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**Issue No. 2**

**Gas Industry Guideline No.17**  
**Regulatory Accounting Information Requirements**  
**Issue No. 2**

Essential Services Commission  
Level 2, 35 Spring Street  
Melbourne 3000, Australia  
Telephone +61 3 9651 0222  
Facsimile +61 3 9651 3688  
reception@esc.vic.gov.au  
[www.esc.vic.gov.au](http://www.esc.vic.gov.au)



## Contents

		<b>Page</b>
<b>1</b>	<b>INTRODUCTION</b>	<b>4</b>
1.1	The Purpose	4
1.2	Role of the Guideline	4
<b>2</b>	<b>THE NATURE OF THE GUIDELINE</b>	<b>6</b>
2.1	Authority and purpose	6
2.2	The Subject	7
2.3	Definitions and interpretation	7
2.4	Processes for revision	8
2.5	Financial Period – Financial Accounting Year	8
2.6	Version history and effective date	9
2.7	Explanations	9
2.8	Input from interested parties	9
<b>3</b>	<b>GENERAL PRINCIPLES OF PREPARATION</b>	<b>10</b>
3.1	Introduction	10
3.2	Regulatory Accounting Principles and Policies Criteria	11
3.3	Substance to prevail over legal form	11
3.4	Information provided shall be verifiable	11
3.5	Gas Regulatory Accounting Statements	12
3.6	Allocation Principles	13
3.7	Regulatory asset values	14
3.8	Time consistent application of accounting policies, unless disclosed otherwise	15
3.9	Materiality	16

3.10	Accounting records	16
3.11	Related Party Contracts	17
3.12	Directors' Responsibility Statement	17
<b>4</b>	<b>PROVISION OF AN AUDIT OPINION</b>	<b>18</b>
4.1	Introduction	18
4.2	Primary duty of care to the Commission	18
4.3	Appointing the auditor	18
4.4	Audit Reports	19
4.5	Lodgement of Regulatory Accounts	19
<b>5</b>	<b>INFORMATION REQUIREMENTS</b>	<b>20</b>
5.1	Introduction	20
5.2	Regulatory Accounting Statements	20
5.3	Timing	21
5.4	Regulatory Accounting Periods	21
5.5	Disaggregation	21
5.6	Disaggregation of Fixed Assets	22
5.7	Asset Categories	22
5.8	Customer Contributions / Government Contributions	23
5.9	Specific Items	23
5.10	Depreciation	23
5.11	Operating and Maintenance Cost Disclosure	24
5.12	Operating and Maintenance Cost Allocation	24
5.13	Executive Remuneration	25
5.14	Movements in provisions	26
5.15	Revenue Analysis and Other Measures	26
5.16	Disclosure of Ancillary Reference Services	27
5.17	Related Party Transactions	27
5.18	Third Party Transactions	28
5.19	Other expenditure	29
5.20	Non-recurring items	29

5.21	Income tax attributable to operating profit	30
5.22	Interest & Dividends	30
5.23	Retained Earnings & Change in Equity	30
5.24	Inflation Accounting Adjustments	30
5.25	Other Balance Sheet Items and Statement of Cash Flows	31
5.26	Other Information	31
5.27	Additions by taxation category	31
5.28	Labour costs	31
<b>6</b>	<b>GLOSSARY OF TERMS</b>	<b>32</b>
<b>APPENDIX 1</b>	<b>REGULATORY ACCOUNTING STATEMENTS</b>	<b>39</b>
<b>APPENDIX 2</b>	<b>PROFORMA DIRECTORS' RESPONSIBILITY STATEMENT</b>	<b>40</b>
<b>APPENDIX 3</b>	<b>ADDITIONAL INFORMATION REQUIREMENTS</b>	<b>41</b>
<b>APPENDIX 4</b>	<b>OPERATING EXPENDITURE COST CATEGORIES</b>	<b>42</b>
<b>APPENDIX 5</b>	<b>ASSET; CAPITAL AND MAINTENANCE EXPENDITURE CATEGORIES</b>	<b>53</b>
<b>APPENDIX 6</b>	<b>ANCILLARY REFERENCE SERVICE CHARGE COST CATEGORIES</b>	<b>57</b>

## 1 INTRODUCTION

This Guideline specifies the *Commission's* requirements for the collection, allocation and recording of business data by the *Licensee* in the supply of gas in Victoria via access arrangements approved by the *Commission* and covers a range of financial and non-financial information requirements specified by the *Commission*.

### 1.1 The Purpose

1.1.1 This Guideline sets out a mechanism for the collection of information and certain recurring substantive information requirements, to assist the *Commission* to fulfil its objectives and functions. The information provided to the *Commission* pursuant to this Guideline is intended to enable the *Commission* to undertake the following:

- to ensure the appropriate allocation of revenue and costs between the *Gas Distribution Business* and non *Gas Distribution Businesses*;
- to monitor costs approved for the current *Gas Regulatory Period* and otherwise to monitor compliance with the *Access Code*;
- to inform *Gas Access Arrangement Reviews* and to perform other functions under relevant Acts;
- improve the level(s) of transparency in the regulatory processes by the future publication of comparative performance reports; and
- generally to give effect to the objectives of the *Commission* as stated in the *Essential Services Commission Act 2001* and the *Gas Industry Act 2001*.

### 1.2 Role of the Guideline

1.2.1 This Guideline:

- details the nature of information that the *Commission* will require to monitor the *Licensee's* performance;
- explains the way in which a *Licensee* must prepare separate accounts and maintain its accounting records Gas Regulatory Accounting purposes; and
- outlines a mechanism by which information, that may be required by the *Commission* to fulfil its obligations and functions, may be collected.

- 1.2.2 The *Commission* will amend this Guideline from time to time to meet changing needs. The *Commission* will consult with the *Licensees* and other interested parties in respect of such amendments.
- 1.2.3 The *Commission* acknowledges that there may be commercial sensitivity attached to the disclosure of information concerning the *Non-Regulated* activities of the *Licensees* and has no present intention of disclosing such information. The *Commission* will consult with the *Licensees* in respect of the disclosure of information about their *Non-Regulated* activities to ensure that there is no inadvertent disclosure of confidential information relating to their *Non-Regulated* business activities.
- 1.2.4 The completed *Gas Regulatory Accounting Statements* must be submitted to the *Commission* in both hard copy and electronic versions 4 months from the end of the *Financial Accounting Year* for each *Licensee* in question. Electronic versions that include information set out in the format detailed in the templates at **Appendix 1** can be forwarded to [reception@esc.vic.gov.au](mailto:reception@esc.vic.gov.au)

## 2 THE NATURE OF THE GUIDELINE

### 2.1 Authority and purpose

2.1.1 This Guideline is published by the Commission by reference to the Commission's functions and powers including section 13 of the *Essential Services Commission Act 2001* and supports the *Commission's* objectives as stated in section 8 of that same Act and section 18 of the *Gas Industry Act 2001*. In publishing this Guideline the Commission also refers to section 11(1) of the *Essential Services Commission Act 2001* and section 29(c) of the *Gas Industry Act 2001* in conjunction with section 18 of that Act and sections 8, 10(a), 11(2) and 13 of the *Essential Services Commission Act 2001*. In addition, in publishing this Guideline the Commission refers to section 4.2 of the *Access Code* in relation to issue of the separation of accounts.

2.1.2 Clause 6 of the *Gas Distribution Licences* provides that:

- the *Licensee* must provide to the *Commission*, in the manner and form and at a time decided by the *Commission* and notified to the *Licensee*, such information as the *Commission* may from time to time require; and
- the *Licensee* must ensure that separate accounts are prepared for its *Gas Distribution Business* in accordance with any applicable *Commission* guidelines published for this purpose.

This Guideline specifies information requirements and constitutes an accounting guideline for the purpose of these provisions.

2.1.3 This Guideline (other than sections 2.5.2, 3.5.4, 3.11, 4, 5.2.3 {insofar as they relate to the delivery of a *Gas Regulatory Audit Report* and *Report to the Commission and Licensee*}, section 5.3.2 and sections 5.9, 5.15.1 and 5.26 {insofar as they relates to the delivery of non-financial information contained in Template 4c and Template 10 of Appendix 1 and Appendix 3}) also constitutes a general accounting guideline for the purpose of section 4.2(a) of the *Access Code*.



2.1.4 The Commission notes that under section 21(5) of the *Gas Pipelines Access (Victoria) Act 1998*, when acting in its capacity as the local Regulator within the meaning of the Gas Pipelines Access (Victoria) Law, it may perform and exercise only such functions and powers as are conferred on it by that Law or by the gas pipelines access legislation of another scheme participant. Accordingly, the Commission will not use information provided under this Guideline when acting in its capacity as the local Regulator within the meaning of the Gas Pipelines Access (Victoria) Law except to the extent that such information is obtained within the scope of section 2.1.3 or otherwise by exercise of the functions and powers conferred on it by the Gas Pipelines Access (Victoria) Law or the gas pipelines access legislation of another scheme participant.

## 2.2 The Subject

2.2.1 *Gas Regulatory Accounts* and *Gas Regulatory Accounting Statements* must be prepared for a *Gas Distribution Business* by the *Licensee* annually for each *Access Arrangement* approved by the *Commission*. Any revenue earned, asset utilised and liability or cost incurred in carrying out the activities authorised by the *Gas Distribution Licence* by the *Licensee* and/or a *Related Party* of the *Licensee* must be reported in the *Gas Regulatory Accounts* and the *Gas Regulatory Accounting Statements*. Such revenue, cost element, asset and liability items that when combined constitute the whole of the regulatory accounting information for the *Gas Distribution Business* must have their origin in audited *Base Accounts* that include the entirety of the activities of the *Gas Distribution Business* and/or the audited accounts of the relevant *Related Parties*.

2.2.2 This Guideline specifies minimum requirements. This Guideline must be read in conjunction with the **Appendices**. The templates at **Appendix 1** are included to assist in the provision of the *Gas Regulatory Accounting Statements*.

2.2.3 The obligation of a *Licensee* to comply with the *Commission's* Guidelines:

- is additional to any obligation imposed under any other law applying to the *Licensee's* business; and
- does not derogate from such an obligation.

## 2.3 Definitions and interpretation

In this Guideline:

- the words and phrases defined in the glossary have the meaning given to them in that glossary; 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.

## 2.4 Processes for revision

2.4.1 The *Commission* proposes to amend and expand this Guideline from time to time to meet the needs of *Licensees*, customers and the *Commission*, in the context of, but not be limited to:

- changing circumstances, including changes in the regulatory framework;
- developments at the national and state level;
- the creation of new services and products by *Licensees*;
- changes to organisational structures by *Licensees*; and
- changes in Australian Accounting/Auditing Guidelines/Standards and other relevant statutory provisions concerning “disclosure” that affect the *Licensee*.

