



Australian Energy Regulator

*Transmission Network Service Provider
Information Requirements Guidelines*

General Manager
Transition Branch
Australian Energy Regulator
PO Box 520
Melbourne Vic 3001
Email: aer inquiry@aer.gov.au

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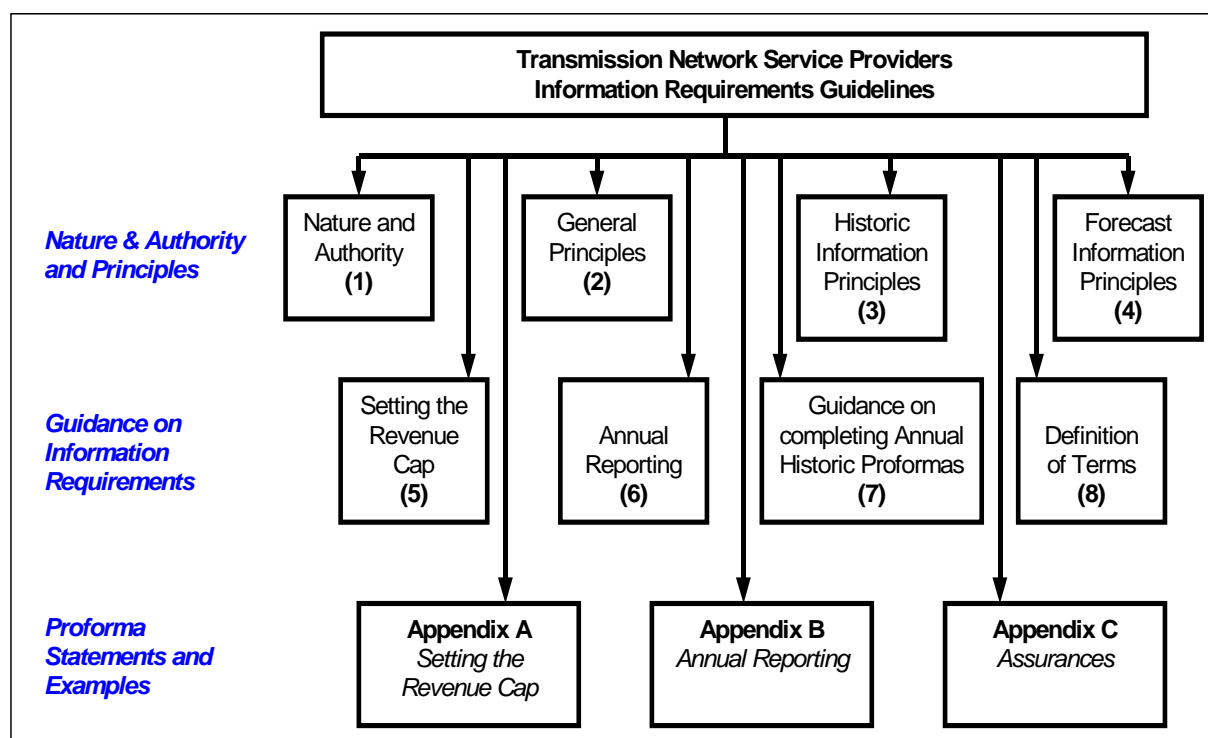
How these guidelines work

These guidelines set out the information requirements and reporting principles and processes for two main areas:

- setting the revenue cap and
- annual reporting

for electricity transmission network service providers (TNSPs).

The diagram below represents a map of the guidelines.



Sections 2, 3 and 4 of these guidelines set out the principles for a TNSP to follow when providing information to the Australian Energy Regulator (AER). Pro forma statements and guidance are set out in the remaining sections of the guidelines. In case of any conflict, the principles take precedence.

1. Nature and authority

1.1 Introduction

These guidelines set out information required by the Australian Energy Regulator (AER) to regulate Transmission Network Service Providers.

1.2 Objectives

Clauses 6.2.2 to 6.2.5 of the National Electricity Rules (NER) set out the objectives and principles of the transmission revenue regulatory regime to be administered by the AER.

The AER's objective is to determine and monitor compliance with a revenue cap, using an information disclosure regime, which is objective, transparent and light-handed.

As the national regulator of transmission revenues in the NEM, the AER aims to eliminate monopoly pricing, provide a fair return to network owners, and create incentives for managers to pursue ongoing efficiency gains by reducing costs.

1.3 Powers

The AER's powers to gather information to set and monitor revenue caps for TNSPs stem from the *National Electricity Law (South Australia) 2005* and clause 6.2.5 of the NER.

1.4 Confidentiality

Clause 6.2.5(e) of the NER states that the AER must obtain written consent to publicly disclose information provided by a TNSP, unless the procedures set out in clauses 6.2.6(b) to (e) are followed.

To manage the process, the AER requires a letter to accompany all information agreeing to the AER publicly releasing that information.

Where a TNSP indicates that information is commercially sensitive, it must include the rationale for its claim.

1.5 Role of these guidelines

These guidelines stipulate the minimum information requirements of the AER. The obligation of a TNSP to comply with these guidelines:

- is additional to any obligation imposed under any other law applying to a TNSP's business
- does not derogate from such an obligation.

The guidelines include accounting requirements to ring-fence regulated activities, but do not address structural issues regarding ring-fencing. A separate guideline has been released to addresses such issues.

The AER anticipates that it will need information about how a TNSP performs against the AER's service standards. The information requirements arising from the service standards guidelines has separately been released. .

1.6 Definitions and interpretation

In these guidelines:

- a glossary of words and phrases is attached—to provide clarity and reduce the risk of ambiguity
- the words 'shall' and 'must' indicate mandatory requirements, unless the overall meaning of the phrase in which one of these words appears, is otherwise.

These guidelines provide definitions consistent with those in the *Statement of Principles for the Regulation of Electricity Transmission Revenues* and the NER. Where words and phrases are not defined in the glossary, they have the meaning given to them in the Statement of Principles for the Regulation of Electricity Transmission Revenues, NER or any other relevant legislative or regulatory document.

Explanations in these guidelines about why certain information is required are for guidance only. They do not limit in any way the AER's objectives, functions or powers.

