requirements for compliance monitoring**

ElectraNet SA, EnergyAustralia, SPI Powernet, NSW Treasury and TransGrid express concern that the proposed information requirements are too onerous, extending well beyond a TNSP's current information requirement arrangements. They argue that the increased information requirements would provide no benefit to customers and would only serve to inflate compliance cost. They suggest that such an increase would need to be warranted and factored into the Commission's revenue cap decisions. ElectraNet suggests that the use of targeted information collection would provide a better understanding of a TNSPs activities.

The NSW Treasury believes that the information requirements should use management accounts rather than statutory accounts, arguing that they provide a greater level of detail and understanding into the business. Whereas, EnergyAustralia argues that any reporting schedule should follow and be aligned with established statutory reporting schedules.

#### **3.3 Information disclosure**

ElectraNet, GPU Powernet, Powerlink and TransGrid oppose the information disclosure section of the proposed information requirements arguing that the default information disclosure requirement must allow the full disclosure of all information submitted to the Commission in the regulatory application. They note that where the regulated TNSP wishes

some information to remain confidential, it must include such claims and the rationale for such claims in its regulatory application or subsequent information provision. They also argue that the Commission should only publicly release defined or specified information. SPI Powernet contends that the Commission is acting contrary to the intentions of clauses 6.2.5(e) and 6.2.5(b) by shifting the burden of proof onto the TNSP as to whether information is confidential and should be disclosed.

Yallourn believes that all information available to the Commission should be disclosed, arguing that since the TNSP is not in competition with other companies and, therefore, should not be allowed to withhold information. Whereas, the Victorian Energy Policy Division, suggests that the Commission consider issues of potential bypass and user sensitivities, in publicly releasing information.

### **3.4 General**

ElectraNet SA and TransGrid argue that information requirements deal with operational issues rather than matters of principle. Therefore, they contend that the development of information requirements remain separate and should not be detailed as part of the *Regulatory Principles*.

ElectraNet SA, GPU Powernet (now known SPI Powernet), NSW Treasury, Powerlink and SA Treasury argue that the Commission needs to clarify the terms and definitions in the *Draft Regulatory Principles* to remove any ambiguity. Both ElectraNet SA and NSW Treasury believe that a definition is required for 'verifiable' and 'materiality'. ElectraNet SA and Powerlink suggest that 'related parties' be defined according to Australian Accounting standard AASB1017, while ElectraNet SA also suggests that further clarity is required in the definition of cost category. SPI Powernet suggests that similar clarity is required for the definition of audit requirements.

ElectraNet SA, NSW Treasury, Powerlink, TransGrid, and Western Power contend that the Commission undertakes the development of information requirements in conjunction with TNSPs and other stakeholders.

ElectraNet SA suggests that the Commission should define the electronic format required, ensuring that it remains consistent over time.

SPI Powernet argues that the splitting of prescribed and non-prescribed services items that are not used in regulatory process should not be required. SPI Powernet also believes that the Commission should only collect parsimonious sets of regulatory information, arguing that requesting more information will create additional costs without additional benefits.

Siemens suggests that less information should be required for benchmarked costs, arguing that the Commission only requires common information.

The Commonwealth Department of Primary Industries and Energy contends that the Commission should take account of the information disclosure provisions of the Gas Code.

## **4. Commission's considerations**

### **4.1 Information requirements for determining the revenue cap**

While the Commission agrees with concerns raised by NSW Treasury and ElectraNet SA that forecast information, by its very nature cannot be audited, it still considers that the underlying bases and assumptions can be subject to audit. The revised guidelines, therefore maintains the requirement of an audit on forecast information to ensure the consistency of forecasts over time. The revised guidelines follow generally accepted auditing principles to address assurance on forecasts. Furthermore, the Commission has amended the guidelines to include the provision for a tripartite meeting between the Commission, the TNSP and its auditor. This will be facilitate the Commission's understanding of the operations of the TNSP, should it require further explanation concerning the information presented in the auditor's report.

The Commission has made additional amendments to the guidelines to streamline the information gathering process. The requirements focus on information required by the Commission to undertake its cash flow modelling and no longer imitate statutory accounts. In the draft Regulatory Principles, mandatory headings were used as part of the regulatory reporting requirements. However, the Commission recognises that the TNSPs will not use similar headings for asset classes. Therefore, the revised guidelines replaces the mandatory heading with discretionary headings. Using discretionary heading within the regulatory financial statements provides the TNSP with the flexibility to ensure the information provided to the Commission is compatible with the TNSPs current accounting system. The Commission also considers that inclusion of discretionary headings should reduce the risk of mandatory unrealistically detailed forecasts. However, to facilitate the Commission's modelling, the headings will apply consistently across regulatory financial statements and traceable to account heading used in the general ledger or chart of accounts. The Commission considers that these changes will provide a more concise data set, while also providing the opportunity for the TNSP to explain the information provided.

In the longer term, the Commission may consider moving back towards mandatory headings. This is unlikely to occur until after 1 January 2003, by which time the Commission will be fully responsible for regulation of all transmission revenues within the NEM.

Based on its recent experience in setting revenue caps, the Commission has also amended the guidelines to reflect the information that it requires for modelling purposes. TNSPs have included weighted average cost of capital (WACC) parameters in its application for a revenue cap decision. Therefore, recognising the information provided by the TNSP, the revised guideline has formalised the inclusion of WACC parameters and has set out a proforma for reporting the associated information. The revised guideline also includes proformas regarding the disclosure of asset roll-forward, that is disposal and retirements of assets, providing the Commission with the necessary information for regulatory asset base adjustments.

### **4.2 Ongoing information requirements for compliance monitoring**

The Commission concedes that the proposed information requirements in the *Draft Regulatory Principles* were too onerous and placed an unreasonable burden and cost on

TNSPs. Consequently, the Commission has amended the guidelines to meet the specific regulatory functions outlined in the *Draft Regulatory Principles*. The historic regulatory accounts have also been amended and structured to facilitate marginal adjustments to accounting records and accounts produced and audited in any event for ordinary business purposes. The Commission believes that the information requirements contained in the revised guidelines will provide it with adequate information to conduct incentive-based regulation, while reducing the burden on TNSP in complying with these guidelines.

However, as noted previously, the Commission is currently undertaking a test of the information requirements with TransGrid and EnergyAustralia, and may consider amending aspects of this section of the information requirements in line with feedback from these businesses.

### **4.3 Information disclosure**

The Commission has maintained the position taken in the Commission's earlier draft, which requires *a priori* consent to publish unless the business claims confidentiality. However, Commission notes that the historic disaggregation schedules and supporting schedules, which provide an audit trail, are likely to include legitimately commercially sensitive information in the normal course of events. Therefore claims of confidentiality might reasonably be expected as the norm rather than as an exception. However, the Commission considers that, the outcomes of the regulatory historic accounting process, that is the profit and loss account, balance sheet extracts and cash flow extracts, do not contain such information and could be published with much less scope for objection.

### **4.4 General comments**

While the Commission acknowledges that information requirements deal with operational issues rather than matters of principles, it considers that the information requirements should be developed as part on the *Regulatory Principles*. Both the financial and non-financial information requirements set out in the guidelines are designed to meet specific regulatory requirements outlined within the *Regulatory Principles*. The Commission considers that the information gathered by the revised guidelines provides an information set that more closely reflects the intentions of the principles outlined in the *Regulatory Principles*. The Commission, therefore, believes that the removal of the information requirements from the *Regulatory Principles* will increase the ambiguity of the guidelines.

The Commission concurs with the concerns raised by ElectraNet SA, SPI Powernet, NSW Treasury, Powerlink and SA Treasury that the terms used in the *Draft Regulatory Principles* requires greater clarity. Therefore, in the revised guidelines, the Commission has including a glossary of defined terms to provide clarity and remove ambiguity from the information requirements.

The Commission agrees that the information requirements can only be developed in conjunction with TNSPs and other stakeholders. Section 1.8 of the revised guidelines outlines the process for any significant revisions. The Commission believes that the guideline is a tool or mechanism for information acquisition and like any process, it will be helpful to practically test the guideline. The Commission is currently undertaking a test of the

suitability of the annual reporting compliance guidelines with TransGrid and EnergyAustralia, and will be testing the revenue cap section with both SPI Powernet and ElectraNet SA. Particularly in the annual compliance reporting section, the Commission believes that there are likely to be practical points specific to TNSPs that may improve the efficiency and effectiveness of the Guideline that will only be identified from practical testing.

While the Commission would ideally like to specify the electronic formatting for information, it believes that electronic formatting will inevitably be subject to change as technology develops. However, at this stage, the Commission does not envisage utilising anything other than generally accepted formats such as Microsoft Office. Although, to ensure the security of information on the Commission's web-site, the Commission may also request that information be presented in PDF or similar format.

The Commission recognises SPI Powernet's concerns over the splitting of prescribed and non-prescribed services. However, the Commission considers that the disaggregation of audited accounts is fundamental to providing an audit trail without imposing otherwise avoidable regulatory intrusion as audit requirements.

## 5. Statement of Regulatory Principles

### **Proposed Statement – S1**

Each TNSP must comply with the information requirements set out in the Information Disclosure Requirements Guideline.

### **Proposed Statement – S2**

#### **General**

The TNSP must submit all information to the Commission in both electronic and written form.

Information submitted as part of the regulatory application must be submitted to the Commission in accordance with the processes and timetable specified in Chapter 2 of the draft *Regulatory Principles*.

The TNSPs shall ensure that all information provided to the Commission is verifiable.

The regulatory statements must reflect the commercial substance of transactions or events. Where the commercial substance of a transaction or event differs from legal form, it is the commercial substance that must be reported.

### **Proposed Statement – S3**

#### **Financial information requirements**

All items reported to the Commission in the regulatory financial statements are to be derived from the TNSP's audited financial statements.

All items reported to the Commission in the regulatory schedules are to be derived from the audited accounts.

All material items must be disclosed.

All transactions between TNSPs and related parties must be disclosed to the Commission.

All items within the audited regulatory statements are to be disaggregated between prescribed services and non-prescribed services.

No cost category may be attributed to more than one business segment.

All transactions which are reported in the regulated financial statements as prescribed services must be adjusted to account for regulatory accounting rules that differ from those used in the preparation of the audited financial statements.

The regulatory statements and schedules must be audited before being submitted to the Commission.

In instances where:

- the regulated activities relating to a single TNSP are conducted by more than one legal entity; or
- any entity that is involved in regulated activities is not required to prepare audited financial statements under the Corporations Law;

the following requirements must be complied with:

- consolidated, or aggregated, financial statements must be prepared encompassing the activities of all legal entities that are conducting the regulated activities;
- the consolidated statements must be prepared and audited as if they were required by the corporations law; and
- the audited statements are to then be used as the audited financial statements, which are then to be used for the preparation of the disaggregated regulatory financial statements, subject to all of the regulatory requirements of this guideline.

Forecast financial information must be prepared on a consistent basis with the regulatory financial statements. The forecast financial information must include, as notes to the appropriate statements, the rationale and explanations of how the forecasts have been derived, and must state the accounting principles that have been employed.

#### ***Proposed Statement – S4***

##### **Non financial information**

The directors of the TNSP will be required to complete a Directors' Responsibility Statement to be signed by two or more directors.

The TNSPs are to be responsible for ensuring that the Commission receives sufficient assurances from the auditors that the information received from them can be relied upon for regulatory purposes.

If the audit fails to satisfy Commission requirements, the Commission will notify the TNSP that a further audit must be conducted that addresses the Commission's requirements. The Commission will include a rationale for requiring a further audit and timeframe for completion of the audit in the notification.

The TNSP must submit sufficient information to ensure that the Commission can assess compliance with service standard requirements.

#### ***Proposed Statement – S5***

##### **Information disclosure**

The regulatory application must include written consent from the TNSP for the public release of all information within that application, or where confidentiality is sought, details of each specific item for which the TNSP wishes to claim confidentiality and an explanation stating why confidentiality is required.

Information submitted annually, as part of the ongoing monitoring of the TNSP must include written consent from the TNSP for the public release of the regulatory accounts and assumptions underlying those accounts. Where confidentiality is sought, the TNSP must provide details of each specific item for which the TNSP wishes to claim confidentiality and an explanation stating why confidentiality is required.

Any additional information requested by the Commission or otherwise provided to the Commission by the TNSP must be accompanied by a written consent for public release, or a detailed statement outlining the claims for confidentiality.

Where the Commission decides to release information for which confidentiality is claimed, the Commission will follow the processes set out in clause 6.2.6(b)-(e) of the NEC.

#### ***Proposed Statement – S6***

##### **Direction for the future**

The Commission will continue to develop the information disclosure requirements over time. The development of the information disclosure requirements will be driven by several factors including:

- the evolving information requirements of the Commission for the discharging of its duties under the NEC;
- developments that occur in the transmission sector;
- developments in accounting and reporting theory, including any associated changes in the accounting standards; and
- developments in regulatory information disclosure requirements and analytical tools to ensure the best regulatory practice is adopted.