2.4.2 In revising this Guideline, the *Commission* will comply with its Charter of Consultation and Regulatory Practice, under which it will:

- state its intention;
- call for input from industry participants and other interested parties;
- have regard to that input, develop a draft and publish it for comment by industry participants and other interested parties; and
- have regard to the comments received on the draft, develop and publish a revised Guideline.

## 2.5 Financial Period – Financial Accounting Year

2.5.1 *Gas Regulatory Accounting Statements* shall align with the *Financial Accounting Year* reporting period for each Licensee. Each *Licensee* was required to inform the *Commission* by 1 August 2005 of the *Financial Accounting Year* reporting period to be adopted. Thereafter, each *Licensee* is to inform the *Commission*, as soon as it is known by the *Licensee*, of any change to the *Financial Accounting Year* reporting period to be adopted.

2.5.2 The *Commission* also requires *Licensees* to provide high level calendar year information for input into the *Commission*'s annual comparative report. This high level information is to be submitted by 31 March of each year consistent with clause 5.3.2.

## 2.6 Version history and effective date

- 2.6.1 Every version of this Guideline will be identified by an issue number and date of issue.
- 2.6.2 This version (Issue No. 2) of the Guideline will become effective on the date of issue, 25 June 2008. The first *Gas Regulatory Accounting Statements* will be required to be submitted during 2009 for the latest *Financial Accounting Year* completed on or before 31 December 2008.
- 2.6.3 For all substantial revisions to this Guideline an effective date will be nominated which is expected to be not less than **six** months prior to the end of the *Gas Regulatory Accounting Period* to which it will apply.

## 2.7 Explanations

It should be noted that explanations in this Guideline as to why certain information is required are a guide only and should not be taken to limit in any way the *Commission's* objectives, functions or powers.

## 2.8 Input from interested parties

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:

Essential Services Commission  
Level 2, 35 Spring Street  
Melbourne VIC 3000  
Facsimile: (03) 9651 3688

### 3 GENERAL PRINCIPLES OF PREPARATION

#### 3.1 Introduction

- 3.1.1 The details set out in this section are guiding principles that have been developed to assist the *Licensee* in the preparation of the *Gas Regulatory Accounting Statements*. These guiding principles are to be considered in conjunction with the templates at **Appendix 1** and with **Appendices 2** through **6** inclusive.
- 3.1.2 It is the responsibility of the *Licensee* to prepare and provide the gas regulatory accounting information contained in the *Gas Regulatory Accounting Statements* to the *Commission* in the format required and detailed in **Appendix 1**.
- 3.1.3 Where the *Gas Regulatory Accounting Statements* record transactions associated with any outsourcing of *Gas Distribution Business* activities to a *Third Party*, the *Licensee* must ensure that such costs are reported in the *Gas Regulatory Accounting Statements* under each of the appropriate cost categories set out in **Appendix 1**.
- 3.1.4 The *Gas Regulatory Accounting Statements* prepared by the *Licensee* must include actual cost and revenue data for the *Financial Accounting Year* in question and not the annualised forecast quantity approved by the *Commission* for the *Gas Regulatory Period*.
- 3.1.5 In preparing the *Gas Regulatory Accounting Statements* the *Licensee* must not include *Full Retail Competition Costs* and revenues recovered through the Cost Recovery Order in Council (FRC Cost Recovery Order) as part of the *Reference Service* or *Ancillary Reference Service* business segments detailed in the *Gas Regulatory Accounting Statements*. *Full Retail Competition Costs* and revenues are to be recorded separately in the *Gas Regulatory Accounting Statements* as part of the adjustments to the audited *Base Account* amounts upon which all *Gas Distribution Business* costs are sourced. The costs and revenues associated with Full Retail Competition must be separately identified as a specific *Adjustment* in the appropriate section of the templates at **Appendix 1**. Further details of other *Adjustments* must be detailed in *Workpapers* that support the templates at **Appendix 1**. The specific purpose and requirements of the *Workpapers* are described in section 3.1.6.
- 3.1.6 *Workpapers* must contain detailed information that provides a clear audit trail for the disaggregation of costs and revenues from the audited *Base Accounts* to *Reference Services*, *Ancillary reference Services* and other business segments as described. *Workpapers* may also contain other information as required by the *Commission*, such as non-financial information. *Workpapers* must be template specific. The templates at **Appendix 1** detail the information requirements of each *Workpaper*.

### **3.2 Regulatory Accounting Principles and Policies Criteria**

3.2.1 *Gas Regulatory Accounting Principles and Policies* must be selected and applied by a *Licensee*:

- such that there is a recognisable and rational economic basis that underlies their utilisation; and
- in a manner which 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.

3.2.2 A *Licensee's Gas Regulatory Accounting Principles and Policies* must be disclosed to the *Commission* in a manner which ensures that the *Commission* may understand the resultant *Gas Regulatory Accounting Statements* and can make comparisons between them over time. The principles and policies are to be disclosed with the annual provision of the *Gas Regulatory Accounting Statements*.

3.2.3 *Gas Regulatory Accounting Principles and Policies* shall conform to the Australian Accounting Standards wherever possible.

3.2.4 The *Gas Regulatory Accounts* need to be internally consistent.

### **3.3 Substance to prevail over legal form**

3.3.1 *Gas Regulatory Accounting Statements* shall report the substance of transactions.

3.3.2 Where substance and form differ, the substance rather than the legal form of a transaction or event shall be reported.

3.3.3 In determining the substance of a transaction, all its aspects and implications shall be considered, including the expectations of, and motivations for, the transaction.

3.3.4 For the purposes of determining the substance of a transaction, a group or series of transactions that achieves, or is designed to achieve, an overall commercial effect shall be viewed in aggregate.

### **3.4 Information provided shall be verifiable**

3.4.1 A *Licensee* must maintain accounting and reporting arrangements which:

- enable *Gas Regulatory Accounting Statements* to be prepared; and
- provide information in the *Gas Regulatory Accounting Statements* that can be verified by reference to audited *Base Accounts*. *Workpapers* must be provided by the *Licensee* which detail the *Adjustments* to the *Base Accounts* that lead to the *Gas Distribution Business Base Amount* presented in the *Gas Regulatory Accounting Statements*. Also, *Workpapers* must detail the disaggregation of the *Gas Distribution Business Base Amount* to *Reference Service*, *Ancillary Reference Service* and other categories as described in the templates at **Appendix 1**.

3.4.2 Information shall be presented in *Gas Regulatory Accounting Statements* in the most understandable manner, without sacrificing relevance or reliability.

### 3.5 Gas Regulatory Accounting Statements

3.5.1 *Gas Regulatory Accounting Statements* shall be prepared for the *Gas Distribution Business*. They shall be derived from the *Base Accounts* of the *Licensee* and include any revenue earned, asset utilised and liability or cost incurred by *Related Parties* of the *Licensee* so that they contain the entirety of the activities of the *Gas Distribution Business* by:

- eliminating non *Gas Distribution Business* costs;
- eliminating *Adjustments* not permitted by this Guideline;
- including *Adjustments* that are required by this Guideline;
- not consolidating amounts from *Base Accounts* of *Entities* not involved in the provision of services to meet the obligations of the *Licensee*; and
- consolidating or disaggregating *Base Account* amounts within an *Entity* to conform to the prescribed form of *Gas Regulatory Accounting Statements*.

3.5.2 Where a *Base Account* amount has been consolidated or disaggregated in the *Gas Regulatory Accounting Statements* a *Workpaper* must accompany the *Gas Regulatory Accounting Statements* reconciling the *Base Account* amount shown in the *Gas Regulatory Accounting Statement* to the *Base Account* amount in the *Base Accounts* of the Entity.

3.5.3 The movement from *Base Account* to the *Gas Distribution Business Base Amount* will be clearly reported in the *Gas Regulatory Accounting Statements*. The templates at **Appendix 1** require the *Licensee* to detail the amount of any *Adjustment* to the *Base Account* amounts that results in the specific *Gas Distribution Business Base Amounts*

costs reported in the *Gas Regulatory Accounting Statements*. A *Workpaper* must accompany the *Gas Regulatory Accounting Statements* reconciling the *Adjustment* to provide an audit trail to evidence the disaggregation of the audited *Base Accounts* into *Gas Distribution Business Segments*.

3.5.4 If some or all of the activities of a *Gas Distribution Business* are carried out by a *Related Party* that does not have audited accounts, all financial representations of distribution activities in such an *Entity* must be audited by the *Auditor* as set out in section 4 of this Guideline.

### 3.6 Allocation Principles

3.6.1 The allocation of audited *Base Accounts* between *Gas Distribution Business* and non *Gas Distribution Business* activities and across *Gas Distribution Business Segments* shall be based on the principle that:

- items which are *Directly Attributable* to the *Gas Distribution Business* and a *Gas Distribution Business Segment* are assigned accordingly; and
- items not *Directly Attributable*, shall be allocated to the *Gas Distribution Business* and across *Gas Distribution Business Segments* using an appropriate allocator, as indicated in the following paragraphs.

3.6.2 An item may be *Directly Attributable* to the *Gas Distribution Business* but not be *Directly Attributable* to a *Gas Distribution Business Segment*. In this circumstance the allocation across *Gas Distribution Business Segments* will be made using an appropriate allocator as indicated in the following paragraphs.

3.6.3 Items that are not *Directly Attributable* are to be allocated on a *Causation Basis*. Allocation based on avoidable cost is not permitted.

3.6.4 A *Licensee* shall produce for each item that has not been *Directly Attributed* to the *Gas Distribution Business* and/or *Gas Distribution Business Segment* a supporting *Workpaper* that includes:

- the amounts that have been allocated to the *Gas Distribution Business* and/or *Gas Distribution Business Segment* and amounts that have not been so allocated;
- a description of the method of allocation and reasons for choosing that method; and
- the numeric quantity of each allocator.

The *Workpaper* is to also contain a reconciliation of the costs allocated to the *Gas Distribution Business* and/or *Gas Distribution Business Segment* to the costs in the audited *Base Accounts*.

3.6.5 If a **Causal Relationship** cannot be established without undue cost and effort, the **Licensee** shall provide the **Commission** with a separate list of these items indicating a description and amount. The **Licensee** may effect an allocation of these items on a **Non-Causal Basis**, provided it is accompanied by a supporting note documenting for each such item:

- a defensible basis of allocation that recognises the benefit that different **Gas Distribution Business Segments** and other cost category or business segments gain;
- the reason for choosing that basis; and
- an explanation why no **Causal Relationship** could be established.