1.7 Consultation

The AER welcomes comments, discussion or suggestions for amendments to these guidelines. Any contribution should be addressed to:

General Manager
Transition Branch
Australian Energy Regulator
PO Box 520
Melbourne Vic 3001

Email: aerinquiry@aer.gov.au

1.8 Processes for revision

The AER may amend and expand these guidelines from time to time when necessary to meet the needs of TNSPs, customers and the AER.

The AER anticipates consulting with TNSPs, customers and other stakeholders before amending significantly these information requirements.

An effective date will be nominated for all substantial revisions which is expected to be not less than 90 days before the date of application.

1.9 Version history and effective date

An issue number and date of issue will identify every version of the guidelines. This version (Issue No 2) became effective on [date], the date of issue.

2. General principles

The AER requires both historic and forecast financial information.

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

2.1 Compliance

A TNSP must comply with the information disclosure requirements set out in these guidelines.

2.2 Accounting principles and policies

TNSPs must give the AER full and detailed documentation of the financial and regulatory accounting principles and policies adopted. This information must be provided in a way that ensures the AER understands the financial information and can make comparisons over time.

TNSPs must select and apply regulatory accounting principles and policies so that:

- there is a recognisable and rational economic basis that underlies their use
- the resultant financial information is relevant and reliable, ensuring that the substance of the underlying transactions and events are reported fairly.

Any changes to accounting principles or policies, and the rationale for such changes, must be brought to the AER's attention. Where applicable, the impact of the changes on the financial reports should be quantified and given to the AER.

2.3 Substance over form

The regulatory financial statements or regulatory financial forecasts must report the substance of transactions and events.

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

In determining the substance of a transaction or events, all aspects and implications will be considered, including the expectations of and motivations for it.

To determine the substance of a transaction or event, a group of transactions or events that achieves, or is designed to achieve, an overall commercial effect shall be viewed together.

2.4 Materiality

The AER requires that all material items must be disclosed in the regulatory financial statements or regulatory financial forecasts.

The AER will apply the following standards of materiality:

An item is material if its omission, misstatement or non- 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

The AER may require ad hoc information to make revenue cap decisions or for annual reporting. If so, the AER would request the TNSP in writing, specifying:

- the type of information required
- the format in which it is required
- where relevant, the applicable accounting principles and standards
- the time by which the information is to be delivered
- the form of management assurance or responsibility statement required.

2.6 Audit assurance

The scope of any audit or the form of independent assurance about the regulatory information that the AER may require, must comply with any requirements set out later in these guidelines.

A TNSP is responsible for:

- employing an auditor to report on the information
- ensuring that the AER receives the auditors' assurance that the information can be relied upon for regulatory purposes.

A TNSP shall consult with the AER on the choice of auditor before the regulatory accounting date.

The AER may consider the independence and the expertise required of the auditor when determining their suitability.

The auditor has a duty of care to the AER in undertaking any audit according to these guidelines.

Any regulatory audit report prepared by the auditor according to these guidelines shall be addressed to the AER as well as the TNSP.

If the audit fails to satisfy the AER's requirements, the AER may require a further audit. The AER also reserves the right to appoint an auditor to be employed by the TNSP.

2.7 Directors' responsibility statement

A directors' responsibility statement signed by two or more directors must accompany information that a TNSP gives to the AER.

As a minimum the statement must include:

- a reference to the specific documents for which responsibility is accepted
- assurances that the documents given to the AER comply with these guidelines.

The directors' responsibility statement prepared specifically for regulatory financial statements must also include adherence to the specific requirements of these guidelines and assurances relating to the full disclosure to the AER of:

- related party transactions
- third party benefit transactions
- financing transactions.

An example of a directors' responsibility statement for regulatory financial statements is set out in appendix C.

2.8 Tripartite meeting

If the AER wants the auditor's opinion explained or more information about their work, the AER, or its agent, can meet with the auditor in the presence of a TNSP, both before and after the regulatory accounting date.

2.9 Format of information

A TNSP must submit all possible information to the AER in both electronic and printed form.

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

Information can be submitted to:

General Manager
Transition Branch
Australian Energy Regulator
PO Box 520

Melbourne Vic 3001
Email: aer inquiry@aer.gov.au

3. Historic information principles

This section sets out the principles that a TNSP must follow to complete the regulatory financial statements and other pro formas set out at appendix B.

3.1 Information provided shall be verifiable

A TNSP shall ensure that all historic information provided to the AER is verifiable. As guidance, the AER anticipates that it will interpret ‘verifiable’ as meaning, at least, that information can be traced to a source document or assumption, by an independent party such as an auditor.

A TNSP must maintain accounting and reporting arrangements that:

- enable separate regulatory financial statements to be prepared
- provide information in the statements that can be verified.

