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**WATER INDUSTRY REGULATORY
ACCOUNTING CODE**

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1. INTRODUCTION

1.1 Authorising provision

- 1.1.1 This Code is made pursuant to section 4F(2)(e) of the *WI Act*.
- 1.1.2 Clause 4 of this Code is made in accordance with clauses 17 (b) and (d) of the *WIRO*.
- 1.1.3 The obligation of a *water business* to comply with this Code under section 4F(6) of the *WI Act*:
- (a) is additional to any obligation imposed under any other law applying to the *water business*; and
 - (b) does not derogate from any such obligation.

1.2 Purpose

- 1.2.1 The purpose of this Code is to require each water business to maintain accounting records and to prepare *accounts* for regulatory purposes according to specified principles.
- 1.2.2 The information provided to the *Commission* pursuant to this Code is intended to enable the *Commission* to:
- (a) exercise its powers under the *WIRO* to approve prices which a *water business* may charge for *prescribed services* or the manner in which such prices are to be calculated or otherwise determined or to specify the prices or manner in which they are to be determined in respect of a *subsequent regulatory period* which will require:
 - (1) a comparison of actual expenditure and revenue of the *water business* during the *current regulatory period* against forecast expenditure and revenue; and
 - (2) information to enable the forecast of prudent and efficient expenditure during the *subsequent regulatory period*.
 - (b) monitor and assess compliance with all arrangements relating to the regulation of the *regulated water industry* which are in place from time to time;

- (c) otherwise give effect to the objectives of the Commission as stated in the *Essential Services Commission Act 2001*, Part 1A of the *WI Act* and the *WIRO*.

1.3 Commencement and application

1.3.1 Subject to clauses 1.3.2 and 1.3.3, this Code takes effect on 1 January 2006 and applies to each *water business*.

1.3.2 The following *water businesses* must comply with this Code from and in respect of the *financial year* ending 30 June 2006:

- (a) Melbourne Water;
- (b) City West Water;
- (c) South East Water;
- (d) Yarra Valley Water;
- (e) Barwon Water;
- (f) Central Highlands Water;
- (g) Coliban Water;
- (h) East Gippsland Water;
- (i) Gippsland Water;
- (j) Goulburn Valley Water;
- (k) North East Water;
- (l) South Gippsland Water;
- (m) Wannon Water;
- (n) Western Water; and
- (o) Westernport Water.

1.3.3 The following *water businesses* must comply with this Code from and in respect of the *financial year* ending 30 June 2007:

- (a) Lower Murray Water;
- (b) Goulburn Murray Water;

- (c) GWMWater; and
- (d) Southern Rural Water.

1.4 Amendment to this Code

- 1.4.1 The *Commission* may amend this Code on its own initiative, in response to a proposal by a *water business* or other stakeholder or as the result of a review of the *regulatory accounting statements* submitted by the *water businesses*.
- 1.4.2 The *Commission* will not make material amendments to this Code until *water businesses* and other stakeholders have had an opportunity to comment on the nature of any proposed amendment and those comments have been considered, in accordance with the *Commission's* Charter of Consultation and Regulatory Practice.
- 1.4.3 The *Commission* will give reasonable notice to each *water business* of any amendments to this Code.

2. REQUIREMENT TO PREPARE, MAINTAIN AND SUBMIT REGULATORY ACCOUNTS

2.1 General obligation

- 2.1.1 A *water business* must prepare, maintain and submit *regulatory accounting statements* to the *Commission* in accordance with this Code.
- 2.1.2 A *water business* must ensure that it keeps information that enables it to prepare *regulatory accounting statements* which properly record and explain the transactions and financial position of that water business in accordance with this Code.
- 2.1.3 A *water business* must provide additional historical information when requested by the Commission.

2.2 Preparation of regulatory accounting statements

- 2.2.1 A *water business* must prepare *regulatory accounting statements* in accordance with the templates in Appendix A and the specific requirements in Appendix B.
- 2.2.2 Where required by the templates, a *water business* must prepare explanatory notes which explain the basis of the information recorded in the *regulatory accounting statements*.

2.3 Submission of regulatory accounting statements and other information

- 2.3.1 Subject to clause 1.3, a *water business* must submit *regulatory accounting statements* to the *Commission* in hardcopy and electronic format in respect of each *financial year* after the commencement of this Code within 4 months of the end of the relevant *financial year*, unless the Commission has agreed in writing to an extension of time.
- 2.3.2 A *water business* must submit with the *regulatory accounting statements* referred to in clause 2.3.1:
- (a) the *statutory accounts* in respect of the *water business*;
 - (b) the *chart of accounts* and *trial balance* underlying the *statutory accounts*;

- (c) a statement of all *regulatory accounting principles and policies* which were used by the *water business* to prepare the *regulatory accounting statements* in accordance with clause 3.5.
- (d) a directors' responsibility statement in the form set out in Appendix C signed by two Directors, or by a Director and either the managing director, corporate secretary, or the chief financial officer of the *water business*.
- (e) an extract from the Board's minutes that confirms the regulatory accounts are true and fair.

2.4 Retention of accounting records

- 2.4.1 A *water business* must retain all accounting records from which *regulatory accounting statements* were prepared for five *financial years* immediately following the *financial year* in respect of which the *regulatory accounting statements* were submitted.

3. PRINCIPLES FOR THE PREPARATION OF REGULATORY ACCOUNTS

3.1 Substance of transactions

- 3.1.1. *Regulatory accounting statements* must report the substance of transactions.
- 3.1.2. If the substance of a transaction differs from the legal form of the transaction, the substance of the transaction must be reported.
- 3.1.3. For the purposes of determining the substance of a transaction, a group or series of transactions which achieves, or is designed to achieve, an overall commercial effect must be reported in aggregate.

