

PROPOSED
ACCOUNTING SEPARATION CODE OF PRACTICE
FOR
REGULATED ELECTRICITY BUSINESSES
IN
NEW SOUTH WALES

INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES**

**PROPOSED
ACCOUNTING SEPARATION CODE OF PRACTICE
FOR
REGULATED ELECTRICITY BUSINESSES
IN
NEW SOUTH WALES**

Comments or inquiries relating to this document should be directed to:

Ruth Lavery ☎ (02) 9290 8447
Michael Seery ☎ (02) 9290 8421

Comments may be faxed to: (02) 9290 2061
Or emailed to ipart@ipart.nsw.gov.au

Independent Pricing and Regulatory Tribunal of New South Wales

Level 2, 44 Market Street Sydney NSW 2000

☎ (02) 9290 8400 Fax (02) 9290 2061

www.ipart.nsw.gov.au

All correspondence to: PO Box Q290, QVB Post Office, NSW 1230

TABLE OF CONTENTS

COMMENTS AND SUBMISSIONS ON THIS PAPER	i
1 INTRODUCTION	1
2 NATURE OF THE ACCOUNTING SEPARATION CODE OF PRACTICE	2
2.1 Objectives and purpose	2
2.2 Consistency with other regulatory jurisdictions	3
2.3 Confidentiality	3
2.4 Revision and effective date	4
3 GENERAL PRINCIPLES OF PREPARATION	5
3.1 Accounting principles and policies criteria	5
3.2 Substance to prevail over legal form	6
3.3 Principles of revenue and cost allocation	6
3.4 Related Party transactions	7
3.4.1 What is a Related Party?	7
3.4.2 Pricing of Related Party transactions	9
3.5 Materiality	11
3.6 Directors' responsibilities	11
3.7 Records supporting Regulatory Financial Statements	11
3.8 Audit	12
3.8.1 Appointment of Auditor	12
3.8.2 Audit reporting requirements	13
3.8.3 Failure of audit to satisfy the Tribunal's requirements	13
4 INFORMATION REQUIREMENTS	14
4.1 Regulatory Financial Statements	14
4.2 Documents to be delivered to the Tribunal	15
4.3 Regulatory Accounting Periods and timing	15
4.4 Contents and structure of the Regulatory Financial Statements	15
4.5 Operating and maintenance expenditure	18
4.6 Depreciation	18
4.7 Other revenue and expenditure	19
4.8 Income tax attributable to operating profit	19
4.9 Dividends payable	19
4.10 Capital expenditure, capital contributions and asset disposals	19
4.10.1 What is capital expenditure?	19
4.10.2 Allocation and disclosure requirements	20
4.11 Fixed assets	21
4.11.1 Disaggregation of fixed assets – book values	21
4.11.2 Disaggregation of fixed assets – tax values	21
4.11.3 Regulatory values of regulated network assets	21
4.12 Other balance sheet items	21
4.13 Under/over recovery of allowable revenue	21
4.14 Transmission information (EnergyAustralia only)	22
4.15 Regulatory financial forecasts	22
GLOSSARY	23
APPENDIX 1 PRO FORMA DIRECTORS' RESPONSIBILITY STATEMENT	28
APPENDIX 2 PRO FORMA AUDIT REPORT	29

APPENDIX 3	TRANSFER PRICING PRINCIPLES FOR RELATED PARTY TRANSACTIONS	30
	Method 1: Fully allocated costs	30
	Method 2: Incremental pricing	31
	Method 3: Prevailing market prices	31
	Method 4: Tariff-based pricing	31
	Method 5: Negotiated pricing	31
	Method 6: Asymmetric pricing	32
	Method 7: Comparable uncontrolled price	32
	Method 8: Resale price	33
	Method 9: Cost plus	34
	Method 10: Profit split	35
	Method 11: Transactional net margin method	36
	Comparable transactions	37
	Regulatory use of transfer pricing methodologies in other countries	38
APPENDIX 4	COMPETITIVE TENDERING	41
	Service specifications	41
	Contract size	41
	Contract scope	42
	Contract length	42
	Form of the tender process	42
	Evaluating proposals	43
	Comparison of costs	43
	Probity auditor	44
	Performance monitoring processes	44
	In-house bidding	45
APPENDIX 5	FUNCTIONAL ANALYSIS USED IN ASSESSING COMPARABLE TRANSACTIONS	47
APPENDIX 6	PRO FORMA REGULATORY FINANCIAL STATEMENTS	49

COMMENTS AND SUBMISSIONS ON THIS PAPER

The Tribunal seeks submissions from interested parties providing feedback on this draft Accounting Separation Code of Practice. In particular, it is interested in stakeholders' views on:

- practical implementation issues, including changes to business and financial systems and audit functions that would be required to produce the information requested
- the proposed pricing methodologies and disclosure for related party transactions
- what information should be disclosed publicly.

The closing date for submissions is 26 October 2001. Any submissions received after this date will not be considered. Submissions should be addressed to:

Electricity Accounting Separation Code of Practice
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office
SYDNEY NSW 1230

All submissions will be posted on the Tribunal's website unless the submitter requests confidentiality. If submitters require any part of their submission to be treated in confidence, they should clearly indicate those parts and why. However, the Tribunal cannot guarantee confidentiality.

When the Tribunal has received and considered all submissions, it will produce its final Code of Practice. It is expected that this will occur by the end of November 2001.

Any comments or queries should be directed to Ruth Lavery on (02) 9290 8447 or Michael Seery on (02) 9290 8421.

1 INTRODUCTION

The Independent Pricing and Regulatory Tribunal of NSW (the Tribunal) regulates electricity Distributors in New South Wales. Each Distributor operates as a monopolistic Distribution Network Service Provider (DNSP), and as a retailer of electricity to small retail customers (Standard Retail Supplier) and other customers, and undertakes other unregulated activities.¹

The Tribunal requires Distributors to structure their organisations to separate their distribution network business from their retail supply business and unregulated activities. In addition, as the NSW electricity market moves towards full retail competition, it requires them to separate their accounts for sales to small customers supplied under special obligations imposed on Standard Retail Suppliers from those to other retail customers.

This separation, or financial ring fencing, is a central part of the regulatory framework for electricity businesses in NSW. Its primary objective is to ensure that no cross-subsidisation occurs between a Distributor's network business and its retail and other businesses. Similarly, within the retail supply business, the aim is to ensure that no cross-subsidisation occurs between small retail customers and other customers in terms of retail gross margin.²

The Tribunal collects information from the Distributors annually, to help it understand their businesses and perform its regulatory functions. This information is compiled into a comprehensive information base that the Tribunal uses to undertake appropriate financial and economic analysis and check for compliance with price determinations.