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

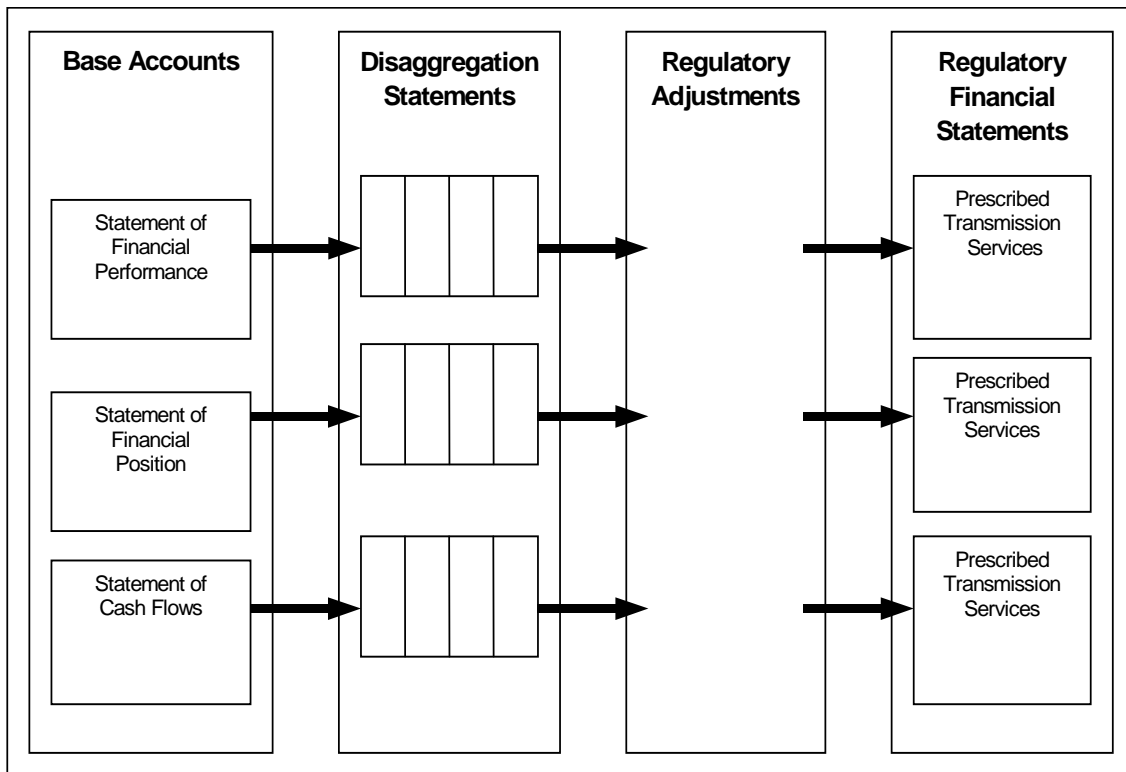
3.2 Dissaggregation—reporting by business segment

Regulatory financial statements are to be prepared by disaggregating base accounts.

The following diagram illustrates that the general process 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 business segments in the disaggregation statements, to derive regulatory financial statements.

Accordingly, the disaggregation statements, in combination with any regulatory accounting adjustments, provide an audit trail between the regulatory financial statements and the accounting records that underlie the base accounts.



The above diagram is a concise illustration of the process and does not substitute for an understanding of these guidelines.

It illustrates that the AER requires a TNSP to prepare disaggregation statements before any regulatory adjustments, for its statement of financial performance, statement of financial position and statement of cash flows.

When:

- 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 conduct prescribed activities
- consolidated statements must be prepared and audited as if they were required by the Corporations Law
- the audited consolidated statements are to be used in place of the audited financial statements when reporting to the AER and are subject to all of the regulatory requirements of these guidelines.

3.3 Disaggregation statements—allocation principles

The disaggregation statement will provide an audit trail to show the disaggregation of the base accounts into business segments.

Pro formas included in appendix B indicate how disaggregation statements should be presented when providing regulatory financial statements.

The disaggregation of base accounts shall be based on the principle that:

- base account records that are directly attributable to the business segments are assigned accordingly
- base account records not directly attributable will be allocated to business segments using an appropriate allocator, as indicated in section 3.3 below.

If account headings used in the regulatory financial statements are not the same as in the base account records, they should be traceable or reconcilable to the chart of accounts and the base account records.

When 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.

Account headings shall be sufficiently descriptive to explain why base account records that have been directly attributable to business segments are uniquely associated with the business segments.

Base account records that are not directly attributed should be allocated on a causation basis.

When 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.

If a causal relationship cannot be established without undue cost and effort, a TNSP must give the AER a separate list of these items with a description and amount for each base account record. A TNSP may allocate 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
- a numeric value of the allocator applied to each business segment and in total.

Non-causal bases of allocation shall only be applied to the extent that the aggregate of all 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.

Non-causal bases of allocation will be subject to the specific approval of the AER.

The AER may require further information, or investigate a TNSP's bases of allocation:

- to establish their causality
- to approve non-causal bases of allocation
- where the use of non-causal bases of allocation by a TNSP is more than incidental.

3.4 Regulatory adjustments

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
- required by the AER.

Pro forma statements that clearly explain the nature and amount of each adjustment shall support all regulatory adjustments. Appendix B sets out such pro forma statements.

3.5 Accounting principles and policies

Except where these guidelines prescribe otherwise, the regulatory reporting requirements should be completed in accordance with applicable Australian accounting standards.

3.6 Time consistent application of accounting policies – unless disclosed otherwise

Regulatory financial statements, as far as practicable, must be prepared in accordance with the general rules and format, and, subject to the following disclosure provisions, use the accounting principles and policies applicable to the base accounts.

A TNSP shall provide to the AER full and detailed explanation of:

- the accounting principles and policies used to prepare its base accounts
- any regulatory accounting principles and policies that it may have used to prepare the regulatory financial statements, that may be additional to or replace, the accounting principles and policies used to prepare its base accounts.

3.7 Record retention

A TNSP's directors are responsible for preparing and presenting the regulatory financial statements.

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
- allow an auditor to properly form an opinion on the regulatory financial statements as required by these guidelines.

A TNSP's directors shall also ensure that a TNSP retains the books from which regulatory financial statements are prepared, from either 1 July 1999 or the date the Australian Competition and Consumer Commission (ACCC) began to regulate the transmission revenues of the TNSP—whichever is the latter.

Books are to be retained for a period ending no sooner than the effective date of the second revenue reset following the date the books were created.

All books shall be made available to the AER when requested.

3.8 Discretionary headings

Subject to the provisions of this section, a TNSP shall apply the discretionary headings consistently to subsequent regulatory financial statements.

These discretionary headings should be as consistent as possible with those applied in its regulatory financial forecasts.

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

A TNSP shall meet with the AER before submitting regulatory financial statements, so that the AER can assess whether a TNSP's proposed discretionary headings meet its requirements.

A TNSP may vary the discretionary headings from those used in a preceding regulatory accounting period if:

- a revision of these guidelines should require such a change or
- the AER 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 these guidelines

- should include an explanation of the relationships between revised account headings and their predecessors.

3.9 Regulatory accounting periods

A TNSP's regulatory accounting periods shall correspond to those of its base accounts unless the AER specifies otherwise.

The AER 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
- other pertinent information, for periods other than that of a TNSP's normal reporting periods, as required by the AER to discharge its duties under the National Electricity Rules.