3.2 Regulatory accounting statements to be derived from statutory accounts

- 3.2.1 The *regulatory accounting statements* must be derived from the *statutory accounts* of that *water business*.
- 3.2.2 The *regulatory accounting statements* must include any revenue earned, asset utilised and liability or cost incurred in relation to the supply of *prescribed services* by:
 - (a) eliminating items associated with the supply of services which are *non-prescribed services*;
 - (b) eliminating adjustments not permitted by this Code;
 - (c) including adjustments required by this Code; and
 - (d) allocating or disaggregating *statutory account amounts* in accordance with clause 3.4.
- 3.2.3 Movements from a *water business's statutory accounts* must be clearly reported in the *regulatory accounting statements* of that water business.
- 3.2.4 *Regulatory accounting statements* must contain information that is sourced from the *general ledger* which records the actual *statutory account* costs of the relevant *water business*.

3.3 General principles

3.3.1 A *water business* must adopt *regulatory accounting principles and policies* in the preparation of *regulatory accounting statements* so that:

- (a) there is a recognisable and rational economic basis that underlies the utilisation of those principles; and
- (b) the *regulatory accounting statements* satisfy the accounting concepts of relevance and reliability.

3.4 Allocation principles

3.4.1 The *regulatory accounting statements* of a *water business* must allocate *statutory account amounts* as required by the templates in Appendix A in accordance with the allocation principles referred to in this clause.

3.4.2 A *water business* must allocate *statutory account amounts* consistent with the definitions included in Appendix B and wherever possible.

3.4.3 Where a *water business* is unable to allocate *statutory account amounts* consistent with the definitions included in Appendix B the *water business* must provide information on the basis on which amounts have otherwise been allocated.

3.4.4 *Statutory account amounts* must be allocated between:

- (a) *prescribed services* and services that are *non-prescribed services*;
- (b) *water business segments*;
- (c) *activity areas*; and
- (d) *revenue sources*.

3.4.5 The *statutory account amounts* for which an allocation to *activity areas* is required are:

- (a) operating expenditure;
- (b) *capital expenditure*;
- (c) revenue.

3.4.6 The allocation of *statutory account amounts* to *business segments*, *activity areas* and *revenue sources* must be based on the principle that:

- (a) *amounts which are directly attributable to a business segment, activity area or revenue source are assigned to that business segment, activity area or revenue source;*
- (b) *amounts which are not directly attributable to a business segment, activity area or revenue source must be allocated on a causation basis, except where a causal relationship cannot be reasonably established. Items may be allocated on a non-causal basis provided that:*
 - (1) *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*
 - (2) *the cost to derive the causal allocation outweighs the benefits of allocating items on that basis; and*
 - (3) *the aggregate of all amounts allocated on a non-causal basis is not material to the regulatory accounting statements.*

3.5 Statement of regulatory accounting principles and policies

3.5.1 A *water business* must provide to the *Commission* as part of the *regulatory accounting statements* full and detailed documentation and disclosure of:

- (a) *any regulatory accounting principles and policies that were used to prepare the regulatory accounting statements that are additional to, or in place of, the accounting principles and policies used to prepare its statutory accounts; and*
- (b) *any changes in the accounting principles and policies which were used to prepare its statutory accounts or in its regulatory accounting principles or policies which occurred since the submission by the water business of the last regulatory accounting statements. Where such a change has occurred, a water business must disclose to the Commission:*
 - (1) *the nature of the change;*
 - (2) *the reasons for the change; and*
 - (3) *the effect of the change on the regulatory accounting statements.*

4. REVIEW AND ADJUSTMENT OF REGULATORY ACCOUNTS TO ACHIEVE COMPLIANCE

- 4.1.1 Each *water business* must acknowledge that the *Commission* or a person appointed by the *Commission* may review the compliance of the *regulatory accounting statements* submitted by that *water business* with this Code.
- 4.1.2 As part of such a review and without limitation the *water business* must:
- (a) provide access to the *water business's* accounting records retained in accordance with this Code;
 - (b) provide any information requested; and
 - (c) provide any assistance reasonably requested.
- 4.1.3 Following review of the *water business's regulatory accounting statements*, the *water business* may be required to:
- (a) make any adjustments to the *regulatory accounting statements* which are required by the *Commission*; and
 - (b) change its *regulatory accounting principles and policies* to ensure future compliance with the Code.
- 4.1.4 Following such review and subject to clause 4.1.3, the *Commission* will approve the *water business's regulatory accounting statements* if it is satisfied that they are compliant with this Code.
- 4.1.5 If at a later date information becomes available that changes the results or values reported in the *water business's* approved *regulatory accounting statements*, the *Commission* will amend the approved *regulatory accounting statements*, and take such information into account in the exercise of its powers in relation to prices.

5. DEFINITIONS AND INTERPRETATION

5.1 Definitions

“**Accounts**” means a system that records the financial transactions of a business, including revenue earned, costs incurred, and changes in assets, liabilities and equity on which a business’s financial statements are based.

“**Accounting principles and policies**” mean principles and policies that are used by a *water business* to prepare the *statutory accounts*.

“**Activity area**” means a group of activities as listed and defined in Appendix B.

“**Asset category**” means a category of assets as listed and defined in Appendix B.

“**Capital expenditure**” means any expenditure, which has been disclosed as a non-current asset in the balance sheet of the *water business*’ *statutory accounts* provided that the expenditure conforms with at least one of the following:

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

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

“**Chart of accounts**” means the detailed listing of all accounts represented in the *general ledger*.

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

“**Current regulatory period**” means, from time to time, the *regulatory period* in which the *water business* is required by the Code to submit *regulatory accounting statements* to the *Commission*.

“**Directly attributable**” means, in relation to the allocation of an item, that the item is wholly and exclusively associated with the *water business segment* or *activity area*.

“**Director**” means a person appointed to the board of a *water business*.

“**Financial year**” means a standard *financial year* beginning 1 July and ending 30 June the following year.

“**General ledger**” means the detailed set of *accounts* of a *water business* upon which the detailed transactional information for each cost category and revenue source is recorded.

“**IT**” means information technology.