# **Appendix 1 –Submissions to the Commission**

Commonwealth Department of Primary Industries and Energy

ElectraNet

EnergyAustralia

Ergon Energy

GPU Powernet

NSW Treasury

Powerlink

Siemens

South Australia Treasurer

Transend

TransGrid

Victorian Department of Treasury and Finance (EPD)

Western Power

Yallourn Energy

## **Appendix 2 – Revised Information Disclosure Requirements Guideline**

**Australian Competition and Consumer Commission**

*Electricity Transmission Network Service Provider  
Draft Information Disclosure Requirements Guideline*

Enquiries concerning the currency of this Guideline should be addressed to:

General Manager  
Regulatory Affairs - Electricity  
Australian Competition and Consumer Commission  
PO Box 1199  
Dickson, ACT, 2602  
Facsimile: (02) 6243-1260  
Email: [electricity.group@acc.gov.au](mailto:electricity.group@acc.gov.au)

**AMENDMENT RECORD**

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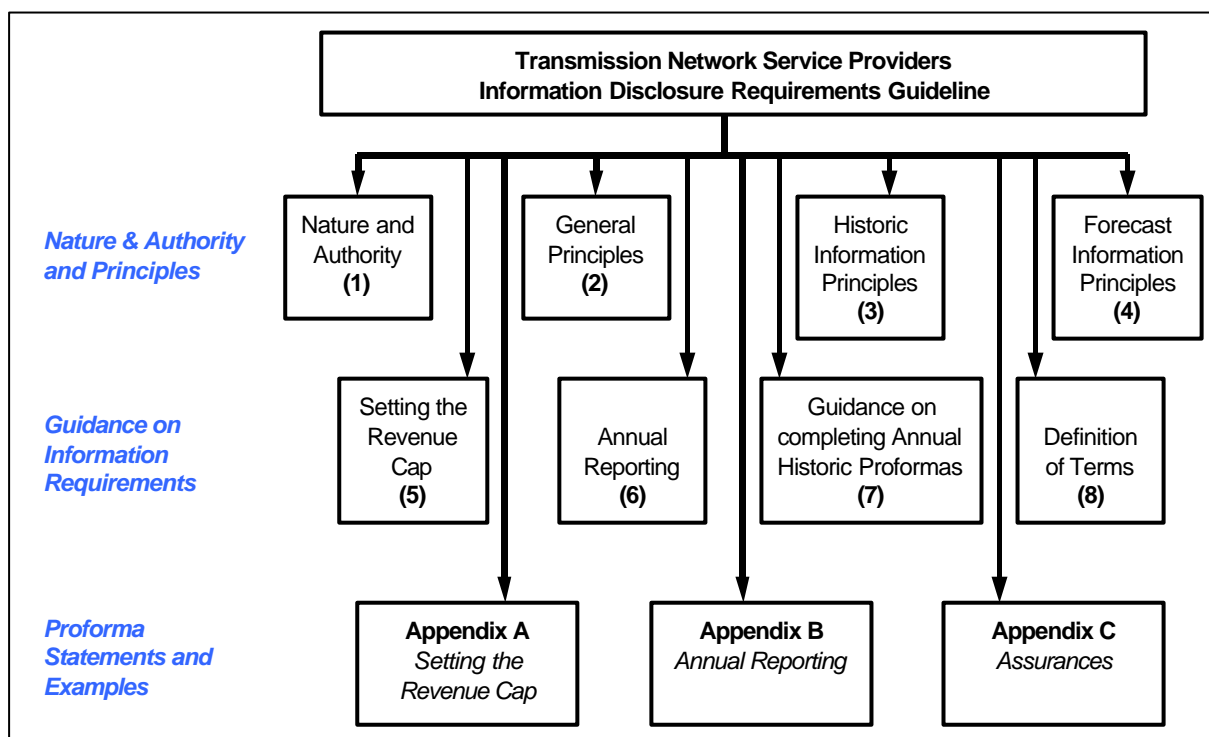
## How this Guideline works

The Guideline sets out the information requirements and reporting principles and process for two principal areas:

- setting the revenue cap; and
- annual reporting,

for electricity *transmission network service providers* (“*TNSPs*”).

The diagram below presents a map of the Guideline.



Sections 2, 3 and 4 of this Guideline set out the principles for a *TNSP* to follow, in providing information to the Australian Competition and Consumer Commission (“the **Commission**”) for setting a revenue cap and annual reporting. In case of any conflict of guidance, these principles take precedence over the proforma statements and guidance, set out in the remaining sections of the Guideline, which are intended to implement these principles.

# 1 Nature and Authority

## 1.1 Introduction

- 1.1.1 This Guideline sets out information required by the **Commission** to regulate **Transmission Network Service Providers** (“**TNSPs**”).

## 1.2 Objectives

- 1.2.1 Clauses 6.2.2 to 6.2.5 of the **National Electricity Code** set out the objectives and principles of the transmission revenue regulatory regime to be administered by the **Commission**.
- 1.2.2 The **Commission’s** objective is to determine and monitor compliance with a revenue cap, via an information disclosure regime, which is objective, transparent and light handed.
- 1.2.3 In assuming its role as the national regulator of transmission revenues in the NEM, the **Commission’s** aim is to adopt a regulatory process which eliminates monopoly pricing, provides a fair return to network owners, and creates incentives for managers to pursue ongoing efficiency gains through cost reductions.

## 1.3 Powers

- 1.3.1 The **Commission’s** power to gather information to set and monitor revenue caps for **TNSPs** stem from Part IIIA of the *Trade Practices Act 1974* and clause 6.2.5 of the **National Electricity Code**.
- 1.3.2 As national regulator for transmission network services, the **Commission** is responsible for developing national guidelines and rules for application of its Statement of Regulatory Principles for the Regulation of Transmission Revenues once finalised, or any other statement published by the **Commission** setting out the regulatory principles to be applied by **TNSPs**.

## 1.4 Confidentiality

- 1.4.1 Clause 6.2.5(e) of the **National Electricity Code**, states that the **Commission** must obtain written consent to publicly disclose information provided to it by a **TNSP**, unless the procedures set out in clauses 6.2.6(b) to (e) are followed.
- 1.4.2 To manage the process, the **Commission** requires a letter to accompany all information provided that agrees to the **Commission** publicly releasing that information.
- 1.4.3 Where a **TNSP** indicates that information is commercially sensitive, a **TNSP** must include the rationale for its claim.



## 1.5 Role of this Guideline

- 1.5.1 This Guideline is in the nature of a minimum requirement. The obligation of a **TNSP** to comply with this Guideline:
- is additional to any obligation imposed under any other law applying to a **TNSP's** business; and
  - does not derogate from such an obligation.
- 1.5.2 While this Guideline includes accounting ring-fencing requirements, it does not address structural ring-fencing issues. The **Commission** anticipates issuing a separate guideline that addresses structural ring-fencing arrangements.
- 1.5.3 The **Commission** anticipates that it will need information about how a TNSP performs against the **Commission's** service standards. The **Commission** has yet to finalise its service standards at the date of writing this Guideline. However, the **Commission** anticipates revising this Guideline, to incorporate specific information requirements, at such a time when its service standards have been set.

## 1.6 Definitions and Interpretation

- 1.6.1 In this Guideline:
- words and phrases presented in bold italic font ***such as this***, are defined for the purposes of interpreting this Guideline, in the attached definition of terms. The definition of terms seeks to provide clarity and reduce the risk of ambiguity in the interpretation of the Guideline's requirements; and
  - the words "*shall*" and "*must*" indicate mandatory requirements, unless the overall meaning of the phrase in which one of these words appears, is otherwise.
- 1.6.2 This Guideline seeks to provide definitions consistent with those given in the **SRP** and the **National Electricity Code**. Where words and phrases are not defined in the glossary, they shall have the meaning given to them by the **SRP, National Electricity Code** or any other relevant legislative or regulatory document.
- 1.6.3 Explanations in this Guideline about why certain information is required are for guidance only. They do not limit in any way the **Commission's** objectives, functions or powers.

## 1.7 Consultation

- 1.7.1 The **Commission** welcomes comments, discussion, or suggestions for amendments to this Guideline, from any interested party. Any contribution in this regard should be addressed to:

General Manager  
Regulatory Affairs - Electricity  
Australian Competition and Consumer Commission  
PO Box 1199  
Dickson ACT 2602  
Phone: (02) 6243-1249 Fax: (02) 6243-1260  
Email: [electricity.group@accc.gov.au](mailto:electricity.group@accc.gov.au)

## 1.8 Processes for Revision

- 1.8.1 The **Commission** may amend and expand the Guideline from time to time where this may be necessary to meet the needs of **TNSPs**, customers and the **Commission**.
- 1.8.2 The **Commission** anticipates undertaking appropriate consultation with **TNSPs**, customers and other stakeholders before any significant amendment of its information requirements contained in this Guideline.
- 1.8.3 For all substantial revisions to this Guideline an effective date will be nominated which is expected to be not less than 90 days prior to the date of application.

## 1.9 Version History and Effective Date

- 1.9.1 An issue number and date of issue will identify every version of the Guideline. This version (Issue No 1) of this Guideline became effective on 9 May 2001, the date of issue.

## 2 General Principles

The Guideline is developed on the premise that the **Commission** requires both historic and forecast financial information. On this basis:

- this section of the Guideline sets out general principles common to both forms of information;
- section 3 of the Guideline sets out the specific principles for historic information; and
- section 4 of the Guideline sets out the specific principles for forecast information.

### 2.1 Compliance

2.1.1 A **TNSP** must comply with the information disclosure requirements set out in this Guideline.

### 2.2 Accounting principles and policies

2.2.1 When providing the **Commission** with financial information required by this Guideline, a **TNSP** must provide to the **Commission** full and detailed documentation of the financial and regulatory accounting principles and policies adopted. This information must be provided in a manner that ensures the **Commission** understands the resultant financial information and make comparisons between them over time.

2.2.2 **Regulatory accounting principles and policies** must be selected and applied by a **TNSP**:

- such that there is a recognisable and rational economic basis that underlies their utilisation; and
- in a manner that ensures that the resultant financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions and events is reported.

2.2.3 Any changes to accounting principles or policies must be brought to the attention of the **Commission**, including a rationale for the changes. Where applicable, an analysis of the impact that the changes will have on the financial reports provided to the **Commission** should be included.

### 2.3 Substance over form

2.3.1 The **Regulatory Financial Statements** or **Regulatory Financial Forecasts** must report the substance of transactions and events.

2.3.2 Where the commercial substance of a transaction or event differs from legal form, it is the commercial substance that must be reported.

- 2.3.3 In determining the substance of a transaction or events, all its aspects and implications shall be considered, including the expectations of and motivations for, the transaction or event.
- 2.3.4 For the purposes of determining the substance of a transaction or event, a group or series of transactions or events that achieves, or is designed to achieve, an overall commercial effect shall be viewed in aggregate.

## 2.4 Materiality

- 2.4.1 The **Commission** requires that all **material** items must be disclosed in the **Regulatory Financial Statements** or **Regulatory Financial Forecasts**.
- 2.4.2 The **Commission** will apply the following standards of materiality:
- An item is **material** if its omission, misstatement or non-disclosure has the potential to prejudice the understanding of the financial or operational position and nature of the **Prescribed Transmission Services**, gained by reading the **Regulatory Financial Statements** or **Regulatory Financial Forecasts**.

## 2.5 Ad hoc information requirements

- 2.5.1 The **Commission** may require ad hoc information to make revenue cap decisions or for annual reporting purposes. If so, the **Commission** would expect to provide a **TNSP** with a specific written request specifying:
- the type of information requirement;
  - the format;
  - where relevant, the applicable accounting principles and standards;
  - the time by which the information is to be delivered; and
  - the form of management assurance or responsibility statement required.

## 2.6 Audit assurance

- 2.6.1 The scope of any audit or the form of independent assurance about the regulatory information that the **Commission** may require, shall accord with any requirements specific to forecast information or to historic information set out later in this Guideline.
- 2.6.2 A **TNSP** is responsible for:
- engaging and remunerating an **Auditor** to report on the information; and
  - ensuring that the **Commission** receives sufficient assurances from the **Auditors** that the information can be relied upon for regulatory purposes.
- 2.6.3 A **TNSP** shall notify and consult with the **Commission** on the choice of **Auditor** prior to the **Regulatory Accounting Date**.
- 2.6.4 The **Commission** may consider the independence and the expertise required of the **Auditor** when determining the suitability of the **Auditor** nominated by a **TNSP**.

- 2.6.5 The **Auditor** has a duty of care to the **Commission** in undertaking any audit in relation to the requirements of this Guideline.
- 2.6.6 Any **Regulatory Audit Report** prepared by the **Auditor** in relation to the requirements of this Guideline shall be addressed to the **Commission** as well as to the **TNSP**.
- 2.6.7 If the audit fails to satisfy the **Commission's** requirements, the **Commission** may require a further audit to be conducted.
- 2.6.8 Where the audit fails to satisfy the **Commission**, the **Commission** reserves the right to appoint an **Auditor** to be engaged and remunerated by the **TNSP**.

## 2.7 Directors' responsibility statement

- 2.7.1 A **Directors' Responsibility Statement** signed by two or more directors must accompany information provided by a **TNSP** to the **Commission**.
- 2.7.2 As a minimum the **Directors' Responsibility Statement** shall include:
- a reference to the specific documents for which responsibility is accepted; and
  - assurances that the documents provided to the **Commission** comply with the requirements of this Guideline.
- 2.7.3 As a minimum the **Directors' Responsibility Statement** prepared specifically for **Regulatory Financial Statements** shall also include:
- assurances relating to the full disclosure of related party transactions to the **Commission** and adherence to the specific requirements of this Guideline;
  - assurances relating to the full disclosure of third-party benefit transactions to the **Commission** and adherence to the specific requirements of this Guideline; and
  - assurances relating to the full disclosure of financing transactions to the **Commission** and adherence to the specific requirements of this Guideline.
- 2.7.4 An illustrative example of a **Directors' Responsibility Statement** for **Regulatory Financial Statements** is set out in Appendix C of this Guideline.