A TNSP shall notify the AER of any change in its regulatory accounting date in advance of any such change.

A TNSP's regulatory accounting periods shall cover a continuous period.

3.10 Audit assurances

Unless specified otherwise by the AER, a TNSP must submit a regulatory audit report in the form of an audit report on a special purpose financial report.

Alternatively, the AER may allow a TNSP to provide a regulatory audit report on its regulatory financial statements and other statements, schedules and work papers listed in appendix B in one of the following forms:

- a review of financial reports (negative assurance)
- an agreed-upon procedures report
- a combination of the above reports and/or an audit report on a special purpose financial report.

Examples of each of the regulatory audit reports are set out in appendix C.

4. Forecast financial information principles

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 AER.

4.1 Underlying assumptions

A TNSP must give the AER the following minimum information to support its forecast information:

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

4.2 Accounting principles and policies

A TNSP must prepare its regulatory financial forecasts consistent with any regulatory financial statements prepared in accordance with these guidelines, using appropriate accounting principles as set out in these guidelines.

4.3 Account headings

Appendix A specifies for the regulatory financial forecasts:

- minimum disclosure requirements
- mandatory headings.

Subject to section 4.4, a TNSP may, within the context of the mandatory headings, define discretionary headings that are most appropriate to conveying an understanding of the TNSP's business.

4.4 Discretionary headings

Subject to the provisions of this section, the discretionary headings applied by a TNSP shall be applied consistently to subsequent regulatory financial forecasts.

Where applicable, discretionary headings applied by a TNSP in any regulatory financial forecasts shall be consistent with the discretionary headings in its regulatory financial statements.

A TNSP shall meet with the AER before submitting regulatory financial forecasts, so that the AER can assess whether a TNSP's proposed discretionary headings meet its requirements.

A TNSP may vary the discretionary headings from those used in a preceding revenue cap application if:

- a revision of these guidelines should require such a change or
- the AER 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
 - should include an explanation of the relationships between revised account headings and their predecessors.

4.5 Audit assurance

Unless specified otherwise by the AER, a TNSP must submit a regulatory audit report in the form of an audit report on prospective financial information.

Alternatively, the AER 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), or a combination of the foregoing reports.

An example of a combined report is set out in appendix C.

5. Setting the revenue cap

5.1 Introduction

The AER has adopted a building block approach to set the maximum revenue that a network can earn from its regulated assets annually (ie. revenue cap).

This section outlines the scope of information the AER requires to set a revenue cap, consistent with the building block approach and provides guidance on reporting this information to the AER.

The AER requires both financial and non-financial information to set the revenue cap for a TNSP. The financial information required is mainly regulatory financial forecasts, as well as some historic information.

Sections 2, 3 and 4 set out the principles for a TNSP to follow when giving the AER information to set a revenue cap. In case of any conflict of guidance, these principles take precedence over the pro forma statements in appendix A and the guidance set out in this section of the guidelines.

Appendix A sets out the pro forma statements that should be used to submit this information to the AER.

A TNSP must submit its revenue cap application to the AER at least 13 months before the current regulatory period expires. Therefore, the information specified in this section must be submitted to the AER at least 13 months before the current regulatory period expires.

5.2 Forecast financial information

Forecast financial information shall be provided for a minimum of five years from the start of a TNSP's next regulatory period.

The AER requires forecast information from a TNSP to support its revenue cap application and to help the AER calculate the revenue cap. Collecting historical information and comparing it with corresponding forecasts made earlier enables the AER to perform a 'post-audit' of forecasts. The information gathered from such an exercise is useful in improving future forecasts.

The following table identifies:

- the forecast information a TNSP must submit
- reference to the relevant information submission pro forma statements in appendix A.

5.2.1	Pro forma Statement	5.2.2	Pro forma ref.
5.2.3	Rate of Return (ie. Weighted Average Cost of Capital)	5.2.4	WACC
5.2.5	Initial Regulatory Assets	5.2.6	Reg Assets
5.2.7	Forecast Capital Expenditure	5.2.8	Capex
5.2.9	Forecast Customer Contributions	5.2.10	Cust Cont
5.2.11	Forecast Asset Disposals and Retirements	5.2.12	Disp
5.2.13	Forecast Operations and Maintenance Expenditure	5.2.14	Opex
5.2.15	Asset Roll Forward Schedule	5.2.16	Asset R-Fwd

The pro forma statements do not preclude the dialogue of further information should a TNSP believe that this would add to the AER's understanding of its business.

Guidance on the regulatory principles adopted by the AER is set out in the AER's statement of principles for the regulation of transmission revenues, once finalised, or any other guideline issued by the AER setting out the regulatory principles a TNSP must follow.

5.3 Historic financial information

A TNSP shall also prepare historic information referred to in this section when specified by the AER.

The AER requires a TNSP to submit a copy of its most recent base accounts.

As the AER assumes responsibility for the regulation of each TNSP, in its initial revenue determination the AER will also require a TNSP to prepare a schedule that rolls forward asset values:

- from the later of the date of:
 - the last of regulatory asset valuation
 - the date of the last revenue determination
- to the end of the current regulatory period.

This schedule should detail asset movements (i.e. additions and disposals) and depreciation, to enable the AER to obtain a TNSP's opening asset base for the next regulatory period.

This schedule will therefore comprise historic information to the time of preparation and forecast information from the time of preparation to the end of the current regulatory period.

Depreciation shall be calculated. A TNSP shall disclose the basis for calculating such depreciation charges.

Pro forma statement 'Asset R-Fwd' in appendix A sets out how the asset roll forward information is to be presented.

5.4 Demand forecasts

A TNSP shall give the AER demand forecasts for the forthcoming regulatory period. As a minimum, these shall be presented in annual blocks over the five-year period. It is expected that the demand forecasts will be in the same form as provided to NEMMCO.

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

A TNSP is not required to provide audit assurance on the demand forecasts referred to in this section.

5.5 Forecast map of network

A TNSP shall give the AER a forecast map of the network for the forthcoming regulatory period. This map, together with any appropriate accompanying notes, should identify:

- 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)
- the ages of network assets.

A TNSP is not required to provide audit assurance on the forecast map of the network.

