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REVIEW OF WATER REGULATORY ACCOUNTING CODE AND TEMPLATES

DRAFT CODE AND TEMPLATE AMENDMENTS PAPER

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1 INTRODUCTION

1.1 Background

The Essential Services Commission is responsible for the regulation of prices, service standards and conditions of supply for services provided by Victoria's 19 water businesses. In December 2005, the Commission released a Regulatory Accounting Code for the Victorian Water Industry (the Code) requiring businesses to maintain and report specified accounting records.

The purpose of the Code is to enable the Commission to collect regulatory accounting information on the actual expenditure incurred and revenue received by water businesses. This information collected under the Code allows the Commission to monitor the financial performance of the businesses and provides a basis for assessing expenditure and revenue forecasts. The forecasts are used in approving prices for water, sewerage and related services in future price reviews.

The first issue of the Code was released in December 2005 subsequent to the 2005 Urban Water Price Review. At the time of the release of the Code, the Commission had not completed reviewing the pricing proposals of the rural water businesses. The Code therefore initially applied to metropolitan and regional urban water businesses and these businesses submitted the first set of regulatory accounts in 2006.

In November 2006, the Commission released an amended Code to account for the information requirements relating to the rural water businesses. Further minor amendments were made to the Code in October 2007 to reflect issues that had arisen in the review of the 2005-06 regulatory accounts submitted by the urban businesses. Following the amendments all water businesses submitted 2006-07 regulatory accounts to the Commission for review.

After a review of the 2006-07 regulatory accounts, the Commission decided that it was timely to undertake an extensive review of the Code. This was prompted by a number of issues that were identified during the review process and scope for improving the timeliness of the review process itself. Amongst other things, clear differences in the business' regulatory accounts have been identified, which have translated into difficulties with using the data in price reviews.

In undertaking this review, the Commission will take into account its inquiry into the development of a third party access regime and its recommendations in relation to ring fencing of major segments of the water and waste water supply chain.

In October 2008, the Commission released a Consultation Paper as the first step in the review process. This paper detailed the role of the regulatory accounts, general particulars behind the regulatory accounts, and specific information requirements of the regulatory accounts.

Following the release of this paper the Commission consulted with businesses and proposed a number of revisions to the template based on its proposals in the consultation paper and the subsequent consultation with businesses. The Commission also held a workshop with businesses to work through the proposed revisions to the template.

Based on this consultation process this paper outlines a number of draft amendments to the regulatory accounting code and templates and further guidance on the requirements of each template.

1.2 Regulatory framework

The Commission's functions in respect of the Victorian water industry are established by the legislative framework as set out in *The Essential Services Commission Act 2001*, *Water Industry Act 1994*, and the Water Industry Regulatory Order 2003 (the WIRO). The Commission has the power to regulate prices for services which are prescribed services under the WIRO.

The Commission has the authority under section 4F(2)(e) of the *Water Industry Act 1994* to issue a code that requires the businesses to maintain specified accounting records and prepare accounts according to specified principles. The Commission also has general powers under *The Essential Services Commission Act 2001* and the *Water Industry Act 1994* to obtain information from the businesses.

The WIRO provides the Commission with a general power to conduct audits in relation to the reliability and quality of information reported by businesses and conformity with specifications issued by the Commission.

1.3 Purpose and structure of this paper

An indicative timing for the review of the Code is shown in Table 1.1. As outlined, the review process is likely to be completed by the end of October 2009. Businesses are invited to trial and submit a draft version of their 2007-08 accounts using the revised template in response to this report. Given the current review of the Code and templates the Commission is extending the timeline to allow businesses to formally submit the regulatory accounting statements and supporting information for 2007-08 and 2008-09 to 30 November 2009.

Table 1.1 **Timetable for Review**

Milestone	*Completion date*
Release consultation/issues paper	October 2008
Visit businesses to discuss issues	November 2008 - January 2009
Responses to consultation paper due	January 2009
Review responses to consultation paper	February 2009 to March 2009
Release revised template with draft amendments	May 2009

Consultation with businesses and workshop. Businesses to provide feedback.	July 2009
Release draft decision and code - invite businesses to trial template with 2007-08 accounts	August 2009
Responses to draft decision due	September 2009
Release final decision and code	October 2009
Businesses to formally submit regulatory accounting statements for 2007-08 and 2008-09	30 November 2009

The purpose of this draft amendments paper is to:

- summarise the process to date and issues raised in the consultation paper
- outline issues raised by businesses during the consultation process and the Commission's response to those issues
- outline proposed draft amendments to the Code and templates.

2 ROLE OF REGULATORY ACCOUNTS

2.1 Introduction

The Code sets out the nature of information to be prepared and submitted by businesses on actual financial performance. Firstly, clause 1.2.2 of the Code states that the information provided 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.

The Code also requires the businesses to complete and provide the Commission with a series of templates referred to as regulatory accounting statements (RAS). The information provided in the RAS is reviewed by the Commission for consistency with the requirements of the Code.