“**Material**” means, in relation to an item, that the omission, misstatement or non-disclosure of the item has the potential to prejudice the understanding of the financial position and nature the *water business* and allocations between *water business segments* and *activity areas*.

“**Non-prescribed service**” means a service provided by a *water business* that is not a prescribed service as defined in the *WIRO*.

“**Operating Costs**” means those costs which relate to the day to day operations of the *water business*.

“**Prescribed service**” has the meaning given in the *WIRO*.

“**Related party**” means in relation to a water business any other entity that, at any time during the reporting period, is subject to control or significant influence by the *water business*.

“**Regulatory accounts**” means financial records derived from a *water business’s statutory accounts* that record transactions associated with the supply of *prescribed services* according to *water business segments* and *activity areas*.

“**Regulatory accounting principles and policies**” means *accounting principles and policies* that are used by a *water business* to prepare *regulatory accounting statements* that are additional or in place of the accounting principles used to prepare the *statutory accounts*.

“**Regulatory accounting statements**” mean financial reports of a *water business’s* financial position and performance associated with the supply of *prescribed services* according to *water business segments* and *activity areas*.

“**Revenue source**” means a source of revenue as listed and defined in Appendix D.

“**Statutory accounts**” means the audited statutory accounts of a *water business*.

“**Statutory account amount**” means amounts taken from the *statutory accounts* for the purposes of allocating or disaggregating those amounts as required by this Code.

“**Subsequent regulatory period**” means, from time to time, the regulatory period directly following the *current regulatory period*.

“**Third party**” means any party other than a *related party* contracted by the *water business* to provide services in order for the *water business* to fulfil its obligations.

“**Water business**” means a *water business* listed under clause 1.3.2 or 1.3.3 of this Code or its successor.

“**Water business segment**” means a segment of a *water business* as listed Appendix B.

“**Water Price Determination**” means a Water Price Determination made by the Commission under section 33 of the ESC Act, pursuant to clause 8 of the *WIRO*.

“**WI Act**” means the *Water Industry Act 1994* (Vic).

“**WIRO**” means the Water Industry Regulatory Order 2003.

5.2 Interpretation

Headings are for convenience only and do not affect interpretation. The following rules apply unless the context requires otherwise.

- (a) The singular includes the plural, and the converse also applies.
- (b) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (c) A reference to a *person* includes a corporation, trust, partnership, unincorporated body or other entity, whether or not it comprises a separate legal entity.
- (d) A reference to a clause or appendix is a reference to a clause of or appendix to, this document.
- (e) A reference to an agreement or document (including a reference to this document) is to the agreement or document as amended, supplemented, innovated or replaced, except to the extent prohibited by this document or that other agreement or document.
- (f) A reference to an Act, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.
- (g) If a period of time is specified and commences on a given day or on a day of an act or event, the period of time is to be calculated inclusive of that day.
- (h) Any 'notice' to be given or matter to be 'notified' must be in writing.

APPENDIX A REGULATORY ACCOUNTING STATEMENT TEMPLATES

APPENDIX B SPECIFIC REQUIREMENTS AND GUIDANCE FOR REGULATORY ACCOUNTING STATEMENT TEMPLATES

B.1 Profit and Loss

- (a) A *water business* must provide high level details of the profit and loss statement (or income statement) as recorded in the business's *statutory accounts* for the following the revenue and expenditure categories:
- (i) Revenue
 - (ii) Investment income
 - (iii) Net profit from sales of assets – this value is to be linked from schedule 1
 - (iv) Contributions
 - (v) Operating expenditure
 - (vi) Depreciation
 - (vii) Bad debts
 - (viii) Borrowing costs
 - (ix) Net loss from the sale of assets – this value is to be linked from schedule 1.
- (b) Dividends – A *water business* is required to include any dividend payments either paid or payable that relate to the profit earned during the financial year. For the avoidance of doubt, any dividend payments made during the financial year that relate to profits earned in previous financial years should not be reported.
- (c) Schedule 1 – Sale of assets – *water businesses* are required to include in this schedule proceeds from the sale of asset sales and the written down value (WDV) of assets disposed of. This will calculate the net profit/loss on the sale of assets which is linked to the revenue and expenditure categories.
- (d) Schedule 2 – Operating expenditure – A *water business* is required to provide details of any variations between operating expenditure recorded in the statutory accounts and the regulatory accounts. This should include items such as the written down value of abandoned assets and defined benefit superannuation benefit scheme losses.
- (e) Schedule 3 – Revenue – A *water business* is required to provide details of any variations between the revenue in the statutory accounts and the regulatory accounts. This should include items such as gains on asset revaluations, realised bad debts, write-back of over-provisions and defined superannuation benefit scheme gains.
- (f) Where appropriate a *water business* should refer the Commission to any relevant notes that are included in the business's statutory accounts that will assist in interpretation of the regulatory accounts.

- (g) Previous year's profit and loss data will be pre-filled by the Commission.

B.2 Balance Sheet

- (a) A water business must provide high level details of the balance sheet (or statement of financial position) as recorded in the business's statutory accounts in accordance with the categories included in regulatory accounting statement template in Appendix A.
- (b) Previous year's balance sheet data will be pre-filled by the Commission.
- (c) Where appropriate, a *water business* should refer the Commission to any relevant notes that are included in the business's statutory accounts that will assist in interpretation of the balance sheet template.
- (d) In the explanatory notes section, a *water business* is required to provide explanation of any change in accounting treatment from the previous year.

B.3 Cash flow statement

- (a) A *water business* must provide high level details of the cash flow statement as recorded in the business's statutory accounts, in accordance with the categories included in the template in Appendix A.
- (b) Previous year's cash flow statement data will be pre-filled by the Commission.
- (c) Where appropriate, a *water business* should refer the Commission to any relevant notes that are included in the business's statutory accounts that will assist in interpretation of the cash flow statement template.
- (d) In the explanatory notes section, a *water business* is required to provide explanation of any change in accounting treatment from the previous year.