## 2.8 Tripartite meeting

- 2.8.1 To enable the **Commission** to receive explanations or information concerning the **Auditor's** work in connection with his or her opinion, a **TNSP** shall allow the **Commission**, or its agent, to meet, in the presence of a **TNSP**, with the **Auditor** responsible for a **TNSP's Regulatory Audit Report**, both before and after the **Regulatory Accounting Date** to which the **Regulatory Audit Report**, relates.

## 2.9 Format of information

- 2.9.1 A **TNSP** must submit, in so far as possible, all information to the **Commission** in both electronic and printed form.

2.9.2 Prior to submitting information to the **Commission**, a **TNSP** is required to consult with the **Commission** to ensure that its information can be transmitted in an electronic format compatible with the **Commission's** information systems in place at the time.

2.9.3 Information can be submitted to:

General Manager  
Regulatory Affairs - Electricity  
Australian Competition and Consumer Commission  
PO Box 1199  
Dickson ACT 2602  
Phone: (02) 6243-1249 Fax: (02) 6243-1260  
Email: [electricity.group@accc.gov.au](mailto:electricity.group@accc.gov.au)

### 3 Historic Information Principles

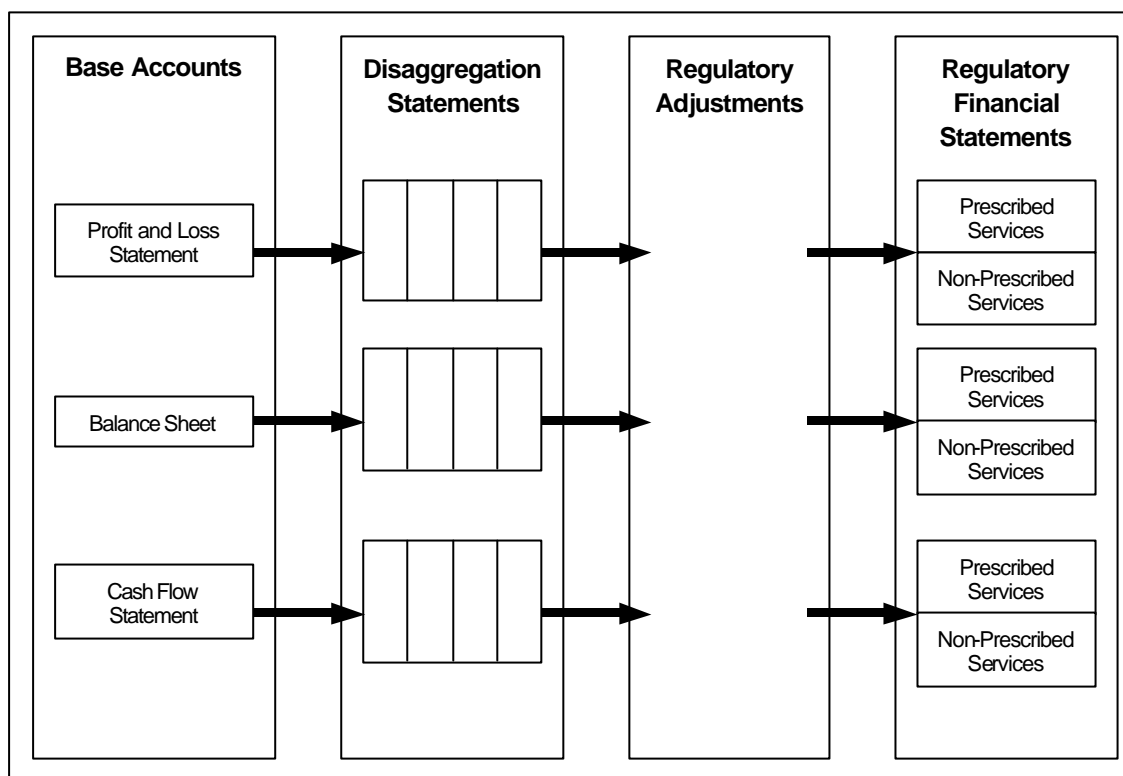
This section sets out the principles that shall be followed by a **TNSP** to complete the **Regulatory Financial Statements** proformas set out at Appendix B.

#### 3.1 Information provided shall be verifiable

- 3.1.1 A **TNSP** shall ensure that all historic information provided to the **Commission** is verifiable. To provide guidance, the **Commission** anticipates that it will interpret “verifiable” as meaning, at least, that information can be accurately and unambiguously traced to a source document or assumption, by an independent party such as an **Auditor**.
- 3.1.2 A **TNSP** must maintain accounting and reporting arrangements which:
- enable separate **Regulatory Financial Statements** to be prepared; and
  - provide information in the **Regulatory Financial Statements** that can be verified.
- 3.1.3 Where the **Commission** requires more detailed information than is provided by a **TNSP**, the **Commission** reserves the right to request access to the underlying schedules and accounting records that support the information in question.

#### 3.2 Dissaggregation – reporting by business segment

- 3.2.1 **Regulatory Financial Statements** are to be prepared by disaggregating **Base Accounts**.
- 3.2.2 The following diagram seeks to illustrate that the general process for preparing **Regulatory Financial Statements** from **Base Accounts** comprises:
- preparing **Disaggregation Statements** from the **Base Accounts** and the accounting records that underlie the **Base Accounts**; and then
  - applying, where necessary, regulatory accounting adjustments to the **Regulated Business Segments** in the **Disaggregation Statements**, to derive **Regulatory Financial Statements**.
- 3.2.3 Accordingly, the **Disaggregation Statements** in combination with any regulatory accounting adjustments shall provide an audit trail between the **Regulatory Financial Statements** and the accounting records that underlie the **Base Accounts**.



3.2.4 The above diagram is intended as a concise illustration of the process and does not substitute for an understanding of this Guideline.

3.2.5 The above diagram illustrates that the **Commission** requires a **TNSP** to prepare **Disaggregation Statements** before any regulatory adjustments, for its Profit and Loss Account, Balance Sheet and Cash Flow Statement.

3.2.6 Where:

- the prescribed activities relating to a **TNSP** are conducted by more than one legal entity; or
- any entity that is involved in prescribed activities is not required to prepare audited financial statements under the Corporations Law;

the following requirements must be complied with:

- consolidated, or aggregated, financial statements must be prepared encompassing the activities of all legal entities that are conducting prescribed activities;
- consolidated statements must be prepared and audited as if they were required by the Corporations Law; and
- the audited consolidated statements are to be used in place of the audited financial statements for the purposes of reporting to the **Commission** and are subject to all of the regulatory requirements of this Guideline.

### 3.3 Disaggregation statements – allocation principles

3.3.1 The **Disaggregation Statement** shall provide an audit trail to evidence the disaggregation of the **Base Accounts** into **Business Segments**.



- 3.3.2 Proformas included in Appendix B to this Guideline indicate how **Disaggregation Statements** are to be presented for the purposes of providing **Regulatory Financial Statements**.
- 3.3.3 The disaggregation of **Base Accounts** shall be based on the principle that:
- **Base Account Records** which are **Directly Attributable** to the **Business Segments** are assigned accordingly; and
  - **Base Account Records** not **Directly Attributable** will be allocated to **Business Segments** using an appropriate allocator, as indicated in paragraphs 3.3.5 to 3.3.11 below.
- 3.3.4 If **Account Headings** used in the **Regulatory Financial Statements** are not the same as those used in the **Base Account Records** they should be traceable or reconcilable to the chart of accounts used in the **Base Account Records** such that there is an audit trail between the **Base Account Records** and the **Account Headings** used in the **Regulatory Financial Statements**.
- 3.3.5 Where **Base Account Records** are **Directly Attributable** to **Business Segments**, no one **Account Heading** shall be used to attribute items to more than one **Business Segment**.
- 3.3.6 **Account Headings** shall be sufficiently descriptive to provide an understanding of why **Base Account Records** that have been **Directly Attributable** to **Business Segment** are uniquely associated with the **Business Segment**.
- 3.3.7 **Base Account Records** that are not **Directly Attributed** are to be allocated on a **Causation Basis**.
- 3.3.8 Where a **Base Account Record** has been allocated between any **Regulated Business Segment** and another **Business Segment**, a supporting work paper shall be provided that describes:
- a description and justification of the allocation basis;
  - the numeric value of each allocator;
  - the total amounts that have been allocated to each **Business Segment**;
- 3.3.9 If a **Causal Relationship** cannot be established without undue cost and effort, a **TNSP** must provide the **Commission** with a separate list of these items indicating a description and amount for each **Base Account Record**. A **TNSP** may effect an allocation of these **Base Account Records** on a **Non Causal** basis, provided that a supporting note documents for each such **Base Account Record**:
- a defensible basis of allocation;
  - the reason for choosing that basis;
  - an explanation why no **Causal Relationship** could be established; and
  - a numeric value of the allocator applied to each **Business Segment** and in total.
- 3.3.10 **Non Causal Bases** of allocation shall only be applied to the extent that the aggregate of all **Base Account Records** subject to all **Non Causal Bases** of allocation is **Immaterial** to either the **Base Accounts** or the **Regulatory Financial Statements**. Section 2.4 sets out the standard of materiality.

- 3.3.11 **Non Causal Bases** of allocation will be subject to the specific approval of the **Commission**. The **Commission** expects to only accept a **Non Causal Basis** of allocation where a **TNSP** can demonstrate that there is likely to be a strong positive correlation between the **Non-Causal Basis** and the actual cause of resource or service consumption or utilisation that costs subject to allocation, represent.
- 3.3.12 The **Commission** may require further information, or investigate a **TNSP's** bases of allocation:
- to establish their causality;
  - to approve **Non Causal Bases** of allocation; or
  - where the use of **Non Causal Bases** of allocation by a **TNSP** is more than incidental.

### 3.4 Regulatory adjustments

- 3.4.1 In preparing **Regulatory Financial Statements**, a **TNSP** will apply to the **Disaggregation Statements** or to the **Base Accounts**, regulatory adjustments that may be:
- considered appropriate by a **TNSP**, or
  - required by the **Commission**.
- 3.4.2 Proforma statements that clearly explain the nature and amount of each adjustment shall support all regulatory adjustments. Appendix B sets out such proforma statements.

#### **Accounting principles and policies**

- 3.4.3 Except where this Guideline prescribes otherwise, the regulatory reporting requirements should be completed in accordance with applicable Australian accounting standards.

### 3.5 Time consistent application of accounting policies – unless disclosed otherwise

3.5.1 **Regulatory Financial Statements** must, in so far as is reasonably practicable, be prepared in accordance with the general rules and format, and, subject to the disclosure provisions of paragraph 3.5.2 below, use the accounting principles and policies applicable to the **Base Accounts**.

3.5.2 A **TNSP** shall provide to the **Commission** full and detailed documentation of:

- the accounting principles and policies used to prepare its **Base Accounts**; and
- any **Regulatory Accounting Principles and Policies** that it may have used to prepare the **Regulatory Financial Statements**, that may be additional to or in place of, the accounting principles and policies used to prepare its **Base Accounts**.

### 3.6 Record retention

3.6.1 A **TNSP's Directors** are responsible for the preparation and presentation of the **Regulatory Financial Statements** and the information they contain.

3.6.2 A **TNSP's Directors** shall ensure that a **TNSP** keeps **Books** that:

- correctly record and explain the transactions and financial position of each **Regulated Business Segment**;
- support the disaggregation of the audited financial statements and any regulatory adjustments; and
- allow an **Auditor** to conveniently and properly form an opinion on the **Regulatory Financial Statements** in accordance with the requirements of this Guideline.

3.6.3 A **TNSP's Directors** shall also ensure that a **TNSP** retains the **Books** from which **Regulatory Financial Statements** are prepared, from 1 July 1999.

3.6.4 **Books** are to be retained for a period ending no sooner than the effective date of the second price review following the date the **Books** were created.

3.6.5 All **Books** shall be made available to the **Commission** upon request by the **Commission**.

### 3.7 Discretionary headings

3.7.1 Subject to the provisions of this section, the **Discretionary Headings** applied by a **TNSP** shall be applied consistently by a **TNSP** to subsequent **Regulatory Financial Statements**.

3.7.2 **Discretionary Headings** applied by a **TNSP** in any **Regulatory Financial Statements** should in so far as possible, be consistent with the **Discretionary Headings** applied by a **TNSP** in its **Regulatory Financial Forecasts**.

- 3.7.3 **Discretionary Headings** shall be in accordance with, or be traceable to, the **Account Headings** denoted in a **TNSP's** general ledger or chart of accounts that underpin its **Base Accounts**.
- 3.7.4 A **TNSP** shall meet with the **Commission** prior to submitting **Regulatory Financial Statements**, to enable the **Commission** to indicate whether a **TNSP's** proposed **Discretionary Headings** are likely to meet the **Commission's** requirements.
- 3.7.5 A **TNSP** may vary the **Discretionary Headings** from those used in a preceding **Regulatory Accounting Period** if:
- a revision of this Guideline should require such a change; or
  - the **Commission** issues written approval after receiving an application from a **TNSP** for a variation. Such an application:
    - does not change a **TNSP's** obligations under section 3.7 of this Guideline; and
    - should include an explanation of the relationships between revised **Account Headings** and their predecessors.