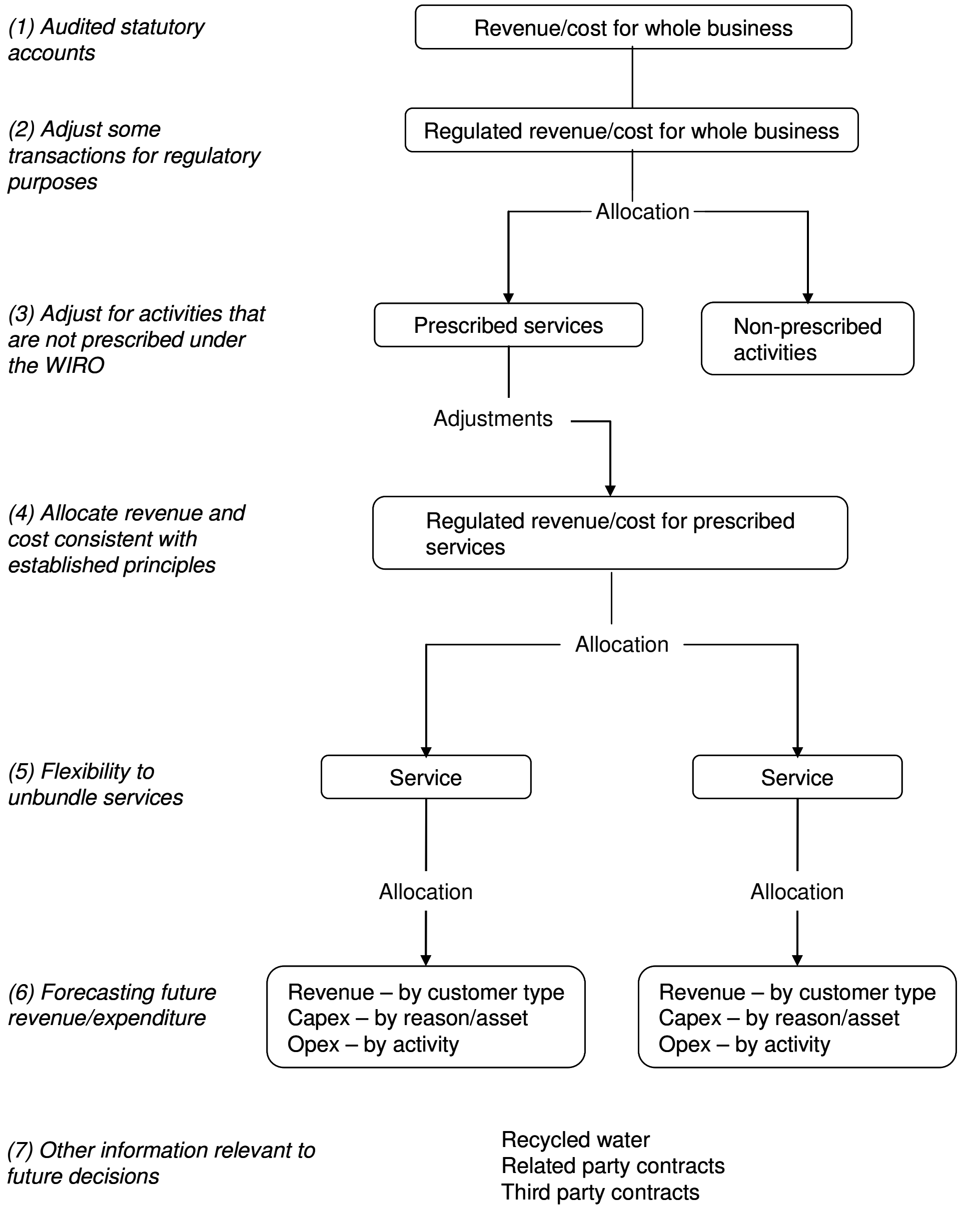
In practise the Commission uses the information collected through the Code to:

- monitor financial performance overtime
- identify issues regarding the treatment of transactions for the purposes of approving prices
- update the regulatory asset base for the purposes of approving prices
- provide a basis for assessing forecasts used to approve prices in future price reviews.

2.2 Overview of the information collected by the Commission

Figure 2.1 outlines the information collected by the Commission through the Code.

Figure 2.1 **Information collected through the Regulatory Accounts process**



Water businesses' audited statutory accounts provide the starting point for information provided through the RAS. The statutory accounts then need to be adjusted to provide the Commission with the information it requires for regulatory purposes. Some transactions may be treated differently for financial accounting purposes than for regulatory purposes should the Commission decide that a different regulatory treatment is more consistent with the WIRO or another regulatory or legislative instrument.

The statutory accounts cover all of a business' activities, including those that are not regulated by the Commission. Adjustments need to be made to account for the revenue and expenditure associated with those activities that are not prescribed under the WIRO.

The regulated revenue and expenditure arrived at after steps 2 and 3 includes information on aggregate operating and capital expenditure incurred by a business in delivering prescribed services, as well as information on customer and government contributions and assets disposals. The regulatory asset base is updated for actual expenditure, contributions and disposals at the commencement of each subsequent regulatory period for the purpose of approving prices. Actual operating expenditure also provides information relevant to the starting point for assessing the efficiency of forecasts going forward.

Steps 5 and 6 involve disaggregating financial information by service and activity/ reason/asset. Not all categories are relevant to each business. Obtaining disaggregated information at a service level is useful because it can identify trends at a service level, and is important for unbundling. Disaggregated information by activity/reason/asset also enables the Commission to identify trends in expenditure for specific activity areas. This information can be used by Commission to assess expenditure benchmarks when approving prices.

The RAS also require the provision of other information (step 7) that the Commission considered may inform its general functions and/or future price reviews (third party and related party transactions).

3 GENERAL ARRANGEMENTS

3.1 Review and sign-off of regulatory accounting information

Clause 4 of the Code sets out the requirements for the review of the RAS and subsequent adjustments required by the Commission. The Commission has followed a similar approach in both reviews of the 2005-06 and 2006-07 accounts. The review process for the 2006-07 RAS generally involved the steps set out in Table 1.1.

As part of the review process businesses are required to make adjustments that the Commission considers are necessary to bring the RAS into line with the requirements of the Code.

Businesses are sent the adjusted RAS and are required to resubmit the RAS with a Director's responsibility statement. The purpose of the statement is to attest that the regulatory accounts have been prepared in accordance with the Code and that the regulatory accounting statements accurately represent the financial performance of the business.

The Commission noted that in practice that although businesses are not required to submit a Director's responsibility statement with the initial submission of the RAS some businesses seek Board approval before making the initial submission. The business is then required to go back to its Board several months later following the completion of the review to obtain the Director's statement. Our understanding is that this causes issues for some businesses, as Boards are confused about their role/responsibilities.

In response to the consultation paper, Barwon Water considers the regulatory accounting statements need only be tabled at Board level once, prior to final submission to the Commission. It also suggests that attestation delegation be provided to the Managing Director and Chief Financial Officer/Board Secretary, while maintaining the requirement to append the minutes of the Board meeting as evidence of tabling. North East Water also suggested that the approvals process could be approved by requiring sign off by the Chief Financial Officer and/or Managing Director.

South East Water suggested in its submission that version control be incorporated within the regulatory accounting templates and that the possibility of the templates being automated, similar to the Budget Management System adopted by the Department of Treasury and Finance.

The Commission considers the sign-off process would be improved if when businesses submit their regulatory accounting statements to the Commission, they were signed-off by Director, Managing Director and/or a Chief Financial Officer. The Commission could then undertake its review of the accounts to ensure they are consistent with the Code. Once this review has been completed the Commission will approve the accounts as being consistent with the Code. Businesses would therefore no longer need to obtain a further director sign-off once the review process has been complete.

The Commission has amended the Code so that the regulatory accounting statements can be signed off by a Director or Managing Director and either another Director, Chief Financial Officer or Corporate Secretary when submitted to the Commission. This is included in the list of requirements for submission to the Commission in clause 2.3(d). Clause 4.1.4 also stipulates that the Commission will approve a business' regulatory accounting statement if it is satisfied the accounts are consistent with the Code requirements.

As suggested by Barwon Water, the Commission still considers that the accounts should be minuted at a business's board meeting. An additional clause 2.3(e) has been included to require businesses to submit an extract of board minutes that confirms that the regulatory accounts are true and fair.

The Commission notes that while it will approve the regulatory accounting statements, further information can often arise at a later date that may change the values approved in the regulatory accounts. If this does occur the Commission considers it should be able to take this information into account when using this regulatory accounting information for price review purposes. An additional clause 4.1.5 has therefore been included in the Code, which allows the Commission to amend the values of the approved regulatory accounting statements should information arise at a later date.