This Accounting Separation Code of Practice, which replaces an earlier Code released in 1996, sets out the broad principles for the accounting separation required of Distributors, and details the Tribunal's requirements for information from them. In particular, it explains:

- the records they must maintain
- the format in which they must provide information
- when they must provide information
- how they are to allocate costs between regulated and unregulated activities, and price transactions with Related Parties
- the need to appoint Auditors, and what these Auditors must satisfy themselves about and report on to the Tribunal.

The Tribunal may need additional information from time to time, to supplement these requirements.³

¹ Sometimes the terms 'Distributor' and 'DNSP' are used interchangeably. However, in this Accounting Separation Code of Practice, 'Distributor' is used to describe discrete legal entities in which electricity businesses conduct their regulated activities, while 'DNSP' activities are those undertaken as the Regulated **Network** Business.

² The Tribunal has also started consulting with stakeholders about other ring fencing requirements aimed at preventing Distributors from using their monopoly service providers to obtain an unfair advantage in the competitive parts of their business. Its report *Ring Fencing of New South Wales Electricity Distribution Network Service Providers - Discussion Paper and Draft Ring Fencing Guidelines* was released in September 2000 and *Ring Fencing of New South Wales Electricity Distribution Network Service Providers - Draft Report* was released in June 2001.

³ For example, further information will be required when the Tribunal considers the next pricing determination for Regulated Network Businesses in 2004, and at the time of the mid-term review of regulated retail prices. The Tribunal will specify and request this information at a later date.

2 NATURE OF THE ACCOUNTING SEPARATION CODE OF PRACTICE

2.1 Objectives and purpose

The Accounting Separation Code of Practice's requirements for allocating costs and recording information are designed to:

- ensure the recorded costs of the monopoly network reflect efficient, attributable costs
- enable the Tribunal to assess whether the interests of customers and competitors in upstream and downstream markets are protected.

The issues of concern to the Tribunal in relation to consumer and competitor protection include how Distributors set prices for the purchase of services from related entities and allocate costs between regulated and non-regulated businesses, the appropriate ring fencing of resources for the regulated businesses, and transactions carried out between regulated and non-regulated businesses.

In setting the pricing regime for the Regulated Network Businesses, the Tribunal's objectives are to:

- provide a fair and reasonable return on efficient investment, given efficient operating and maintenance practices
- prevent the extraction of monopoly rents
- foster efficient operating and maintenance practices
- foster efficient use of existing infrastructure
- provide an equitable allocation of efficiency gains
- permit the balancing of interests of owners, users and the public.⁴

These objectives require the Tribunal to understand, among other things, the nature and substance of each Distributor's regulated businesses so that it can ensure that they trade at arm's length from their host Distributors and Related Parties, and prevent the costs of any unregulated activities being passed on to customers of their regulated businesses.

The Tribunal currently regulates the Regulated Network Businesses' revenue by means of a Revenue Cap that was set after analysis of the efficient costs and financial viability of each of those businesses.⁵ In regulating retail electricity prices, the Tribunal has set a target level for tariffs for small retail customers that reflects the cost of supplying electricity to these customers.⁶ As many regulated retail tariffs are currently either higher or lower than this target level, the Tribunal's system also includes a process for moving regulated retail tariffs towards that level over time.

⁴ National Electricity Code, clause 6.10.2.

⁵ IPART, *Regulation of New South Wales Electricity Distribution Networks Determination and Rules under the National Electricity Code*, December 1999.

⁶ IPART, *Regulated Retail Prices for Electricity to 2004*, December 2000.

Disclosure of the information requested in the Regulatory Financial Statements is required to assist the Tribunal in measuring the Distributors' compliance with these retail and network determinations—that is, to:

- monitor the performance of their regulated businesses
- measure their costs and returns
- determine whether their prices are rising by more than the limits set by the Tribunal
- prepare for the next reviews of prices for the Regulated Network Business and Regulated Retail Business, when the Tribunal will take account of the degree to which they have met efficiency targets and structured tariffs to comply with the Tribunal's determinations.

2.2 Consistency with other regulatory jurisdictions

A number of regulators in Australia have released final or draft guidelines for the provision of regulatory financial information. The Tribunal recognises the importance of consistency with other jurisdictional regulators of electricity businesses, but must also consider its own obligations and regulatory framework when collecting information from its regulated businesses.

During 2001, an inter-jurisdictional project on the National Alignment of Regulatory Accounts has considered consistent structure and content of regulatory financial information with a view to consistency and comparability. The project's working group comprises representatives from each regulatory jurisdiction and from distribution entities, and other members coopted by the group because of their special expertise. The aim is to agree on a consistent format for the presentation of the regulatory financial information collected about electricity distribution businesses across Australia. The information collected will be presented by and shared between all regulators in a manner that will facilitate the comparison of relevant information between jurisdictions.

Each jurisdictional regulator will collect the information agreed on during the course of the National Alignment of Regulatory Accounts project,⁷ but will also collect additional information to meet its own regulatory requirements.

2.3 Confidentiality

The primary purpose of the Accounting Separation Code of Practice is to establish what information Distributors are required to provide to the Tribunal. Some of this information is related to activities that are not regulated by the Tribunal. The inclusion of this data is necessary, to enable some reconciliations to be done and so that the Tribunal can review allocations.

The Tribunal acknowledges that there may be commercial sensitivities attached to the disclosure to third parties of information concerning the Distributors' unregulated activities—particularly where this information relates to the competitive components of their businesses. In view of these sensitivities, the Tribunal does not intend to disclose information provided to it about any unregulated activity. However, it does propose to

⁷ National Alignment of Regulatory Accounts working group papers will be available from the Tribunal's website as they are published.

make other information provided in the annual Regulatory Financial Statements about the regulated network and retail businesses publicly available in order to enhance the effectiveness of the public processes for the Tribunal's reviews.

2.4 Revision and effective date

The Accounting Separation Code of Practice is part of an evolutionary and pragmatic approach to the issues of cost allocation and reporting by Distributors. The Tribunal proposes to revise the Accounting Separation Code of Practice from time to time, to respond to the needs of the Distributors, customers and the Tribunal that may arise from changes in circumstances, such as changes in the regulatory framework and developments at the national level. Changes in the form of regulation may also lead to changes in the type and quantity of information required by the Tribunal.

Before revising the Accounting Separation Code of Practice, the Tribunal will state its intention and develop a draft for comment by stakeholders. Once it has considered all the comments it receives on the draft, it will develop a revised Accounting Separation Code of Practice.

An issue number and date of issue will identify every version of the Accounting Separation Code of Practice. This version—issue number 2—will become effective on the date of issue and will replace the document similarly titled and issued by the Tribunal in 1996. It applies to all Regulatory Accounting Periods ending on or after 30 June 2002.