## 3.8 Regulatory accounting periods

- 3.8.1 A **TNSP's Regulatory Accounting Periods** shall correspond to those of its **Base Accounts** unless the **Commission** should specify otherwise.
- 3.8.2 The **Commission** reserves the right to require a **TNSP** to provide all of the following at times other than the normal reporting period or other **Regulatory Accounting Dates**:
- Corporations Law compliant audited financial statements;
  - **Regulatory Financial Statements**; and
  - other pertinent information, for periods other than that of a **TNSP's** normal reporting periods, as required by the **Commission** to discharge its duties under the **National Electricity Code**.
- 3.8.3 A **TNSP** shall notify the **Commission** of any change in its **Regulatory Accounting Date** in advance of any such change.
- 3.8.4 A **TNSP's Regulatory Accounting Periods** shall cover a continuous period.

### 3.9 Audit assurances

- 3.9.1 Unless specified otherwise by the **Commission**, a **TNSP** is required to submit a **Regulatory Audit Report** in the form of an **Audit Report on a Special Purpose Financial Report**.
- 3.9.2 Alternatively, at its discretion, the **Commission** may allow a **TNSP** to provide a **Regulatory Audit Report** on its **Regulatory Financial Statements** in one of the following forms:
- a **Review of Financial Reports** (“negative assurance”);
  - an **Agreed-upon Procedures Report**, or
  - a combination of the above reports and/or an **Audit Report on a Special Purpose Financial Report**.
- 3.9.3 Examples of each of the **Regulatory Audit Reports** are set out in Appendix C.

## 4 Forecast financial information principles

4.1.1 **Regulatory Financial Forecasts** refers to financial information based on assumptions about events that may occur in the future and possible actions by a **TNSP**. The following paragraphs set out specific principles for **Regulatory Financial Forecasts** prepared by a **TNSP** for the **Commission**.

### 4.2 Underlying assumptions

4.2.1 A **TNSP** must provide to the **Commission** the following minimum information in support of its forecast information:

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

### 4.3 Accounting principles and policies

4.3.1 A **TNSP** must prepare its **Regulatory Financial Forecasts** on a consistent basis with any **Regulatory Financial Statements** prepared in accordance with this Guideline, using appropriate accounting principles, and in accordance with the accounting principles set out in this Guideline.

### 4.4 Account headings

4.4.1 Appendix A to this Guideline specifies for the **Regulatory Financial Forecasts**:

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

4.4.2 Subject to section 4.4 of this Guideline, a **TNSP** may, within the context of the **Mandatory Headings**, define **Discretionary Headings** that are most appropriate to conveying an understanding of a **TNSP's** business.

### 4.5 Discretionary headings

4.5.1 Subject to the provisions of this section, the **Discretionary Headings** applied by a **TNSP** shall be applied consistently by a **TNSP** to subsequent **Regulatory Financial Forecasts**.

4.5.2 Where applicable, **Discretionary Headings** applied by a **TNSP** in any **Regulatory Financial Forecasts** shall be consistent with the **Discretionary Headings** applied by a **TNSP** in its **Regulatory Financial Statements**.

4.5.3 A **TNSP** shall meet with the **Commission** prior to submitting **Regulatory Financial Forecasts**, to enable the **Commission** to indicate whether a **TNSP's** proposed **Discretionary Headings** are likely to meet the **Commission's** requirements.

- 4.5.4 A **TNSP** may vary the **Discretionary Headings** from those used in a preceding revenue cap application if:
- a revision of this Guideline should require such a change; or
  - the **Commission** issues written approval after receiving an application from a **TNSP** for a variation. Such an application:
    - does not change a **TNSP's** obligations under section 3.7 of this Guideline; and
    - should include an explanation of the relationships between revised **Account Headings** and their predecessors.

## 4.6 Audit assurance

- 4.6.1 Unless specified otherwise by the **Commission**, a **TNSP** is required to submit a **Regulatory Audit Report** in the form of an **Audit Report on Prospective Financial Information**.
- 4.6.2 Alternatively, at its discretion, the **Commission** may allow a **TNSP** to provide a **Regulatory Audit Report** on its forecast information in the form of a **Review of Financial Reports** (“negative assurance”).
- 4.6.3 An example of each of the **Regulatory Audit Reports** is set out in Appendix C.

## 5 Setting the revenue cap

### 5.1 Introduction

- 5.1.1 The **Commission** has adopted a building block approach to setting the revenue cap that determines the maximum revenue that a network can earn from its regulated assets on an annual basis.
- 5.1.2 The purpose of this section of the Guideline is to outline the scope of information the **Commission** will require to set a revenue cap, consistent with the building block approach and to provide guidance on reporting this information to the **Commission**.
- 5.1.3 The **Commission** requires both financial and non-financial information to set the revenue cap for a **TNSP**. The financial information required by the **Commission** to set the revenue cap is mainly **Regulatory Financial Forecasts**, however, some historic information is required.
- 5.1.4 Sections 2, 3 and 4 of this Guideline set out the principles for a **TNSP** to follow, in providing information to the **Commission** for setting a revenue cap. In case of any conflict of guidance, these principles take precedence over the proforma statements and guidance, set out in this section of the Guideline, which are intended to implement these principles.
- 5.1.5 Appendix A sets out the proforma statements that should be used to submit this information to the **Commission**.
- 5.1.6 A **TNSP** is required to submit its revenue cap application to the **Commission** at least 8 months prior to the expiry of the current regulatory period. Therefore, the information specified in this section of the Guideline must be submitted to the **Commission** at least 8 months prior to the expiry of the current regulatory period

### 5.2 Forecast financial information

- 5.2.1 Forecast financial information is to be provided for a minimum of five years from the commencement of a **TNSP's** next regulatory period.
- 5.2.2 The **Commission** requires forecast information from a **TNSP** to support its revenue application and to assist the **Commission** to calculate a **TNSP's** revenue cap.
- 5.2.3 The following table identifies:
- the forecast information to be submitted by a **TNSP**; and
  - reference to the relevant information submission proforma statements in Appendix A.



<b>Proforma Statement</b>	<b>Proforma ref.</b>
Rate of Return (ie. Weighted Average Cost of Capital)	WACC
Initial Regulatory Assets	Reg Assets
Forecast Capital Expenditure	Capex
Forecast Customer Contributions	Cust Cont
Forecast Asset Disposals and Retirements	Disp
Forecast Operations and Maintenance Expenditure	Opex

- 5.2.4 The proforma statements do not preclude the dialogue of further information should a **TNSP** believe that this would add to the **Commission's** understanding of a **TNSP's** business.
- 5.2.5 Guidance on the regulatory principles adopted by the **Commission** is set out in the **Commission's** Statement of Regulatory Principles for the Regulation of Transmission Revenues, once finalised, or any other guideline issued by the **Commission** setting out the regulatory principles to be followed by a **TNSP**.

### **5.3 Historic financial information**

- 5.3.1 A **TNSP** shall also prepare historic information referred to in this section 5.3 of the Guideline at such times and for such periods as are specified by the **Commission**.
- 5.3.2 The **Commission** requires a **TNSP** to submit a copy of its most recent **Base Accounts**.
- 5.3.3 As the **Commission** assumes responsibility for the regulation of each **TNSP**, in its initial revenue determination, the Commission will also require a **TNSP** to prepare schedule that rolls forward asset values:
- from the later of the date of:
    - the last of regulatory asset valuation, and
    - the date of the last revenue determination,
  - to the end of the current regulatory period
- 5.3.4 This schedule should detail asset movements (ie. additions and disposals) and depreciation, to enable the **Commission** to obtain a **TNSP's** opening asset base for the next regulatory period.
- 5.3.5 This schedule will therefore comprise historic information to the time of preparation and forecast information for the period from the time of preparation to the end of the current regulatory period.
- 5.3.6 Depreciation shall be calculated. A **TNSP** shall disclose the basis for calculating such depreciation charges.
- 5.3.7 Proforma statement "Asset R-Fwd" in Appendix A sets out how the asset roll forward information is to be presented.

## 5.4 Demand forecasts

- 5.4.1 A **TNSP** shall provide the **Commission** with demand forecasts for the forthcoming regulatory period. As a minimum, the demand forecasts shall be presented in annual blocks over the five-year period.
- 5.4.2 A **TNSP** must provide the assumptions on which the demand forecast information is based, and full and detailed explanations of the basis of preparation.

## 5.5 Forecast map of network

- 5.5.1 A **TNSP** shall provide the **Commission** with a forecast map of the network for the forthcoming regulatory period as at the end of the current regulatory period, which together with any accompanying notes the **TNSP** believes to be appropriate, identifies:
- proposed capital works projects (noting anticipated completion dates);
  - the different ratings of the transmission lines;
  - other network plant;
  - current capital works projects (noting anticipated completion dates); and
  - the ages of network assets.

## 6 Annual reporting

### 6.1 Introduction

- 6.1.1 The **Commission** will undertake annual monitoring of a regulated **TNSP** under its revenue cap.
- 6.1.2 The purpose of this section of the Guideline is to outline the scope of information the **Commission** will require, and to provide guidance on reporting this information to the **Commission**.
- 6.1.3 The **Commission** requires both financial and non-financial information. These are presented separately in the following sections.
- 6.1.4 Sections 2, and 3 of this Guideline set out the principles for a **TNSP** to follow in providing annual reporting information to the **Commission**. These principles take precedence over the proforma statements and guidance, set out in this section of the Guideline, which are intended to put into place these principles.
- 6.1.5 Appendix B sets out the proforma statements that should be used to submit this information to the **Commission**.
- 6.1.6 A **TNSP** shall deliver the information, specified in this section of the Guideline to the **Commission** no later than four (4) months after a **Regulatory Accounting Date**.

### 6.2 Historic financial information

- 6.2.1 A **TNSP** is required to prepare and submit annual **Regulatory Financial Statements** to the **Commission**, prepared in accordance with this Guideline.
- 6.2.2 To ensure that the information provided is consistent with this Guideline, the **Regulatory Financial Statements**, as a minimum, must follow the proforma statements set out in Appendix B. The proforma statements do not preclude the dialogue of further information should a **TNSP** believe that this would add to the **Commission's** understanding of the **TNSP's** business.
- 6.2.3 The following table identifies the relevant information submission proforma statements in Appendix B.

Proforma Statement	Proforma ref.
Disaggregated Profit and Loss Statement	DISAGG 1
Disaggregated Balance Sheet	DISAGG 2
Disaggregated Cash Flow	DISAGG 3
Regulatory Profit and Loss Statement	P&L
Regulatory Balance Sheet	BS
Regulatory Cash Flow Statement	CF
Disaggregated Operations and Maintenance Expenditure	O&M

<b>Proforma Statement</b>	<b>Proforma ref.</b>
Causal allocations	Aloc 1
Non-causal allocations	Aloc 2
Prescribed Transmission Services Regulatory Adjustment Journals	ADJ 1
Prescribed Transmission Services - Revenue Analyses	P&L 1R
Disaggregated Assets Summary Statement	DISAGG Assets
Prescribed Transmission Services – Asset Reconciliation Schedule	Recon Assets
Prescribed Transmission Services -Asset Aging Schedule	Asset Aging
Provisions Summary Schedule	Prov Total
Prescribed Transmission Services Provisions Reconciliation	Prov 1
Australian Actual Income Tax Calculation	Tax

6.2.4 Guidance on how the principles in sections 2 and 3 should be applied to complete the proforma statements listed above is set out in section 7 of this Guideline,

### **6.3 Demand forecasts**

6.3.1 A **TNSP** shall provide the **Commission** with one-year demand forecasts for the forthcoming year.

6.3.2 A **TNSP** must provide the assumptions on which the demand forecast information is based, and full and detailed explanations of the basis of preparation.

6.3.3 The one-year demand forecasts required by paragraph 6.3 shall be prepared on a consistent basis to the five-year demand forecasts required by paragraph 5.4 of this Guideline.

### **6.4 Map of network**

6.4.1 A **TNSP** shall provide the **Commission** with a map of the current network as at the current **Regulatory Accounting Date** which identifies:

- the different ratings of the transmission lines;
- other network plant;
- current capital works projects (noting anticipated completion dates); and
- the ages of network assets.

## 7 Guidance on completing Annual Historic Financial Proformas

### 7.1 Disaggregation of income

- 7.1.1 Items of income in the **Base Accounts** shall be disaggregated between **Business Segments** in accordance with the principles set out in section 3 of this Guideline.
- 7.1.2 The **Regulatory Financial Statements** shall provide for the **Prescribed Services Segment**, an analysis of income by principal component, together with a description of each component.

### 7.2 Inter segmental transactions

- 7.2.1 The **Base Accounts** may not account for transactions between **Business Segments**. Accordingly, **Inter Segmental Income** and the corresponding **Inter Segmental Costs** shall be recorded in the profit and loss accounts of the **Business Segments** in which they arise and separately disclosed in each of the **Business Segments**.
- 7.2.2 For each item of **Inter Segmental Income** or **Cost**, arising in each of the **Business Segments**, the **Regulatory Financial Statements** shall also disclose by way of note, a disaggregation journal that follows the principles of double entry book keeping and provides descriptions of:
- the item;
  - the balancing accounting entry or entries; and
  - the **Business Segment** or **Segments**, in whose income and expenditure account or accounts, the balancing accounting entry or entries arise.

## 7.3 Operating and maintenance (“O&M”) costs

7.3.1 The *Regulatory Financial Statements* shall include a note that:

- dissects total O&M Costs by *Account Heading*;
- disaggregates the O&M Costs disclosed by each *Account Heading*, across *Business Segments*;
- provides an audit trail to the *Account Code* or *Account Codes* that each *Account Heading* in the note, represents or is based on;
- provides totals by *Account Heading* and *Business Segment*;
- discloses the descriptions and amounts of O&M Costs that are *Inter Segmental Costs*; and
- reconciles the total of the O&M Cost analysis to the total of O&M Costs included in the *Base Accounts*. If no reconciliation is necessary, the note should still state the total of O&M Costs included in the *Base Accounts*.