> The Commission seeks feedback on the draft amendments to the Code relating to businesses' sign-off and the Commission's approval of the regulatory accounting statements.

3.2 Timing and content of submissions

Currently businesses are required to submit regulatory accounts for each financial year by 31 October. This is four months after the end of the financial year to which the regulatory accounts relate. The Commission noted in the consultation paper that it considers this is still an appropriate timeframe because it allows businesses time to prepare the regulatory accounts and provide sufficient time for the Commission to undertake its review. The Commission will allow an additional month for businesses to submit their 2007-08 and 2008-09 accounts, to reflect the current review and changes to the Code and templates.

The Commission noted in the consultation paper that there have been some issues regarding the time to complete RAS reviews. However, the Commission's expectation from this review is that by making a number of changes to the Code and establishing better guidance to the businesses, it should help to improve the timeliness of future reviews of the RAS.

Barwon Water stated while the timeframe for submission of the RAS being within four months of the end of the financial year was appropriate, that to ensure the efficient allocation of resources and maintaining the cost of regulation does not exceed the benefits, the review process needs to be finalised within two months of the RAS submission.

North East Water also agreed that the length of the review process is generally too drawn out and could be completed in a reduced timeframe, where the process could benefit from quicker turn-around times from the ESC and the consultants. North East Water believes that there is enough flexibility in this process to complete initial reviews and respond to queries prior to the Christmas break, which would allow for remaining issues to be addressed in January with completion of the process in February/March.

Wannon Water stated that the area that requires improvement relates to the current review process and the associated information flow back and forward to reach the final outcome. To improve the timeliness of the review process Wannon Water also suggested visits to businesses by the ESC/consultant should be given some consideration rather than emails which may be given less priority.

As noted in the consultation paper, to improve the timelines required to complete the RAS review, the Commission plans to make site visits to each business as a more efficient way of addressing issues. The Commission noted its concern that the nature of the supporting information currently provided by businesses is not sufficient as it is not always clear how businesses have allocated statutory account information to the RAS. Therefore on the basis of information provided it is often difficult to determine how accounts and amounts have been allocated to the regulatory account categories.

To improve the quality of information provided in the templates, the Commission in the consultation paper proposed a mapping of the trial balance, to facilitate its understanding of the businesses' regulatory accounts.

However, after consultation with businesses the Commission has instead made a number of amendments to the template as outlined in the following sections, which aim to improve the information that is collected in the RAS and the timeliness of the review process.

3.3 Level of prescription and guidance in the Code

The Code is a high level document setting out obligations on businesses to submit certain information, prepare regulatory accounting statements, the principles for preparing regulatory accounts and obligations regarding the review and adjustment of accounts. In developing the Code the Commission noted a preference for being less prescriptive.

In reviewing the Code, the benefits of greater prescription (greater certainty and consistency across businesses) need to be weighed against the costs (greater complexity and less flexibility for businesses).

Clause 3.4 of the Code sets out the allocation principles to be used by businesses in allocating amounts/transactions by service and activity/ reason/asset. The Code requires amounts that are directly attributable to a business segment, activity area or revenue source to be allocated to that business segment, activity area or revenue source.

Where amounts cannot be allocated on a directly attributable basis the Code requires them to be attributed on a causation basis. If a causal relationship cannot be reasonably established, amounts can be allocated on a non-causal basis provided that:

- there is a strong positive correlation between the non-causal basis and the actual cause
- cost to derive causal allocation outweighs the benefits
- aggregate of amounts allocated on non-causal basis are not material.

Different businesses have taken different approaches to the basis for allocating amounts between services and activities. For example, some businesses have allocated amounts based on customer numbers or on revenues shares. It is important that businesses are consistent with the way they allocate year on year and that the Commission understands how businesses have allocated to ensure that it is reasonable and consistent with the Code.

Currently appendices B, C and D of the Code provide additional guidance to businesses on what should be included in each activity area and revenue source when making allocations. Where a business is unable to allocate base account amounts consistent with the definitions included in these appendices, it must provide information on the basis on which amounts have otherwise been allocated. Regardless of whether businesses have relied on this guidance they should be required to indicate on what basis they have allocated amounts/transactions.

Businesses, in response to the consultation paper and in discussions with the Commission, have generally supported the need for greater guidance on the requirements for completing their regulatory accounting statements.

The Commission has therefore amended the Code to expand the guidance on the requirements of each template and has combined appendices B, C and D into one guidance Appendix that addresses each template. The guidance in Appendix B aims to provide a guide on how to fill out each template and describes the requirements for each category.

The Commission has therefore amended clause 2.2.1 of the Code to require businesses to comply with the specific requirements in Appendix B.

The Commission seeks feedback on the expanded guidance provided in Appendix B of the Code and where further guidance and clarification is required.

3.4 Treatment of activities that are not prescribed under the WIRO

In the consultation paper the Commission noted some concerns with the definition of prescribed and non-prescribed activity and whether some activities that were incidental to prescribed services should be considered as part of prescribed revenue. The Commission's main concern with this classification is that while it has no role in regulating prices for non-prescribed activities, it needs to be satisfied that non-prescribed activities are correctly classified and that their costs are excluded from the regulated cost base.

The Commission noted in the consultation paper that revenue and expenditure relating to prescribed services need to be aligned to those services as defined in the WIRO and identified in schedules 2 and 3, or based on principles outlined in schedule 4 of the businesses' determinations, as approved by the Commission. All other revenue and expenses that result from activities that do not fit within these services cannot be allocated as a prescribed activity.

The Commission also considered that the current definitions of prescribed and non-prescribed services did not adequately address how activities that were incidental to the provision of prescribed services should be allocated.

Goulburn Valley Water and North East Water considered that in certain circumstances revenue from incidental services should also be considered as prescribed revenue. This being that often this revenue from these incidental services is returned to customers through lower prices.

As noted in Goulburn Valley Water's submission the Commission considers that where revenue from incidental services is returned to customers through a lower revenue requirement, costs equal to that revenue could be allocated from prescribed to non-prescribed expenditure in the regulatory accounts. Lower costs for prescribed services could then be factored into the Commission's assessment of a business's revenue requirement in future years.

To improve the clarity of the allocation between prescribed and non-prescribed revenue the Commission has also made a number of amendments to the revenue template, to separate prescribed revenue from revenue that is received from other sources. Refer to section 4.5 for further discussion of these amendments.

4 SPECIFIC INFORMATION REQUIREMENTS

This chapter outlines the proposed amendments to each regulatory accounting statement template, the consequential amendments to the Code and where further guidance has been provided.

4.1 Profit and loss statement, balance sheet and cash flow statement templates

Templates 1 to 3 (profit and loss statement, balance sheet and cash flow statement) should accurately reflect the financial information contained in the statutory accounts. The amounts for each category should also reflect the amounts in the statutory accounts. For example, the amounts for depreciation, bad debts, and borrowing costs should reflect the amounts contained in the Statutory Accounts.