3 GENERAL PRINCIPLES OF PREPARATION

3.1 Accounting principles and policies criteria

All accounting principles and policies selected and applied by a Distributor to draw up its Regulatory Financial Statements must:

- be consistent with the Accounting Separation Code of Practice
- comply with Australian Accounting Standards issued by the Institute of Chartered Accountants in Australia and the Australian Society of Certified Practising Accountants, except where these are inconsistent with specific requirements of the Accounting Separation Code of Practice
- match revenues and expenses, so that expenses recognised in the accounts of the Distributor's Regulated Network Business and Regulated Retail Business result directly and jointly from the same transactions or other events as do the revenues recorded in those businesses
- have a recognisable and rational economic basis
- result in financial information that is relevant and reliable and reports the substance of the underlying transactions and events.

In most cases, accounting principles and policies will be those set out in Australian Accounting Standards, but in some cases, such as related party transaction pricing, the Tribunal's requirements set out in the Accounting Separation Code of Practice will be more specific or detailed. Where there are differences, the requirements of the Accounting Separation Code of Practice will take precedence over Australian Accounting Standards. This will result in differences between statutory accounts and the accounts prepared for the Tribunal.

Preparation of the Regulatory Financial Statements is additional to any other statutory obligations of Distributors to prepare financial statements.

Where a Distributor has been granted exemptions from compliance with Australian Accounting Standards, or has not complied with Australian Accounting Standards, it should include in its Regulatory Financial Statements for that period a statement setting out the reason for and effect of that non-compliance.

In addition, a Distributor should provide the Tribunal with full details of:

- any regulatory accounting principles and policies that have been used to prepare Regulatory Financial Statements, which are additional to, or in place of, the accounting principles and policies used to prepare its statutory accounts
- any change since the preceding Regulatory Financial Statements, in either the accounting principles and policies used to prepare its statutory accounts or its regulatory accounting principles and policies. Where there is such a change, a Distributor should disclose to the Tribunal:
 - the nature of the change
 - the reasons for the change
 - the effect of the change on the Regulatory Financial Statements.

3.2 Substance to prevail over legal form

Regulatory Financial Statements should report the substance of transactions. The substance rather than the legal form of a transaction or event should be reported.

In determining the substance of a transaction, all its aspects and implications should be considered, including the expectations of and motivations for the transaction. A group or series of transactions that achieves, or is designed to achieve, an overall commercial effect should be viewed in aggregate.

3.3 Principles of revenue and cost allocation

All of a Distributor's costs should be allocated between the Regulated Network Business, the Regulated Retail Business and the Unregulated Business, ensuring that a fair share of overhead costs is allocated to each.

The disaggregation of the audited Regulatory Financial Statements should be based on the following principles. In general, revenue and cost items should be allocated on a causation basis by identifying one of the following relationships:

- a directly traceable cause and effect relationship with the provision of the product or service
- a verifiable relationship between the item and the output of the individual product or service
- a direct causal relationship associated with a pool of common costs (or revenue) and the allocation of that pool that can be made using a relevant, reliable and verifiable factor such as relative use.

The main principle is that costs should be allocated in relation to the way resources are consumed. In general, cost items that are directly attributable to the Regulated Network Business or the Regulated Retail Business should be assigned accordingly. Items indirectly attributable should be allocated to the Regulated Network Business or the Regulated Retail Business using an appropriate allocator.

Indirect costs are those that cannot be related to supply, work or service; they need to be allocated on a substantive and commercially sustainable basis. It is recognised that some costs will not be driven by activities. However, using an activity-based approach should result in a greater percentage of total costs being allocated on a meaningful basis and is therefore more appropriate. All costs must be allocated.

If a causal relationship cannot be established for an item without undue cost and effort, the Distributor may allocate these items on a non-causal but defensible basis. The Tribunal recognises that implementing a system that will allow appropriate causal relationships to be ascertained (ie activity-based costing) is an evolutionary process. However, a Distributor should include explicit statements in the Regulatory Financial Statements to:

- explain the basis of the cost allocation
- provide the reason for choosing the basis for cost allocation
- quantify the factor applied in allocating costs to the Regulated Network Business and Regulated Retail Business.

3.4 Related Party transactions

At present, Distributors predominantly undertake all their activities from within one corporation. In the future, they may choose, or be required, to operate under different business structures where some or all of the Unregulated Businesses are legally separated from the Regulated Network Business and Regulated Retail Business, or where the network business is legally separated from other operations.⁸ They may choose to conduct some operating, maintenance and administrative activities from a centralised business operation. Regardless of the legal structure, however, the Tribunal needs to ensure the terms and prices of transactions between the Regulated Network Business and Regulated Retail Business and Unregulated Businesses and related parties are consistent with its requirements to consider efficient costs at each price review.

3.4.1 What is a Related Party?

A 'Related Party' is any business that, operating with a Regulated Network Business or Regulated Retail Business, pursues objectives that are consistent with those of the regulated business (termed Common Economic Goals).

A Related Party can be part of the same Legal Entity that owns a regulated business, or a separate department or business within that entity. In this case, it is clear that Common Economic Goals exist. At the time of writing, Distributors' regulated and unregulated activities are predominantly conducted by different parts of the one corporation (or by a fully-owned subsidiary of that corporation). Therefore, their Regulated Network Business, Regulated Retail Business and Unregulated Business clearly pursue Common Economic Goals and so are considered Related Parties to each other.

Related Parties can also be separate Legal Entities that have Common Economic Goals. In this case, one or more of the following relationships would indicate the existence of Common Economic Goals:

- every entity (in any chain of successive ownership) that owns 20 per cent or more of the voting securities of the regulated business (or its successive parents until its ultimate parent is reached)
- every entity in which the regulated business (through a chain of successive ownership) owns 20 per cent or more of the voting securities
- every corporation or business which the Tribunal may determine, having regard to the following discussion, is exercising any substantial influence over the policies and actions of the regulated business even though the influence is not based upon shareholding, shareholders, directors or officers. This may result in separate legal entities holding less than 20 per cent voting securities in common, having Common Economic Goals.

⁸ A requirement for legal separation is included in the Tribunal's *Ring Fencing of New South Wales Electricity Distribution Network Service Providers – Draft Report*, released in June 2001.

To determine whether two businesses have Common Economic Goals, the Tribunal would consider the following factors:

- **Ownership structure.** If a business has a major investor, and the remaining shareholders are highly dispersed, the largest shareholder may be able to guide the activities of the business. Thus, the two businesses may have Common Economic Goals.
- **Options to purchase shares.** If a company has an option to acquire shares in another company at a future date, there may be an incentive for the two companies to work together towards Common Economic Goals, even before the option is exercised.
- **Control.** Circumstances may exist where a company does not own another company outright, but it has the capacity to determine the outcome of the second firm's financial and operating policies. In such a case, the first company is said to control the second under Corporations Law. Where this is the case, the second company may be induced to work towards Common Economic Goals with the first.
- **Decision-making capacity.** If a business unit does not have the capacity to make decisions independently of its largest shareholder or other controlling party, the two entities would be considered to have Common Economic Goals. The absence of this capacity would be indicated by the business unit having an insufficient number of senior staff that can make and enforce decisions about its operations, or by it contracting most of its staff from the controlling party.
- **Economic dependence.** If a business derives a large proportion of its revenue or its inputs from another company, it may be said to be economically dependent on that other company. This may influence it to act in the interests of the business on which it depends, or cause it to be subject to undue control by that business, in which case Common Economic Goals would exist.
- **Intercompany loans and guarantees.** The presence of intercompany loans that are not made on commercial terms (relating to rates, security and other terms) may indicate that businesses are not operating independently of one another. Acting as a guarantor may also indicate that two companies are behaving in a related way.
- **Tax optimisation.** The exchange of tax losses from one business to another indicates that these businesses are acting to maximise overall profit, which is a Common Economic Goal.