Proforma statement “O&M” in Appendix B sets out how this information is to be presented.

## 7.4 Cost attribution

7.4.1 Where a cost is attributed to *Business Segment*, it should reflect the consumption, or utilisation, of a resource or service; and where a *Business Segment* consumes or utilises a resource or service, a corresponding cost attribution should take place.

7.4.2 In disaggregating costs between *Business Segments*, a cost will be either:

- a direct cost that can be *Directly Attributed* to a single *Business Segment*, or
- an indirect cost that needs to be attributed to *Business Segments* on the bases of the principles set out in section 3 of this Guideline.

7.4.3 Where costs are *Directly Attributed* to *Business Segments* no one *Account Heading* shall be used to attribute costs to more than one *Business Segment*.

7.4.4 The description provided for each *Account Heading* that describes costs that are *Directly Attributed* to a *Business Segment*, shall be sufficient to provide an understanding of the characteristics of the costs that cause them to be associated with the *Business Segment*.

7.4.5 The **Regulatory Financial Statements** shall include a note that discloses for each O&M Cost **Account Heading**:

- the amount of costs within the **Account Heading**, that can be **Directly Attributed to Business Segments**; and
- for indirect costs attributed by allocation:
  - a description of the bases of allocation used;
  - a quantification of the allocators applied to each **Business Segment**; and
  - the corresponding amount of cost allocated to each **Business Segment**.
- a note or cross reference shall provide an audit trail to the **Account Code** or **Account Codes** that each O&M **Account Heading** represents or is based on.

7.4.6 A pro forma statement “Aloc 1” in Appendix B provides an example of how the information required by paragraph 7.4 should be presented.

## 7.5 Depreciation

7.5.1 The **Commission** will allow a **TNSP** to nominate its depreciation method.

7.5.2 Depreciation charges should be attributed to **Business Segments** in accordance with the disaggregation of assets that give rise to these charges.

7.5.3 Regulatory accounting adjustments shall be made to state the depreciation charge attributed to the **Prescribed Services Segment**.

7.5.4 A **TNSP** shall disclose the basis for calculating the depreciation charges.

## 7.6 Other expenditure

7.6.1 Other expenditure arising in the profit and loss account not specifically addressed elsewhere in this section of the Guideline, shall be disaggregated between **Business Segments** in accordance with:

- the principles set out in section 3 of this Guideline; and
- the disclosure requirements set out in the proforma statements in Appendix B.

## 7.7 Abnormal items and extraordinary items

7.7.1 Abnormal items and extraordinary items should be recorded in the **Disaggregation Statement** and attributed to **Business Segments** in accordance with this section of the Guideline.

- 7.7.2 Prior to allocation in the **Disaggregation Statement**, the amount of any abnormal item or extraordinary item should be analysed between the amount prior to taxation and the corresponding tax charge or credit. This may be done either on the face of the **Disaggregation Statement** or by way of note. The taxation charge or credit should then be allocated to the **Not Allocated** column of the **Disaggregation Statement**.
- 7.7.3 An abnormal item or extraordinary item stated prior to related income tax, should be attributed to a **Business Segment** as follows:
- if the item can be attributed wholly and exclusively to a single **Business Segment**, or if it has discrete components that can each be so attributed, then the item or the components so identified, should be **Directly Attributed** to the relevant **Business Segments**;
  - to the extent that an item cannot be directly attributed, then it should be allocated to **Business Segments** in accordance with the requirements of section 3 of this Guideline, for the allocation of O&M Costs;
  - where it is necessary to analyse an item into components to effect **Direct Attribution** or allocation, a note should be appended to the **Regulatory Financial Statements** describing:
    - the monetary amount of each component; and
    - the characteristics of each component that either allow it to be **Directly Attributed** to a **Business Segment**, or require it to be allocated across **Business Segments**.

## 7.8 Income tax

### **Regulatory accounting policy**

- 7.8.1 The total actual Australian income tax charge for a **TNSP**, shall be reported to the **Commission** for regulatory purposes, net of deferred tax.
- 7.8.2 Following the adjustment to back out deferred tax, a **TNSP** is required to:
- (a) adjust for the tax effect of any regulatory adjustments that may need to be made, subject to the guidance set out at paragraph 7.8; and
  - (b) allocate the adjusted income tax charges to **Business Segments**. The basis of attribution of the adjusted income tax charges to **Business Segments** should follow the attribution of the income and expenses to which they relate.
- 7.8.3 There are two exceptions to the basis of attribution set out in paragraph 7.8.2:
- (a) Customer contributions are to be treated in accordance with conventional tax treatment. The reason is that there is no readily available tax framework for offsetting customer contributions against assets for the tax calculation.
  - (b) Tax depreciation is calculated on the tax values not the regulatory values of the assets.



7.8.4 Certain items may not be readily attributable to **Business Segments**. Such items are to be recorded under the column headed **Not Allocated**. These items might include, but are not limited to:

- franking credits;
- tax liabilities on interest received;
- tax deductions on interest paid;
- investment income;
- capital gains tax on investments;
- losses brought forward;
- losses available for group relief; and
- double tax relief.

7.8.5 If necessary, the **Commission** will separately form a view on the allocation of the items referred to in paragraph 7.8.3.

7.8.6 Proforma statement “Tax” in Appendix B indicates how this information is to be disclosed.

## 7.9 Interest payable, interest receivable, dividends payable and dividends receivable

7.9.1 These items may be recorded under the column headed **Not Allocated** in the **Disaggregation Statements**.

## 7.10 Disaggregation of non-current assets

7.10.1 In providing disaggregated balance sheets for the **Business Segments**, non-current assets should be attributed to the **Business Segments** in which they are principally utilised.

7.10.2 The **Regulatory Financial Statements** shall include an **Asset Schedule** for the **Prescribed Services Segment**.

7.10.3 The **Asset Schedule** shall disclose movements in gross book value and accumulated depreciation.

7.10.4 Additions and decrements shall be disclosed separately in the **Asset Schedule** and not be netted off.

7.10.5 The proforma statements “DISAGG Assets” at Appendix B indicate how an **Asset Schedule** is to be presented.

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

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

## 7.11 Asset categories

7.11.1 The proforma statements at Appendix B set out **Mandatory Headings** for the **Asset Schedule** and associated schedules. These **Mandatory Headings** include:

- **Connection Assets**;
- **Transmission Network Assets**; and
- **Common Service Assets**.

7.11.2 Within **Mandatory Headings**, a **TNSP** may use **Discretionary Headings** to define further sub-categories of assets. **Discretionary Headings** may be defined at a **TNSP's** discretion. However:

- the **Discretionary Headings** should provide meaningful information about the composition of the property plant and equipment utilised by a **TNSP**; and
- sub-category headings shall be applied consistently between **Regulatory Accounting Periods**.

## 7.12 Customer contributions

7.12.1 Customer contributions shall be credited against the gross (undepreciated) value of the assets to which they relate, in the **Asset Schedule**.

7.12.2 The **Asset Schedule** shall disclose the amount of customer contributions credited to asset balances in its reconciliation of opening to closing asset balances for a **Regulatory Accounting Period**.

### **Regulatory accounting policy**

7.12.3 Regulatory depreciation charges shall be calculated on asset balances stated net of customer contributions.

## 7.13 Goodwill arising on acquisition

- 7.13.1 Any balance representing goodwill on acquisition of assets and its associated amortisation shall be recorded under the column headed **Not Allocated** in the **Disaggregation Statements**.

## 7.14 Other balance sheet items

- 7.14.1 Balance sheet and statement of cash flow items not specifically addressed in section of this Guideline, shall be disaggregated between **Business Segments** in accordance with:
- the principles set out in section 3 of this Guideline; and
  - the disclosure requirements set out in the proforma statements in Appendix B.

## 7.15 Provisions

- 7.15.1 The **Regulatory Financial Statements** shall disclose disaggregation information sufficient to provide a reconciliation of the provisions disclosed by the **Base Accounts** to those disclosed for the **Prescribed Services Segment**. Pro forma statement “Total Prov” in Appendix B sets out the minimum disclosure requirements.
- 7.15.2 The disaggregation of provisions should follow the principles set out in section 3 of this Guideline.
- 7.15.3 The following information shall be provided for each **Material Provision** and in total for all other provisions in the **Prescribed Services Segment**:
- the balance at the beginning of the **Regulatory Accounting Period**;
  - amounts set aside to provisions;
  - expenditure charged to provisions;
  - amounts written back from provisions;
  - the net movement charged or credited to the profit and loss account; and
  - the balance at the end of the **Regulatory Accounting Period**.
- 7.15.4 Proforma statements “Prov Total” and “Prov 1” in Appendix B indicate how this information is to be disclosed.

## 7.16 Related Party transactions

- 7.16.1 A **TNSP** shall inform the **Commission** of the extent and nature of:
- the **Related Party** transactions attributed to the **Prescribed Services Segment** for a **Regulatory Accounting Period**; and
  - the balances with **Related Parties** or arising from **Related Party** transactions, included in the **Prescribed Services Segment’s** balance sheet included in the **Regulatory Financial Statements**.

- 7.16.2 As a minimum, a **TNSP** shall report the total value of the transactions and balances described in paragraph 7.16.1, by **Account Heading** and provide descriptions of the transactions and balances sufficient to provide an understanding of their underlying substance.
- 7.16.3 Additionally, a **TNSP** shall report the value and provide a description of individual **Material Related Party Transactions** included in the **Regulatory Financial Statements** of the **Prescribed Services Segment**.
- 7.16.4 A **TNSP** shall also provide such further detailed information on, or explanations of, transactions with **Related Parties**, as the **Commission** may from time to time, require.
- 7.16.5 The **Directors' Responsibility Statement** shall include a specific affirmation that either:
- no **Material Related Party Transactions** arose; or
  - the disclosure requirements of paragraph 7.15 have been complied with.

## 7.17 Third Party Benefits

- 7.17.1 Where the **Regulatory Financial Statements** record transactions associated with any subcontracting, purchase or other arrangements, that cause:
- a **TNSP**; or
  - any **Related Party** of a **TNSP**;
- to enjoy a beneficial interest in income, or other value that accrues in the hands of a third party, a **TNSP** shall disclose for each such arrangement:
- a description of the arrangement;
  - its underlying purpose;
  - details of the counterparty;
  - details of the third parties;
  - the monetary value of such transactions that arose in the **Regulatory Accounting Period**;
  - the basis of charge for the transaction entered into by a **TNSP**;
  - the basis of calculation of the corresponding benefit received by a **TNSP** or the **Related Party**; and
  - a summary of the associated accounting entries that have been recorded in the **Prescribed Services Segment**.
- 7.17.2 The **Directors' Responsibility Statement** shall include a specific affirmation that either:
- no such transactions arose; or
  - the disclosure requirements of paragraph 7.16 have been complied with.

## 7.18 Financing Transactions

7.18.1 Where the **Regulatory Financial Statements** record any accounting entries, the effect of which is to provide:

- a decrement to financing or interest costs in the profit and loss account; and
- in the **Prescribed Services Segment**, a related:

- decrement to earnings before interest and tax; or
- increase in asset values;

a **TNSP** shall disclose:

- descriptions of the transactions, their underlying purpose and any counterparties; and
- an analysis of:
  - the monetary amounts involved;
  - the bases of charge; and
  - the associated accounting entries that have been recorded in the **Regulatory Financial Statements**.

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

- no such transactions arose; or
- the disclosure requirements of paragraph 7.17 have been complied with.

## 8 Definition of terms

This Guideline utilises the following definitions.

**Account Codes** means the nomenclature used to index the **Base Account Records**. General ledger codes or activity codes may be examples.

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

**Agreed-upon Procedures Report** means an agreed-upon procedures engagement report, prepared in accordance with Australian Auditing Standard AUS 904. The objective is for the **Auditor** to carry out procedures of an audit nature specified by the **Commission** and to report factual findings.

**Asset Schedule** means a reconciliation of the net value of assets disclosed by the **Regulatory Financial Statements** at the end of a **Regulatory Accounting Period**, to the corresponding value at the beginning of that **Regulatory Accounting Period**.

**Audit Report on a Special Purpose Financial Report** means an audit report on the **Regulatory Financial Statements** prepared in accordance with Australian Auditing Standards AUS802, and in accordance with a financial reporting framework such as the Information Disclosure Requirements, other than Accounting Standards and UIG Consensus Views.

**Audit Report on Prospective Financial Information** means an audit report on the **Regulatory Financial Forecasts** prepared in accordance with Australian Auditing Standards AUS 804, and in accordance with a financial reporting framework such as the Information Disclosure Requirements, other than Accounting Standards and UIG Consensus Views.

**Base Accounts** means **General Purpose Financial Statements** that:

- contain the entirety of the activities of a **TNSP's Regulated Business Segment**,
- are consolidated or aggregated where appropriate; and
- are prepared in accordance with:
  - the Australian Corporations Law;
  - Australian Accounting Standards; and
  - Urgent Issues Group consensus views; and
- are audited under Australian Auditing Standards.

**Auditor** means a registered company Auditor independent of a **TNSP**.

**Base Account Records** means the accounting records maintained by a **TNSP** regardless of any regulatory reporting requirement, for the purposes of preparing **Base Accounts** and providing the managers of a **TNSP** with management reports.

- **Books** include accounts or accounting records, however compiled, recorded or stored.