6. Annual reporting

6.1 Introduction

The AER will monitor annually a regulated TNSP under its revenue cap.

This section outlines the scope of information the AER requires, and provides guidance on reporting this information to the AER.

The AER requires both financial and non-financial information. These are presented separately in the following sections.

Sections 2 and 3 set out the principles for a TNSP to follow in providing annual reporting information to the AER. These principles take precedence over the pro forma statements in appendix B and guidance set out in this section.

Appendix B sets out the pro forma statements that should be used to submit this information to the AER.

A TNSP shall deliver this information to the AER no later than four months after a regulatory accounting date.

6.2 Historic financial information

A TNSP must prepare and submit annual regulatory financial statements and the pro formas listed below to the AER, prepared in accordance with these Guidelines.

To ensure that the information provided is consistent with these guidelines, these regulatory financial statements and the pro formas must follow the pro forma statements set out in appendix B. They do not preclude the dialogue of further information should a TNSP believe that this would add to the AER's understanding of the TNSP's business.

The following table identifies the relevant information submission pro forma statements in appendix B.

6.2.1	Pro forma Statement	6.2.2	Pro forma ref.
6.2.3	Regulatory Financial Statement – Statement of Financial Performance	6.2.4	RFS FPerf
6.2.5	Regulatory Financial Statement – Statement of Financial Position	6.2.6	RFS FPos
6.2.7	Regulatory Financial Statement – Statement of Cash Flow	6.2.8	RFS CF
6.2.9	Disaggregated Statement – Statement of Financial Performance	6.2.10	DISAGG FPerf
6.2.11	Disaggregated Statement – Statement of Financial Position	6.2.12	DISAGG FPos
6.2.13	Disaggregated Statement – Cash Flow Statement	6.2.14	DISAGG CF
6.2.15	Disaggregated Operations and Maintenance Expenditure	6.2.16	DISAGG Opex
6.2.17	Causal allocations	6.2.18	DISAGG Alloc 1
6.2.19	Non-causal allocations	6.2.20	DISAGG Alloc 2
6.2.21	Prescribed Transmission Services – Regulatory Adjustment Journals	6.2.22	PTS ADJ 1
6.2.23	Prescribed Transmission Services – Price Reduction/Recovery	6.2.24	PTS PriceRedn
6.2.25	Prescribed Transmission Services – Revenue Analyses	6.2.26	PTS Rev
6.2.27	Summary of Disaggregated Statement Assets	6.2.28	DISAGG Assets
6.2.29	Prescribed Transmission Services – Asset Reconciliation Schedule	6.2.30	PTS Rec Assets
6.2.31	Prescribed Transmission Services – Capital Expenditure Summary	6.2.32	PTS CapexSum
6.2.33	Prescribed Transmission Services – Capital Expenditure Efficiencies	6.2.34	PTS Capex
6.2.35	Prescribed Transmission Services –Asset Aging Schedule	6.2.36	PTS Asset Aging
6.2.37	Provisions Summary Schedule	6.2.38	DISAGG Prov Sum
6.2.39	Prescribed Transmission Services – Provisions Reconciliation	6.2.40	PTS Prov Rec
6.2.41	Australian Income Tax Charges Net of Deferred Tax	6.2.42	DISAGG Tax

Guidance on how the principles in sections 2 and 3 should be applied to complete the pro forma statements listed above is set out in section 7 of these Guidelines,

6.3 Demand forecasts

A TNSP shall give the AER one-year demand forecasts for the forthcoming year. It is expected that they will be in the same form as provided to NEMMCO.

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

These demand forecasts shall be prepared consistently to the five-year demand forecasts required in section 5.4.

A TNSP is not required to provide audit assurance on the demand forecasts referred to in this section.

6.4 Map of network

A TNSP shall give the AER a map of the current network as at the regulatory accounting date identifying:

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

A TNSP is not required to provide audit assurance on the forecast map of the network.

7. Guidance on completing annual historic financial pro formas

7.1 Disaggregation of income

Items of income in the base accounts shall be disaggregated between business segments in accordance with the principles set out in section 3.

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

The base accounts may not account for transactions between business segments. Accordingly, inter segmental income and the corresponding costs shall be recorded in the profit and loss accounts of the business segments in which they arise.

For each item of inter segmental income or cost, arising in each of the business segments, the regulatory financial statements shall also disclose a disaggregation journal that follows the principles of double entry book keeping and provides descriptions of:

- the item
- the balancing accounting entry or entries
- the business segment or segments, in whose income and expenditure account or accounts, the balancing accounting entries arise.

7.3 Operating and maintenance (Opex) costs

The regulatory financial statements shall include a note that:

- dissects total Opex costs by account heading
- disaggregates the Opex costs disclosed by each account heading, across business segments
- provides an audit trail to the account code or account codes that each account heading represents or is based on
- provides totals by account heading and business segment
- discloses the descriptions and amounts of Opex costs that are inter segmental
- reconciles the sum of the individual items in the Opex cost analysis to the total Opex costs included in the base accounts—if no reconciliation is necessary, the note should still state the total of Opex costs included in the base accounts.

Pro forma statement 'DISAGG Opex' in appendix B sets out how this information should be presented.

7.4 Cost attribution

When a cost is attributed to a business segment, it should reflect the consumption or utilisation of a resource or service; and when a business segment consumes or utilises a resource or service, it should attribute a corresponding cost.

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.

When costs are directly attributed to business segments no one account heading should be used to attribute costs to more than one business segment.

The description provided for each account heading that describes costs directly attributed to a business segment, should provide an understanding of their characteristics.

The regulatory financial statements shall include a note that discloses for each Opex cost account heading:

- the amount of costs within the account heading, that can be directly attributed to business segments
- for indirect costs attributed by allocation:
 - a description of the bases of allocation used
 - a quantification of the allocators applied to each business segment
 - 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 Opex account heading represents or is based on.

A pro forma statement 'DISAGG Aloc 1' in appendix B provides an example of how the information required by paragraph 7.4 should be presented.

7.5 Depreciation

The AER will allow a TNSP to nominate its depreciation method.