The Regulatory Financial Statements should record energy purchases by the Regulated Retail Business at the regulated price set out in the Tribunal's determination.⁹ These transactions, for the purchase of energy, are specifically exempt from the requirements of the Accounting Separation Code of Practice, even where they are between two entities owned by the NSW Government.

⁹ IPART, *Regulated retail prices for electricity to 2004*, December 2000.

3.4.2 Pricing of Related Party transactions

When independent enterprises deal with each other, market forces normally determine the conditions of their commercial and market relations. However, when associated enterprises deal with each other, the commercial and financial conditions may not be affected by external sources in the same way. The price that is used by associated enterprises to transfer a good or service between each other is known as a transfer price.

The basic concept underlying transfer pricing arrangements is that the price paid between associated companies should be the same as that paid by two companies dealing at arm's length with each other. An accepted definition of arm's length dealing is found in the Organisation of Economic Co-operation and Development (OECD) Model Tax Convention:

[When] conditions are made or imposed between . . . two [associated] enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises then any profits which would but for those conditions have accrued to one of the enterprises, but, by reason of those conditions, have not so accrued, may be included in the profits of that enterprise and taxed accordingly.¹⁰

The arm's length principle requires the comparison of the conditions that exist in commercial and financial relations between associated enterprises, with the conditions that might be expected to operate between parties dealing wholly independently of each other.

For the purpose of the preparation of the Regulatory Financial Statements, non arm's length prices are those where the Related Party and the regulated business have not treated each other in the same way as they would if they were not Related Parties.

Although it may be commercially sensible and financially efficient for a group of related companies or businesses to centralise some functions and provide goods and services to each other, this poses a risk to competitors and consumers if a monopoly business is involved. If the costs and profits of these intra-group or intra-company transactions are misallocated to monopoly activities, the costs of competitive activities will be understated while those of monopoly activities will be overstated. This would give the competitive parts of the business an unfair advantage over competitors, and mean that customers of the monopoly business would have to pay a higher price to cover the overstated costs.

A cost-efficient group structure may result in lower overall joint costs to be allocated between regulated and unregulated activities. The Tribunal wishes to encourage efficient costs. Pricing of transactions between regulated and unregulated businesses should be done so that an 'efficient—cost' environment can be created for the regulated business while not allowing other uncompetitive behaviour.

The Tribunal needs to be reasonably assured that no cross subsidisation is occurring in transactions between the Regulated Network Business and Regulated Retail Business and Unregulated Businesses and Related Parties.

¹⁰ Article 9 of the OECD Model Tax Convention, from *Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations*, 1995, section 1.6. Australia has adopted the Guidelines.

Each Distributor is required to develop and document its principles and policies for trading between its Regulated Network Business, Regulated Retail Business and Related Parties. Appendix 3 sets out a number of suggested transfer pricing methodologies for doing this. A Distributor may adopt one specific methodology, several methodologies, a mixture of commonly used methodologies or some other methodology.

A competitive tender may also provide the arm's length pricing required by the Tribunal, where it complies with the principles set out in Appendix 5. If a Distributor can prove to the satisfaction of the Auditor and the Tribunal that a competitive tender has been conducted appropriately, and has resulted in an arm's length price, it may be allowed as a methodology for pricing a transaction with a Related Party.

However, in selecting the appropriate methodology for pricing each transaction, the Distributor must first satisfy the Tribunal and its Auditor that the methodology is:

- consistent with the arm's length principle
- simple, practical and robust, permitting clear interpretation by Distributors, Auditors, and the Tribunal
- able to be practically supported by adequate reliable market information
- based on a commonly accepted methodology.

To satisfy its Auditor and the Tribunal that these criteria have been met, the Distributor may need to obtain information from a Related Party. The Distributor is responsible for procuring information that the Auditor and Tribunal reasonably require and request, which supports the Distributor's belief that a particular methodology is appropriate to use.

While not ruling out the use of any particular methodology set out in Appendix 3 or competitive tendering under the principles set out in Appendix 4, the Tribunal has reservations about the use of some methodologies in some circumstances. Some comments on suitability of methodologies are included in the text in Appendices 3 and 4, and Distributors should take note of these when selecting methodologies.

Each Distributor is required to meet with the Tribunal early in each Regulatory Accounting Period to discuss its principles and policies for trading between its Regulated Network Business, Regulated Retail Business and Related Parties. The Distributor should explain to the Tribunal the methodology proposed for each type of transaction and the reasons why the methodology is appropriate and provide relevant information to support use of the selected methodologies, along with the proposed principles and policies. The Tribunal may provide further guidance on appropriate cost allocation methodologies at this stage but this does not pre-empt its decision on whether to accept the accounts, and cost allocation methodologies, subsequently presented by the Distributor.

The Tribunal will advise the Distributor within 30 days of receipt of the audited accounts whether it accepts the accounts and the pricing methodologies used. Where it does not accept the accounts the Tribunal will specify to the Distributor the corrections and/or changes to the cost allocation methodologies required. The Distributor shall provide audited revised accounts consistent with the Tribunal's requirements within 60 days of the Tribunal's notification that it has not accepted the accounts.

3.5 Materiality

The Accounting Separation Code of Practice applies to all material items that are required to be accounted for and disclosed in the Regulatory Financial Statements. An item is considered material if its omission, misstatement or non-disclosure has the potential to prejudice the understanding of the financial position and nature of the business activities of the Regulated Network Business and Regulated Retail Business gained by reading the Regulatory Financial Statements, in accordance with Australian Accounting Standards.

3.6 Directors' responsibilities

A Distributor's Directors are responsible for the preparation and presentation of the Regulatory Financial Statements and the information they contain. Each Distributor must attach a Directors' Responsibility Statement to its Regulatory Financial Statements. The Directors' Responsibility Statement must state that the Regulatory Financial Statements are fairly presented in accordance with the Accounting Separation Code of Practice and the Tribunal's determinations, and be signed and dated by no less than two Directors of the Distributor.

Appendix 1 sets out an example of a Directors' Responsibility Statement.