A **Business Segment** or **Segment** means a part of the total business reported by the **Base Accounts** that is involved with providing either:

- **Prescribed Transmission Services;**
- **Non-Prescribed Services;** or
- **Not allocated.**

**Causal or Causation, Basis or Relationship** means in relation to a basis of allocation, that the allocator is a trigger of the consumption or utilisation of resources or services represented by the amounts, subject to allocation.

the **Commission** means the Australian Competition and Consumer Commission as established under the *Trade Practices Act 1974* (Commonwealth).

**Common Service Assets** has the same meaning given to it in the **National Electricity Code**.

**Connection Assets** has the same meaning given to it in the **National Electricity Code**.

**Connection Services** means an entry service (being a transmission or distribution service provided to serve a generator or group of generators at a single connection point) or an exit service (being a transmission or distribution service provided to serve a transmission or distribution customer or group of transmission or distribution customers at a single connection point).

**Directly Attributable** or **Directly Attributed**. An item is **Directly Attributable** or **Directly Attributed** to an object such as a **Business Segment**, if it is wholly and exclusively associated with that segment.

**Director** means a Director of a **TNSP**.

**Directors' Responsibility Statement** means a statement signed and dated by no less than two **Directors** of a **TNSP**, which states whether in the **Directors'** opinion, the **Regulatory Financial Statements**:

- present fairly the profit and loss account and cash flow information required by this Guideline, of each **Business Segment** for the **Regulatory Accounting Period**;
- present fairly the balance sheet information required by this Guideline, for each **Business Segment** at the **Regulatory Accounting Date**;
- have been made out in accordance with applicable and appropriate accounting principles and policies; and
- have been prepared in accordance with the **Commission's** requirements, set out in this Guideline.

**Disaggregation Statement** means a statement that comprises a **TNSP's Base Accounts** disaggregated between **Business Segments**.

**Discretionary Heading** means an **Account Heading** within the pro forma **Regulatory Financial Statements** that may be defined by a **TNSP**.

**Entity** means a corporate body, business or economic entity, or segment thereof.

**First Regulatory Financial Statements** means the first **Regulatory Financial Statements** prepared for the first **Regulatory Accounting Period** starting on or after 1 July 2000.

**General Purpose Financial Statements** means financial statements that are prepared in accordance with Australian Accounting Standards and other generally accepted accounting practices and are intended to meet the information needs common to users who are unable to command the preparation of reports tailored to satisfy specifically, all of their information needs.

**Immaterial** means not **Material**

**Inter Segmental Cost** means a cost that arises from transactions between **Business Segments**.

**Inter Segmental Income** means income that arises from transactions between **Business Segments**.

**Inter Segmental Transaction** means an **Inter Segmental Cost** or an **Inter Segmental Income**.

**Jurisdictional Regulator** means the person authorised by a participating jurisdiction to regulate distribution service prices in that jurisdiction.

**Mandatory Heading** means a mandatory **Account Heading** within the pro forma **Regulatory Financial Statements**.

**Material** has the meaning set out at paragraphs 2.4 of this Guideline.

**Material Related Party Transaction** means a transaction or a number of transactions intended to achieve a common commercial effect, conducted with a **Related Party** that had a value of \$0.5m or more in a **Regulatory Accounting Period**.

**National Electricity Law** means the *National Electricity Law* referred to in the *National Electricity (South Australia) Act 1996 (SA)*.

**National Electricity Code** means the code, as defined in the **National Electricity Law**.

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

**Non-Prescribed Services** mean services other than **Prescribed Transmission Services**.

**Not allocated** means the content of those **Account Headings** that are not required by this Guideline to be allocated between **Business Segments**.

**Notes to and forming part of, the Regulatory Financial Statements** means the information provided by the **Regulatory Financial Statements** in addition to the primary statements specified by Appendix B1 of this Guideline, together with any further information that a **TNSP** believes is necessary to convey a full and proper understanding of the financial affairs of the **Regulated Business Segment**.

**Prescribed Services Segment** means that part of the total business reported by the **Base Accounts** that is involved in providing **Prescribed Transmission Services**.

**Prescribed Transmission Services** means **Transmission Services** provided by transmission network assets or associated connection assets, which are determined by the **Commission** as not being contestable.



**Regulatory Accounting Date** means the end date of a **Regulatory Accounting Period**.

**Regulatory Accounting Period** means a period on which a single set of **Regulatory Financial Statements** report.

**Regulatory Accounting Principles and Policies** means accounting principles and policies that have been used to prepare **Regulatory Financial Statements**, that may be additional to or in place of, the accounting principles and policies used to prepare **Base Accounts**.

**Regulatory Audit Report** means an **Auditor's** report on **Regulatory Financial Statements** or **Regulatory Financial Forecasts**. **Regulatory Audit Report** may include either:

- an **Audit of a Special Purpose Financial Report**, or
- an **Agreed-upon Procedures Report**, or
- a **Review of Financial Reports**; or
- an **Audit of Prospective Financial Information**; or
- a combination of the above reports.

**Regulatory Financial Forecasts** means forecast information, referred to in sections 3 and 4 of this Guideline, which has been prepared using best-estimate and/or hypothetical assumptions.

**Regulatory Financial Statements** means the historic financial information that includes the:

- Profit and Loss Statement;
- Balance Sheet;
- Statement of Cash Flows; and
- Notes to and forming part of, the **Regulatory Financial Statements**

prepared in accordance with this Guideline.

**Regulatory Period** means a period subject to a revenue or pricing determination.

**Related Party** means, in relation to all **business segments** within a **TNSP**:

- (a) any entity that, at any time during the **regulatory accounting period**, has control or material influence over a **TNSP**; or
- (b) any entity that, at any time during the **regulatory accounting period**, is subject to control or material influence by a **TNSP**; or
- (c) any entity that, at any time during the **regulatory accounting period**, is controlled by the same entity that controls a **TNSP**; or
- (d) any entity that, at any time during the **regulatory accounting period**, is controlled by an entity that materially influences a **TNSP**; or
- (e) any entity that, at any time during the **regulatory accounting period**, is materially influenced by an entity with control over a **TNSP**; or
- (f) any entity that, at any time during the **regulatory accounting period**, is influenced by an entity with **material** influence over a **TNSP**; or
- (g) any entity that, at any time during the **regulatory accounting period**, controlled or materially influenced by an entity which is subject to control or **material** influence by a **TNSP**; or

- (h) any **director** of a **TNSP** or any of their director-related entities; or
- (i) any **director** of any entity identified as a **related party** in paragraphs (a) to (g) above, or any of their director-related entities; or
- (j) any other business segment within a **TNSP**;

but excludes any other entity (except those identified as a **related party** under paragraph (h)) where the **related party** relationship results solely from normal dealings of:

- (k) financial institutions; or
- (l) authorised trustee corporations (as defined in the Corporations Law); or
- (m) fund managers; or
- (n) trade unions; or
- (o) statutory authorities; or
- (p) government departments; or
- (q) local governments.

If a **TNSP** is owned or controlled by government, a **Related Party** relationship shall be assumed to exist where there are transactions between the **TNSP** and any other state government owned or controlled electricity business. A **Related Party** excludes any other entity where the **Related Party** relationship results solely from normal dealings of statutory authorities or government departments, other than electricity businesses.

**Review of Financial Reports** means a review of a financial report, prepared in accordance with Australian Auditing Standards AUS902. An **Auditor** should carry out procedures sufficient to enable an **Auditor** to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to the **Auditor's** attention that causes the **Auditor** to believe that the financial report is not prepared, in all material respects, in accordance with an identified financial reporting framework, eg the **Commission's** information disclosure requirements guideline. The review report contains a clear written expression of negative assurance.

**Transmission Network** means a network within any participating jurisdiction operating at nominal voltages of 220 kV and above plus:

- any part of a network operating at nominal voltages between 66 kV and 220 kV that operates in parallel to and provides support to the higher voltage **transmission network**;
- any part of a network operating at nominal voltages between 66 kV and 220 kV that does not operate in parallel to and provide support to the higher voltage **transmission network** but is deemed by the **Commission** to be part of the **transmission network**.

**Transmission Network Assets** has the same meaning given to it in the **National Electricity Code**.

**Transmission Network Service Provider** or **TNSP** means the **entity** that engages in the activity of owning, controlling, or operating a **transmission system**.

**Transmission Services** means the services provided by a **transmission system** associated with the conveyance of electricity, which include entry services, transmission use of system service and exit services.

**Transmission System** means a transmission network together with the connection assets associated with the transmission network, which is connected to another transmission or distribution system.

## **Appendix A: Proforma Statements for Setting the Revenue Cap**

<b>Setting the Revenue Cap Forecast - Table of Contents</b>
---

*This is a list of the minimum mandatory statements required by this guideline. The attached pro-forma statements indicate the minimum required **Account Headings** for each statement.*

Proforma Statement	Statement no.
Rate of Return ("WACC")	WACC
Initial Regulatory Assets	Reg Assets
Forecast Capital Expenditure	Capex
Forecast Customer Contributions	Cust Cont
Forecast Asset Disposals and Retirements	Disp
Forecast Operations and Maintenance Expenditure	Opex
Asset Roll Forward Schedule	Asset R-Fwd
Base Accounts (most recent)	<i>No set proforma</i>
Five-year Demand Forecasts	<i>No set proforma</i>
Forecast Map of the Network	<i>No set proforma</i>

<b>Setting the Revenue Cap Forecast - Rate of Return ("WACC")</b>
---

*Notes for the preparation of information on this proforma:*

1. The proforma sets out the minimum inputs required by the **Commission** to model a **TNSP's** estimate of WACC.
2. The minimum inputs set out in the proforma are averages for the five-year regulatory period.
3. A post-tax nominal WACC framework involves the use of a cash flow modelling approach to derive the revenue requirement.
4. A **TNSP** shall provide to the **Commission**:
  - (a) an estimate of its post-tax nominal return on equity; post-tax nominal WACC; and pre-tax real WACC.
  - (b) the assumptions underlying the estimation.
  - (c) full and detailed explanations of the basis of any calculations.
  - (d) references to any sources of information or precedents.

**Setting the Revenue Cap Forecast - Rate of Return ("WACC")**

TNSP: \_\_\_\_\_

Reporting date: \_\_\_\_\_

	<i>Lower range</i> %	<i>Upper range</i> %	<i>Proposed value</i> %
Nominal risk free rate	<input type="text"/>	<input type="text"/>	<input type="text"/>
Expected inflation rate	<input type="text"/>	<input type="text"/>	<input type="text"/>
Debt as a long term proportion of total funding	<input type="text"/>	<input type="text"/>	<input type="text"/>
Cost of debt margin over the risk free rate	<input type="text"/>	<input type="text"/>	<input type="text"/>
Market risk premium	<input type="text"/>	<input type="text"/>	<input type="text"/>
Corporate tax rate	<input type="text"/>	<input type="text"/>	<input type="text"/>
Effective tax rate for equity	<input type="text"/>	<input type="text"/>	<input type="text"/>
Proportion of franking credits attributed to shareholders	<input type="text"/>	<input type="text"/>	<input type="text"/>
Asset beta	<input type="text"/>	<input type="text"/>	<input type="text"/>
Debt beta	<input type="text"/>	<input type="text"/>	<input type="text"/>
Equity beta	<input type="text"/>	<input type="text"/>	<input type="text"/>
Post-tax nominal return on equity	<input type="text"/>	<input type="text"/>	<input type="text"/>
Post-tax nominal WACC	<input type="text"/>	<input type="text"/>	<input type="text"/>
Pre-tax real WACC	<input type="text"/>	<input type="text"/>	<input type="text"/>

<b>Setting the Revenue Cap Forecast - Initial Regulatory Assets (gross)</b>
---

TNSP: \_\_\_\_\_

Reporting date: \_\_\_\_\_

<i>Asset class</i>	Opening ODRC values \$'000	Average remaining economic lives (yrs)	Standard useful lives (yrs)	Historic cost for tax purposes (\$'000)	Tax shield claimed to date (\$'000)	Tax depreciation rates (%)
Transmission Lines - Overhead ( <i>suggested</i> )						
Insert <b><i>Discretionary Headings</i></b>						
Transmission Lines - Underground ( <i>suggested</i> )						
Insert <b><i>Discretionary Headings</i></b>						
Substations ( <i>suggested</i> )						
Transformers ( <i>suggested</i> )						
Plant ( <i>suggested</i> )						
Land and easements ( <i>suggested</i> )						
Insert <b><i>Discretionary Headings</i></b>						

*Notes for the preparation of information on this proforma:*

1. **Initial assets** are those assets generally in service on 1 July 1999, determined in accordance with clause 6.2.3(d)(4)(iii) of the **National Electricity Code**, which states that the opening asset value is that determined by the **Jurisdictional Regulator** or consistent with the regulatory asset base established in the participating jurisdiction provided that the value of those existing does not exceed the the deprival value of the assets.
2. Opening asset values shall be stated at the optimised depreciated replacement cost of these assets.
3. **Asset classes** refer to any sub-categories of a **TNSP's** assets. The **Commission** has suggested certain **Account Headings**, however, a **TNSP** may propose some **Discretionary Headings** that should provide meaningful information about the composition of the assets.
4. Average remaining economic lives and standard lives of assets are those lives derived by a **TNSP** or its consultants.
5. Standard useful lives refers to the total economic life of the assets.
6. Historic cost of the assets to be disclosed by a **TNSP** to the **Commission** are the acquisition costs of the assets, where available.
7. The tax shield claimed to date is the amount of tax depreciation that has been claimed by the **TNSP** against the assets at the reporting date.
8. A **TNSP** shall provide to the **Commission** the assumptions underlying the asset information and any supporting information, including any independent consultant's report that may have been prepared.