The revised profit and loss template includes a schedule to reconcile revenue recorded in the statutory accounts and that in the regulatory accounts by means of identifying balancing items between the two sets of accounts. This is to give the Commission a better understanding of the items that create a variation between revenue in statutory and regulatory accounts. This should include items that are not considered revenue for regulatory purposes, such as realisation of bad debts, asset revaluation gains and defined superannuation gains.

The Commission has also included a separate column where businesses can provide information of any relevant notes in the annual report which may assist the Commission in its review of the accounts.

The Commission has provided further guidance in Appendix B.1,2 and 3 of the revised Code on the basic requirements of these templates. Refer to the revised Code for further details of this guidance.

> The Commission seeks feedback on the proposed amendments to the profit and loss statement, balance sheet and cash flow statement templates. Are there other aspects of these templates that require further clarification and guidance?

4.2 Capital expenditure templates

Currently, the Code requires businesses to allocate capital expenditure to each business segment and the following activity areas:

- cost drivers — growth, renewal of existing infrastructure, improvements and compliance
- asset categories — headworks, pipelines, channels, treatment, and corporate.

The Commission is proposing to largely retain the information that is collected in the capital expenditure templates as the information is consistent with the information collected for price review purposes. As outlined in Appendix A of this paper, the format of template 4 has been amended to require businesses to provide each accounting adjustment, which will link back to the total amount for accounting adjustments.

The Commission is also interested in any purchases of permanent water entitlements that businesses make during the year. A separate asset class category for the purchase of any permanent water entitlements has been also been created. The requirement for businesses to complete this category has been included in Appendix B.5 of the Code.

The Commission has also amended the Code so that the requirements for 'template 4 - capital expenditure' have been moved from clause 3.5.1 to Appendix B where guidance on the requirements of each template has been amalgamated. The Commission considers this guidance should be adequate for businesses to complete this template.

The Commission has also moved the guidance related to template 5 – capital expenditure breakdown, from Appendix C to the amalgamated guidance in Appendix B. The Commission considers the guidance for this template, which outlines the requirements for each cost driver and asset category, should also be adequate for businesses to complete the breakdown of capital expenditure template. Appendix A of this report contains all amendments to templates 4 and 5 relating to capital expenditure.

> The Commission seeks feedback on the proposed amendments to the capital expenditure templates. Are there other aspects of these templates that require further clarification and guidance?

4.3 Operating expenditure template

Currently, the Code requires businesses to allocate operating expenditure to each business segment and the following activity areas:

- operations, maintenance, bulk charges, treatment, renewals annuity, customer services and billing, GSL payments, licence fees, corporate and other.

The Commission has proposed a number of template changes to the operating expenditure template. These include:

- an additional water business segment (column) for recycled water – this is consistent with the collection of operating expenditure for price reviews

- schedule for licence fees expenditure – This will require businesses to separate out licence fees for the ESC, the EPA and Department of Human Services. The Commission notes that South East Water proposed that an additional line for 'other license fees' to be included in the template. The Commission acknowledges South East Water's concern about other licence fees paid. However creating an 'other' category may create some ambiguity as to what is to be included in this category. Therefore business should include any additional licence fees in corporate expenditure and provide an explanation in the notes
- an additional line for the environmental contribution has been created
- a comparative data column from the previous year has been included. The Commission will pre-fill this information
- non-prescribed expenditure – the aggregated total of non-prescribed operating expenditure is linked from the non-prescribed services template
- an additional line has been created for businesses to separate out their purchases of temporary water entitlements.

Please refer to the table in Appendix A for the full detailed explanation of the changes to the template.

Detailed guidance on the requirements to complete this template is currently contained in Appendix B of the Code. The Commission considers that it provides a reasonable level of explanation to businesses in allocating their operating costs to the activity areas in this template. The Commission has also included further guidance in Appendix B.6 in relation to the additional requirements in this template, including the requirements for the schedule for licence fees, separating out the environmental contribution and the purchase of temporary water entitlements.

The Commission seeks feedback on the proposed amendments to the operating expenditure template. Are there other aspects of this template that requires further clarification and guidance?

4.4 Operating costs allocation – new template

The Commission, in its aim to improve the level of information collected in the regulatory accounts process, has proposed a new template in which water businesses are required to provide a breakdown of major costs that comprise operating expenditure under each activity area. The purpose of this template is to provide further detail for the basis of the allocation of operating expenditure from businesses' trial balances to the regulatory accounts. These expenditure allocation categories will also provide an accurate base line for these key operating expenditure categories when reviewed by the Commission as part of future price reviews.

This template was included in the revised template sent out to businesses in May and discussed at the workshop in July. At the workshop it was raised by some businesses that categories such as vehicle fleet running costs and IT expenditure are immaterial compared to total operating expenditure and should therefore not be separately reported. The Commission acknowledges that these operating expenditure categories may be small for some businesses. However it considers that as part of the Commission's price review process these expenditure categories are reviewed and any large proposed change in expenditure needs to be compared with historical expenditure. The Commission has therefore retained these categories in the template.

It was also raised at the workshop that it is not necessary for businesses to include details for each expenditure allocation category[1] across the operating expenditure activity areas,[2] but only the aggregate information in each column is necessary. The Commission agrees that not all activity areas will be relevant to all expenditure allocation categories, such as license fees and GSL payments. However certain expenditure allocation categories, such as labour costs, water conservation expenditure, etc, will be comprised of a number of activity areas. The Commission considers that such a breakdown would be useful when reviewing businesses' operating expenditure. Where an expenditure allocation category does not apply to one or more of the activity areas, these activity areas should be left blank.

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

Labour costs - includes 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 employees directly employed for the provision of IT services and conservation programs. Any agency staff or labour expenses incurred on contractors should be included in the 'Contractors' expenditure allocation category.

Plant and materials – businesses are 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

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[1] For example, labour costs, water conservation etc.

[2] For example, operations and maintenance, treatment, customer service etc.

- 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.

Contractors – businesses are 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 conservation programs (these are to be included in the IT expenditure allocation category or water conservation program costs). 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.

Electricity – this is 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 under greenhouse gas offset costs.

Chemical costs – businesses are required to provide details of all chemical costs incurred in the process of treating water, sewerage or recycled water during the year.

Water conservation – businesses are required to provide details of any expenditure related to water conservation programs incurred during the year, including labour or contractor 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.

Greenhouse gas offsets – businesses are 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.

Vehicle Fleet running costs – businesses are 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. To the extent that any labour costs are incurred by the business in managing its fleet, these costs should be included in the 'Labour costs' expenditure allocation category, rather than in this expenditure allocation category.

IT - businesses are 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.

Other trial balance accounts – businesses 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.