3.7 Records supporting Regulatory Financial Statements

A Distributor's Directors should ensure that the Distributor keeps accounting records that:

- correctly record and explain the transactions and financial position of each Regulated Business
- enable Regulatory Financial Statements and related supporting schedules to be prepared in accordance with the Accounting Separation Code of Practice
- enable an Auditor to properly form an opinion on the Regulatory Financial Statements in accordance with the requirements of the Accounting Separation Code of Practice
- provide sufficient information to the Auditor about transactions with Related Parties to allow the Auditor to reach an opinion about compliance with the principles set out in the Accounting Separation Code of Practice.

Distributors should maintain an audit trail of:

- all information contained in the Regulatory Financial Statements, including transactions between the Regulated Network Business and Regulated Retail Business and Related Parties that provide services and products to those regulated businesses
- all related records necessary to show that cost allocations and Related Party transactions have been made in accordance with the Accounting Separation Code of Practice. This may include copies of contracts or engagements between the Regulated Network Business and Regulated Retail Business and Related Parties
- the reconciliation of its audited Regulatory Financial Statements to its statutory accounts.

A Distributor should retain the accounting records from which Regulatory Financial Statements are prepared for a period of no less than seven years after the completion of the transactions to which they relate. It is also required to make these records available to the Tribunal or its appointee at the Tribunal's request.

3.8 Audit

Each Distributor's Regulatory Financial Statements and supporting schedules for Regulatory Accounting Periods ending on or after 30 June 2002 must be subject to an Auditor's opinion, in accordance with the requirements of the Accounting Separation Code of Practice.

3.8.1 Appointment of Auditor

The Tribunal will appoint the Auditor. The Distributor's Directors are responsible for remunerating the Auditor.

The Distributor is required to write to the Tribunal by 31 July of each year stating the name and address of its proposed Auditor, providing:

- the name of the audit firm and the partner within the firm who will take responsibility for the audit
- written assurance from the proposed Auditor that (a) no conflicts of interest exist at the time of appointment and (b) the Auditor will resign immediately a conflict of interest does arise
- a written statement from the proposed Auditor recognising that the Tribunal will rely upon the audited Regulatory Financial Statements for the purpose of fulfilling its responsibilities as regulator of the Regulated Network Business and the Regulated Retail Business and that the Auditor will also owe a duty of care to the Distributor.

The Auditor must be registered as an auditor under Part 9.2 of the Corporations Law.

A conflict of interest would most likely not exist where the proposed Auditor audits the financial statements of the Distributor or another Distributor in accordance with Australian Auditing Standards. It may exist where the proposed Auditor provides other services (for example, advice on regulatory policy).

The Tribunal may seek further information about the proposed Auditor's competence or independence, which should be provided by the Distributor. If the Tribunal is not satisfied as to the proposed Auditor's competence or independence, it may appoint an Auditor of its own choice.

The Tribunal will advise Distributors of the appointed Auditors by 30 April of each year.

The Tribunal's agreement with the Auditor will contain a provision under which the Auditor acknowledges that the Tribunal will see, rely and act upon the audited Regulatory Financial Statements, and that it owes a duty of care to the Distributor no less than the duty it owes to the Tribunal or any other person who is entitled to rely on the information.

As this Accounting Separation Code of Practice will apply to Regulatory Financial Statements prepared for the period from 1 July 2001, and more than a month will have elapsed from the start of that Regulatory Accounting Period by the time this version is

finalised, Distributors should write to the Tribunal within one month from finalisation of this version providing the information required by the Tribunal in order to approve the proposed Auditor. The Tribunal will respond, as above, within one month.

3.8.2 Audit reporting requirements

The Auditor must form and express an opinion on whether the Regulatory Financial Statements are presented fairly in accordance with the requirements of the Accounting Separation Code of Practice and the Tribunal's determinations.

It is the responsibility of the Auditor to understand the regulatory framework set out in the Tribunal's determinations, and the Auditor should consult the Tribunal to the extent necessary to obtain an understanding adequate to express its opinion.

The Auditor is not required to express an opinion on those parts of the Regulatory Financial Statements that are voluntary (as indicated by colour-coding).

The Tribunal requires information that can be verified by reference to audited statutory financial statements. The Auditor is required to reconcile the Regulatory Financial Statements to the Distributor's statutory audited accounts.

Auditors should prepare and sign a report to the Tribunal in the format set out in Appendix 2. Distributors are responsible for delivering a copy of this report to the Tribunal when they submit their Regulatory Financial Statements (see section 4.2 below).

The audit should be conducted in accordance with Auditing Standards issued by the Institute of Chartered Accountants in Australia and the Australian Society of Certified Practising Accountants. In particular, Auditors should report in accordance with:

- AUS802 - Audit Report on Financial Information Other than a General Purpose Financial Report and
- AUS804 - The Audit of Prospective Financial Information.

3.8.3 Failure of audit to satisfy the Tribunal's requirements

If an audit fails to satisfy the Tribunal's requirements, or if the Tribunal becomes aware that information has been provided in Regulated Financial Statements that is incorrect or does not comply with the requirements of the Accounting Separation Code of Practice or its determinations, the Tribunal may require

- further work to be undertaken by the Auditor
- a further audit to be undertaken by the Auditor or
- another Auditor selected and appointed by the Tribunal and remunerated by the Distributor to conduct an audit to determine whether the Regulatory Financial Statements comply with the Tribunal's determinations for the Regulated Network Business and the Regulated Retail Business and the Accounting Separation Code of Practice and if not, the extent to which they do not comply.

Failure to satisfy the Tribunal's requirements would be indicated by an audit report that was qualified or deviated in text in material respects from the format set out in Appendix 2.

4 INFORMATION REQUIREMENTS

4.1 Regulatory Financial Statements

The Regulatory Financial Statements (the pro forma of which can be found in Appendix 6) request information about the Distributor's businesses. For the Regulated Network Business and Regulated Retail Business, this information includes:

- Profit and Loss Statements (Statements of Financial Performance).
- Balance Sheets (Statements of Financial Position).
- information required to construct Cash Flow Statements.

Supporting information for the Regulated Network Business and Regulated Retail Business is also requested, covering detailed revenue, cost, and asset and liability classifications in addition to some non-financial information about customers and loads of businesses.

Information requested in relation to the Unregulated Business consists of items required to construct a Profit and Loss Statement and Balance Sheet for the combined entity. These must then be reconciled with the Profit and Loss Statement and Balance Sheet of the consolidated entity (ie the accounts prepared and audited for statutory purposes).

The Regulatory Financial Statements have been constructed after considerable consultation with the Distributors about what information is available at an acceptable cost, and what information is most useful to the Tribunal in assessing compliance with its determinations and identifying the major issues it needs to consider in its next determination.

Through the Regulatory Financial Statements, the Tribunal seeks to understand the Distributors' businesses and, more importantly, to gain reasonable assurance that they are allocating costs in line with the way they are consuming resources and that their regulated businesses are not subsidising their non-regulated businesses.