B.4 Capital Expenditure

- (a) The *capital expenditure* recorded for the *water business* as a whole must reconcile to the relevant entries in the *water business's* balance sheet.
- (b) The summary of accounting adjustments table must include any adjustments needed to the *statutory account amount* recorded for the *water business* as a whole to ensure that *capital expenditure*:
 - (1) reflects the total amount associated with capital items which have been installed or passed to the control of the *water business* within the relevant *financial year*, including the cost of assets which have been the subject of a cash contribution from any party (including any government or government body), but not the fair value of gifted assets; and
 - (2) is recorded on an 'as incurred' basis, and includes expenditure on capital items which did not enter into service during the year, but excludes any amount for the interest (or like allowance) incurred during construction.
- (c) Asset revaluations or adjustments for impairment (whether the adjustments would have the effect of increasing or decreasing asset values) are not permitted in regulatory accounts unless they are specifically agreed to or required by the Commission. They must be eliminated as an adjustment between statutory accounts and regulatory accounts.
- (a) Goodwill and any related impairments are not permitted in regulatory accounts. They must be eliminated as an adjustment between statutory accounts and regulatory accounts.
- (d) The cost of purchasing permanent water entitlements must be disclosed in regulatory accounts as capital expenditure. Where necessary, it must be included as an adjustment between statutory accounts and regulatory accounts.
- (e) A *water business* is to provide notes on each adjustment where relevant.

B.5 Capital expenditure breakdown

B.5.1 A *water business* must allocate *capital expenditure* between the following *water business segments*, where those segments are relevant to the *water business*:

- (a) regional/urban water services
- (b) regional/urban sewerage and trade waste services
- (c) recycled water services – capital expenditure that is primarily related to the provision of recycled water services
- (d) bulk water and sewerage services provided by a regional/urban water business to another regional/urban water business (including storage or storage operation, treatment and transportation)

- (e) bulk water services provided by a rural *water business* to another regional urban or rural *water business* (including storage or storage operation and transportation)
- (f) bulk water – collection and storage
- (g) bulk water – treatment
- (h) bulk water – transportation
- (i) bulk sewerage – treatment
- (j) bulk sewerage – transportation
- (k) metropolitan drainage services
- (l) irrigation
- (m) irrigation drainage
- (n) domestic and stock
- (o) surface water diversions
- (p) groundwater diversions
- (q) licensing applications.

B.5.2 Cost drivers

A *water business* must allocate *capital expenditure* items between the following *cost drivers*:

- (a) growth - *Capital expenditure* associated with increasing the capacity of assets or construction of new assets, to meet growth in demand or to provide additional security of supply should be included in growth.
- (b) renewal of existing infrastructure - *Capital expenditure* associated with replacing assets and generally maintaining service levels should be included in renewal of existing infrastructure.
- (c) improvements - *Capital expenditure* associated with improving service levels and reliability to meet customer preferences should be included in improvements.
- (d) compliance - *Capital expenditure* associated with meeting regulatory or legislative obligations should be included in compliance. This includes *capital expenditure* associated with a change in regulatory or legislative obligations (as identified in a *Water Price Determination*) implemented during the *current regulatory period*.

B.5.3 Asset categories

A *water business* must allocate *capital expenditure* items between the following *asset categories*:

- (a) headworks
- (b) permanent water entitlements

- (c) pipelines and channels
- (d) treatment
- (e) corporate.

A *water business* is not required to allocate *capital expenditure* to an *asset category* which is not relevant to the *water business* or *cost driver*.

B.5.3.1 Headworks

Capital expenditure associated with the collection and storage of water should be included in headworks, including expenditure associated with:

- (a) dams, reservoirs, bores, river intakes and associated storages
- (b) water transfer mains and channels between storages.

B.5.3.2 Permanent water entitlements

Capital expenditure associated with the purchase of permanent water entitlements should be included in this category.

B.5.3.3 Pipelines and channels

Capital expenditure associated with all mains (network of pipes) sewer systems and channel systems utilised for water, sewerage, irrigation, domestic and stock, metropolitan drainage or irrigation drainage services must be included in pipelines, channels and networks.

B.5.3.4 Treatment

Capital expenditure associated with treatment should be included in treatment, including expenditure associated with:

- (a) the treatment of water before it enters the distribution network
- (b) the treatment and disposal of sewage and trade waste.

B.5.3.5 Corporate

General corporate expenditure that cannot be reasonably allocated to other activity areas should be included in corporate.

B.5.3.6 Capital expenditure by cost driver and asset category

The total *capital expenditure* column must equate with the total for *prescribed services* recorded in Template 4 - capital expenditure.

B.5.3.7 Comparative Data

Data from the previous year will be pre-filled by the Commission. *Water businesses* are required to provide an explanation of any significant change in expenditure in the explanatory notes section.

B.5.3.8 Explanatory notes

A *water business* is required to provide information on all capital expenditure items that have been allocated across water business segments or asset categories, including a description of the item, the value in thousands of dollars, the basis of allocation (including the percentage split), reason for choosing this basis and any relevant notes from the business's annual report.

A *water business* is required to provide explanation of any significant shift in expenditure compared with the previous year in the explanatory notes section.

B.6 Operating costs

B.6.1 A *water business* must allocate operating expenditure items between the following *water business segments*, where those segments are relevant to the *water business*:

- (a) regional/urban water services
- (b) regional/urban sewerage and trade waste services
- (c) regional/urban recycled water services being where the operating expenditure is primarily related to the provision of recycled water services
- (d) bulk water and sewerage services provided by a regional/urban *water business* to another regional/urban *water business* (including storage or storage operation, treatment and transportation).
- (e) bulk water services provided by a rural *water business* to another regional urban or rural *water business* (including storage or storage operation and transportation).
- (f) bulk water – collection and storage
- (g) bulk water – treatment
- (h) bulk water – transportation
- (i) bulk sewerage – treatment
- (j) bulk sewerage – transportation
- (k) metropolitan drainage services
- (l) irrigation

- (m) irrigation drainage
- (n) domestic and stock
- (o) surface water diversions
- (p) groundwater diversions
- (q) licensing applications.