**Setting the Revenue Cap Forecast - Forecast Capital Expenditure (gross)**

TNSP: \_\_\_\_\_

Reporting date: \_\_\_\_\_

	<i>Most recent Base Accounts or Regulatory Financial Statements</i> \$'000	<i>Period <sub>t-2</sub></i> \$'000	<i>Period <sub>t-1</sub></i> \$'000	<i>Regulatory Period</i>				
				<i>Year <sub>t</sub></i> \$'000	<i>Year <sub>t+1</sub></i> \$'000	<i>Year <sub>t+2</sub></i> \$'000	<i>Year <sub>t+3</sub></i> \$'000	<i>Year <sub>t+4</sub></i> \$'000
<i>Asset class no. 1:</i> Capex project Capex project Sub-total								
<i>Asset class no. 2:</i> Capex project Capex project Sub-total								
<i>Asset class no. 3:</i> Capex project Capex project Sub-total								
<i>Work in progress:</i> Capex project Sub-total								
<b>Total</b>								

Notes for the preparation of information on this proforma:

- Capital expenditure on regulated assets shall be reported by a **TNSP** to the **Commission** for each class of asset by individual project for the forthcoming regulatory period.
- 't' refers to the initial regulatory year in the five-year regulatory period.
- Capital expenditure is to be reported in real terms at the commencement of the regulatory period.
- Asset classes** refer to any sub-categories of a **TNSP's** assets. The **Commission** has nominated certain **Mandatory Headings**, however, a **TNSP** may propose some **Discretionary Headings** that should provide meaningful information about the composition of the assets.
- The **Commission** requires that "Work in progress" be defined as a **Mandatory Heading**.
- Asset classes** must be consistent with the **asset classes** reported in Proforma "Reg Assets" and must be consistent between regulatory periods.
- Capital expenditure projects refer to specific projects being undertaken by a **TNSP**.
- A **TNSP** shall provide to the **Commission** the assumptions underlying the asset information and any supporting information, including internal reports that may have been prepared by a **TNSP** on its future capital expenditure program, which may provide detailed explanations of the proposed projects.
- The **Commission** reserves the right to request information beyond the **Regulatory Period**.

**Setting the Revenue Cap Forecast - Forecast Capital Expenditure (gross)**

TNSP: \_\_\_\_\_

Reporting date: \_\_\_\_\_

Further notes and explanation required by the **Commission** on forecast capital expenditure that is attributable to large customers connecting to the network. The Commission would also like a TNSP to cross-reference its forecast capital expenditure set out in this proforma to the forecast customer contributions set out in proforma "Cust Cont".

**Setting the Revenue Cap Forecast - Forecast Customer Contributions**

TNSP: \_\_\_\_\_

Reporting date: \_\_\_\_\_

		Regulatory Period							
		<i>Most recent Base Accounts or Regulatory Financial Statements</i>	<i>Period<sub>t-2</sub></i>	<i>Period<sub>t-1</sub></i>	<i>Year<sub>t</sub></i>	<i>Year<sub>t+1</sub></i>	<i>Year<sub>t+2</sub></i>	<i>Year<sub>t+3</sub></i>	<i>Year<sub>t+4</sub></i>
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Asset class no. 1:</i>									
	Capex project								
	Capex project								
	Capex project								
	Sub-total								
<i>Asset class no. 2:</i>									
	Capex project								
	Capex project								
	Sub-total								
<i>Asset class no. 3:</i>									
	Capex project								
	Capex project								
	Sub-total								
<i>Work in progress:</i>									
	Capex project								
	Capex project								
	Sub-total								
<b>Total</b>									

*Notes for the preparation of information on this proforma:*

1. Customer contributions on regulated assets shall be reported by a **TNSP** to the **Commission** for each class of asset by individual project for the forthcoming regulatory period.
2. 't' refers to the initial regulatory year in the five-year regulatory period.
3. Real values of customer contributions at the commencement of the regulatory period are to be reported to the **Commission**.
4. **Asset classes** refer to any sub-categories of a **TNSP's** assets. The **Commission** has suggested certain **Account Headings**, however, a **TNSP** may propose some **Discretionary Headings** that should provide meaningful information about the composition of the assets.
5. The **Commission** requires that "Work in progress" be defined as a **Mandatory Heading**.
6. **Asset classes** must be consistent with the **asset classes** reported in Proforma "Reg Assets" and must be consistent between regulatory periods.

**Setting the Revenue Cap Forecast - Forecast Asset Disposals and Retirements**

TNSP: \_\_\_\_\_

Reporting date: \_\_\_\_\_

	Notes	Most recent Base Accounts or Regulatory Financial Statements \$'000	Period <sub>t-2</sub> \$'000	Period <sub>t-1</sub> \$'000	Regulatory Period				
					Year <sub>t</sub> \$'000	Year <sub>t+1</sub> \$'000	Year <sub>t+2</sub> \$'000	Year <sub>t+3</sub> \$'000	Year <sub>t+4</sub> \$'000
					Asset class no. 1: Capex project Capex project Capex project Sub-total				
Asset class no. 2: Capex project Capex project Sub-total									
Asset class no. 3: Capex project Capex project Sub-total									
Asset class no. 4: Capex project Capex project Sub-total									
Total									

*Notes for the preparation of information on this proforma:*

1. Disposals of regulated assets shall be reported by a **TNSP** to the **Commission** for each class of asset by individual project for the forthcoming regulatory period.
2. 't' refers to the initial regulatory year in the five-year regulatory period.
3. Real values of disposals and retirements at the commencement of the regulatory period are to be reported to the **Commission**.
4. **Asset classes** refer to any sub-categories of a **TNSP's** assets. The **Commission** has suggested certain **Account Headings**, however, a **TNSP** may propose some **Discretionary Headings** that should provide meaningful information about the composition of the assets.
5. The **Commission** requires that "Work in progress" be defined as a **Mandatory Heading**. When WIP is commissioned, record the credit to WIP as a "retirement" on WIP on this schedule. The corresponding debit should therefore be included in forecast capital expenditure, categorised according to the asset that has been commissioned.
6. **Asset classes** must be consistent with the **asset classes** reported in Proforma "Reg Assets" and must be consistent between regulatory periods.

**Setting the Revenue Cap Forecast - Forecast Asset Disposals and Retirements**

TNSP: \_\_\_\_\_

Reporting date: \_\_\_\_\_

Further notes and explanation required by the **Commission** on why assets have been disposed of or retired by a **TNSP**:

**Setting the Revenue Cap Forecast - Forecast Operations and Maintenance Expenditure**

TNSP: \_\_\_\_\_

Reporting date: \_\_\_\_\_

<i>Regulatory Period</i>							
<i>Account Heading</i>	<i>Most recent Base Accounts or Regulatory Financial Statements</i>	<i>Period</i> <sub>t-1</sub>	<i>Year</i> <sub>t</sub>	<i>Year</i> <sub>t+1</sub>	<i>Year</i> <sub>t+2</sub>	<i>Year</i> <sub>t+3</sub>	<i>Year</i> <sub>t+4</sub>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Insert <i>Discretionary Headings</i>							
Insert <i>Discretionary Headings</i>							
Insert <i>Discretionary Headings</i>							
Total							

Assumed operational expenditure efficiency (X factor) for the regulatory period set out in the table:  %

Notes for the preparation of information on this proforma:

1. Operational expenditure should be expressed in real dollars at year t.
3. A **TNSP** shall report to the Commission its operations and maintenance costs by **Account Heading**. These **Account Headings** should be consistent with the capital expenditure project headings used in the "Capex" proforma statement.
3. A **TNSP** may propose some **Discretionary Headings** that should provide meaningful information about the composition of its operations and maintenance expenditure.
4. A **TNSP** shall provide to the **Commission** the assumptions underlying the operations and maintenance forecasts and any supporting information, including independent consultant's report that may have been prepared.

<b>Setting the Revenue Cap Forecast - Asset Roll Forward Schedule</b>
---

TNSP: \_\_\_\_\_

Reporting date: \_\_\_\_\_

<i>Asset class</i>	<i>Asset values at independent valuation</i> (refer note 1)	<i>Additions</i>	<i>Asset disposals &amp; retirements</i>	<i>Depreciation</i>	<i>Closing asset values at the end of the current regulatory period</i>
	\$'000	\$'000	\$'000	\$'000	\$'000
Transmission Lines - Overhead (suggested)					
Insert Discretionary Headings					
Transmission Lines - Underground (suggested)					
Insert Discretionary Headings					
Substations (suggested)					
Transformers (suggested)					
Plant (suggested)					
Insert Discretionary Headings					
Work in progress (mandatory heading)					
<b>Total</b>					

Notes for the preparation of information on this proforma:

- 1 Asset values at valuation are those assets generally in service on 1 July 1999, which are valued at their last independent valuation or that have been determined by the **Jurisdictional Regulator** or consistent with the regulatory asset base established in the participating jurisdiction.
- 2 Depreciation shall be calculated in accordance with section 7.5 of this Guideline. A **TNSP** shall disclose the basis for calculating such depreciation charges.
- 3 Asset classes refer to any sub-categories of a **TNSP's** assets. The **Commission** has suggested certain **Account Headings**, however, a **TNSP** may propose some **Discretionary Headings** that should provide meaningful information about the composition of the assets.

## **Appendix B: Proforma Statements for Annual Reporting**



This is a list of the minimum mandatory statements required by this guideline. The attached pro-forma statements indicate the minimum required **Account Headings** for each statement.

Type	Proforma Statement	Statement no.
Disaggregation Statement	Profit and loss account	DISAGG1
	Balance sheet	DISAGG2
	Cash flow information	DISAGG3
Regulatory Financial State	<b>Prescribed Transmission Services</b> - Profit and loss account - Balance sheet information - Cash flow information	<b>P&amp;L</b> <b>BS</b> <b>CF</b>
Workpapers supporting the disaggregation	Operations and maintenance expenditure	O&M
	Causal allocations	Aloc 1
	Non-causal allocations	Aloc 2
Regulatory adjustment journal	Prescribed Transmission Services	ADJ1
Workpapers supporting the Regulatory Financial State	<b>Revenue analyses</b> Prescribed Transmission Services	P&L 1 R
Asset schedules and supporting papers	Summary of disaggregation statement assets	DISAGG Assets
	Reconciliation - Prescribed Transmission Services	Recon Assets
	Prescribed Transmission Services - Asset aging	Asset Aging
	Capital expenditure efficiencies	Capex
Provisions schedules	Provisions summary	Prov Total
	<b>Provisions - reconciliations</b> Prescribed Transmission Services	Prov 1
Tax schedules	<b>Disaggregation of Australian Income Tax</b> <b>Deferred Tax</b>	Tax
Non-financial schedules	<b>One-year Demand Forecast</b> <b>Current Map of the Network</b>	<i>No set proforma</i> <i>No set proforma</i>

## **Appendix C: Example Regulatory Audit Reports and Proforma Directors' Responsibility Statement**

*Example Auditor's report on a Special Purpose Financial Report*

*Example Independent Review Report*

*Example Report of Factual Findings from Agreed-Upon Procedures*

*Example Audit Report on Prospective Financial Information*

*Pro forma Directors' Responsibility Statement*

*Example Auditor's report on a Special Purpose Financial Report*

[Date]

General Manager  
Regulatory Affairs / Electricity  
Australian Competition and Consumer  
Commission  
PO Box 1199  
Dickson ACT 2602

The Chief Executive Officer  
[*The TNSP*]

Dear \_\_\_\_\_

**REGULATORY FINANCIAL STATEMENTS**

**PERIOD ENDED [*period end*]**

**Scope**

We have audited the Regulatory Financial Statements of [*the TNSP*] for the Regulatory Accounting Period ended 30 June [200x]. The Regulatory Financial Statements are a special purpose financial report consisting of the profit and loss account, balance sheet, statement of cash flows and accompanying notes, set out on pages [ ] to [ ]. [*The TNSP*]'s directors are responsible for the preparation and presentation of the Regulatory Financial Statements and the information they contain. The Directors have determined that the accounting principles and policies used are appropriate to meet the requirements of the Commission's *Transmission Network Service Providers Information Disclosure Requirements Guideline*. We have conducted an independent audit of the Regulatory Financial Statements in order to express an opinion on them to the Commission and the Directors on their preparation and presentation. No opinion is expressed as to whether the accounting principles and policies used are appropriate to the needs of the members.

The Regulatory Financial Statements have been prepared for the purpose of fulfilling the requirements of the Commission. This report is prepared for submission to the Commission and for the Disclosure of [*the TNSP*] and is not to be used for any other purpose than that specified herein. We disclaim any assumption of responsibility for any reliance on this report, or on the Regulatory Financial Statements to which it relates, to any person other than that for which it was prepared.

Our audit has been conducted in accordance with Australian Auditing Standards. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the Regulatory Financial Statements, and the evaluation of significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the Regulatory Financial Statements are presented fairly in accordance with the Regulatory Accounting Principles and Policies and the requirements of the Commission. These

Regulatory Accounting Principles and Policies do not require the application of all Accounting Standards nor other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

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

### **Audit Opinion**

In our opinion, the Regulatory Financial Statements presents fairly in accordance with the requirements of the Commission the financial position of [*the TNSP*] as at [*period end*], the results of its operations and its cash flows for the period then ended.