As outlined in Appendix B of the revised Code, businesses are required to provide 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 template. 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' referred to salaries, '34-1011' was 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 between businesses' submissions and when comparing regulatory accounts year on year.

Guidance on the requirements of this template as outlined above is included in Appendix B.7 of the revised Code. The Commission considers this should provide businesses with a reasonable level of guidance on the requirements to complete this template.

The Commission seeks feedback on the proposed amendments to the Code and operating expenditure allocation template and guidance on its requirements in the Code. Are there other aspects of these templates that require further clarification and guidance?

4.5 Revenue template

The Code requires that water businesses allocate revenue items between a number of business segments (such as retail water services, retail sewerage services, and bulk water services etc.) and then further allocate the revenue for each business segment between revenue sources (such as residential, non-residential, trade waste services etc.).

In the consultation paper the Commission noted that issues arose during the 2006-07 RAS review regarding the number of business segments and revenue sources provided for in template 7. Other problems also occurred with the classification of revenue between non-scheduled services, miscellaneous services and other non-prescribed revenue. For example, businesses found it difficult to allocate items such as temporary and permanent water entitlements, asset revaluation gains, recovery of bad debts revenue, defined superannuation benefit scheme gains, write-back of over-provisions etc.

As noted in section 3.4, the Commission has proposed a clear distinction between revenue from prescribed services as per schedules 2, 3 and 4 of each business's determination, and revenue from other sources.

The Commission has therefore amended the revenue template with the aim of providing greater clarity around the allocation of revenue items. The amendments aim to clearly identify revenue from those services for which the Commission regulates prices and those it does not. It has also separated out those revenue items that are not determined by regulated prices or pricing principles but do offset the business' revenue requirement and those that do not. There is also a change in terminology from 'prescribed/non-prescribed' to 'revenue from determined prices or pricing principles' and 'revenue from other sources'.

The Commission also notes that revenue items that are included in revenue for accounting purposes, such as the realisation of bad debts, asset revaluation gains and defined superannuation gains, should not be included in this template, but rather should be recorded as an adjustment from statutory to regulatory accounts, in the revenue schedule included in the profit and loss template.

The revenue template has been amended to include schedules for miscellaneous and non-scheduled services for business to identify each revenue item, and a separate column for recycled water. It also includes a column requiring businesses to include high level trial balance codes that relate to revenue items. This is to assist the Commission with referencing back revenue items back to the trial balance. Please refer to Appendix A of this paper for the full list of amendments to the revenue template.

The revenue guidance currently contained in Appendix D of the Code has been rolled into the one guidance document in Appendix B. Guidance on how revenue items should be allocated has also been extended in Appendix B.8. The Commission considers this provides a reasonable level of guidance for businesses to complete the revenue template.

The Commission seeks feedback on the proposed amendments to the revenue template and guidance on its requirements in the Code. Are there other aspects of these templates that require further clarification and guidance in the Code?

4.6 Provisions template

The provisions template in the RAS requires the businesses to report on the following provision categories:

(a) employment entitlement – annual leave

(b) employment entitlement – long service leave

(c) insurance

(d) other.

The Commission notes that other employee entitlements such as sick leave and rostered time off have been included in the “other” category. In order to provide greater clarification the Commission proposes to include an ‘employment entitlement – other’ category for other employee related provisions, reserving the “other” category solely for provision which cannot reasonably be allocated to employee entitlements and insurance.

Barwon Water in response to the consultation paper noted that it does not see the need to continually report the prior five years history in respect to provisions. It suggested the comparative data for this template be in line with the proposal for the revenue and expenditure templates, with only the previous year’s comparative being incorporated. The Commission notes that it has updated the template to include only the three previous years and that this information will be prefilled by the Commission.

The Australian Accounting Standards require entities to make a current provision for bad and doubtful debts. Bad and doubtful debts older than twelve months are written off as bad debts. However, the Code requires businesses to indentify under Template 9 ‘Non-current bad and doubtful debts’. The Commission recommends that the treatment of reporting of bad and doubtful debts in the RAS be aligned with Australian Accounting Standards and has removed this category from the template.

In relation to guidance on the requirements for the Provisions template the Commission has amended the Code by shifting clause 3.5.9 into the amalgamated guidance in Appendix B.10. The Commission considers that this provides businesses with adequate guidance on the requirements to complete this template.

The Commission seeks feedback on the proposed amendments to the Provisions template and guidance on its requirements in the Code. Are there other aspects of these templates that require further clarification and guidance in the Code?

4.7 Third party transactions template

Under the Code, businesses are required to report certain information on third party transactions. The Commission considers that it is important to collect information on third party transactions to ensure that it has a more complete understanding of how amounts that have been recorded as the actual cost of providing prescribed services have been determined. Where a business enters into an arrangement with another party to provide services, the contracted amount will generally be recorded as the cost. In most cases, the contracted amounts are likely to be recognised by the Commission as the efficient cost of undertaking an activity, particularly where it has been determined through a competitive process or has been market tested.

However, there may be instances where the Commission may need to better understand the basis on which contracted amounts have been determined, particularly where the incentives to minimise the cost of the services may be absent or where the contract is with a single entity to perform a substantial share of the regulated business's activities. By collecting this information as part of the regulatory accounting statements the Commission will be in a position to identify any issues related to how these transactions are treated in advance of undertaking future price reviews.

Under the Code, businesses are required to provide additional information on third party transactions that in total account for more than 10 per cent of total operating and capital expenditure or $1 million for the financial year, whichever is greater.

In the consultation paper the Commission proposed adopting a new threshold of greater than $10 million for the financial year. This was generally supported by businesses in response to the consultation paper and subsequent consultation. However Melbourne Water argued that a threshold of $10 million would require it to provide a number of third party transactions, and that the words greater than 10 per cent of total operating and capital expenditure whichever is the greater should be retained.

In reassessing the current threshold for reporting of third party transactions, the Commission notes that most businesses have not been required to report any third party transactions. The current threshold of transactions 'greater than 10 per cent of total operating and capital expenditure or $1 000 000 for the financial year, whichever is the greater,' is therefore considered too high.

Operating expenditure is a key driver of prices charged to customers and many businesses outsource or contract significant operating costs such as maintenance, energy and IT to third party providers. With significant increases in prices proposed over the current regulatory period a picture of what operating costs are actually incurred over the period is required to assist the Commission in assessing operating expenditure trends for the next regulatory period.

The Commission considers contracts over $1 000 000 in aggregate to be a material reflection of water businesses' costs and will capture the major third party transactions that water businesses have engaged in. This threshold is also consistent with the regulatory accounting reporting requirements for the gas and electricity distribution businesses.

The Commission acknowledges that this is a change from what it proposed in its consultation paper and a lower threshold that currently contained in the Code. Given this change, the Commission requests that businesses trial this revised threshold using their 2007-08 accounts and provide feedback to the Commission.