B.6.2 Activity areas

For operating expenditure allocated to each *water business segment*, a *water business* must further allocate this operating expenditure between the following *activity areas*:

- (a) operations and maintenance
- (b) bulk charges
- (c) treatment
- (d) renewals annuity
- (e) customer service and billing
- (f) GSL payments
- (g) licence fees
- (h) corporate
- (i) environmental contribution
- (j) purchase of temporary water entitlements
- (k) other operating expenditure.

A *water business* is not required to allocate operating expenditure to an activity area which is not relevant to the *water business* or *water business segment*.

B.6.3 Operations and maintenance

All direct and indirect operating expenditure associated with the operation and maintenance of the distribution network and the general physical provision of water, sewerage (including trade waste), recycled water, irrigation, domestic and stock, metropolitan drainage and irrigation drainage services to customers should be included in network operation and maintenance, including costs associated with:

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

B.6.4 Bulk charges

All direct and indirect operating expenditure associated with the purchase of bulk services from other *water businesses* should be included in bulk charges, including costs associated with:

- (a) the purchase of bulk water from other *water businesses*.
- (b) the purchase of bulk sewerage services from other *water businesses*.

B.6.5 Treatment

All direct and indirect operating expenditure associated with the treatment of water and sewerage should be included in treatment, including costs associated with:

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

B.6.6 Renewals annuity

All expenditure that is funded through a renewals annuity should be recorded as operating expenditure under renewals annuity.

B.6.7 Billing and customer service

All direct and indirect operating expenditure (including labour) associated with the generation of bills and collection of revenue from a *water business's* customers and customer service should be included in billing and customer service, including costs associated with:

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

Operating expenditure associated with the following items must be excluded from customer service:

- (a) undertaking any work, beyond recording the query and answering questions, associated with new supply connections that proceed, or improving asset utilisation

- (b) payments made to customers under a Guaranteed Service Level (GSL) scheme approved by the Commission (see B.6.8 – GSL scheme payments).

B.6.8 GSL payments

Gross payments made to customers under a GSL Scheme approved by the *Commission* must be included in GSL payments.

B.6.9 Licence fees

Licence fees paid to the following regulators must be included in licence fees:

- (a) Essential Services Commission
- (b) Environment Protection Authority
- (c) Department of Human Services

The following items must be excluded from licence fees:

- (a) payments to Energy and Water Ombudsman (Victoria) scheme (See B.6.10 – corporate costs)
- (b) membership fees for industry or trade organisations (See B.6.10 – corporate costs).

Any other licence fees paid by a water business should be included as corporate expenditure and be explained in the notes section of the template.

B.6.10 Corporate

General corporate expenditure that cannot be reasonably allocated to other activity areas should be included in corporate, including such costs associated with:

- (a) personnel in the corporate group/division
- (b) general management
- (c) board members
- (d) legal counsel
- (e) company secretary
- (f) quality/business improvement
- (g) corporate relations
- (h) strategy and planning
- (i) human resource management
- (j) risk management
- (k) insurance management
- (l) environment management

- (m) property management
- (n) support staff for the corporate office
- (o) costs incurred by the corporate office, including
 - (1) property rental, repair and maintenance, utilities, and taxes for the corporate office
 - (2) printing and stationery
 - (3) telephone and fax
 - (4) travel expenses
 - (5) legal fees
 - (6) consultants
 - (7) board fees
 - (8) brand advertising and corporate image making
 - (9) corporate/community sponsorships and donations
 - (10) internal communication
 - (11) Energy and Water Ombudsman (Victoria) scheme fees
 - (12) membership fees for industry or trade organisations
 - (13) freight, courier and postage.
- (p) membership fees for industry or trade organisations
- (q) IT systems. Costs associated with the SCADA, telemetry and other 'operational' IT costs should be allocated to the relevant activity area
- (r) regulatory staff, providing information requested by the *Commission*, preparing submissions in response to consultations conducted by the Commission, non-financial audits and the preparation of regulatory accounts

Costs associated with the following items must be excluded from corporate costs:

- (a) management fees which are a transfer of profit rather than a fee for service
- (b) costs associated with property required for workshops and for network assets.

B.6.11 Environmental contribution

A *water business* is required to report operating expenditure relating to their environmental contribution made in accordance with the Environmental Contributions Order, under section 193 of the *Water Industry Act 1994*.

B.6.12 Purchase of temporary water rights

A *water business* is required to report any expenditure related to the purchase of water on the temporary water market. A *water business* should report the amount of

the consideration paid for the volume of water purchased, plus any associated transaction costs.

B.6.13 Other operating expenditure

Other operating expenditure that cannot be reasonably allocated to other activity areas should be included in other operating expenditure.

B.6.14 Comparative Data

Data from the previous year will be prefilled by the Commission. A *water business* is required to provide an explanation of any significant change in expenditure in the explanatory notes section.

B.6.15 Explanatory notes

A *water business* is required to provide information on all operating expenditure items that have been allocated across water business segments or asset categories, including a description of the item, the value in thousands of dollars, the basis of allocation (including the percentage split), reason for choosing this basis and any relevant notes from the business's annual report.

B.7 Operating costs allocation

A *water business* is required to provide the Commission with a breakdown of major costs that make up operating expenditure under each activity area. The purpose is to provide the Commission with further detail for the basis of the allocation of operating expenditure from a business's trial balances to the regulatory accounts. This information should provide the Commission with an accurate 'base line' of expenditure for those key expenditure categories reviewed by the Commission as part of future price determinations.

Each expenditure allocation category should be allocated across the relevant operating expenditure activity areas. Where an expenditure allocation category does not apply to one or more of the activity areas, these activity areas should be left blank. A business's allocation between activity areas will allow the Commission to better understand the drivers of operating expenditure.

In this reconciliation schedule a *water business* will be required to provide details of their allocation of major operating expenditure items across the following categories:

- (i) Labour costs - A *water business* is required to provide details related to wages and on-costs including:
- superannuation
 - Work Cover
 - long service leave
 - payroll tax
 - training
 - study assistance.