*Workpaper A* contains a proforma template for non-causal allocations.

3.6.6 **Non-Causal Bases** of allocation shall only be applied to the extent that the aggregate of all items subject to all **Non Causal Bases** of allocation is not **Material** to the **Gas Regulatory Accounting Statements**.

3.6.7 Bases of allocation may be subject to the review of the **Commission**. The **Commission** expects to only accept a **Non-Causal Basis** if a **Licensee** 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 those costs represent; or when the cost to derive the causal allocation outweighs the benefits of allocating items on that basis.

### 3.7 Regulatory asset values

3.7.1 Asset Revaluations or adjustments for impairment (whether increasing or decreasing asset values) are not permitted unless they are specifically agreed to or required by the **Commission**. Revaluations or **Adjustments** for impairment (whether increasing or decreasing asset values) made in **Statutory Accounts** must be eliminated via **Adjustments** to ascertain the **Gas Regulatory Account** value unless specifically agreed to by the Commission.

3.7.2 Capital work-in-progress must not be shown under a work-in-progress heading. It is a requirement, however, that capital works expenditure **must** be recorded as an actual cost against the asset category appropriate to that expenditure. **Asset categories** are specifically defined in this guideline as **Mandatory Headings** that are detailed in each template at **Appendix 1. Mandatory Headings** are further described in the Glossary.



3.7.3 Goodwill is **not** permitted in *Gas Regulatory Accounts*. It must be eliminated as an *Adjustment* between *Base Accounts* and *Gas Regulatory Accounts*.

### **3.8 Time consistent application of accounting policies, unless disclosed otherwise**

3.8.1 A *Licensee* shall present on a fair and consistent basis, from the accounting records that underlie its *Gas Regulatory Accounts*, the actual costs, revenues, assets employed and liabilities that may be reasonably attributed to the *Gas Distribution Business*.

3.8.2 *Gas Regulatory Accounting 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 3.8.3 below and use the accounting principles and policies applicable to the *Base Accounts* except where accounting policy is specifically mandated by this guideline.

3.8.3 A *Licensee* shall provide to the *Commission* as part of the *Gas Regulatory Accounting Statements* full and detailed documentation of:

- any *Gas Regulatory Accounting Principles and Policies* adopted in the preparation of the *Gas Regulatory Accounting Statements* (other than the principles and policies set out in this *Guideline*); and
- any changes since the preceding *Gas Regulatory Accounting Statements* were prepared, in either the accounting principles and / or policies used to prepare its *Gas Regulatory Accounting Statements*, or its *Gas Regulatory Accounting Principles and Policies*; and
- where there has been such a change a *Licensee* shall disclose to the *Commission*:
  - - The nature of the change;
  - - The reasons for the change; and
  - - The quantification of the effect of the change on the *Gas Regulatory Accounting Statements* in the current period and comparative values, that is, the values that would have applied in the preceding *Gas Regulatory Accounting Statement* had the changed accounting principle and / or policy been adopted for the purposes of that *Gas Regulatory Accounting Statement*.
- information that confirms that costs have been appropriately allocated between jurisdictions; related business entities; or access arrangements. The statements shall include a *Workpaper* that discloses the cost categories where costs are shared between jurisdictions; related business entities or access arrangements; the actual costs allocated between jurisdictions; related business entities or access arrangements,

and a statement explaining the cost allocation methods employed. *Workpaper B* in **Appendix 1** details a sample Shared Costs *Workpaper*.

### 3.9 Materiality

3.9.1 An item is *Material* if its omission, misstatement or non-disclosure has the potential to prejudice the understanding of the financial position and nature of the *Gas Distribution Business* and *Gas Distribution Business Segments* gained by an assessment of the *Gas Regulatory Accounting Statements*.

#### Explanation

The concept of materiality as it applies to the purpose of these *Gas Regulatory Accounting Statements* dictates that qualitative factors are as important as quantitative factors. Further, this Guideline deems that the accurate allocation of any revenue earned, asset utilised, liability or cost incurred is paramount in terms of required information needs of the *Commission* and the user(s) of the *Gas Regulatory Accounting Statements*.

Therefore, for the purposes of *Materiality* in relation to allocation, the *Materiality* level chosen must be set at a level to ensure that any revenue earned, asset utilised, liability or cost incurred which is reported in the *Gas Regulatory Accounting Statements* properly reflects the activities of the *Gas Distribution Business*.

The *Commission* will not assess an item of revenue or expense as *Material* or *Immaterial* based on its dollar value alone, but will assess whether an item has been correctly treated based on a combination of the dollar balance and the allocation of the balance. Therefore, a licensee must ensure that the *Materiality* level set when preparing the *Gas Regulatory Accounting Statements* is sufficient to meet the *Commission's* allocation objective.

### 3.10 Accounting records

3.10.1 A *Licensee* shall ensure that it keeps accounting records that:

- properly record and explain the transactions and financial position of the *Gas Distribution Business*; and
- enable *Gas Regulatory Accounts* and *Gas Regulatory Accounting Statements* to be prepared in accordance with this Guideline.

3.10.2 A *Licensee* shall also ensure that it retains the accounting records from which *Gas Regulatory Accounts* and *Gas Regulatory Accounting Statements* are prepared for a

period of no less than seven years (and as provided in the *Corporations Act*) after the completion of the transactions to which they relate.

### 3.11 Related Party Contracts

A *Licensee* shall provide to the Commission a copy of any agreement between the Licensee and a *Related Party* established for the purpose of operating the *Gas Distribution Business*.

### 3.12 Directors' Responsibility Statement

3.12.1 A *Licensee's Directors* are responsible for the preparation and presentation of the *Gas Regulatory Accounts* and *Gas Regulatory Accounting Statements*, and the information they contain.

3.12.2 The *Licensee* shall attach to the *Licensee's Regulatory Accounting Statements* each of the types of *Directors' Responsibility Statement* in the form set out in **Appendix 2**. Each such statement shall be signed by the persons indicated in **Appendix 2**, dated and, in the case of the Directors' Accounting Responsibility Statement, accompanied by an extract from the Board's minutes that confirms that the *Gas Regulatory Accounts* are true and fair.

3.12.3 **Appendix 2** sets out the format of a *Directors' Responsibility Statement*.

## 4 PROVISION OF AN AUDIT OPINION

### 4.1 Introduction

- 4.1.1 The financial information presented in the *Gas Regulatory Accounting Statements* must be adequately and independently audited with all *Auditor Reports* prepared by an *Auditor* under Australian Auditing Standards. The non-financial information presented in template 4c and template 10 of **Appendix 1** is not required to be audited.
- 4.1.2 A *Licensee* shall ensure that it keeps accounting records that allow an *Auditor* to readily and properly form an opinion on the *Gas Regulatory Accounts* and *Gas Regulatory Accounting Statements* in accordance with the requirements of this section 4.

### 4.2 Primary duty of care to the Commission

- 4.2.1 Audits should be conducted objectively and independently.
- 4.2.2 To reinforce the integrity of the audit process and promote stakeholder and specifically *Commission* confidence in the audit, the *Auditor* must have a formal duty of care to the *Commission* to conduct audits independently and objectively. *Auditors* may be placed in a position of conflict between a duty to the *Licensee* and their duty to the *Commission*. In such an event, the *Auditor's* primary duty must be to the *Commission*.
- 4.2.3 The duty of care will be formalised in a tripartite deed between the *Commission*, the *Licensee* and the *Auditor* to ensure that it is directly enforceable by the *Commission*.

### 4.3 Appointing the auditor

- 4.3.1 The audit firm selected by the *Licensee* must first be approved by the *Commission* prior to the conduct of an audit.
- 4.3.2 To obtain approval of the *Auditor*, the *Licensee* must submit an annual request to the *Commission* for approval. The *Commission* will consider existing relationships and potential conflicts in determining whether to approve an appointment.
- 4.3.3 The audit team must be led by a Partner or Principal of the audit firm. A Partner on behalf of the appointed audit firm must sign and take responsibility for the *Audit Report*.

- 4.3.4 The audit team must comprise qualified, experienced personnel possessing no less a standard of expertise than would be required to conduct Statutory Account audits acceptable to the Australian Securities and Investments Commission.
- 4.3.5 The Guideline requirements, including those for independence extend to any sub-contractors engaged by the audit firm.

#### **4.4 Audit Reports**

- 4.4.1 A *Gas Distribution Business* shall deliver to the *Commission* a *Gas Regulatory Audit Report* in the form of a *Special Purpose Financial Report* unless the *Commission* notifies a *Gas Distribution Business* in writing of a requirement for another form of *Gas Regulatory Audit Report*.
- 4.4.2 Where a *Gas Regulatory Audit Report* or *Report to the Commission and the Licensee* is critical of, or highlights deficiencies in the *Gas Regulatory Accounting Statements*, the *Commission, Licensee* and *Auditor* shall meet to discuss those issues. The *Commission* may liaise with the *Auditor* and *Licensee* to resolve the issue and / or require the *Licensee* to amend the *Gas Regulatory Accounting Statements* in response to such criticisms and/or deficiencies.
- 4.4.3 In making any notification of the form of a required *Auditor's* report, the *Commission* may set out specific reporting requirements for an *Agreed-upon Procedures Report*.

#### **4.5 Lodgement of Regulatory Accounts**

- 4.5.1 *Licensees* are responsible for ensuring that a signed *Gas Regulatory Audit Report* and a *Report to the Commission and the Licensee* (where appropriate) are delivered to the Commission in hard copy and in electronic versions ([reception@esc.vic.gov.au](mailto:reception@esc.vic.gov.au)) by the end of the fourth calendar month following the end of the *Licensee's Financial Accounting Year*.
- 4.5.2 Specific note must be taken of the definition of a *Gas Distribution Business* and the scope of the *Gas Regulatory Accounting Statements* as defined by this Guideline in sections 2.2 and 3.5.

## 5 INFORMATION REQUIREMENTS

### 5.1 Introduction

The purpose of Part 5 - Information Requirements is to provide assistance to *Licensees* concerning the information that is to be included to facilitate the completion of the templates at **Appendix 1**.

### 5.2 Regulatory Accounting Statements

5.2.1 *Gas Regulatory Accounting Statements* shall be prepared in accordance with this Guideline.

5.2.2 Financial information contained in the annual *Gas Regulatory Accounting Statements* provided by the *Licensees* shall be actual information for the period under consideration and be sourced directly from the *General Ledger* that records the *Licensee's* actual *Base Account* costs of the *Gas Distribution Business*.