In relation to guidance on the requirements for the third party transactions template the Commission has amended the Code by shifting clause 3.5.3 into the amalgamated guidance in Appendix B.11. The Commission considers that this provides businesses with adequate guidance on the requirements to complete this template.

> The Commission seeks feedback on the proposed amendments to the third party transactions template and guidance on its requirements in the Code. Are there other aspects of these templates that require further clarification and guidance in the Code?

4.8 Recycled water template

The Code currently requires businesses to allocate expenditure and revenue associated with recycled water projects to either the water or sewerage business segments. This requirement also reflects the fact that costs of providing recycled water are incurred in both the water and sewerage business segments.

Businesses are also required to provide a further breakdown for each type of recycled water project in template 12, consistent with the types of recycled water projects identified through the price review process (least cost, specified and discretionary).

The collection of this information was intended to allow the Commission to monitor costs associated with each type of recycling water project to assist in determining appropriate pricing principles for recycled water in future price reviews. However the template appears to have caused confusion with businesses in terms of what should be allocated to each category. It is also not easy for Commission staff to verify that amounts have been allocated appropriately.

The Commission noted in the consultation paper that the information collected in this template does not provide any further detail than that received in other templates and proposed to remove it. It also suggested including a separate water business segment (column) for recycled water in the revenue and expenditure templates, which is consistent with the information collected for the price review templates.

Businesses supported the removal of this template. The Commission has therefore removed the recycled water template and added additional water business segments (columns) for recycled water to the revenue and expenditure templates. Section 3.5.5 of the Code that currently outlines the requirements for this template has also been removed. Given the change in allocation requirements for recycled water, clause 3.4.7 has been removed and the word 'except in the case of recycled water' has been removed from clause 3.4.6.

The Commission considers that businesses should ensure that the allocation of expenditure and revenue for recycled water between water and sewerage is done based on a primary purpose test. For example, if the main purpose of, say, certain operating expenditure is treatment of wastewater, then the activity should be allocated as sewerage. Alternatively, if the primary purpose of the activity is the provision of recycled water then the revenue and expenditure should be allocated to recycled water.

The Code has been updated to include this additional guidance on the allocation of recycled water expenditure.

The Commission seeks feedback on the proposed removal of the Recycled Water template. Are there other aspects of recycled water that requires further clarification and guidance in the Code?

4.9 New obligations and new miscellaneous services templates

The Determinations for the first regulatory period allowed businesses to recover increased expenditure that arose during the regulatory period due to changes in legislative obligations through prices in the following regulatory period. Therefore the Code and templates was set up to allow separate identification and recording in the regulatory accounts of any such expenditure that may be incurred during the regulatory period.

This information was to be used to inform the approval (or adjustment) of future prices. Few businesses sought to recover expenditure associated with new obligations. Determinations for the first regulatory period had a specific clause relating to changes in legislative obligations.

Determinations for the second regulatory period deal with changes in legislative obligations as part of the general clause relating to uncertain or unforeseen events, where the Commission would take into account any unforseen event in deciding whether or not to adjust prices.

The Commission proposed in the consultation paper to remove this template as the additional information related to new obligations is no longer required.

The Determinations for the first period also provided for businesses to introduce new miscellaneous charges during the regulatory period. The current Code requires businesses to set out more specific information related to new miscellaneous charges introduced during the period. This was to provide the Commission with information to ensure that these charges were being introduced consistent with the businesses' price determinations.

As part of its 2008 price determination the Commission adopted an alternative approach to regulating miscellaneous charges for the second regulatory period. Under the new approach businesses have identified a core set of miscellaneous services for which there is a scheduled charge. The remaining miscellaneous charges are regulated through pricing principles. Under this approach businesses can introduce a new miscellaneous charge at any time during the regulatory period (without specific approval from the Commission) as long as charges are consistent with the pricing principles.

Determinations no longer include a specific provision allowing businesses to introduce new miscellaneous charges. In the consultation paper the Commission therefore proposed removing this template as the additional information related to new miscellaneous services is no longer required.

All businesses in response to the consultation paper supported the removal of these templates. These templates have therefore been removed from the RAS and clauses 3.5.5 to 3.5.7 have been removed from the Code.

4.10 Unbundled segments template

This template applies to all businesses except Melbourne Water and the rural only businesses. For this template expenditure and revenue information provided in the earlier templates are allocated to water collection and storage, water treatment, water transport, sewage treatment and sewage transport.

In developing the Code, the Commission noted the possibility that prices for water and sewerage may need to be unbundled in the future to facilitate third party access. Therefore, the Code requires the regional businesses and the metropolitan retailers to allocate some aggregate information (for example, operating expenditure, capital expenditure, customer and government contributions) between the segments noted above.

VCEC, in its review of metropolitan retail businesses recommended the introduction of accounting ring fencing for the metropolitan retail water sector. It suggested that the water businesses report on their water distribution, wastewater collection and retail costs, and that the ESC develop a methodology for implementing, auditing and publishing the information. The Commission is also currently investigating ring fencing arrangements for the Victorian water industry as part of its access inquiry regime review.

Barwon Water stated that given issues such as third party access and ring fencing it agrees that the detail disclosed in the unbundled segment template continue to be provided. It also noted that issues to be addressed in relation to this template include the applicability of the allocation methodologies to determine the final segmented information.

The Commission notes that where the allocation is not directly attributable to a business segment, the amount should be allocated consistent with the allocation principles in clause 3.4.6(b) of the Code.

South East Water noted that the unbundled segments template (and indeed the whole regulatory accounting code and templates) should be consistent with that required under the ring fencing methodology to be developed by the Commission. South East Water expected the Commission to engage retailers in the process of implementing accounting ring fencing and the third party access arrangement. Given that these VCEC outcomes are to be implemented in a similar timeframe to the outcomes of this review, South East Water suggests that the scope of this review could be expanded to encompass the additional consultation required. Other businesses also noted that the review of the Code and templates could incorporate amendments required for accounting ring fencing. It also argued that this review process be deferred until such time as the ring fencing can be further developed.

The Commission notes the general agreement to retain this template. The approach to ring fencing in the Victorian water industry is currently being investigated as part of the access regime inquiry being undertaken by the Commission, the outcomes of which are not yet known. Thus a separate process for establishing ring fencing will be undertaken when the outcomes of the access inquiry and the government's response are released. This review process is aimed to work through a number of other regulatory accounting issues and improve the information collection process, which will assist the process of establishing ring fencing.

The Commission has also included guidance on the requirements of the unbundled segments template in Appendix B.13 of the Code. This guidance outlines the basic requirements for this template and where an allocation cannot be made on a causation basis, it should be made consistent with the principles in clause 3.4 of the Code.

> The Commission seeks feedback on the proposed amendments to the unbundled segments template and guidance on its requirements in the Code. Are there other aspects of this template that require further clarification and guidance in the Code?