Labour costs should include employees directly employed by the business with the exception of labour costs for the provision of IT services and water conservation (see B.7(vii) and B.7(ix)). Any agency staff or labour expenses incurred on contractors should be included in the 'Contractors' expenditure allocation category (see B.7(iii)).

- Plant and materials – A *water business* is required to provide details related to any expenditure incurred on plant and materials during the year. Examples of plant and materials expenditure include:
 - the hire of equipment to undertake maintenance works
 - expenditure on concrete
 - expenditure on steel and other metals or alloys
 - expenditure on cables and other electrical materials
 - expenditure on wood or timber products

- expenditure on nuts, bolts and screws
 - expenditure on any other plant or materials that can be reasonably justified by the business for inclusion in this category.
- (ii) Contractors – A *water business* is required to provide details of all contractor (including consulting and agency staff) costs that have been incurred by the business during the year, with the exception of contractors engaged in the provision of IT maintenance and support services and water conservation programs (these are to be included in the IT expenditure allocation category – see B.7(ix) and the water conservation expenditure allocation category – see B.7(vi)). A contractor is considered to be a person (or team of persons) who provides services to the business but is not directly employed by the business.
- (iii) Electricity – A *water business* is required to include all electricity costs that have been incurred during the year, with the exception of renewable or green electricity expenditure. Businesses are to provide a separate disclosure of these expenditure items as set out in B.7(iv), below.
- (iv) Greenhouse gas offsets – A *water business* is required to provide details of all expenditure related to offsetting the business’s greenhouse gas emissions, that have been incurred during the year, including:
- purchasing green energy
 - purchasing renewable energy certificates (RECs) as part of MRET
 - creating Victorian Energy Efficiency Certificates through the VEET scheme
 - any other greenhouse sequestration activities that the business has implemented during the year.
- (v) Chemical costs – A *water business* is required to provide details of all chemical costs incurred in the process of treating water, sewerage or recycled water during the year.
- (vi) Water conservation – A *water business* is required to provide details of any expenditure related to water conservation programs that has been incurred during the year, including labour costs. Water conservation programs include programs designed to promote more efficient water use, or reduce non-revenue water, by either domestic or non-domestic customers. Specific examples of water conservation expenditure will differ from business to business, but the Commission expects water conservation to include, at a minimum, expenditure related to:
- the promotion and enforcement of water restrictions
 - the promotion of behavioural change campaigns, such as those campaigns designed to encourage water users to remain within a water consumption ‘target’
 - leakage management programs that have been specifically created to improve water conservation and are additional to standard maintenance expenditure

- expenditure related to promoting, distributing or installing water efficient devices such as showerheads and washing machines
 - contribution to Government or industry programs that target water conservation
 - development of water efficiency plans or water audit regimes for non-domestic customers.
- (vii) Vehicle Fleet running costs – A *water business* is required to provide details of all fuels and other vehicle fleet running and maintenance costs. Fuels include petrol, diesel, liquefied petroleum gas (LPG) or any other fuel used to power motor vehicles. Any labour costs incurred by the business in managing its fleet, should be included in the ‘Labour costs’ expenditure allocation category, rather than in this expenditure allocation category.
- (viii) IT – A *water business* is required to provide details of all IT costs that have been incurred during the year. This includes such items as software (where classified as an operating expenditure by the business), IT licence costs, IT maintenance and support arrangements and SCADA operating costs. Businesses should also allocate any direct or contracted labour expenses related to the provision of IT services to this category. These labour expenses should be included exclusively in this expenditure allocation category and not be re-presented in the ‘Labour costs’ expenditure allocation category.
- (ix) Other trial balance accounts – A *water business* should report all other operating expenditure accounts not already included in the previous expenditure allocation categories. The Commission anticipates that this category would include a number of smaller expenditure accounts (to the extent that they are considered to be incurred in the provision of *prescribed services*), including, but in no way limited to:
- membership fees
 - advertising
 - subscriptions and publications fees
 - sponsorships
 - entertainment
 - meal expenses
 - travel and accommodation.

Businesses should include the high level account numbers from their chart of accounts which identify how expenditure recorded in the trial balance has been represented in the operating expenditure allocation. For instance, a business may structure its chart of accounts so that account numbers (or parts of account numbers) related to staff costs all begin with ‘34-10’. As an example, ‘34-1010’ may be salaries, ‘34-1011’ superannuation, ‘34-1020’ long service leave, etc. In addition, the business may not internally classify training costs as labour expenses, but rather include it as ‘other expenditure’, and allocate an account code of ‘34-3150’.

In this example, a business can report that the expenditure included under the Commission's 'Labour cost' expenditure allocation category includes all trial balance accounts commencing with '34-10' plus '34-3150'. The purpose of this explicit allocation of the trial balance accounts to expenditure allocation categories is to assist the Commission with reconciling the two information sources and reduce ambiguity in businesses' submissions and when comparing regulatory accounts year on year.

B.8 Revenue

B.8.1 Water business segments

A *water business* must allocate revenue items between the following *water business segments*, where those segments are relevant to the *water business*:

- (a) regional/urban water services
- (b) regional/urban sewerage and trade waste services
- (c) recycled water services
- (d) bulk water and sewerage services provided by a regional/urban water business to another regional/urban water business (including storage or storage operation, treatment and transportation).
- (e) bulk water services provided by a rural *water business* to another regional urban or rural *water business* (including storage or storage operation and transportation).
- (f) bulk water – collection and storage
- (g) bulk water – treatment
- (h) bulk water – transportation
- (i) bulk sewerage – treatment
- (j) bulk sewerage – transportation
- (k) metropolitan drainage services
- (l) irrigation
- (m) irrigation drainage
- (n) domestic and stock
- (o) surface water diversions
- (p) groundwater diversions
- (q) licensing activities.