Depreciation charges should be attributed to business segments in accordance with the disaggregation of assets that give rise to these charges.

Regulatory accounting adjustments shall be made to state the depreciation charge attributed to the prescribed services segment.

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

7.6 Other expenditure

Other expenditure arising in the profit and loss account not specifically addressed elsewhere in this section, shall be disaggregated between business segments in accordance with:

- the principles set out in section 3
- the disclosure requirements set out in the pro forma statements in appendix B.

7.7 Extraordinary items

Extraordinary items should be recorded in the disaggregation statement and attributed to business segments as specified in this section.

Before allocation in the disaggregation statement, the amount of any extraordinary item should be analysed between the amount before taxation and the corresponding taxation 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.

An extraordinary item stated before 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 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 as required in section 3, for the allocation of Opex costs
- if 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
 - 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

The total Australian income tax charge for a TNSP shall be reported to the AER for regulatory purposes, net of deferred tax.

Following the adjustment to back out deferred tax, a TNSP is required to:

- adjust for the tax effect of any regulatory adjustments that may need to be made, subject to the guidance set out in this paragraph
- 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.

There are two exceptions to the basis of attribution set out above:

- customer contributions should be treated in accordance with paragraph 7.12
- tax depreciation is calculated on the tax values not the regulatory values of the assets.

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
- double tax relief.

If necessary, the AER will separately form a view on the allocation of the items referred to above.

Pro forma statement 'DISAGG Tax' in appendix B indicates how this information is to be disclosed.

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

These items may be recorded under the column headed 'Not allocated' in the disaggregation statements.

7.10 Disaggregation of non-current assets

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.

The regulatory financial statements shall include an asset schedule for the prescribed services segment.

The asset schedule shall disclose movements in gross book value and accumulated depreciation.

Additions and decrements shall be disclosed separately in the asset schedule and not be netted off.

The pro forma statements 'DISAGG Assets' at appendix B indicate how an asset schedule should be presented.

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 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

When mandatory headings are required, 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
- sub-category headings shall be applied consistently between regulatory accounting periods.

The pro forma statements at appendix B set out mandatory headings for the asset schedule and associated schedules.

7.12 Customer contributions

Customer contributions shall be credited against the gross (undepreciated) value of the assets to which they relate, in the asset schedule.

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.

For the purposes of regulatory reporting, UIG abstract 17 ‘Developer and Customer Contributions in Price Regulated Industries’ is not to be applied.

The regulatory asset base is to be reported net of customer contributions. Accordingly, TNSPs must maintain contra accounts to the relevant asset accounts. Customer contributions should be recorded in the relevant pro forma statements in the ‘not allocated’ column associated with the asset to which it has contributed.

Regulatory Accounting Policy

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

7.13 Goodwill arising on acquisition

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 Statement of Financial Position items

Statement of financial position and statement of cash flows items not specifically addressed in section 7 shall be disaggregated between business segments in accordance with:

- the principles set out in section 3 of these guidelines
- the disclosure requirements set out in the pro forma statements in appendix B.

7.15 Provisions

The Regulatory Financial Statements shall disclose enough disaggregation information to provide a reconciliation of the provisions disclosed by the base accounts to those disclosed for the prescribed services segment. Pro forma statement ‘DISAGG Prov Sum’ in appendix B sets out the minimum disclosure requirements.

The disaggregation of provisions should follow the principles set out in section 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
- the balance at the end of the Regulatory Accounting Period.

Pro forma statements 'DISAGG Prov Sum' and 'PTS Prov Rec' in appendix B indicate how this information should be disclosed.

7.16 Related party transactions

A TNSP shall inform the AER of the extent and nature of:

- the related party transactions attributed to the prescribed services segment for a regulatory accounting period
- the balances with related parties or arising from related party transactions, included in the prescribed services segment's statement of financial position in the regulatory financial statements.

As a minimum, a TNSP shall report the total value of the transactions and balances described above, by account heading and provide enough descriptions of the transactions and balances to provide an understanding of their underlying substance.

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.

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

The directors' responsibility statement shall include a specific affirmation that either:

- no material related party transactions arose or
- the disclosure requirements of (this) paragraph 7.16 have been complied with.

7.17 Third party benefits

When 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
- a summary of the associated accounting entries that have been recorded in the prescribed services segment
- 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.

7.18 Financing transactions

When the disaggregation statements record any accounting entries, the effect of which is to provide:

- a decrement to financing or interest costs in the statement of financial performance
- in the prescribed services segment, a related:
 - decrement to earnings before interest and tax
 - increase in asset values

a TNSP shall disclose:

- descriptions of the transactions, their underlying purpose and any counterparties
- an analysis of:
 - the monetary amounts involved
 - the bases of charge
 - the associated accounting entries that have been recorded in the regulatory financial statements.

The directors' responsibility statement shall include a specific affirmation that either:

- no such transactions arose or
- the disclosure requirements of paragraph 7.18 have been complied with.

8. Definition of terms

These guidelines use the following definitions.

Account codes means the nomenclature used to index the base account records, e.g. general ledger or activity codes.

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 AER 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.

Auditor means a registered company auditor independent of a TNSP.

Audit report on a special purpose financial report means an audit report on the regulatory financial statements prepared in accordance with Australian Auditing Standard AUS 802, and in accordance with a financial reporting framework such as the information requirements guidelines, 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 Standard AUS 804, and in accordance with a financial reporting framework such as the information requirements guidelines, 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 business segments
- are consolidated or aggregated where appropriate
- are prepared in accordance with:
 - the Australian Corporations Law
 - Australian Accounting Standards
 - Urgent Issues Group consensus views
- are audited under Australian Auditing Standards.

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
- not allocated.

AER means the Australian Energy Regulator established under the *Trade Practices Act 1974* (Commonwealth).

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.

ACCC 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 Rules.

Connection assets has the same meaning given to it in the National Electricity Rules.

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 not less than two directors of a TNSP, which states whether in the directors' opinion, the regulatory financial statements and other statements, schedules and work papers listed in appendix B of these guidelines:

- present fairly the statement of financial performance and statement of cash flows information required by these guidelines, of each business segment for the regulatory accounting period
- present fairly the statement of financial position information required by these guidelines, for each business segment at the regulatory accounting date
- have been made out in accordance with applicable and appropriate accounting principles and policies
- have been prepared in accordance with the AER's requirements, set out in these guidelines.