5.2.3 A *Licensee* shall also deliver to the *Commission*:

- the *Base Accounts* of the *Entities* referred to in the *Gas Regulatory Accounting Statements* of the *Gas Distribution Business*;
- the *Chart of Accounts* of the *Entities* referred to in the *Gas Regulatory Accounting Statements* of the *Gas Distribution Business* that underlie the *Base Accounts*. This information shall be sufficient to enable the *Commission* to understand the relationships between the *Entity's* or *Entities' General Ledger* and the *Mandatory Headings* disclosed in the *Gas Regulatory Accounting Statements*;
- a *Gas Regulatory Audit Report* and *Report to the Commission and Licensee* (where appropriate) on *Gas Regulatory Accounting Statements* for the *Gas Regulatory Accounting Period* as specified in Clause 4 of this Guideline;
- a *Directors' Responsibility Statement* for the *Gas Regulatory Accounting Statements*; and
- details of all accounting principles and policies, including specific *Gas Regulatory Accounting Principles and Policies* and any details of changes or developments that may be additional to or in place of the accounting principles and policies outlined in this Guideline.

5.2.4 To ensure that the information provided is consistent with this Guideline and facilitates interpretation and comparability the *Gas Regulatory Accounting Statements* must follow

the *Mandatory Headings*. The *Mandatory Headings* are the same as those developed during the *Gas Access Arrangement Review 2002*.

5.2.5 **Appendix 1** to this Guideline specifies for the *Gas Regulatory Accounting Statements*:

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

### 5.3 Timing

5.3.1 As already cited in clause 1.2.4, a *Licensee* shall deliver to the *Commission*, both in hard copy and electronic versions ([reception@esc.vic.gov.au](mailto:reception@esc.vic.gov.au)), the information specified in this Guideline within 4 calendar months from the end of the *Financial Accounting Year* to which the *Gas Regulatory Accounting Statements* relate. (The first set of *Gas Regulatory Accounting Statements* must be submitted during 2005, to account for the *Licensee's* preceding *Financial Accounting Year*).

5.3.2 Additionally, the *Licensee* shall deliver to the *Commission* high level calendar year information by 31 March of each year. This high level information is detailed in template 14 of **Appendix 1**.

### 5.4 Regulatory Accounting Periods

5.4.1 A *Gas Regulatory Accounting Period* shall be the specific *Financial Accounting Year* adopted by each Licensee unless the *Commission* should specify otherwise.

5.4.2 A *Gas Regulatory Accounting Period* shall cover a continuous period.

### 5.5 Disaggregation

#### *Distribution and Non Gas Distribution Allocation*

5.5.1 The allocation of *Base Account* amounts between the Victorian *Gas Distribution Business* and the non *Gas Distribution Business* parts of an entity must be made in accordance with the allocation principles detailed in section 3.6 of this Guideline.

#### *Gas Distribution Business Segment Allocation*

5.5.2 After the allocation of *Base Account* amounts between the Victorian *Gas Distribution Business* and the non *Gas Distribution Business* a further allocation across *Gas*

*Distribution Business Segments* will be necessary. This allocation must also be made in accordance with the allocation principles detailed in section 3.6 of this Guideline.

## 5.6 Disaggregation of Fixed Assets

5.6.1 Fixed Assets shall be either *Directly Attributed* to the *Gas Distribution Business* and *Gas Distribution Business Segment* or allocated on a *Causation Basis* in accordance with the principles set out in 3.6 of this Guideline. Where assets are used in both *Gas Distribution Business* and non *Gas Distribution Business* areas or in more than one *Gas Distribution Business Segment*, the asset will need to be appropriately allocated between them.

### *Disclosure*

The *Gas Regulatory Accounting Statements* shall include a *Workpaper* that discloses for each *Asset Category* the value of assets that are an allocation rather than whole assets and:

- a description of the basis of allocation used;
- a quantification of the allocators applied; and
- the corresponding amount of cost allocated.

5.6.2 Additions and disposals shall be disclosed separately and not netted off.

5.6.3 Transfers between *Asset Categories* shall be disclosed separately and not netted off.

5.6.4 The pro forma *Gas Regulatory Accounting Statements* in **Appendix 1** show how Assets will be reported.

5.6.5 Opening Fixed Asset values in the *Gas Regulatory Accounting Statements* must equal closing Fixed Asset values from the preceding *Gas Regulatory Accounting Period*.

## 5.7 Asset Categories

5.7.1 Assets shall be reported by the *Asset Categories* specified in **Appendix 1** and defined in **Appendix 6** for the purposes of reporting balances and movements in the gross book value, accumulated depreciation and hence, the net book value of the assets utilised in the *Gas Distribution Business*.

5.7.2 *Asset Category* headings shall be applied consistently:

- across fixed asset templates at **Appendix 1**; and



- between *Gas Regulatory Accounting Periods*.

5.7.3 For all categories of additions, the amount that represents allocated *Direct Overhead Costs* and *Indirect Overhead Costs* shall be disclosed and this should be accompanied by a *Workpaper* that details the allocation of overheads that includes:

- a description of the basis of allocation used;
- a quantification of the allocators applied; and
- the corresponding amount of cost allocated.

5.7.4 Where the policy has varied for past periods, this change and the impact of the change should also be described.

## 5.8 Customer Contributions / Government Contributions

5.8.1 Where, for *Base Account* purposes, customer contributions or government contributions have been treated as revenue and the corresponding amount has been taken up into assets, the revenue item must not be carried forward into the *Gas Regulatory Accounts*. The asset value shall also be reversed such that it does not form part of the *Regulatory Assets*.

5.8.2 Where customer contributions or government contributions have been credited to asset values, the Fixed Assets *Workpaper* shall disclose the amount of customer contributions or government contributions credited to asset balances as provided for in the **Appendix 1** pro-forma.

5.8.3 Where a *Gas Distribution Business* credits customer contributions or government contributions to *Operating Costs*, the *Operating Costs Workpaper* shall disclose the amount of customer contributions or government contributions credited to cost balances.

## 5.9 Specific Items

The *Gas Regulatory Accounts* require the *Licensee* to provide information on specific items approved for the current *Gas Regulatory Period* and detailed in the *Gas Access Arrangement Final Decision 2002*. The specific items are detailed in Template 4c of **Appendix 1** and require the *Licensee* to provide actual expenditure and non-financial information associated with that expenditure.

## 5.10 Depreciation

- 5.10.1 A depreciation charge should be attributed to the *Gas Distribution Business* and the *Gas Distribution Business Segment* that employs the asset that gives rise to the charge in accordance with the principles set out in section 3.6 of this Guideline.
- 5.10.2 The *Gas Regulatory Accounting Statements* need to fairly state the financial position of each *Gas Distribution Business Segment*.
- 5.10.3 Depreciation charges on assets detailed in the *Gas Distribution Business Segments* shall be accounted for on bases consistent with the regulatory depreciation bases used by the Licensee for the assets under consideration. The assets are also to be pro-rated using the economic asset life for the specific assets for the purchase year:

## 5.11 Operating and Maintenance Cost Disclosure

The *Gas Regulatory Accounting Statements* shall:

- disclose *Maintenance Costs* separately from *Operating Costs*;
- disclose *Operating Costs* by the *Activity Areas* defined in **Appendix 4** and recorded as set out in **Appendix 1**;
- disclose *Maintenance Costs* in accordance with the *Asset Categories* defined in **Appendix 5** and recorded in the template at **Appendix 1**;
- disclose the disaggregation of the *Operating Costs* and *Maintenance Costs* of the *Gas Distribution Business* disclosed by each *Activity Area* or *Asset Category*, across *Gas Distribution Business Segments*; and
- provide or explain the link to, the *Base Account* that is the source for amounts allocated to each *Activity Area or Asset Category*.

## 5.12 Operating and Maintenance Cost Allocation

- 5.12.1 *Operating Costs* and *Maintenance Costs* shall be either *Directly Attributed* to the *Gas Distribution Business* and *Gas Distribution Business Segment* or allocated on a *Causation Basis* in accordance with the principles set out in section 3.6 of this Guideline.
- 5.12.2 The allocation of a cost should reflect the consumption, or utilisation, of a resource or service as referred to in section 3.6 of this Guideline.

*Disclosure of Bases Of Cost Allocation*

- 5.12.3 In disaggregating *Operating Costs* and *Maintenance Costs* between *Gas Distribution Business* and non *Gas Distribution Business* and for the *Gas Distribution Business* across *Gas Distribution Business Segments*, a cost may be considered to be either:
- a cost that can be *Directly Attributed* wholly and exclusively, or
  - a cost that needs to be allocated on the basis of the principles set out in section 3.6 of this Guideline.
- 5.12.4 The *Gas Regulatory Accounting Statements* shall include a *Workpaper* that discloses for each *Maintenance Cost Asset Category* and each *Operating Cost Activity Area*:
- the amount of costs within the *Activity Area* or *Asset Category*, that can be *Directly Attributed*; and
  - for the costs that are allocated to the *Activity Area* or *Asset Category*:
    - a description of the basis of allocation used;
    - a quantification of the allocators applied; and
    - the corresponding amount of cost allocated.
- 5.12.5 The total of the costs for which this information is disclosed shall agree with the total *Operating Costs* and *Maintenance Costs* disclosed by the note described in paragraph 5.11.

## 5.13 Executive Remuneration

- 5.13.1 The *Gas Regulatory Accounting Statements* shall disclose:
- the *Executive Remuneration* for the *Gas Distribution Business*; and
  - the number of *Executives* who are the recipients of *Executive Remuneration* in the *Gas Distribution Business* including *Related Parties* of the *Licensee* directly attributable to the operation of the *Gas Distribution Business*.
- 5.13.2 The number of *Executives* disclosed shall be derived on the basis of an actual headcount, not time apportionment.
- 5.13.3 The disaggregation of *Executive Remuneration* shall be in accordance with the principles set out in section 3.6 of this Guideline.

5.13.4 The figures disclosed for ***Executive Remuneration*** must be verifiable by reference to the ***Gas Distribution Business's*** underlying accounting records.

## **5.14 Movements in provisions**

5.14.1 ***Workpapers*** shall be added to the ***Gas Regulatory Accounting Statements*** sufficient to provide a reconciliation and explanation of all provisions disclosed by the ***Gas Regulatory Accounting Statements***.

5.14.2 The disaggregation of provisions must follow the principles set out in section 3.6 of this Guideline.

### *Disclosure*

5.14.3 The following information shall be provided for each significant ***Provision*** identified by the Licensee and in total for all other provisions in the ***Gas Distribution Business***:

- the balance at the beginning of the ***Gas Regulatory Accounting Period***;
- amounts set aside 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 ***Gas Regulatory Accounting Period***.