4.11 Non-prescribed services template

This template requires businesses to identify any non-prescribed services provided to customers during the year. In its current form, it is difficult to confirm the non-prescribed revenue/expenditure associated with the services that are identified in this template. The Commission noted in the consultation paper that it would be useful if this template reflected the revenue and expenditure for each item so they can be reconciled back to the revenue and expenditure templates as well as the Trial Balance/Statutory accounts.

This template has been amended to require businesses to include revenue and expenditure associated with each identified non-prescribed service. To assist with the allocation of non-prescribed services, the Commission has more clearly defined non-prescribed services as part of the guidance Appendix to the Code. This approach was supported by Goulburn Valley Water who also agreed that revenue and expenditure for each identified non-prescribed service should be included in the template.

Barwon Water stated that it strongly objects to the disclosure of the financial breakdown of the non-prescribed revenue and expenditure within template 16. The non-prescribed activity includes confidential contractual arrangements, which if the financial detail is disclosed separately may expose Barwon Water to future financial risk. The Commission considers that this information is necessary in its review of non-prescribed services to ensure their allocations are compliant with the Code. It also notes that this information will not be published and will remain confidential with the Commission.

South East Water agreed that the non-prescribed template should reflect the amounts for major non-prescribed items only. However, there may be a number of small items which are very difficult to separately cost which will need to be included as ‘other’ in order to reconcile back to the revenue and expenditure template. In addition, in some instances it is difficult to reconcile back to the trial balance which is set out by account and not by activity.

The Commission acknowledges South East Water’s concerns and where there are a number of small items and the costs are not easily identifiable, businesses should make an estimate of the cost breakdown if there is not a causal relationship. Where there are a number of small items, businesses can aggregate them into an ‘other’ category if they are not easily identifiable and/or not material.

Additional guidance has been included in Appendix B.14 of the revised Code outlining the requirements to complete the non-prescribed services template.

The Commission seeks feedback on the proposed amendments to the non-prescribed services template and guidance on its requirements in the Code. Are there other aspects of this template that require further clarification and guidance in the Code?

4.12 RAB roll forward template

The roll forward of the RAB template is for information purposes to demonstrate to businesses how the information reported in the RAS affects their Regulatory Asset

Base (RAB). Amongst other things, it provides an indication of the closing balance of the RAB at the end of each financial year.

During the review process, the template caused a number of problems due to the Commission being unable to reconcile numbers for previous years back to previous RAS templates (where they existed), businesses' statutory accounts, and the 2008 Price Review financial templates. Issues also arose around values for previous years being reflected in 01/01/07 dollars.

The Commission will now populate data for previous years from previously reviewed and approved RAS to avoid any issues regarding reliability of data. Businesses would need to present a case as to why data should be changed.

> The Commission seeks feedback on the proposed amendments to the RAB roll forward template. Are there other aspects of this template that require further clarification and guidance in the Code?

4.13 Other Issues

The Commission notes that in its 2006-07 RAS templates Melbourne Water interpreted the Code to mean that all revenue from diversion and drainage services should be recorded as new customer contribution revenue. They recorded it as miscellaneous services revenue in 2005-06 and 2006-07 RAS and indicated that it appeared in contrast to the requirements of the Code.

The Commission considers that Melbourne Water should allocate its revenue from its annual drainage and waterways charges between residential and non-residential rather than allocating it all into miscellaneous services. It should also allocate revenue from its diversion charges to core miscellaneous services – schedule 2.

The Commission has therefore revised the wording relating to the reporting of revenue received from drainage and waterways and diversions in Appendix B.8. The Code now requires in Appendix B.8 that:

- revenue allocated to residential and non-residential customers should include revenue from drainage and waterways services
- new customer contributions should also include any revenue from new customer contributions relating to drainage and waterways services
- Melbourne Water should allocate revenue from diversion services to core miscellaneous services.

5 NEXT STEPS

The Commission has proposed a number of amendments to improve the information collected from businesses and improve the timeliness of the review process. The proposed amendments to the Code and regulatory accounting template are at a draft stage and the Commission is seeking feedback on them. Stakeholders can respond to these draft amendments or raise any other issues in relation to regulatory accounts and the Code.

The Commission invites businesses to prepare and submit a draft version of the 2007-08 accounts trialling the revised template. This should assist and inform businesses' feedback they provide on the draft amendments to the Code and templates.

Submissions are due by 25 September 2009 and can be sent preferably via email to water@esc.vic.gov.au or by mail to

Essential Services Commission
Level 2, 35 Spring St
Melbourne VIC 3000

As outlined earlier the Commission is proposing to release a final version of the Code and template in October 2009. Businesses will then be required to formally submit a RAS for 2007-08 and 2008-09 by 30 November 2009.

Appendix A Regulatory Accounting Code Review – Draft Template amendments

Table 1 **Regulatory Accounting Code - proposed template amendments**

Profit and Loss template	
Schedule 3 - Revenue	Businesses will be required to reconcile revenue recorded in the statutory accounts and that in the regulatory accounts by means of identifying any balancing items between the regulatory accounts revenue and the statutory revenue. This is to give the Commission a better understanding of those items that create a variation between revenue in statutory and regulatory accounts.
Annual report notes	A separate column has been created for businesses to provide the relevant notes from their annual report for each category. This again is to assist the Commission in its review of the templates in being able to refer to supporting material.
Balance Sheet template	
Annual report notes	A separate column has been created for businesses to provide the relevant notes (where relevant) from their annual report for each category.
Explanatory Notes	An explanatory notes section has been included for businesses to explain any change in accounting treatment from the previous year.
Cash flow statement template	
Annual report notes	A separate column has been created for businesses to provide the relevant notes from their annual report for each category.
Explanatory Notes	An explanatory notes section has been included for businesses to explain any change in accounting

treatment from the previous year.

Capital expenditure template

Schedule of accounting adjustments	The main difference with this template is the inclusion of the schedule of accounting adjustments, which requires businesses to identify each adjustment made in translating the capital additions reported in their statutory accounts to the capital expenditure reported in their regulatory accounts. This will sum to the total accounting adjustments in the first table. The explanatory notes section in this template has been removed as the revised approach should provide enough explanation to the Commission for review purposes.
Comparative data	A comparative total for prescribed capital expenditure from the previous year has been included. This will be prefilled by the Commission.
Annual report notes	A separate column has been created for businesses to provide any relevant notes from their annual report for each category.

Capital expenditure breakdown template

Recycled water	Businesses will be required to separately report capital expenditure for recycled water from water and sewerage. A separate column for recycled water has been created for businesses to complete. This is to be consistent with how recycled water expenditure is allocated in the price review template. Expenditure primarily related to the provision of recycled water should be included in this column.
Comparative data	A comparative total for prescribed capital expenditure from the previous year has been included. This will be prefilled by the Commission. Major differences between years would need to be explained by businesses in the explanatory note section.
Permanent water entitlement	A separate asset class category for permanent water entitlements has been created. The requirement for businesses to complete this category has been included in Appendix B.5 of the Code.