B.8.2 Revenue from determined prices or pricing principles

For revenue allocated to each *water business segment*, a *water business* must further allocate this revenue between the following *revenue sources* that are determined from prices or pricing principles:

(i) Rural tariff revenue

Revenue that is derived from prices approved by the *Commission* in a *Water Price Determination* and is *directly attributable* to the provision of services to rural customers should be included in rural tariff revenue. This includes the provision of irrigation, irrigation drainage, domestic and stock, surface water diversions and groundwater diversions.

(ii) Residential

Revenue that is derived from prices approved by the *Commission* in a *Water Price Determination* and is *directly attributable* to the provision of services to residential customers should be included in residential. This should include revenue for the provision of drainage and waterways services to residential customers.

(iii) Non-residential

Revenue that is derived from prices approved by the *Commission* in a *Water Price Determination* and is *directly attributable* to the provision of services to non-residential customers should be included in non-residential. This should include revenue for the provision of drainage and waterways services to non-residential customers.

(iv) Non-scheduled services – Schedule 4

Revenue that is *directly attributable* to the provision of services for which a price is not included in schedule 2 of a *water business's Water Price Determination*, but is derived from the pricing principles set out in schedule 4 of a *water business's Water Price Determination*, including revenue collected under a negotiated contract with a large user, must be included in non-scheduled services. A *water business* is required to list revenue for each non-scheduled service in the separate schedule provided in the template.

Revenue that is collected from the provision of services for which prices are included in schedule 2 of a *Water Price Determination* must be excluded from non-scheduled services.

(v) Trade waste services

Revenue that is derived from prices approved by the *Commission* in a *Water Price Determination* and is *directly attributable* to the removal, treatment and disposal of trade waste must be included in trade waste services.

(vi) Core miscellaneous services – Schedule 2

Revenue that is *directly attributable* to core miscellaneous services as approved by the *Commission* in schedule 2 of a *Water Price Determination* must be included in this category. A *water business* is also required to provide detail on each individual core miscellaneous service in the separate schedule provided in the template.

These core miscellaneous services include (but not limited to) revenue collected from the following services:

- (a) information statements
- (b) special meter reads
- (c) meter accuracy tests
- (d) water quality, pressure or flow rate tests
- (e) connection services
- (f) tapping fees
- (g) property information statements
- (h) provision of account and usage history held beyond 3 years
- (i) fire service data
- (j) reviews of applications to build over easements.

Interest paid by customers on overdue accounts must be included in core miscellaneous services.

Melbourne Water should allocate revenue from the provision of diversion services to core miscellaneous services.

(vii) Bulk water and sewerage services

Revenue that is directly attributable to the provision of bulk water and sewerage services by a water business to another water business, including storage, treatment, transportation and disposal, must be included in bulk water and sewerage services.

(viii) New customer contributions (urban services); customer contributions (rural)

Revenue collected through new customer contributions (as defined by the *Commission*), or any other contribution from a customer must be included in new customer contributions.

(ix) High level account/ledger codes

A *water business* is required to provide high level account/ledger codes that relate to the amounts recorded for each revenue category. This is to assist the Commission in its review of the revenue items.

B.8.3 Revenue from other sources

For revenue not derived from sources contained in section B.8.2 (above), a *water business* will need to allocate this revenue to revenue from other sources. Revenue from other sources should be allocated between (a) revenue that will offset prices/revenue requirement and (b) revenue that will not offset the revenue requirement:

(a) Revenue that will offset prices/revenue requirement

The purpose of the following revenue categories is to account for revenues that are not (1) derived from prices approved by the *Commission* in a *Water Price Determination* or (2) derived from pricing principles as set out in schedule 4 of a *Water Price Determination*, but will contribute to meeting a *water business's* revenue requirement as approved by the *Commission* in a *Water Price Determination*.

This revenue is distinct from revenue that is considered by the Commission to fall outside of activities that contribute to a *water business's* revenue requirement (see B.8.3(b)).

(i) Proceeds from sale of water entitlements

Revenue collected from the sale of water entitlements (whatever legal form those entitlements take) must be included in proceeds from sale of water entitlements.

Revenue collected from the disposal of other assets must be excluded from proceeds from sale of water entitlements.

(ii) Proceeds from asset disposals (to be deducted from RAB)

Water businesses should record revenues from asset disposals which will be deducted from a *water business's* regulated asset base.

Revenue collected from the disposal of assets used to provide prescribed services should be included in proceeds from asset disposals (to be deducted from RAB).

Revenue collected through the sale of an asset to a customer in connection with the provision of services must be excluded from proceeds from asset disposals (to be deducted from RAB).

Revenue collected through the sale of water entitlements must be excluded from proceeds from asset disposals (to be deducted from RAB).

(iii) Government contributions (operating)

Government grants for purposes other than capital expenditure should be included in government contributions (operating).

(iv) Government contributions (capital)

Government grants for capital purposes should be included in government contributions (capital).

(v) Gifted assets

The value of assets that are constructed and paid for by a third party, and then transferred to a water business to operate and maintain should be included in gifted assets.

(vi) High level account/ledger codes

A *water business* is required to provide high level account/ledger codes that relate to the amounts recorded for each revenue category. This is to assist the Commission in its review of the revenue items.

(b) Revenue that will not offset prices/revenue requirement

(vii) Proceeds from sale of assets (with no impact on the RAB)

Revenue collected from the disposal of assets used to provide non-prescribed services should be included in proceeds from asset disposals (with no impact on the RAB). Only revenue that will not be used to reduce a water business's regulated asset base should be included in this category.

(viii) Other non-prescribed revenue

Revenue that is directly attributable to the provision of *non-prescribed services* should be included in other non-prescribed revenue (non-prescribed revenue includes interest on investments, but not interest paid by customers on overdue accounts).

The total amount included in this template is linked from the non-prescribed revenue in the template related to non-prescribed services.