5.14.4 The balance of a provision at the beginning of the ***Gas Regulatory Accounting Period*** must equal the balance at the end of the preceding ***Gas Regulatory Accounting Period***.

5.14.5 Provisions for inventories and receivables must be included as part of the provisions disclosed.

## **5.15 Revenue Analysis and Other Measures**

5.15.1 The ***Gas Regulatory Accounting Statements*** shall provide the following information (as set out in Template10 of **Appendix 1**) for the ***Reference Service***:

- gas distribution revenue for each tariff category;
- the amount of gas distributed (GJ) or the maximum hourly quantity (MHQ) depending on the tariff category;
- the number of customers for each tariff category; and

- other measures as listed.

## 5.16 Disclosure of Ancillary Reference Services

The *Gas Regulatory Accounting Statements* shall:

- disclose a statement (as set out in Template 11 of **Appendix 1**) of all *Ancillary Reference Services* provided by the *Gas Distribution Business*;
- identify the revenues, *Direct Costs*, *Direct Overhead Costs* and *Indirect Overhead Costs* derived in respect of each *Ancillary Reference Service* explicitly identified by line item in Template 11 of **Appendix 1**, and
- disclose the allocation of *Direct Overhead Costs* and *Indirect Overhead Costs* to *Ancillary Reference Services* consistent with section 3.6 and disclose:
  - a description of the basis of allocation used;
  - a quantification of the allocator(s) applied; and
  - the corresponding amount of cost allocated.

## 5.17 Related Party Transactions

- 5.17.1 Where transactions between a *Related Party* and the *Licensee* occur for amounts greater than \$1,000,000 in aggregate in the *Gas Regulatory Accounting Period*, these shall be reported separately in the *Gas Regulatory Accounting Statements* in Template 12 of **Appendix 1**.

### *Explanation*

The *Gas Distribution Business* is defined by its activities and not by incorporation. Therefore, entities that are a *Related Party* of the *Gas Distribution Business* and provide gas distribution activities are considered part of the *Gas Distribution Business* for the purposes of the *Gas Regulatory Accounting Statements*. The *Commission* requires the value of goods and services originating in those *Related Parties* to be recorded in the *Gas Regulatory Accounting Statements*.

The *Related Party* costs recorded in the *Gas Regulatory Accounting Statements* should be costs related to reference services only.

- 5.17.2 For the transactions reported under paragraph 5.17.1, the information that must be reported includes:
- the name of the *Related Party* which incurred the cost in providing the individual services to the *Licensee*;

- the actual incurred cost of the individual services provided by the *Related Party* to the *Licensee*;
- the individual services provided;
- a description of how the actual incurred cost was determined;
- a description of how the actual incurred cost is reflected in the *Gas Regulatory Accounting Statements* identifying the *Asset Category* or *Cost Category*;
- a description of the way the actual incurred cost amount is reflected in the *Gas Regulatory Accounting Statements* including where the amount is allocated (by *Asset Category* and/or *Cost Category*); and
- a description of the allocation basis and the quantum of the allocator.

The actual incurred cost of the *Related Party* providing the service will be net of any profit margin or management fee.

5.17.3 A *Related Party* transaction includes a payment made under a contract with a party who was a *Related Party* at the time the contract was entered into, even though that party may no longer be a *Related Party* but was at some time in the *Gas Regulatory Accounting Period*.

5.17.4 The disclosure required under this clause shall be a Statement attached to the *Gas Regulatory Accounting Statements*. This statement is detailed in Template 12 of **Appendix 1**.

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

- no such transactions arose; or
- the disclosure requirements of section 5.17 have been complied with.

## 5.18 Third Party Transactions

5.18.1 Where transactions between a *Third Party* and the *Licensee* occur for amounts greater than \$1,000,000 in aggregate in the *Gas Regulatory Accounting Period*, these shall be reported separately in the *Gas Regulatory Accounting Statements* in Template 13 of **Appendix 1**. The *Gas Regulatory Accounting Statements* shall disclose for each such arrangement:

- details of the third party;

- details of the services provided;
- the monetary value of such transactions that arose in the *Gas Regulatory Accounting Period*;
- the basis of charge for the transaction entered into by the *Licensee*;
- details of how this amount is reflected in the *Gas Regulatory Accounting Statements*, including the asset class or cost category that the cost is included in; and
- where the *Third Party* cost has been allocated to different asset classes or cost categories, a description of the allocation basis and the quantum of the allocator.

5.18.2 The disclosure required under 5.18.1 shall be a Statement attached to the *Gas Regulatory Accounting Statements*. This statement is detailed in Template 13 of **Appendix 1**.

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

- no such transactions arose; or
- the disclosure requirements of section 5.18 have been complied with.

## 5.19 Other expenditure

### *Restatement of principle*

Other expenditure arising in the profit and loss account not specifically addressed elsewhere in Section 5 of this Guideline, shall be disaggregated between the *Gas Distribution Business* and non *Gas Distribution Business* and the *Gas Distribution Business Segments* in accordance with:

- the general principles set out in Section 3 of this Guideline; and
- the disclosure requirements set out in **Appendix 1**.

## 5.20 Non-recurring items

5.20.1 Where they arise, non-recurring items should be disclosed in the *Gas Regulatory Accounts* and attributed or allocated in a separate *Workpaper* in accordance with section 5.20.2.

5.20.2 A non-recurring item is to be attributed to the *Gas Distribution Business* and the *Gas Distribution Business Segment* as follows:

- if the item can be *Directly Attributed* to a single *Gas Distribution 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 *Gas Distribution Business Segments*;
- to the extent that an item cannot be *Directly Attributed*, then it should be allocated to *Gas Distribution Business Segments* in accordance with the requirements of section 3.6 of this Guideline.
- where it is necessary to analyse an item into components to effect *Direct Attribution* or allocation, a note should be appended to the *Gas Regulatory Accounting Statements* describing:
  - the monetary amount of each component; and
  - its characteristics that either allow it to be *Directly Attributed* to a *Gas Distribution Business Segment*, or require it to be allocated across *Gas Distribution Business Segments*.

#### Explanation

Non-recurring items should be attributed to *Gas Distribution Business Segments* following attribution principles consistent with those applied to other account items.

### **5.21 Income tax attributable to operating profit**

The *Commission* requires information about the income tax charged to the *Gas Distribution Business* to be disclosed in the appropriate templates at **Appendix 1**.

### **5.22 Interest & Dividends**

The *Commission* requires information about interest and dividends or any corresponding assets or liabilities that may arise in the balance sheet to be disclosed in the appropriate templates at **Appendix 1**.

### **5.23 Retained Earnings & Change in Equity**

The *Commission* requires information about the change in Retained Earnings and the change in Equity to be disclosed in the appropriate templates at **Appendix 1**.

### **5.24 Inflation Accounting Adjustments**



No adjustments for inflation will be made to *Gas Regulatory Accounts* during the *Gas Regulatory Accounting Period*.

## 5.25 Other Balance Sheet Items and Statement of Cash Flows

Balance sheet and statement of cash flow items not specifically addressed in Section 5 of this Guideline, shall be disaggregated between *Gas Distribution Business Segments* in accordance with:

- the general principles set out in Section 3.6 of this Guideline; and
- the disclosure requirements set out in **Appendix 1**.

## 5.26 Other Information

A *Licensee* shall disclose the non-financial information requested by **Appendix 3** in a statement attached to the *Gas Regulatory Accounting Statements*.

### *Explanation*

There are certain items required by the *Commission* to help understand the *Gas Distribution Businesses* that are not routinely submitted or obtained elsewhere.

## 5.27 Additions by taxation category

The *Commission* requires information about the fixed asset additions by tax category as charged to the *Gas Distribution Business* to be disclosed in the appropriate templates at **Appendix 1**.

## 5.28 Labour costs

The *Commission* requires information about the split of costs between labour and non-labour components as charged to the *Gas Distribution Business* to be disclosed in the appropriate templates at **Appendix 1**.

## 6 GLOSSARY OF TERMS

This Guideline utilises the following definitions:

**Access Arrangement** is the arrangement for third party access to the *Licensee's* gas distribution pipeline approved by the *Commission* pursuant to the *Access Code*.

**Access Code** is the *National Third Party Access Code for Natural Gas Pipeline Systems* in force pursuant to the *Gas Pipeline Access (Victoria) Act 1998 (Victoria)*.

**Accounts** is, for the purpose of this Guideline, a system of financial records and recordings that enable revenue earned, costs incurred, and changes in assets, liabilities and equity in meeting the obligations incurred under a *Gas Distribution Licence* to be separately identified from any other business the *Licensee* or its *Related Parties* might be carrying on.

**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.

**Adjustments** are changes to the *Base Account* amounts that result in *Distribution Business Base* amounts.

**Agreed-upon Procedures Report** means an agreed-upon procedures engagement report, prepared in accordance with Australian Auditing Standard AUS904 Engagements to Perform Agreed Upon Procedures. The objective is for the *Auditor* to carry out procedures of an audit nature specified by the *Commission* and to report on factual findings.

**Asset Category** means a group of assets as defined in **Appendix 5**.

**Audit Report** means either a *Gas Regulatory Audit Report* or a *Report to the Commission and the Licensee*.

**Auditor** means an independent registered company Auditor.

**Augmentation** is the expansion or enhancement of a gas distribution pipeline.

**Base Accounts** are the *Licensee's* audited accounts that contain all the financial and non-financial information that cover the entirety of the activities of the *Gas Distribution Business*. **Base Accounts** may be a General Purpose Financial Statement of the Licensee or may be Statutory Accounts prepared under Corporations Act provisions.

**Capital Expenditure (Capex)** means any expenditure, which for the purpose of the **Base Accounts**, has been included in the Fixed Asset Base of the **Licensee's Gas Distribution Business** provided that the expenditure conforms with at least one of the following:

- the expenditure relates to the purchase, development or construction of a new asset;
- the expenditure will increase the capacity or functionality of the distribution assets;
- the expenditure will significantly reduce the ongoing maintenance of the assets; and/or
- the expenditure will extend the service life of distribution assets beyond that expected when the assets were originally installed.

**Causal or Causation, Basis or Relationship** means, in relation to a basis of allocation, that the allocation base is the most significant trigger of consumption or utilisation of the resources or services represented by the costs or other account item that is being allocated.