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.

Financing transactions has the meaning set out at paragraph 7.18 of the guidelines.

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. They 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 statements contained in appendices A and B.

Material has the meaning set out at paragraph 2.4 of the guidelines.

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*.

National Electricity Rules means the rules, 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 services or prescribed transmission services.

Not allocated means the content of those account headings that are not required by these guidelines to be allocated between business segments.

Notes to, and forming part of, the regulatory financial statements means the additional information provided in relation to the regulatory financial statements, 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 or prescribed transmission services means transmission services provided by transmission network assets or associated connection assets, which the AER determines as not being contestable.

Prescribed services segment means that part of the total business reported by the base accounts that is involved in providing prescribed transmission services.

Regulated business segment means a business segment that is involved with providing prescribed transmission services.

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 replace, 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. A regulatory audit report may include either:

- an audit report on a special purpose financial report
- an agreed-upon procedures report
- a review of financial reports
- an audit report on prospective financial information or
- a combination of the above reports.

Regulatory financial forecasts means forecast information, referred to in sections 3 and 4 of these guidelines, which has been prepared using best-estimate and/or hypothetical assumptions.

Regulatory financial statements means the historic financial information pertaining to prescribed transmission services that includes the:

- statement of financial performance
- statement of financial position
- statement of cash flows
- notes to, and forming part of, the regulatory financial statements

prepared in accordance with these guidelines.

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

Related party means, in relation to all business segments within a TNSP either:

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

- (f) any entity that, at any time during the regulatory accounting period, is materially influenced by an entity with material influence over a TNSP
- (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
- (h) any director of a TNSP or any of their director-related entities
- (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
- (l) authorised trustee corporations (as defined in the Corporations Law)
- (m) fund managers
- (n) trade unions
- (o) statutory authorities
- (p) government departments or
- (q) local governments.

Review of financial reports means a review of a financial report, prepared in accordance with Australian Auditing Standard AUS 902. An auditor should carry out procedures sufficient to enable them 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 their attention that causes them to believe that the financial report is not prepared, in all material respects, in accordance with an identified financial reporting framework, e.g. the AER's *Information Requirements Guidelines*. The review report contains a clear written expression of negative assurance.

Statement of principles for the regulation of transmission revenue or Regulatory principles means statements of the AER's intent with regard to regulation of each TNSP's revenue cap as required by the National Electricity Rules.

Third party benefits has the meaning set out at paragraph 7.17 of the guidelines.

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 AER to be part of the network.

Transmission network assets has the same meaning given to it in the National Electricity Rules.

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: Pro forma statements for setting the revenue cap

Appendix B: Pro forma statements for annual reporting

Appendix C: Examples of regulatory audit reports and pro forma of a directors' responsibility statement

Example Audit Report on a Special Purpose Financial Report

Example Review of Financial Report

Example Report of Factual Findings from Agreed-Upon Procedures

Example Audit of Prospective Financial Information

Pro forma Directors' Responsibility Statement

Example: Audit report on a special purpose financial report

[Date]

General Manager
Transition Branch
Australian Energy Regulator
PO Box 520
Melbourne Vic 3001
Email: aer inquiry@aer.gov.au

The Chief Executive Officer
[*The TNSP*]

Dear _____

REGULATORY FINANCIAL STATEMENTS

PERIOD ENDED [*period end*]

Scope

We have audited the regulatory financial statements and other required statements, schedules and work papers (other required statements) of [the TNSP] for the regulatory accounting period ended 30 June [200x].

These statements are special purpose financial reports consisting of the statements, schedules and work papers listed in appendix B of the AER's *Transmission Network Service Provider Information Requirements Guidelines* set out on pages [] to [].

[The TNSP]'s directors are responsible for preparing and presenting the regulatory financial statements and other required statements. The directors have determined that the accounting principles and policies used are appropriate to meet the requirements of the AER's *Transmission Network Service Provider Information Requirements Guidelines*.

We have conducted an independent audit of the regulatory financial statements and other required statements to express an opinion on them to the AER and the directors on their preparation and presentation. No opinion is expressed about whether the accounting principles and policies used are appropriate to the needs of the

The statements have been prepared to fulfil the requirements of the AER. We have prepared this report to submit to the AER and for the disclosure of [the TNSP] and it is not to be used for any other purpose than that. We disclaim any responsibility for any reliance on this report, or on the regulatory financial statements and other required 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 statements, and the evaluation of significant accounting estimates. These procedures have been undertaken to form an opinion about whether, in all material respects, the regulatory financial statements and other required statements are presented fairly in accordance with the regulatory accounting principles and policies and the requirements of the AER. These principles and policies do not require all accounting standards be applied 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 and other required statements present fairly the financial position of [the TNSP] as at [period end], the results of its operations and its cash flows for the period then ended, as required by the AER.

Yours faithfully

[Name of Auditor]

Chartered Accountants

[Name of signatory]

[Position of signatory]

Example: Review of financial report

[Date]

General Manager
Transition Branch
Australian Energy Regulator
PO Box 520
Melbourne Vic 3001
Email: aerinquiry@aer.gov.au

The Chief Executive Officer
[*The TNSP*]

Dear _____

REGULATORY FINANCIAL STATEMENTS

PERIOD ENDED [*period end*]

Scope

We have reviewed the regulatory financial statements and other required statements, schedules and work papers of [the TNSP] for the regulatory accounting period ended 30 June [200x]. The regulatory financial statements and other required statements are listed in appendix B of the AER's *Transmission Network Service Provider Information Requirements Guidelines* set out on pages [] to [].

[The TNSP]'s directors are responsible for preparing and presenting the regulatory financial statements and other required statements and the information contained therein. We have reviewed the statements to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that they are not presented fairly as required by the AER.

