

Melbourne Water's response to the Commission on the revised Code and Regulatory Accounting Templates - October 2009

Background

- In December 2005, the Essential Services Commission (the Commission) released a Regulatory Accounting Code (the Code) for the Victorian Water Industry requiring businesses to maintain and report 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 the businesses. The 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, which are used in approving future prices.
- After a review of the 2006/07 regulatory accounts, the Commission decided that it was timely to undertake an extensive review of the Code.
- A Consultation Paper was released as the first step in the review of the processes. The Consultation Paper set out the role of the regulatory accounts, particulars behind the regulatory accounts and specific information requirements of the regulatory accounts.
- Melbourne Water provided feedback to the Commission on the Consultation Paper in February 2009 and also on the revised set of Regulatory Accounting Templates in June 2009.
- At the end of August 2009 the Commission then released a draft amendments paper for the Water Regulatory Accounting Code along with a revised Code and a final revised set of Regulatory Accounting Templates (modified for all earlier comments as appropriate). The Commission has requested comment on the revised Code and templates by the water businesses by 9 October 2009.
- The Commission will then finalise the Code and Templates by the end of October 2009 and the water businesses will be required to formally submit regulatory accounts for 2007-08 and 2008-09 by 30 November 2009.

Revised code:

1.1 Timing of submission of Directors responsibility statement and Board approval

- Section 3.1 of the August 2009 'Draft code and templates amendments paper' proposes that a signed Directors responsibility statement and an extract from the Board's minutes, that confirms the regulatory accounts are true and fair, are submitted with the initial submission of the Regulatory Accounting Statements.
- Melbourne Water notes that the requirement to submit the initial Regulatory Accounting Statements at the same time as an extract from the Board's Minutes will shorten the timeframe available for the actual preparation of the statements. This is because of the lead times associated with circulation of Board papers.
- For submission of the 2007/08 and 2008/09 Regulatory Accounting Statements at the end of November 2009, Melbourne Water will not have sufficient time to prepare the statements (after receiving the Regulatory Accounting Templates from the Commission at the end of October 2009) and seek Board endorsement. In an ongoing sense, when the Regulatory Accounting Statements are due at the end of October each year, it is also concerned that there will not be sufficient time for the preparation and endorsement of the statements.
- Therefore, Melbourne Water proposes that the code set out a process which reflects the one used by Melbourne Water for the 2006/07 Regulatory Accounting Statements. In that process the signed Directors responsibility statement and the extract of the Board minutes were submitted after the Commission's formal review of the statements. This allowed sufficient time for Regulatory Accounts to be prepared, and following review by the Commission, for them to then be tabled at the appropriate Board meeting. In addition, this process ensures that the Directors and Board are approving the final set of numbers for the Regulatory Accounting Statements, with no further changes being made by the Commission.

1.2 Other

- Melbourne Water has reviewed the remainder of changes to the revised Code and at this stage does not have any other specific feedback or requests for further clarification or guidance.

Revised template:

General template issues

Melbourne Water has identified a number of issues still not resolved in regard to the revised templates.

2.1 Missing subtotals

- Melbourne Water has identified some subtotals are still missing throughout the template (i.e. Balance Sheet, Cash Flow Statement). The Commission needs to ensure that all subtotals are included and formulas are working properly before any protection is made to the work book.

Specific template issues

2.2 Profit and Loss Template

- Melbourne Water notes that the amount recorded for dividend in 2006/07 of \$86,600 (\$000) reflects the total dividends actually physically paid in the 2006/07 year. However these payments actually related to the 2005/06 financial year.
- Under the revised Code, Appendix B.1 (b) the definition of dividends specifies that this should only record dividend payments paid or payable in relation to that specific financial year.
- Therefore an adjustment is required to change this balance from \$86,600 (\$000) to \$99,400 (\$000) being the actual dividend relating to the 2006/07 financial year.

2.3 Capital Templates

- Consistent with the 2009 Water Plan and Melbourne Water's response to the Commission on the review of the financial templates (20 February 2009), the 2006/07 capital expenditure adjustment for mini hydros needs to be added back to corporate capital expenditure. This is consistent with Melbourne Water's proposal to treat mini hydros as a part of the regulated business.

2.4 Revenue Template

- Melbourne Water notes that the revenue for 2006/07 listed under schedule 4 in cell J15 in the 'Revenue template' needs to be split into

Schedule 2 and Schedule 4 and also adjusted for the non cash accounting recognition of an increase in the defined benefit superannuation asset. This adjustment is consistent with Section 4.5 in the August 2009 'Draft code and template amendments paper'.

- Section 4.5 in the August 2009 'Draft code and template amendments' paper states that revenue items that are included for accounting purposes such as defined superannuation gains, should not be included in this template, but rather should be recorded as an adjustment from the statutory to regulatory accounts. This will also be consistent with the treatment adopted by the Commission for the 2009 Water Plan review.
- Revenue contained in Schedule 2 category is for core miscellaneous services included in Melbourne Water's tariffs schedule (excluding Bulk Water and Sewerage Services as they are listed as a separate category). This revenue includes:
 - Waterways and Drainage charges
 - Property information statements
 - Diversion permits
 - Flood level fees
 - Build over application fees
- Revenue contained in Schedule 4 category is for non scheduled regulated services based on pricing principles (excluding developer contributions as they are listed as a separate category). This is also referred to as Schedule 3 in the Commission's Final Determination for the Metropolitan Melbourne 2009 Water Price Review 2009. This revenue includes:
 - Recycled Water revenue
 - Education programs revenue
 - Employee motor vehicle contributions
 - Reimbursements of costs from other authorities
 - Insurance claims reimbursements

2.5 Rolled-forward RAV Template

- Melbourne Water notes that the 2006/07 Capital Expenditure contained in cell I11 in the 'Rolled forward RAV template' should reflect the capital expenditure template figures converted to 2007/08 dollars.