**Chart of Accounts** means the detailed listing of all accounts represented in the **General Ledger**.

**Commission** means the Essential Services Commission established under the *Essential Services Commission Act 2001*.

**Corporations Act** means the *Corporations Act 2001 (Commonwealth)*.

**Cost Category** is an activity area associated with a Gas Distribution Business as defined in Appendix 5.

**Direct Costs** are costs specific to the gas distribution network and are allocated on a job costing basis.

**Directly Attributable or Directly Attributed** - An item is **Directly Attributable** or **Directly Attributed** to the **Gas Distribution Business** or business segment, if it is wholly and exclusively associated with the **Gas Distribution Business** or business segment.

**Director** means a director of a **Licensee** appointed under the provisions of the *Corporations Act*. (Where a **Licensee** is not a corporation that appoints Directors, **Director** shall refer to senior managers of the **Licensee**, whose identities shall be confirmed by the **Licensee** with the **Commission**, prior to the delivery of information required by this Guideline.)

**Directors' Responsibility Statement** means a statement signed and dated by a **Director** or **Directors** of a **Licensee** which states whether in the **Directors'** opinion, the **Regulatory Accounting Statements**:

- present fairly the profit and loss account information required by this Guideline;

- present fairly the balance sheet information required by this Guideline;
- have been made out in accordance with applicable and appropriate accounting principles and policies as specified in this Guideline, including the cost allocation guidelines;
- comply with the requirements of paragraph 3.8.3 “Recovery of Allocated Costs”;
- comply with the requirements of paragraph 5.17 “Related Party Transactions”;
- comply with the requirements of paragraph 5.18 “Third Party Benefits”; and
- have been prepared in accordance with this Guideline.

**Entity** means a business unit, whether or not a legal entity.

**Executive** means any person, by whatever name called and whether or not a **Director** of the **Licensee**, who is able to exercise any relevant power, that is, who is directly accountable and responsible for the strategic direction and operational management of the **Gas Distribution Business** and by virtue of that power, is able to exercise a significant influence over or with respect to the management or the operation of the **Gas Distribution Business**. This includes Executive Directors, CEOs, CFOs, CIOs and any general or senior manager with responsibilities over other entities in addition to the **Gas Distribution Business**.

**Executive Remuneration** means **Remuneration** received by an **Executive**.

**Financial Accounting Year** is specific to each **Licensee** and is the period of time covered in the **Base Accounts**.

**Full Retail Competition Costs** means the costs incurred in installing and maintaining the systems and processes that were implemented to enable all end use gas customers to choose their gas retailer, not including the costs that were allowed to be recovered as anticipated costs in the **Gas Access Arrangement Final Decision 2002**.

**Gas Access Arrangement Review 2002** means the process incorporating the review of proposed gas access arrangements for 2003 – 2007 inclusive submitted by each **Licensee**, conducted by the **Commission** in 2002.

**Gas Access Arrangement Final Decision 2002** means the determination of that name made by the **Commission** on 2 October 2002 pursuant to the **Access Code**.

**Gas Distribution Business** means the entirety of the activities undertaken by the **Licensee** and/or a **Related Party** and/or a **Third Party** contracted by the **Licensee** in carrying out the activities authorised under the **Gas Distribution Licence**.

**Gas Distribution Business Base Amount** means the information attributable to the **Gas Distribution Business** entity covering only the **Reference Services** and **Non Reference Services** provided by the **Gas Distribution Business**.

**Gas Distribution Business Segments** comprise the following:

- **Reference Service** segment; and
- **Ancillary Reference Service** segment.

**Gas Distribution Licence** means a licence to distribute and supply gas granted under section 26 of the *Gas Industry Act 2001*.

**Gas Regulatory Accounting Period** means a period spanned by **Gas Regulatory Accounting Statements**. The **Gas Regulatory Accounting Period** may differ for each **Licensee** depending on the **Financial Accounting Year** adopted by each **Licensee**.

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

**Gas Regulatory Accounting Statements** are financial reports revealing the performance and financial situation of the **Gas Distribution Business**. They show the originating **Base Account** amount, its translation into a **Gas Distribution Business Base Amount** and its disaggregation between **Gas Distribution Business Segments**. The pro-forma templates for the **Gas Regulatory Accounting Statements** are attached to this Guideline in **Appendix 1**.

**Gas Regulatory Accounts** are financial records derived from the **Base Accounts** of the **Licensee** and the audited accounts of **Related Parties** of the **Licensee** that are involved in the activities of a **Gas Distribution Business**.

**Gas Regulatory Audit Report** means an **Auditor's** report on **Gas Regulatory Accounting Statements** prepared in accordance with Australian Auditing Standards.

**Gas Regulatory Period** means a period subject to a gas **Access Arrangement**.

**General Ledger** means the detailed set of accounts of the **Licensee** upon which the detailed transactional information for each cost category and revenue source is recorded by the **Licensee** in carrying out the activities authorised by the **Gas Distribution Licence**.

**Immaterial** means an item that is not **Material**.

**Licensee** means the holder of a **Gas Distribution Licence** issued by the **Commission**.

**Maintenance Costs** means those costs which are directly and specifically attributable to the repair and maintenance of property, plant and equipment that are not **Capital Expenditure**. Refer to the detail in **Appendix 5**.

**Mandatory Heading** means a mandatory **Account Heading** within the proforma **Gas Regulatory Accounting Statements**.

**Material** has the meaning set out at paragraph 3.9.

**Material Provision** means a provision reported in the **Gas Regulatory Accounting Statements** that at the beginning or end of an accounting period, has a balance of either:

- \$100,000 or more; or
- 10% or more of the total provisions in the balance sheet of a **Gas Distribution Business Segment**.

For the purposes of determining a **Material Provision**, all provision accounts for expenses of a similar nature or brought about by a similar cause, within a **Gas Distribution Business Segment** shall be aggregated and treated as if they are components of a single provision.

**Meter** has the same definition as in the Gas Distribution System Code.

**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-Reference Services** are services currently regulated by the **Commission** that are outside of the CPI - X price cap on gas distribution tariffs and include amongst other things:

- customer connection to the gas distribution system;
- customer disconnection from the gas distribution system;
- meter and installation testing; and
- charges for services for the specific benefit of any third party that are not made available by distributors as a normal part of its standard service.

**Non-Reference Service Segment** means the part of the **Gas Distribution Business** supplying **Non-Reference Services**.

**Non-Regulated** means the part of the business applied to providing outputs that are not regulated by the current **Access Arrangement**.

**Operating Costs** means those costs which relate to the day to day operations of the business and are not **Maintenance Costs**. Refer to the detail in **Appendix 4**.

**Reference Services** means those services detailed in each **Licensee's Access Arrangement** that are currently regulated by the **Commission** within the CPI - X price cap on gas distribution tariffs.

**Regulatory Assets** are the **Gas Distribution Business** fixed assets upon which the owners of the business earn a return as approved in the 2002 **Gas Access Arrangement Review**.

**Related party** means, in relation to a **Licensee**:

- (a) any other **Entity** that, at any time during the financial year, has control or significant influence over the **Licensee**; or
- (b) any other **Entity** that, at any time during the financial year, is subject to control or significant influence by the **Licensee**; or
- (c) any other **Entity** that, at any time during the financial year, is controlled by the same Entity that controls the **Licensee** - referred to as a situation in which entities are subject to common control; or
- (d) any other **Entity** that, at any time during the financial year, is controlled by the same **Entity** that significantly influences the **Licensee**; or
- (e) any other **Entity** that, at any time during the financial year, is significantly influenced by the same **Entity** that controls the **Licensee**; or
- (f) any director of the **Entity** or any of their director related entities; or
- (g) any director of any other **Entity** identified as a related party under any of paragraphs (a) to (e), or any of their director-related entities;  
but excludes any other **Entity** (except those identified as a **Related Party** under paragraph (f)) where the related party relationship results solely from normal dealings of:
  - (h) financial institutions; or
  - (i) authorised trustee corporations; or
  - (j) fund managers; or
  - (k) trade unions; or
  - (l) statutory authorities; or
  - (m) government departments; or
  - (n) local governments.

**Remuneration** means any money, consideration or benefit, received or due and receivable, in connection with the management of the affairs of the **Licensee**, but does not include:

- amounts in payment or reimbursement of out-of-pocket expenses incurred for the benefit of the **Licensee** or any related business; or
- in relation to a person not resident in Australia who is an **Executive** emoluments received or due and receivable by the person from a holding company:

- of which he or she is a **Director** or employee; and
- that is a corporation formed or incorporated outside Australia;
- being emoluments received, or due and receivable, by the person as such a **Director** or employee.

**Report to the Commission and the Licensee** means a detailed report by the **Auditor** that includes:

- discussion of any areas of concern;
- discussion on areas of disagreement with the **Licensee**;
- assessment of the clarity and accuracy of the **Regulatory Accounting Statements**;
- assurance that the stated objectives of this Guideline have been met; and
- commentary on compliance with this Guideline.

**Review Report** means a financial review report prepared in accordance with Australian Auditing Standards AUS902 Review of Financial Reports.

**Special Purpose Financial Report** means a special financial report prepared in accordance with Auditing and Assurance Standards Board ASA800 'The Auditors' Report on Special Purpose Auditing Engagements' that is intended to meet specific requirements of this **Guideline** and comprises an income statement, balance sheet, statement of cash flows and accompanying notes.

**Third Party** means any party other than a **Related Party** contracted by the **Gas Distribution Business** to provide services in order for the **Gas Distribution Business** to fulfil its obligations incurred under the **Gas Distribution Licence**.

**Workpapers** means papers prepared and provided by the **Licensee Distribution Businesses** to the Commission as part of the **Gas Regulatory Accounting Statements** that contain additional information detailing the aggregation, disaggregation and cost allocation applied by the **Licensee** to each specific cost category required by the **Commission** in the templates at **Appendix 1**.



## **APPENDIX 1 REGULATORY ACCOUNTING STATEMENTS - TEMPLATES**

Templates for Regulatory Accounting Statements Issue No. 2

## APPENDIX 2 PROFORMA DIRECTORS' RESPONSIBILITY STATEMENT

In the opinion of the Director/s of [name of licensee]:

- the Regulatory Accounting Statements set out on pages [ ] to [ ] are drawn up so as to present fairly in accordance with the requirements of the Gas Regulatory Accounting Guideline No.17 "Information Requirements" ("the Guideline") issued by the Essential Services Commission, dated [version date];
  - the results of each Gas Business Segment for the Gas Regulatory Accounting Period ended [period end];
  - information concerning the state of affairs at [period end], of each Gas Business Segment;
  - information required by section 3.8.3 of the Guideline
  - information required by section 5.17 of the Guideline
  - information concerning all Third Party Benefit Transactions required by section 5.18 of the Guideline; [delete if inapplicable] and
- no Related Party Transactions arose during the Gas Regulatory Accounting Period that require disclosure under section 5.17 of the Guideline [to be deleted only if disclosure is confirmed above]; and
- no Third Party Benefit Transactions arose during the Regulatory Accounting Period that require disclosure under section 5.18 of the Guideline [to be deleted only if disclosure is confirmed above].
- the Licensee has adequate systems in place to identify and segregate the recording of transactions and balances relating to the Distribution Business from other activities the Licensee or its related parties may conduct, to enable a true and fair view of the Distribution Business to be presented.