The statements have been prepared to fulfil the AER's requirements. This report is for submission to the AER and for the directors of [the TNSP] and is not to be used for any other purpose. We disclaim any responsibility for any reliance on this report, or on the regulatory financial statements and other required 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 that apply to review engagements. A review is limited primarily to inquiries of company personnel and analysis of the financial data. These procedures do not provide all the evidence necessary in an audit, and thus the level of assurance 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 and other required statements of [the TNSP] for the period 30 June [200x], ended 30 June [200x], period end, does not fairly present the regulatory information in accordance with the AER's *Transmission Network Service Provider Information Requirements Guidelines*.

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
Transition Branch
Australian Energy Regulator
PO Box 520
Melbourne Vic 3001
Email: aerinquiry@aer.gov.au

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 and other required statements, schedules and work papers 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 that apply 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]. The procedures were performed solely to assist you in evaluating [e.g. the compliance of TNSP] with paragraphs [detail paragraphs considered] of the AER's *Transmission Network Service Provider Information Requirements Guidelines* 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 that apply to review engagements, we do not express any assurance on the regulatory financial

statements and other required statements of [the TNSP]. Had we performed additional procedures or an audit in accordance with Australian Auditing Standards or a review in accordance with the standards, 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 AER 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: 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. The review was carried out based on the requirements of AUS 804, adapted for review engagements under AUS 902.)

Source—Australian Auditing Standard 804 ‘Audit of prospective financial information’

[Date]

General Manager
Transition Branch
Australian Energy Regulator
PO Box 520
Melbourne Vic 3001
Email: aerinquiry@aer.gov.au

The Chief Executive Officer
[*The TNSP*]

Dear _____

PROSPECTIVE FINANCIAL INFORMATION

PERIOD ENDED [*period end*]

Scope

We have reviewed the forecast of [TNSP] for the [period] as set out on pages ... to The directors of [TNSP] are responsible for preparing and presenting the forecast and the information it contains, including the assumptions as set out in note ... on which the forecast is based. We have conducted an independent review of the forecast to express an opinion on it to the AER and the directors of [TNSP].

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

Our review has been conducted in accordance with Australian Auditing Standards that apply to review engagements. 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 so that we can 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. These procedures will also help us decide whether¹, 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 *Transmission network service provider information requirements guidelines* of the AER. The forecast must also be based consistently with the accounting policies adopted and disclosed by the entity in its audited financial report for the [period] ended [date]² 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.)³

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

Statement

Based on our review, which is not an audit, of the evidence supporting the assumptions, nothing has come to our attention that 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 ...
- (b) the forecast is presented fairly in accordance with:
 - (i) the AER's *Transmission Network Service Provider Information Requirements Guidelines*
 - (ii) on a basis consistent with the accounting policies adopted and disclosed by the entity in its audited financial report for the [period]⁴ ended [date] (except for the changes in accounting policies as disclosed in note ...).⁵

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.

¹ Include only in circumstances where best-estimate assumptions are presented with hypothetical assumptions.

² Where appropriate.

³ Include only in circumstances where best-estimate assumptions are presented with hypothetical assumptions.

⁴ Where appropriate.

⁵ Where appropriate.

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]

Example: Report on prospective financial information

(Example 2: Hypothetical assumptions—a projection. The review was carried out based on the requirements of AUS 804, adapted for review engagements under AUS 902)

Source—Australian Auditing Standard 804 ‘Audit of prospective financial information’

[Date]

General Manager
Transition Branch
Australian Energy Regulator
PO Box 520
Melbourne Vic 3001
Email: aer inquiry@aer.gov.au

The Chief Executive Officer
[*The TNSP*]

Dear _____

Scope

We have reviewed the projection of [TNSP] for the [period] as set out on pages ... to The directors of [TNSP] are responsible for preparing and presenting the projection and the information it contains, including the assumptions as set out in note ... on which the projection is based. We have conducted an independent review of the projection to express an opinion on it to the AER.

The projection has been prepared for distribution to the AER and the directors of [TNSP]] to help the AER set a revenue cap for [the TNSP]. We disclaim any responsibility for any reliance on this report or on the projection to which it relates to any person other than to [the AER [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 review has been conducted in accordance with Australian Auditing Standards that apply to review engagements. 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 so that we can 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. These procedures will also help us decide whether⁶, 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 AER's *Transmission Network Service Provider Information Requirements Guidelines* (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])⁷ 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.)⁸

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

Statement

(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.)⁹

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 projection.

In our opinion,

- (a) the projection is properly prepared on the basis of the assumptions as set out in note ...
- (b) the projection is presented fairly in accordance with:
 - (i) the AER's *Transmission Network Service Provider Information Requirements Guidelines*

⁶ Include only in circumstances where best-estimate assumptions are presented with hypothetical assumptions.

⁷ Where appropriate.

⁸ Include only in circumstances where best-estimate assumptions are presented with hypothetical assumptions.

⁹ Include only in circumstances where best-estimate assumptions are presented with hypothetical assumptions.

- (ii) a basis consistent with the accounting policies adopted and disclosed by the entity in its audited financial report for the [period] ended [date]¹⁰ (except for the changes in accounting policies as disclosed in note ...).¹¹

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 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*]

¹⁰ Where appropriate.

¹¹ Where appropriate.

Pro forma: Directors' responsibility statement for regulatory financial statements

In the opinion of the directors of [the TNSP]:

- the regulatory financial statements and other statements, schedules and work papers set out on pages [x] to [y] are drawn up to present fairly as required by the AER's *Transmission Network Service Provider Information Requirements Guidelines* issued [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 7.16 of the guidelines; [delete if inapplicable]
 - information concerning all third party benefit transactions required by paragraph 7.17 of the guidelines [delete if inapplicable]
 - information concerning all financing transactions required by paragraph 7.18 of the guidelines [delete if inapplicable]
- no related party transactions arose during the regulatory accounting period that require disclosure under paragraph 7.16 of the guidelines [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 7.17 of the guidelines [to be deleted only if disclosure is confirmed above]
- no financing transactions arose during the regulatory accounting period that require disclosure under paragraph 7.18 of the guidelines [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 AER's *Transmission Network Service Provider Information Requirements Guidelines* referred to above.

Signed in accordance with a resolution of directors:

[Name of director]	Dated
Director	

[Name of director]	Dated
Director	