B.9 Contributions

Where a *water business* receives contributions from any party (including any government or government body) for the financial year, the *water business* must disclose:

- (a) the reason for the contribution;
- (b) whether it was received from a government, government body or a customer;
- (c) the accounting treatment used to record the contribution in the statutory accounts (revenue or equity);
- (d) whether it is an operating, capital contribution or a gifted asset;
- (e) whether it will offset prices or whether it will not offset prices; and
- (f) the value of the contribution.

The total value for revenue contributions needs to equal the total value of contributions included in the profit and loss and the revenue templates.

B.10 Provisions

A *water business* must allocate current provision items between the following categories:

- (1) employee entitlements - annual leave;
- (2) employee entitlements – long service leave;
- (3) employee entitlements – other;
- (4) insurance; and
- (5) other.

A *water business* must allocate non-current provision items between the following categories:

- (1) employee entitlements - annual leave;
- (2) employee entitlements – long service leave;
- (3) employee entitlements – other;
- (4) insurance; and
- (5) other.

Provisions that cannot reasonably be allocated to employee entitlements or insurance must be allocated to “other”. Where a water business has allocated provision amounts to “other”, the regulatory accounting statements must disclose the account names and amounts included in “other”.

Water businesses must allocate bad and doubtful debt provisions to current bad and doubtful debts.

B.11 Third party transactions

Where a *water business* enters into transactions with a *third party* which total greater than \$1 000 000 in aggregate for the *financial year*, the *water business* must disclose:

- (1) the name of the *third party*;
- (2) a description of the services provided by the *third party*;
- (3) the value of the payments made to the *third party*;
- (4) a description of how the basis for the payment was determined; and
- (5) a description of how the payment is reflected in the regulatory accounting statements, including the asset class or cost category that the costs are included in.

B.12 Related party transactions

Where a *water business* enters into a transaction with a *related party* the *regulatory accounting statements* must disclose for each transaction:

- (1) the name of the *related party* which incurred the cost in providing the service to the water business and a description of the water business's interest in the *related party*;
- (2) a description of the service provided by the *related party*;
- (3) the value of the payments from the water business to the *related party* for the service;
- (4) a description of how the payment for the service is reflected in the *regulatory accounting statements*; and
- (5) a description of how shared costs have been allocated.

For the purposes of this clause, a payment made under a contract with a party who was a *related party* at the time the contract was entered into, even if that party is no longer a *related party* (including, but not limited to, where the *related party* was sold to another party) must be recorded as a *related party* transaction. This information will remain confidential.

B.13 Unbundled segments

A *water business* (excluding Melbourne Water, Southern Rural Water and Goulburn Murray Water) is required to provide a breakdown of revenue and expenditure amounts across the segments of water and waste water supply. This information provides the Commission with a greater level of information of the revenue and expenditure directly related to each segment of water and sewerage supply and may assist in future reviews of third party access to water infrastructure. The revenue and expenditure amounts must reconcile back to the revenue and expenditure templates.

The revenue and expenditure categories that businesses are required to unbundle across the water and sewerage supply segments are:

- (1) Revenue
- (2) New customer contributions
- (3) Government contributions
- (4) Gifted Assets
- (5) Proceeds from asset disposal
- (6) Additions
- (7) Operating expenditure

The revenue and expenditure values attributable to the provision of water services are to be unbundled into the following segments:

- (1) Water collection and storage
- (2) Water Treatment
- (3) Water transport
- (4) Recycled Water

Revenue and expenditure related to the provision of sewerage services is required to be unbundled into the following segments:

- (1) Sewage Treatment
- (2) Sewage Transport

Where revenue or expenditure is not directly attributable to a business segment a *water business* should allocate amounts across the activity segments based on the allocation principles outlined in clause 3.4.6 of the Code.

In the explanatory notes section, a *water business* is required to provide details of the cost allocations, including the basis of allocation and the reason for choosing this basis.

B.14 Non-prescribed services

- (a) A *water business* is required to list all services provided during the financial year that do not fall within those services defined as *prescribed services*, being services that the Commission does not determine prices or pricing principles.
- (b) A *water business* is required to provide revenue, operating and capital expenditure values related to its non-prescribed services.
- (c) A *water business* is required to provide high level account/ledger codes that relate to the amounts recorded for each non-prescribed service. This is to assist the Commission in its review of non-prescribed services.
- (d) If costs to a non-prescribed revenue source are not directly attributable, a *water business* should allocate costs based on the principles in clause 3.4.
- (e) Where there may be a number of small items a *water business* can aggregate them if they are not easily identifiable or material.
- (f) Information and amounts relating to non-prescribed services when provided to the Commission will remain confidential.

B.15 Rolled forward RAB

This information provides the Commission and *water businesses* with information on a business's regulated asset base, the current year of which is derived from the information in the other templates of the regulatory accounts. The template will be pre-filled by the Commission and does not require the business to complete any details.

APPENDIX C PROFORMA DIRECTORS' RESPONSIBILITY STATEMENT

In the opinion of the Director/s of [name of *water business*]:

- The *regulatory accounting statements* set out on pages [] to [] are drawn up so as to present true and fairly in accordance with the requirements of the Water Regulatory Accounting Code (Issue No. 4) issued by the Essential Services Commission, dated X X 2009 ("Code").
 - the results of each *water business segment* for the *current regulatory accounting period* ended [period end];
 - information concerning the state of affairs at [period end], of each *water business segment*;
 - information required by appendix B of the Code;
 - information on *related party* transactions required by appendix B.12 of the Code [delete if inapplicable];
 - information on *third party transactions* required by appendix B.11 of the Code; [delete if inapplicable] and
- no *related party* transactions arose during the *current regulatory accounting period* that require disclosure under appendix B.12 of the Code [to be deleted only if disclosure is confirmed above]; and
- no *third party* transactions of the type described in appendix B.11 occurred during the *current regulatory period* that require disclosure under clause appendix B.11 of the Code [to be deleted only if disclosure is confirmed above].

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

Signed:

(name of Director/Managing Director)

Dated

(name of Director/ Corporate Secretary/
Managing Director/Chief Financial Officer)

Dated

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