The terms and definitions used in this statement accord with the definitions set out in the Guideline referred to above.

Signed in accordance with a resolution of Directors:

\_\_\_\_\_  
(name of Director)  
Independent or Non – Executive Director

\_\_\_\_\_  
Dated

\_\_\_\_\_  
(name of Company Officer – CEO/CFO or Company Secretary) Dated

Please append an extract of the Minutes of the Board Meeting that confirms that the Regulatory Accounts are true and fair.

Also append the Shared Costs Workpaper referenced in section 3.8

## APPENDIX 3 ADDITIONAL INFORMATION REQUIREMENTS

A *Licensee* shall disclose for a *Gas Regulatory Accounting Period*:

The average number of employees of the *Gas Distribution Business*, analysed between those who are *Directly Attributable* to each *Business Segment* and those whose activities may be associated with more than one *Business Segment*. In the latter instance a further analysis shall be provided indicating the *Business Segments* that those employees are associated with.

## APPENDIX 4 OPERATING EXPENDITURE COST CATEGORIES

### Introduction

The purpose of this Appendix is to provide guidance to the *Gas Distribution Businesses* and / or its advisers or *Auditors* on the information that is to be reported in the templates at **Appendix 1**.

For each *Activity Area*, only that portion that has not been capitalised should be reported. Each of the *Activity Areas* to be reported and the costs to be included in each area is outlined below.

### A4.1 Network Operating Costs

The operational costs associated with the operation of the network including, but not restricted to, the staffing of the control centre(s), operational switching personnel, outage planning personnel, provision of authorised network personnel, demand forecasting, procurement, logistics and stores, information technology (IT) costs *directly attributable* to network operation, insurance costs and land tax costs.

Demand forecasting costs include labour, material and IT charges for the purposes of forecasting peak demand, gas consumption and customer numbers in the *Gas Distribution Licence* area, but do not include costs related to the wholesale purchase of gas.

Excluded from this activity are:

- property taxes (to be included as Other Corporate Costs); and
- costs that have been capitalised.

Operating costs associated with new connections to the network and meter reading services are to be separately identified in the operating cost templates at **Appendix 1** as follows.

### A4.2 Customer Connections

Operating costs (non-capitalised costs) associated with connecting new customers to the network.

### A4.3 Meter Reading Services

The collection of consumption data and other data from metering equipment installed at customers' premises.

This category refers to the costs for the collection of data from standard meters, as defined by the *Gas Distribution System Code*.

Included in this category are:

- The maintenance of meter reading database information including route information.
- Maintaining and securing keys used for accessing customers' premises to allow meter reading.
- Bi-monthly and monthly manual reading of meters,
- Special meter readings and final readings
- Management of contractors performing manual meter reading of meters and providing uploads of meter reading data
- Data validation and substitution.

Excluded from this activity are:

- All costs that have been capitalised
- An allocation of corporate overheads caused by the provision of meter reading services
- All metering costs that have been approved by the *Commission* to be recovered by the Cost Recovery Order in Council (FRC Cost Recovery Order) that allows the *Gas Distribution Businesses* to recover FRC gas costs through a separate tariff process.

#### **A4.4 Billing & Revenue Collection**

The billing of retailers for use of the gas distribution system, and the associated collection of distribution revenue from retailers.

This category comprises the following services:

- The invoicing function.
- The accounts receivable function.
- The credit and bad debt collection function.
- The customer transfer function.
- Costs of operating the Customer Information System (CIS).

Invoicing costs **include** the labour, postage, stationery, outsourcing and IT charges associated with:

- Running integrity checks on the metering data.
- Calculating and forwarding invoices.
- Preparing consolidated statements including invoices, credits and payments.

Accounts receivable costs **include** the labour, postage, stationery, outsourcing and IT charges associated with:

- Receipt of monies due.
- Forwarding cash received to the bank.
- Reconciliation of cash receipts to bank statement and cash receipts ledger.
- Identifying slow-paying accounts.
- Production of statements.
- Managing over- and under-payments.

Credit and bad debt collection costs **include** the labour, postage, stationery, outsourcing and IT charges associated with:

- The conduct of credit checks.
- Resolving any disputes in relation to invoices.
- Undertaking revenue 'fraud' investigations.
- An allowance for *bad debts* that are incurred from retailers who hold a Retail Licence.

The costs of operating the CIS system **include:**

- The labour, IT and outsourcing costs ***directly attributable*** to or caused by running the CIS to calculate distribution charges.
- The proportion of the system maintenance, IT system support, and update costs of the CIS ***directly attributable*** to or caused by billing and revenue collection for the ***Gas Distribution Business***.

The category includes a proportion of the operating costs for the Enterprise Resource Planning (ERP) system ***directly attributable*** to or caused by billing and revenue collection for the ***Gas Distribution Business***.

Excluded from this cost category are:

- Costs associated with billing retail customers and revenue collection for retail customers whether or not they have a supply contract with the distributor.
- Account enquiries.
- CIS costs that are *directly attributable* to or caused by Customer Service or billing of retail customers.
- All costs associated with Customer Service, including the call centre.
- Costs associated with personal computers, network infrastructure, helpdesk and IT for personnel engaged in Billing and Revenue Collection (refer to the definition of Other Operating Costs – Information Technology).
- All costs associated with gas trading.
- All costs associated with tariff setting.

#### **A4.5 Advertising/Marketing**

Advertising and marketing activities *directly attributable* to the provision of distribution services.

Included in this cost category are:

- Providing information to customers, and conducting promotional activities, in order to improve the utilisation of the network.
- Providing contact telephone numbers for fault reporting, for example through bill inserts.
- Publicising reliability targets and communicating with network customers on reliability matters.
- Development of network tariffs.
- Communicating with customers on distribution matters, for instance, providing notice of planned interruptions.
- Educating the public on network-related gas safety.
- Activities arising from the *Gas Distribution Business's* obligations in relation to the quality of supply.

Excluded from this cost category are:

- Brand advertising.
- Corporate image making.
- Corporate/community sponsorships and donations.
- Communication internal to the business.

- Research and analysis on other distribution businesses.
- Contact with the Energy and Water Ombudsman of Victoria.
- Advertising of retail services.

#### **A4.6 Regulatory Costs**

The costs of meeting economic regulatory requirements as they apply to the *Distribution Business*.

Included in this cost category are:

- Gas Distribution Licence fees paid to or on behalf the *Commission*.
- Costs associated with staffing the regulatory function, including a Regulatory Manager and staff, covering both state and federal economic regulation.
- Costs associated with providing information requested by the *Commission*.
- Costs associated with preparing submissions to the *Commission* in response to consultation processes administered by the *Commission*.
- Costs associated with participation in the *Commission*'s reviews and preparation of Access Arrangements information and documentation.
- Costs associated with participation in the *Commission*'s development and implementation of guidelines, standards and procedures.
- Costs of non-financial regulatory audits.

Excluded from this cost category are:

- Costs of preparing regulatory accounts (refer to Other Operating Costs - Finance).
- Costs of financial regulatory audits (refer to Other Operating Costs - Finance).
- Costs associated with environmental regulations.
- Costs associated with technical and safety regulations.
- Discretionary costs incurred for the purposes of regulatory processes.

#### **A5.7 Other Operating Costs**

This category comprises costs incurred by a corporate or head office function for example finance, human resources, information technology, customer service and other costs that are *directly attributable* to or caused by the provision of distribution services by the *Gas Distribution Business* in accordance with its *Gas Distribution Licence*.



#### **A4.7.1 Finance**

The finance function comprises:

- Financial accounting.
- Management accounting.
- Statutory and regulatory reporting.
- Other financial functions.

Financial accounting costs include the labour, materials and IT charges that are ***directly attributable*** to or caused by the ***Gas Distribution Business*** for:

- General Ledger maintenance, eg reconciliations.
- Accounts payable – raising and processing of purchase orders, matching invoices, accounts payment, cheque production, controlling creditors ledger, dispute resolution, administration of credit cards.
- Banking – preparation of bank reconciliations, banking function, stop payments and reissues, EFT management, processing dishonoured cheques and follow up.
- Compliance with Unclaimed Monies Act.
- Fixed Asset Accounting - maintenance and updating of Fixed Assets Register, Financial, Regulatory and Taxation Requirements.
- Fleet – administration of motor vehicle fleet maintenance, leasing, operating costs, employee salary packaging.

Management accounting costs include the labour, materials and IT charges that are ***directly attributable*** to or caused by the ***Gas Distribution Business*** for:

- Preparation of monthly management accounts.
- Divisional reporting and forecasting.
- Accounts receivable (non gas).
- Tax and financial advice.
- Job costing.

Statutory and regulatory reporting costs include the labour, materials and IT charges that are ***directly attributable*** to or caused by the ***Gas Distribution Business*** for:

- Annual statutory accounts.
- Taxation – income tax return, FBT return, payroll tax, reconciliation of PAYE, calculation and payment of instalments, GST, salary packaging.

- Audit fees.
- Preparation of annual regulatory reporting to the *Commission*.
- Completion of ABS surveys.

*The other financial function costs* include the labour, materials and IT charges *directly attributable* to or caused by the *Gas Distribution Business* for:

- Treasury.
- Payroll function – data entry of timesheets, preparation of payroll data for processing, payroll review and provision of payroll advice, administration of superannuation.
- Development and implementation of accounting standards, and internal policies and procedures.
- Financial systems administration – General Ledger, Fixed Assets, Payroll, Budgets.
- Preparation of projected Profit & Loss statement, cash flow statement, and balance sheet.
- The proportion of the operating costs for the Enterprise Resource Planning (ERP) system and specialist software caused by the finance function.

Excluded from this cost category are:

- Costs of personal computers, network infrastructure, helpdesk and IT strategy for personnel in the finance area (refer to Other Operating Costs - Information Technology).
- Accounts receivable function (refer to Billing and Revenue Collection).
- Procurement function (refer to Network Operating Costs).
- All human resource functions except payroll (refer to Other Operating Costs - Human Resources).