Yours faithfully

[*Name of Auditor*]

Chartered Accountants

[*Name of signatory*]

[*Position of signatory*]

## Example Independent Review Report

[Date]

General Manager  
Regulatory Affairs / Electricity  
Australian Competition and Consumer  
Commission  
PO Box 1199  
Dickson ACT 2602

The Chief Executive Officer  
[The TNSP]

Dear \_\_\_\_\_

### **REGULATORY FINANCIAL STATEMENTS**

**PERIOD ENDED [period end]**

#### **Scope**

We have reviewed the Regulatory Financial Statements of [the TNSP] for the Regulatory Accounting Period ended 30 June [200x]. [The TNSP]'s directors are responsible for the preparation and presentation of the Regulatory Financial Statements and the information contained therein. We have performed the review of the Regulatory Financial Statements in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the Regulatory Financial Statements are not presented fairly in accordance with the requirements of Commission.

The Regulatory Financial Statements have been prepared for the purpose of fulfilling the requirements of the Commission. This report is prepared for submission to the Commission and for the Directors of [the TNSP] and is not to be used for any other purpose than that specified herein. We disclaim any assumption of responsibility for any reliance on this report, or on the Regulatory Financial Statements to which it relates, to any person other than that for which it was prepared.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, do not express an audit opinion.

#### **Statement**

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Regulatory Financial Statements of [the TNSP] for the period 30 June [200x], ended period end, does not fairly present the Regulatory Information in accordance with the Commission's *Transmission Network Service Providers Information Disclosure Requirements Guideline*.

Yours faithfully

*[Name of Auditor]*

Chartered Accountants

*[Name of signatory]*

*[Position of signatory]*

## Example Report of Factual Findings from Agreed-Upon Procedures

[Date]

General Manager  
Regulatory Affairs / Electricity  
Australian Competition and Consumer  
Commission  
PO Box 1199  
Dickson ACT 2602

The Chief Executive Officer  
[The TNSP]

Dear \_\_\_\_\_

### **REGULATORY FINANCIAL STATEMENTS**

**PERIOD ENDED [period end]**

#### **Scope**

We have performed the procedures agreed with you as detailed in the written instructions of [date] and described below with respect to the Regulatory Financial Statements of [TNSP] for the period ending [date] set forth in the attached schedules [describe and reference the schedules]. Our engagement was undertaken in accordance with Australian Auditing Standards applicable to agreed-upon procedures engagements. The responsibility for determining the adequacy or otherwise of the procedures agreed to be performed is that of [those who engaged the auditor, i.e. the Commission]. The procedures were performed solely to assist you in evaluating [eg. the compliance of [TNSP] with paragraphs [detail paragraphs considered] of the Commission's *Transmission Network Service Providers Information Disclosure Requirements Guideline* ("Guideline") and are summarised as follows:

- [Agreed upon procedure]
- [Agreed upon procedure]
- [Agreed upon procedure]

Because the above procedures do not constitute either an audit in accordance with Australian Auditing Standards or a review in accordance with Australian Auditing Standards applicable to review engagements, we do not express any assurance on the Regulatory Financial Statements of [the TNSP]. Had we performed additional procedures or had we performed an audit in accordance with Australian Auditing Standards or a review in accordance with Australian Auditing Standards applicable to review engagements, other matters might have come to our attention that would have been reported to you.

## Findings

We report as follows:

- (a) With respect to 1 above ...
- (b) With respect to 2 above ...
- (c) With respect to 3 above ...

*[Detail any exceptions noted]*

Our report is solely for the purpose set forth in the first paragraph of this report and for submission to the Commission and is not to be used for any other purpose or distributed to any other party. This report refers only to the accounts and items specified above and does not extend to any financial report of [*the TNSP*], taken as a whole.

Yours faithfully

*[Name of Auditor]*

*[Chartered Accountants]*

*[Name of signatory]*

*[Position of signatory]*



## *Example Audit Report on Prospective Financial Information*

*(Example 1: Best-estimate Assumptions – a Forecast, where a Statement of Negative Assurance is issued on the Reasonableness of Management’s Assumptions)*

Source – Australian Auditing Standard 804 “*Audit of Prospective Information*”

[Date]

General Manager  
Regulatory Affairs / Electricity  
Australian Competition and Consumer  
Commission  
PO Box 1199  
Dickson ACT 2602

The Chief Executive Officer  
[*The TNSP*]

Dear \_\_\_\_\_

### **PROSPECTIVE FINANCIAL INFORMATION**

**PERIOD ENDED [*period end*]**

#### **Scope**

We have audited the forecast of [*the TNSP*] for the [period] as set out on pages ... to .... The directors of [*the TNSP*] are responsible for the preparation and presentation of the forecast and the information contained therein, including the assumptions as set out in note ... on which the forecast is based. We have conducted an independent audit of the forecast in order to express an opinion on it to the Commission and the directors of [*the TNSP*].

The forecast has been prepared for distribution to [the Commission [and the directors of the TNSP]] for the purpose of assisting the Commission to set a revenue cap for [*the TNSP*]. We disclaim any assumption of responsibility for any reliance on this report or on the forecast to which it relates to any person other than to the Commission and the directors of [*the TNSP*] or for any purpose other than that for which it was prepared.

Our audit has been conducted in accordance with Australian Auditing Standards. Our procedures included examination, on a test basis, of evidence supporting the assumptions, amounts and other disclosures in the forecast and the evaluation of accounting policies. These procedures have been undertaken to form an opinion on (whether anything has come to our attention which causes us to believe that management’s assumptions as set out in note ... do not provide a reasonable basis for the preparation of the forecast, and whether)<sup>1</sup>, in all material respects, the forecast is properly prepared on the basis of the assumptions as set out in note ...

---

<sup>1</sup> Include only in circumstances where best-estimate assumptions are presented with hypothetical assumptions.

and is presented fairly in accordance with the *Transmission Network Service Providers Information Disclosure Requirements Guideline* of the Commission (and on a basis consistent with the accounting policies adopted and disclosed by the entity in its audited financial report for the [period] ended [date])<sup>2</sup> so as to present a view of the [TNSP] which is consistent with our understanding of the [TNSP's] past, current and future operations.

(Prospective financial information relates to events and actions that have not yet occurred and may not occur. While evidence may be available to support the assumptions on which prospective financial information is based, such evidence is generally future oriented and therefore speculative in nature. Given the nature of the evidence available in assessing the reasonableness of management's assumptions, we are not in a position to obtain the level of assurance necessary to express a positive opinion on those assumptions. Accordingly, we provide a lesser level of assurance on the reasonableness of management's assumptions.)<sup>3</sup>

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

## **Audit Opinion**

Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that the assumptions as set out in note . . . do not provide a reasonable basis for the preparation of the forecast.

In our opinion,

- (a) the forecast is properly prepared on the basis of the assumptions as set out in note ...; and
- (b) the forecast is presented fairly in accordance with:
  - (i) the Commission's *Transmission Network Service Providers Information Disclosure Requirements Guideline*; and
  - (ii) on a basis consistent with the accounting policies adopted and disclosed by the entity in its audited financial report for the [period]<sup>4</sup> ended [date] (except for the changes in accounting policies as disclosed in note ...).<sup>5</sup>

Actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation may be material.

Accordingly, we express no opinion as to whether the forecast will be achieved.

Yours faithfully

[Name of Auditor]

[Chartered Accountants]

[Name of signatory]

[Position of signatory]

---

<sup>2</sup> Where appropriate.

<sup>3</sup> Include only in circumstances where best-estimate assumptions are presented with hypothetical assumptions.

<sup>4</sup> Where appropriate.

<sup>5</sup> Where appropriate.

*Example Audit Report on Prospective Financial Information*

*(Example 2: Hypothetical Assumptions – a Projection)*

Source – Australian Auditing Standard 804 “*Audit of Prospective Information*”

[Date]

General Manager  
Regulatory Affairs / Electricity  
Australian Competition and Consumer  
Commission  
PO Box 1199  
Dickson ACT 2602

The Chief Executive Officer  
[*The TNSP*]

Dear \_\_\_\_\_

## **Scope**

We have audited the projection of [*TNSP*] for the [period] as set out on pages ... to .... The [directors of the TNSP] are responsible for the preparation and presentation of the projection and the information contained therein, including the assumptions as set out in note ... on which the projection is based. We have conducted an independent audit of the projection in order to express an opinion on it to [the Commission].

The projection has been prepared for distribution to [the Commission [and the directors of the TNSP]] for the purpose of assisting the Commission to set a revenue cap for [*the TNSP*]. We disclaim any assumption of responsibility for any reliance on this report or on the projection to which it relates to any person other than to [the Commission [and the directors of the TNSP]] or for any purpose other than that for which it was prepared. In addition, the projection has been prepared using a set of assumptions that include hypothetical assumptions about future events and management’s actions that are not necessarily expected to occur. Consequently, readers are cautioned that this projection may not be appropriate for purposes other than that described above.

Our audit has been conducted in accordance with Australian Auditing Standards. Our procedures included examination, on a test basis, of evidence supporting the assumptions, amounts and other disclosures in the projection and the evaluation of accounting policies. Because hypothetical assumptions relate to future events and management actions, which are not necessarily expected to take place, we are not in a position to, and do not express an opinion on the hypothetical assumptions. The procedures have been undertaken to form an opinion on whether (anything has come

to our attention which causes us to believe that management's best-estimate assumptions as set out in note ... do not provide a reasonable basis for the preparation of the projection given the occurrence of the hypothetical assumptions, and whether)<sup>6</sup>, in all material respects, the forecast is properly prepared on the basis of the assumptions as set out in note ... and is presented fairly in accordance with the Commission's *Transmission Network Service Providers Information Disclosure Requirements Guideline* (and on a basis consistent with the accounting policies adopted and disclosed by the entity in its audited financial report for the [period] ended [date])<sup>7</sup> so as to present a view of the [TNSP] which is consistent with our understanding of the [TNSP's] past, current and future operations.

(Prospective financial information relates to events and actions that have not yet occurred and may not occur. While evidence may be available to support the best-estimate assumptions on which prospective financial information is based, such evidence is generally future oriented and therefore speculative in nature. Given the nature of the evidence available in assessing the reasonableness of management's best-estimate assumptions, we are not in a position to obtain the level of assurance necessary to express a positive opinion on those assumptions. Accordingly, we provide a lesser level of assurance on the reasonableness of management's assumptions.)<sup>8</sup>

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

## Audit Opinion

(Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that the best-estimate assumptions as set out in note . . . do not provide a reasonable basis for the preparation of the projection, given the occurrence of the hypothetical assumptions.)<sup>9</sup>

Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that the assumptions as set out in note . . . do not provide a reasonable basis for the preparation of the forecast.

In our opinion,

- (a) the projection is properly prepared on the basis of the assumptions as set out in note ...; and
- (b) the projection is presented fairly in accordance with:
  - (i) the Commission's *Transmission Network Service Providers Information Disclosure Requirements Guideline*; and
  - (ii) a basis consistent with the accounting policies adopted and disclosed by the entity in its audited financial report for the [period] ended [date]<sup>10</sup> (except for the changes in accounting policies as disclosed in note ...).<sup>11</sup>

Even if the events anticipated under the hypothetical assumptions described above occur, actual results are still likely to be different from the projection since other

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<sup>6</sup> Include only in circumstances where best-estimate assumptions are presented with hypothetical assumptions.

<sup>7</sup> Where appropriate.

<sup>8</sup> Include only in circumstances where best-estimate assumptions are presented with hypothetical assumptions.

<sup>9</sup> Include only in circumstances where best-estimate assumptions are presented with hypothetical assumptions.

<sup>10</sup> Where appropriate.

<sup>11</sup> Where appropriate.

anticipated events frequently do not occur as expected and the variation may be material. Accordingly, we express no opinion as to whether the projection will be achieved.

Yours faithfully

*[Name of Auditor]*

*[Chartered Accountants]*

*[Name of signatory]*

*[Position of signatory]*

*Pro forma Directors' Responsibility Statement for Regulatory Financial Statements*

In the opinion of the Directors and the Chief Executive Officer of [*the TNSP*]:

- the Regulatory Financial Statements set out on pages [*x*] to [*y*] are drawn up so as to present fairly in accordance with the requirements of the Commission's Transmission Network Service Provider Information Disclosure Requirements Guideline ("the Guideline") issued by the Commission, dated [*version date*].
  - the results of each Business Segment for the Regulatory Accounting Period ended [*period end*];
  - information concerning the state of affairs at [*period end*], of each Business Segment;
  - information concerning all Related Party Transactions required by paragraph 7.15 of the Guideline; [*delete if inapplicable*];
  - information concerning all Third Party benefit Transactions required by paragraph 7.16 of the Guideline; [*delete if inapplicable*] and
  - information concerning all Financing Transactions required by paragraph 7.17 of the Guideline; [*delete if inapplicable*];
- no Related Party Transactions arose during the Regulatory Accounting Period that require disclosure under paragraph 7.15 of the Guideline [*to be deleted only if disclosure is confirmed above*];
- no Third Party Benefit Transactions arose during the Regulatory Accounting Period that require disclosure under paragraph 7.16 of the Guideline [*to be deleted only if disclosure is confirmed above*]; and
- no Financing Transactions arose during the Regulatory Accounting Period that require disclosure under paragraph 7.17 of the Guideline [*to be deleted only if disclosure is confirmed above*].

The terms and definitions used in this statement accord with the definitions set out in the Commission's Transmission Network Service Provider Information Disclosure Requirements Guideline referred to above.

Signed in accordance with a resolution of Directors and Chief Executive Officer:

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[*Name of director*]

Dated

Director

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[*Name of director*]

Dated

Director

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[*Name of Chief Executive Officer*]

Dated

Chief Executive Officer