Although modification to the pro forma reports set out in Appendix 6 is not permitted, there are opportunities for Distributors to provide additional explanatory information that they and/or their Auditors believe is required to provide reliable and relevant information. This information should be provided either in the worksheet entitled "Section 12 - Other Information and Analysis (blank sheet)" or in the comments column in each table.

The level of disclosure should remain relevant and reliable and be sufficient to provide the Tribunal with comprehensive financial information that is both comparable (from year to year for each Distributor) and understandable. As far as is practically possible, a Distributor's Regulatory Financial Statements should follow the format and accounting principles and policies that it applies to its own audited financial statements, and any deviation should be disclosed in the Regulatory Financial Statements. The Tribunal will need to understand any variations in presentation between Regulatory Accounting Periods to facilitate a proper interpretation of the Distributor's Regulatory Financial Statements over time.

Other than changes made in accordance with section 2.5 above, it is intended that the Regulatory Financial Statements will remain substantially the same during the course of the current version of the Accounting Separation Code of Practice. Minor adjustments may be

required from time to time for clarification. The level of consultation with stakeholders required for these minor adjustments will be at the Tribunal's discretion.

4.2 Documents to be delivered to the Tribunal

Distributors are required to deliver their Regulatory Financial Statements for each Regulatory Accounting Period to the Tribunal. These Regulatory Financial Statements must be accompanied by:

- an Auditor's report on Regulatory Financial Statements for Regulatory Accounting Periods ending on or after 30 June 2002, as specified in section 3.8 above and Appendix 2
- a Directors' Responsibility Statement for the Regulatory Financial Statements and supporting schedules, as specified in section 3.6 above and Appendix 1
- details of the accounting principles and policies and any changes or developments, as specified in section 3.1 above.

4.3 Regulatory Accounting Periods and timing

The Tribunal requires information that can be verified by reference to audited statutory financial statements. Regulatory Accounting Periods are annual, and end on 30 June, regardless of the Distributor's statutory year-end date. If a Distributor's statutory financial year end date is not 30 June, the Distributor is required to reconcile the information provided in the annual Regulatory Financial Statements to the preceding year's statutory accounts and to management accounts for the remaining period to 30 June, and the Auditor is required to provide an audit opinion on that reconciliation.

A Distributor's first Regulatory Financial Statements under this Accounting Separation Code of Practice should be prepared for the first period ending on or after 30 June 2002.

A Distributor should deliver to the Tribunal the information specified in section 4.2 above within four calendar months of the end of the Regulatory Accounting Period to which the Regulatory Financial Statements relate, in other words by the end of October.

With the unanimous agreement of Distributors and the Tribunal, the Tribunal will extend or shorten this deadline in special circumstances.

4.4 Contents and structure of the Regulatory Financial Statements

The Regulatory Financial Statements are set out in Appendix 6, which contains a hard copy of an Excel workbook. The Tribunal will provide Distributors with an electronic version of this workbook annually by the end of the Regulatory Financial Period.¹¹ All Distributors are required to complete all sections of the workbook, as directed by colour-coding and specific instructions contained in the workbook and in the Accounting Separation Code of Practice.

¹¹ Other stakeholders should contact the Tribunal if they wish to obtain (blank) copies of the electronic version.

The information requested is as follows:

Section 1 - Profit and Loss Statements

- Table 1.1 Regulated Retail Business Profit and Loss Statement (nominal \$'000)
- Table 1.2 Regulated Network Business Profit and Loss Statement (nominal \$'000)
- Table 1.3 Unregulated Business Profit and Loss Statement (nominal \$'000)
- Table 1.4 Combined Businesses Profit and Loss Statement (nominal \$'000)
- Table 1.5 Consolidated Business Statutory Profit and Loss Statement (nominal \$'000)
- Table 1.6 Reconciliation between Combined Businesses and Consolidated Profit and Loss Statement (nominal \$'000)

Section 2 - Balance Sheets

- Table 2.1 Regulated Retail Business Balance Sheet (nominal \$'000)
- Table 2.2 Regulated Network Business Balance Sheet (nominal \$'000)
- Table 2.3 Unregulated Business Balance Sheet (nominal \$'000)
- Table 2.4 Combined Businesses Balance Sheet (nominal \$'000)
- Table 2.5 Statutory Balance Sheet of the Consolidated Business (nominal \$'000)
- Table 2.6 Reconciliation between Combined Businesses and Consolidated Statutory Balance Sheets - (nominal \$'000)
- Table 2.10 Reserves

Section 3 - Non Financial Data

- Table 3.1 Regulated Retail Business Customer Numbers and MWh sales
- Table 3.2 Regulated Network Business Customer Numbers and MWh sales
- Table 3.3 Inflation forecast used by Distributor in nominal calculations

Section 4 - Revenue Data

- Table 4.1 Revenue accrued/allocated to Regulated Retail Business (nominal \$'000)
- Table 4.2 NUOS revenue by customer type (excluding GST & EDL, including estimated unread meter sales)
- Table 4.3 Revenue accruing/allocated to Regulated Network Business (nominal \$'000)

Section 5 - Operating Expenditure

- Table 5.1 Operating Expenditure of Regulated Retail Business - (nominal \$'000)
- Table 5.2 Operating Expenditure of Regulated Network Business (nominal \$'000)

Section 6 - Capital Expenditure, Capital Contributions and Asset Disposals

- Table 6.1 Capital Expenditure of Regulated Network Business and Regulated Retail Business by purpose (nominal \$'000)
- Table 6.2 Regulated Retail Business Capital Expenditure by asset category (nominal \$'000)
- Table 6.3 Regulated Network Business Capital Expenditure by asset category (nominal \$'000)
- Table 6.4 Check Regulated Network Business Capital Expenditure against Worley review
- Table 6.5 Cash Capital Contributions by asset category (nominal \$'000)
- Table 6.6 Book value of Regulated Network Business disposals by asset category (nominal \$'000)
- Table 6.7 Regulatory value of Regulated Network Business disposals by asset category (nominal \$'000)

Section 7(a) - Fixed Assets and Depreciation - Book Values

- Table 7.1 End of year Accounting (Book) Value of Regulated Retail Business and Regulated Network Business Assets (nominal \$'000)
- Table 7.2 Accounting Depreciation of Regulated Retail Business and Regulated Network Business Assets (nominal \$'000)
- Table 7.3 Written down value of accumulated Contributed Assets (nominal \$'000)

Section 7(b) - Fixed Assets and Depreciation - Tax Values

Table 7.4 End of year Tax Value of Regulated Network Business Assets acquired before 1 July 2000 (nominal \$'000)

Table 7.5 End of year Tax Value of Regulated Network Business Assets acquired after 1 July 2000 (nominal \$'000)

Table 7.6 Tax Depreciation of Regulated Network Business Assets acquired before 1 July 2000 (nominal \$'000)

Table 7.7 Tax Depreciation of Regulated Network Business Assets acquired after 1 July 2000 (nominal \$'000)