#### **A4.7.2 Human Resources**

The human resources function comprises:

- Corporate human resources function.
- Maintenance and management of human resources records.
- Industrial and employee relations.
- Occupational, health and safety.

Included in this cost category are costs that are *directly attributable* to or caused by the *Gas Distribution Business* for:

- Development and implementation of human resources strategy, policies and procedures.
- Training courses for personnel in the human resources group.
- Union negotiations.
- Dispute resolution, relating to human resource issues.
- Recruitment of employees.
- Monitoring equal employment opportunity.
- Performance development and reviews.
- Salary packaging.
- Workers compensation management.
- Workplace accident investigating and reporting.

The proportion of the operating costs for any ERP system and specialist software costs caused by the human resource function should also be included.

Excluded from this cost category are:

- Costs associated with personal computers, network infrastructure, helpdesk and IT strategy for human resources personnel (refer to Other Operating Costs – Information Technology).
- Payroll function, including superannuation administration (refer to Other Operating Costs - Finance).
- Costs of training courses for personnel other than those in the human resources group.
- Costs associated with an environment function (refer to Other Operating Costs - Other).

#### **A4.7.3 Information Technology**

The development and implementation of an information technology (IT) strategy for the *Gas Distribution Business*, and costs that are *directly attributable* to or caused by the *Gas Distribution Business* for the operation (including maintenance, upgrades, administration) of the IT infrastructure, and in particular:

- Personal computers and networks.
- Intranet, including server and network applications (eg: e-mail).
- Helpdesk.
- PABX infrastructure.

Components of the ERP system not otherwise assigned to business processes are included in this cost category.

Excluded from this cost category are:

- All costs associated with the major applications such as:
  - Customer Information Systems (refer to Billing and Revenue Collection and Customer Service).
  - Billing systems (refer to Billing and Revenue Collection).
  - SCADA and network control, asset management systems, works management systems, materials management systems and specialist IT tools (refer to Network Operating Costs).
- All costs associated with energy trading.
- Proportion of the costs for the ERP system caused by the cost category components of Finance, Human Resources and Network Operating Costs.

#### **A4.7.4 Customer Service**

The costs of providing the following services to distribution customers:

- Facilitating the reporting to the *Gas Distribution Business* of network faults and safety hazards, and complaints about the quality and reliability of supply.
- Responding to queries, for example from retailers, customers, builders and contractors, on new connections, disconnections and reconnections.
- Responding to queries, for example from customers, builders and contractors, on improving asset utilisation.

Call centre costs and CIS operating costs that are *directly attributable* to or caused by the provision of the above services are included.

Excluded from this cost category are:

- Costs associated with account enquiries.
- Costs associated with field activities such as meter repairs, supply connection and line repairs.
- Responding to general enquiries which are non-network related.
- Undertaking any work, beyond recording the query and answering questions, associated with new supply connections that proceed, or improving asset utilisation.

- Costs associated with personal computers, network infrastructure, helpdesk and IT for personnel in the Customer Service area (refer to the definition of Other Operating Costs – Information Technology).
- Costs incurred to negotiate a supply contract
- Costs which have been capitalised

#### **A4.7.5 Other corporate costs**

The costs associated with the corporate or head office that are *directly attributable* to or caused by the *Gas Distribution Business*, which may include:

- Corporate services – general management, quality management, business improvement, energy management, corporate relations and company secretary functions.
- Legal.
- Strategy and planning.
- Property management.

Included in this cost category are:

Personnel in the corporate group:

- General management, excluding support staff.
- Board members, excluding support staff.
- Legal counsel, excluding support staff.
- Company secretary, excluding support staff.
- Quality/Business Improvement, excluding support staff.
- Energy management, excluding support staff.
- Corporate relations, excluding support staff.
- Investor relations, excluding support staff.
- Strategy and planning, excluding support staff.
- Risk management, excluding support staff.
- Insurance management, excluding support staff.
- Environment management, excluding support staff.
- Property management, excluding support staff.

- Support staff for the Corporate office.
- Costs incurred by the corporate office, including:
  - Property rental, repair and maintenance, utilities, and taxes for the Corporate office.
  - Printing and stationery.
  - Telephone and fax.
  - Travel expenses.
  - Legal fees.
  - Consultants.
  - Office of Gas Safety fees.
  - Energy Industry Ombudsman Scheme fees.
  - Board fees.
  - Internal communication.
  - Freight, courier and postage

Excluded from this cost category are:

- Management fees which are a transfer of profit rather than a fee for service.
- Public company costs.
- Advertising and marketing costs associated with energy management (refer to Advertising and Marketing).
- Quality and business improvement representatives specific to network assets (refer to Network Operating Costs).
- Costs associated with property required for workshops and for network assets.
- Insurance premiums (refer to Network Operating Costs).
- Costs associated with economic regulation (refer to Regulatory Costs and Other Operating Costs).

#### **A4.8 Changes in Provisions**

Changes in provisions are to be detailed in accordance with section 5.14

## APPENDIX 5 ASSET; CAPITAL AND MAINTENANCE EXPENDITURE CATEGORIES

### Introduction

The purpose of this Appendix is to provide guidance to the *Gas Distribution Businesses* and / or its advisers or *Auditors* on the information that is to be reported in the templates at **Appendix 1**

### A5.1 Asset Categories

#### A5.1.1 Transmission Pipelines

As defined in the Gas Distribution System Code.

#### A5.1.2 Distribution Pipeline

As defined in the Gas Distribution System Code.

#### A5.1.3 Service Pipe (Services)

As defined in the Gas Distribution System Code.

#### A5.1.4 Cathodic Protection

Assets whose primary function is to protect distribution pipelines and facilities from corrosion.

#### A5.1.5 Supply Regulators/Valving Stations

Assets that regulate the pressure of gas going from high pressure pipelines to lower pressure pipelines, including Regulator Station assets.

#### A5.1.6 Meters

As defined in the Gas Distribution System Code.

#### A5.1.7 SCADA & Network Control

Assets associated with the Supervisory Control and Data Acquisition (SCADA) and network control hardware, software and associated IT systems.

#### A5.1.8 Customer contributions

This includes all customer contributions towards the *Asset Categories* listed above and other contributions (net of standard service charges) made by customers. The asset values for determining the revenue requirement must have customer contributions removed from all components of fixed assets.

#### **A5.1.9 Government contributions**

This includes all government contributions towards the *Asset Categories* listed above. The asset values for determining the revenue requirement must have government contributions removed from all components of fixed assets.

### **A5.2 Capital Additions Cost Categories**

#### **A5.2.1 Low pressure (LP) pipe replacement**

LP pipe replacement expenditure is capital expenditure resulting from the replacement of low pressure mains and services for safety and reliability reasons.

#### **A5.2.2 Ad hoc mains and service replacement**

Ad hoc mains and service replacement expenditure is capital expenditure resulting from the unplanned replacement of mains and services for safety and reliability reasons.

#### **A5.2.3 New customer connections**

Capital expenditure to connect to new residential and commercial customers currently without access to gas distribution services, excluding that part of the cost recovered through customer contributions. These connections exclude those made pursuant to Gas extension projects.

#### **A5.2.4 Augmentations**

Capital expenditure that increases the capacity of the gas distribution network.

#### **A5.2.5 IT**

Capital expenditure for the installation, upgrading and replacement of hardware, software and associated IT systems, including those for network control, gas FRC, finance, HR and billing functions.

#### **A5.2.6 Meter replacement**

Capital and capitalised expenditure for the replacement of installed meters with new or refurbished standard meters pursuant to the requirements of the Gas Distribution System Code.

#### **A5.2.7 Other assets – non demand**

Capital expenditure associated with the replacement, installation, alteration or upgrading of assets such as, but not restricted to, regulators, valve and regulator stations, Supervisory Control and Data Acquisition (SCADA) vehicles, non-operational buildings and non-operational IT systems.

#### **A5.2.8 Other assets – demand**

Capital expenditure associated with the installation of new growth related assets not identified above such as, but not restricted to, large customer connections.



**A5.2.9 Gas extensions – NGEP**

Capital expenditure associated with extending the distribution network to new areas as part of the projects approved by the Commission pursuant to the Victorian Government's Natural Gas Extensions Program (NGEP).

**A5.2.10 Gas extensions – Other**

Capital expenditure associated with extending the distribution network to new areas, not including the projects approved by the Commission pursuant to the Victorian Government's NGEP.

**A5.2.11 Customer and government contributions**

Costs associated with customer and government contributions towards connection/augmentation work (net of standard service charges) that have not been capitalised.

**A5.3 Maintenance Cost Categories**

**A5.3.1 Transmission Pipelines**

Costs associated with maintaining the transmission pipeline assets as defined in Appendix 5.1.

**A5.3.2 Distribution Mains**

Costs associated with maintaining the distribution mains assets as defined in Appendix 5.1.

**A5.3.3 Service Pipe (Services)**

Costs associated with maintaining the service pipe assets as defined in Appendix 5.1.

**A5.3.4 Cathodic Protection**

Costs associated with maintaining the cathodic protection assets as defined in Appendix 5.1.

**A5.3.5 Supply Regulators/Valving Stations**

Costs associated with maintaining the supply regulation and other valving assets as defined in Appendix 5.1.

**A5.3.6 Meters**

Costs associated with maintaining the meter assets as defined in Appendix 5.1.

**A5.3.7 SCADA & Network Control**

Costs associated with maintaining the SCADA & Network Control assets as defined in Appendix 5.1.

**A5.3.8 Customer contributions**

Costs associated with customer contributions towards connection/augmentation work (net of standard service charges) that have not been capitalised.

## **APPENDIX 6 ANCILLARY REFERENCE SERVICE CHARGE COST CATEGORIES**

### **Introduction**

The purpose of this Appendix is to provide assistance to the *Gas Distribution Businesses* and/or its advisers or *Auditors* on the information that is to be included to facilitate the completion of the templates at **Appendix 1**.

For each *Ancillary Reference Service* charge, only that portion of costs that has not been capitalised should be reported. Where the costs for *Ancillary Reference Services* are based on an allocation, a description of the allocation policy by cost category in **Appendix 4**, and amount are to be reported. Each of cost categories to be reported and the costs to be included in each area is outlined below.

### **A6.1 Reconnections**

Costs associated with reconnections to the network.

### **A6.2 Disconnections**

Costs associated with disconnections from the network.

### **A6.3 Special meter reads**

Costs associated with non scheduled meter reads.

### **A6.4 Meter and Gas Installation Test**

Costs associated with gas meter and installation tests.