Operating expenditure template

Recycled Water	Businesses will be required to separately report operating expenditure for recycled water from water and sewerage. A separate column for recycled water has been created for businesses to complete. This is to be consistent with how recycled water expenditure is allocated in the price review template. Expenditure primarily related to the provision of recycled water should be included in this column.
Environmental Contribution	A separate line for the environmental contribution has been included.
Licence Fees	A separate schedule has been created for licence fees. Businesses will be required to fill in an amount for fees to the Essential Services Commission, Environment Protection Authority and the Department of Human Services. This will link to the licence fees row in the activity area table.
Comparative data	An aggregate comparative column has been created to compare operating expenditure to the previous year - this will be prefilled from the previous year by the Commission.
Non-prescribed services	The sum total of operating expenditure from non-prescribed services is linked to the total operating expenditure included in the non-prescribed services template.
Licensing applications (Southern Rural Water)	A separate category/column for licensing applications has been included.
Out of balance formula	The out of balance formula and alert message has been removed as it is no longer required.
Purchase Temporary water rights	A separate category for the purchase of temporary water rights has been created for businesses to allocate operating expenditure to where required.

Operating expenditure allocation schedule (new template)

Allocation of cost categories

Labour costs - This includes 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 employees directly employed for the provision of IT services and conservation programs. Any agency staff or labour expenses incurred on contractors should also be included in the 'Contractors' expenditure allocation category.

Plant and equipment – businesses are 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.

Contractors – businesses are 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 (these are to be included in the IT expenditure allocation category or water conservation services). 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.

Electricity – this is 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 under green house gas offset costs.

Greenhouse gas offsets – Businesses are 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.

Chemical costs – businesses are required to provide details of all chemical costs incurred in the process of treating water, sewerage or recycled water during the year.

Water conservation – businesses are required to provide details of any expenditure related to water conservation programs that has been incurred during the year, including labour or contractor 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.

Vehicle Fleet running costs – businesses are 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. To the extent that any labour costs are incurred by the business in managing its fleet, these costs should be included in the 'Labour costs' expenditure allocation category, rather than in this expenditure allocation category.

IT - businesses are 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.

Other trial balance accounts – businesses 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.

High level account/ledger codes

Businesses are required to provide 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 template. 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’ may be superannuation, ’34-1020’ may be 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 between businesses’ submissions and when comparing regulatory accounts year on year.

Revenue template

Separation of prescribed revenue and revenue from other sources

In revising this template the Commission is aiming to make a clear distinction between prescribed and non-prescribed revenue. Although businesses are used to treating most items as prescribed, for regulatory accounts going forward there is a change in terminology. Prescribed revenue in the regulatory accounts is derived from the delivery of services contained in the schedules of each business’ price determination, which are approved by the Commission.

Revenue from other sources

Revenue from other sources, for which the Commission does not prescribe either the price or pricing principles, has been disaggregated between revenue that will impact/offset the revenue requirement and revenue that will not. Other Revenue items which impact/offset the revenue requirement include; government contributions, proceeds from assets sales (assets for the provision of prescribed services) and sales of water entitlements, because these revenues would usually be deducted from the RAB. Revenue that will not impact the revenue requirement would include proceeds from the sale of assets which are not related to the provision of prescribed services, and revenue from non-prescribed services, such as rent and interest on investments.

Non-scheduled services

The Commission has amended the title of non-scheduled services to refer to schedule 4 of businesses price determination. This is to make clear that this category is to only include revenue from services where prices are determined by the pricing principles in schedule 4.

A schedule for non-scheduled services has been included. Businesses will be required to separately list revenue for each non-scheduled service. Please note that this category is to only include revenue from non-scheduled services priced in accordance with schedule 4 of businesses' determinations, and will link to the prescribed revenue table.

Miscellaneous services	The Commission has amended the title of miscellaneous services to refer to 'schedule 2'. This is to highlight that this category is to only include revenue from the core miscellaneous services which have prescribed prices set out in schedule 2. A schedule for miscellaneous services has been included. Businesses will be required to list revenue for each miscellaneous service provided. Please note that this category is to only include revenue from those core miscellaneous services included in schedule 2 of businesses' determinations, and will link to the prescribed revenue table.
Proceeds from the sale of assets	The terminology of this category has changed from proceeds from the sales of assets 'prescribed' to 'be deducted from the RAB', and for proceeds from the sales of assets 'non-prescribed' to 'with no impact on the RAB'. The definition of these categories is however the same.
Recycled Water	A separate column for recycled water revenue has been created. Businesses are required to separate recycled water revenue for each category.
Comparative data	A comparative column from the previous year has been included, and will be prefilled by the Commission.
Non-prescribed services	The sum total for revenue received from non-prescribed services is linked to the total revenue that is included in the non-prescribed services template.
High level account/ledger codes	Businesses are required to provide high level account numbers from their chart of accounts which identify how revenue recorded in the trial balance has been represented in the revenue template.

Diversions, drainage and waterways services - Melbourne Water	The Commission has changed the wording of the guidance in Appendix B in relation to the allocation of revenue for drainage and waterways. Revenue from drainage and waterways services should be allocated between residential and non-residential customers. Guidance in the Code has also been changed to require Melbourne Water to allocate diversion services to miscellaneous services.

Contributions template

Gifted Assets	Gifted assets can now be selected as a type of contribution in column E.
Prescribed/non-prescribed	The terminology used in column F has changed to contributions that will offset prices and contributions that will not offset prices consistent with the change in terminology used in the revenue template.
Revenue contributions - check with other templates	A check box with the values for revenue contributions in the revenue and profit and loss templates has been included to ensure that businesses have equal values across the three templates.

Provisions template

Employee entitlement - other	A category 'employment entitlement – other' has been created for other employee related provisions.
Non-current bad and doubtful debts	Under the Australian Accounting Standards bad and doubtful debts older than twelve months are written off as bad debts. This category has been removed from the templates.
Comparative Data	Previous years data to be prefilled by the Commission.

Third party transactions template

	No change to template – note the threshold change to third party transactions greater than $1 million in aggregate.

Related party transactions template

	No change.

Recycled Water, new obligations, new miscellaneous services template

	Templates have been removed.

Unbundled segments template

Recycled Water	A column for recycled water has been included.

Non-prescribed services template

Revenue and expenditure columns	Separate columns for revenue, operating and capital expenditure have been added to this template. Businesses will be required to include the details for each non-prescribed service, noting that this information when completed will remain confidential.
High level account/ledger codes	An additional column has been created for businesses to provide high level account numbers from their chart of accounts which identify how non-prescribed recorded in the trial balance has been represented in the non-prescribed services template.

Roll forward of the RAB template

Current period data	Additional columns for the current regulatory period have been added. Data in this template will be pre-filled by the Commission.