Section 7(c) - Fixed Assets and Depreciation - Regulatory values of Regulated Network Assets

Table 7.8 End of year Regulatory Value of Regulated Network Business Assets calculated by Distributor (nominal \$'000)

Section 8 - Interest Rates and Borrowings

Table 8.1 Interest Rates and Borrowings (nominal \$'000)

Section 9 - Regulated Network Business Overs and Unders Account

Table 9.1 Determination of the Annual Aggregate Revenue Requirement of the Regulated Network Business (nominal \$'000)

Table 9.2 Calculation of the Over/(Under) recovery of Regulated Network Business Revenue (nominal \$'000)

Section 10 - Bases Used For Allocating Operating Costs Across the Regulated Network Business, Regulated Retail Business and Unregulated Business

Section 11 - Related Party Transactions

Table 11.1 Capital Expenditure

Table 11.2 Profit and Loss Charges

Section 12 - Other Information and Analysis (blank sheet)

The workbook stores data for a number of years historically, and also asks for five years of projections for some items. Information for past years will be password protected by the Tribunal, so no retrospective changes can be made (although Distributors should use the 'comments' column to make remarks about past information).

Input cells are clearly marked and all calculations will be password protected by the Tribunal. Distributors are required only to enter data, not do calculations. The workbook contains a number of crosschecks to ensure that data entered in different places agree within reasonable limits (for example, Network Use of System (NUOS) revenue by customer type and total NUOS revenue entered in the Profit and Loss Statement).

There is a 'comments' column for each line of data and a separate worksheet for additional workings or text, to allow the Distributor to note or supply any important pieces of information that would assist the Auditor and the Tribunal to better understand or interpret the Regulatory Financial Statements.

The Auditor's report is required to cover all information entered into the workbook by the Distributor for the Regulatory Accounting Period other than voluntary information (as indicated by colour-coding).

4.5 Operating and maintenance expenditure

Operating and maintenance expenditure for the Regulated Retail Business and the Regulated Network Business is requested on an activity basis. The categories are provided in Section 5 of the Regulatory Financial Statements.

The Regulatory Financial Statements require that operating and maintenance costs be disaggregated across the Regulated Network Business and Regulated Retail Business and the Unregulated Business. A cost may be considered to be either:

- a direct cost that can be attributed wholly and exclusively to the Regulated Network Business, Regulated Retail Business or Unregulated Business, or
- an indirect cost that needs to be attributed to the Regulated Network Business, Regulated Retail Business or Unregulated Business on the bases of the principles set out in the Accounting Separation Code of Practice.

Costs incurred through transactions with Related Parties could be either direct or indirect, and details must be disclosed in Section 11 of the Regulatory Financial Statements.

The Distributor is required to disclose the allocation of total operating and maintenance costs across the Regulated Network Business, Regulated Retail Business or Unregulated Business in Section 10 of the Regulatory Financial Statements by indicating, for each cost item:

- the amount allocated, and
- the basis of the allocation (eg direct, staff numbers, customer numbers, or on the basis of one of the methodologies set out in Appendix 3 if appropriate).

Supporting documentation for the quantification of allocations should be made available to the Tribunal on request.

The total of the direct and indirect costs should agree with the total operating and maintenance costs disclosed for the Regulated Network Business, Regulated Retail Business or Unregulated Business in Section 3 of the Regulatory Financial Statements.

Total directly allocated costs and total directly attributed costs are each recorded in Section 3 of the Regulatory Financial Statements for the Regulated Network Business. Again, these totals should agree with the information provided in Section 10 of the Regulatory Financial Statements.

4.6 Depreciation

Depreciation is requested based on book values of assets, tax values and regulatory values. In the first instance, a depreciation charge should be attributed to the asset that gives rise to the charge. Fixed assets must be allocated between the Regulated Network Business, Regulated Retail Business or Unregulated Business on the basis set out in section 4.11 below.

For regulatory purposes, the system assets should be depreciated in accordance with the method and asset lives adopted in the Tribunal's determination in force at the time.

Book depreciation should be based on the methods and asset lives used by the Distributor when calculating depreciation for its statutory accounts, and tax depreciation should be based on the Distributor's income tax calculations (see section 4.8 below.)

4.7 Other revenue and expenditure

Other revenue and expenditure arising in the profit and loss account not specifically addressed elsewhere in the Accounting Separation Code of Practice should be allocated to the Regulated Network Business, Regulated Retail Business and Unregulated Business in accordance with the general principles set out in section 3 above.

4.8 Income tax attributable to operating profit

Income tax should be attributed to the Regulated Network Business, Regulated Retail Business and Unregulated Business as if each were a taxable entity in its own right and subject to Australian Federal income tax laws.¹²

Any differences between prima facie income tax (on operating profit before tax at the current corporate income tax rate) and income tax expense should be allocated to each business based on the underlying income or expense that makes up the total adjustment. The transfer of tax losses between related parties is not precluded, including notional transfers between the Regulated Network Business, the Regulated Retail Business and the Unregulated Business, where Australian Federal income tax laws would permit such a transfer.

4.9 Dividends payable

Dividends payable should be attributed to the Regulated Network Business, Regulated Retail Business and Unregulated Business in proportion to the Net Profit After Tax of each of the businesses.

An exception is that where one of the businesses incurs a Net Loss After Tax. In this instance, no dividend should be attributed to that business and the dividend should be pro-rated between the other businesses in line with their relative Net Profits After Tax.

4.10 Capital expenditure, capital contributions and asset disposals

4.10.1 What is capital expenditure?

For the purposes of the Regulatory Financial Statements, expenditure on assets should be capitalised where it is probable that future economic benefits greater than the originally assessed standard of performance of the asset will flow to the entity. Expenditure should be capitalised when it:

- enhances the economic benefits of the assets in excess of its previously assessed standard of performance or

¹² The Distributors are subject to the *State Owned Corporations Act 1989* and consequently they are subject to NSW Treasury's tax equivalents regime, which is based on the *Income Tax Assessment Act 1936* and 1997.

- replaces or restores a component of the asset that has been treated separately for depreciation purposes and depreciated over its useful economic life or
- relates to a major inspection or overhaul that restores the economic benefits of the asset that have been consumed by the entity and has already been reflected in depreciation or
- will significantly reduce the ongoing maintenance costs of the asset or
- for System Assets, will extend the service life of the asset beyond that expected when the asset was originally installed.

Expenditure on all physical non current assets costing more than \$5,000 individually must be capitalised. Expenditure on assets costing less than \$500 individually is generally regarded as immaterial and should be treated as an expense. Between these two thresholds, capitalisation or not is a matter of judgement for the Distributor (and agreement by its Auditor), having regard to the materiality of the item involved and the future economic benefits it will provide.

Major components of assets that have significantly different useful lives should be treated as separate assets and depreciated in accordance with the method and asset lives adopted in the Tribunal's determination in force at the time. However, the cost of separately depreciated assets that form part of a larger asset should be aggregated together when assessing whether the \$5,000 (or lower amount) capitalisation threshold is met. For example, poles may have a useful life of many years, whereas the other components of the asset (such as cross arms and insulators) may have relatively short useful lives. In these circumstances it may be more appropriate to separate the expenditure into two different components for depreciation purposes, however the capitalisation decision would be based on the overall expenditure.

Replacing like with like or a modern equivalent asset is maintenance and should be included in operating expenditure. All pole replacements should be treated as maintenance, except where it is part of a major replacement program to extend the useful life of the system. Operating expenditure should therefore cover, for example, replacement of a pole lying on the ground due to storm damage. Pole replacement costs include all expenditure necessary to undertake the work including removal of the old pole, cross arms, insulators, and re-conductoring. Pole relocation by request of a third party should form part of recoverable works.

Expenditure to replace old sub-station equipment excluding transformers due to wear and tear but not due to load should be treated as maintenance and included in operating expenses; if it is due to wear and tear but augmentation is undertaken at the same time, it should be treated as capital expenditure.

4.10.2 Allocation and disclosure requirements

In the Regulatory Financial Statements, the Tribunal requires that historical and projected capital expenditure be allocated to the Regulated Network Business, Regulated Retail Business and Unregulated Business by function. Capital expenditure, capital contributions and asset disposals by asset class that are attributable to the Regulated Network Business must be rolled forward in the Regulatory Asset Base.

4.11 Fixed assets

4.11.1 Disaggregation of fixed assets – book values

The book value of fixed assets should be attributed to the Regulated Network Business, Regulated Retail Business or Unregulated Business in which they are principally utilised (Section 7a of the Regulatory Financial Statements). These values must reflect the values in the balance sheets for Regulated Network Business, Regulated Retail Business and Unregulated Business (Section 2 of the Regulatory Financial Statements).

4.11.2 Disaggregation of fixed assets – tax values

The tax value of fixed assets and tax depreciation must also be attributed to the Regulated Network Business, Regulated Retail Business or Unregulated Business, on the same basis as the allocation of the book values. The Tribunal uses tax values for tax and cash flow calculations.

4.11.3 Regulatory values of regulated network assets

Each year the Tribunal will calculate the Regulatory Asset Base using the methodology set out in its determinations.

Distributors are invited to provide the rolled forward values of the Regulatory Asset Base, by asset class, in the table provided. This information is voluntary, and will be used to check the Tribunal's calculations. In this manner, errors in the method of rolling forward the asset base can be identified and rectified.

4.12 Other balance sheet items

Balance sheet items not specifically dealt with in the Accounting Separation Code of Practice should be disaggregated between the Regulated Network Business, Regulated Retail Business and Unregulated Business in accordance with:

- the general principles set out in section 3 above
- the disclosure requirements of the Regulatory Financial Statements set out in Appendix 6.

Overall, the Tribunal requires that the Regulatory Financial Statements fairly present the financial position of each Regulated Business on a disaggregated basis.

4.13 Under/over recovery of allowable revenue

The regulatory regime under which the Regulated Network Businesses operate can result in the under or over recovery of network revenue in a particular year.

In the Regulatory Financial Statements, the Annual Aggregate Revenue Requirement, under/over recovery for the year-end and the balance at the end of the year is calculated.

The Distributor is required to check that the workbook's calculations of under/over recovery reflect the true position of their under/over-recovered amounts each year. Further information and any reconciling information should be provided in the comments column of Table 9.2 of the Regulatory Financial Statements.

4.14 Transmission information (EnergyAustralia only)

EnergyAustralia's transmission assets are included in the Revenue Cap of its Regulated Network Business, as set out in the Tribunal's December 1999 report *Regulation of New South Wales Electricity Distribution Networks Determination and Rules under the National Electricity Code*. Provision has therefore been made in the Regulatory Financial Statements for EnergyAustralia to separately identify those operating and maintenance costs, capital expenditure and asset values that are directly attributable to transmission.

4.15 Regulatory financial forecasts

Distributors should provide the Tribunal with annual forecasts in the Regulatory Financial Statements for the items so requested (using colour coding).

A Distributor's forecast information for its Regulated Network Business and Regulated Retail Business should be prepared

- from a disaggregation of financial forecasts used in management accounts, and
- on the bases of the accounting policies and principles it applied to its Regulatory Financial Statements.

In addition, a summary of the assumptions that underlie the forecasts should accompany the financial forecasts.

The Auditor is required to provide an audit opinion on the forecasts.

GLOSSARY

AARR	Aggregate Annual Revenue Requirement determined under the National Electricity Code and set out in the Tribunal's December 1999 report <i>Regulation of New South Wales Electricity Distribution Networks Determination and Rules under the National Electricity Code</i>
Australian Accounting Standards	Australian Accounting Standards issued jointly by the Institute of Chartered Accountants in Australia and CPA Australia
Australian Auditing Standards	Australian Auditing Standards issued jointly by the Institute of Chartered Accountants in Australia and CPA Australia
Auditor	A Person registered as an auditor, or taken to be registered as an auditor, under Part 9.2 of the Corporations Law
Capex	Capital expenditure
Capital Contribution	An up-front payment required to be paid by customers to cover costs associated with connection to the distribution network
CIS	Customer Information System
Common Economic Goals	The test to determine whether two businesses are related parties, which is set out in the Accounting Separation Code of Practice
CSO	Community Service Obligation: a government subsidy for activities undertaken by a government enterprise which would not be undertaken as a commercial activity or would require higher prices to be commercial
Demand	Measurement of customer peak load taken as the average load over a half-hour period measured in kW or kVA
Distribution network	Electricity network connecting the transmission system to customers. Voltages include 132,000 V down to typically 240 V at the customer's premise
Distributor	An energy distributor incorporated under the <i>Energy Services Corporations Act 1995</i> , namely Australian Inland Energy Water Infrastructure, Country Energy, EnergyAustralia, and Integral Energy Australia
DNSP	Distribution Network Service Provider: a person who engages in the activity of owning, controlling, or operating a distribution system, as defined in the National Electricity Code
DORC	Depreciated Optimised Replacement Cost: the DORC calculation is based on the gross replacement cost of modern equivalent network assets, adjusted for over-design, over-capacity and redundant assets, less an appropriate allowance for depreciation. It measures the minimum cost of replicating the network system in the most efficient way possible, given its service requirements and the age of the existing assets

DUOS	Distribution Use Of System: a service provided to a distribution network user for use of the distribution network for the conveyance of electricity that can be reasonably allocated on a locational and/or voltage basis
EA	EnergyAustralia
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EDL	Electricity Distributor Levy – A levy collected by DNSPs on behalf of the State Government from electricity retail customers that are not supplied by the Regulated Retail Business
EFTPOS	Electronic Funds Transfer Point Of Sale
ERP	Enterprise Resource Planning system
ETEF	Electricity Tariff Equalisation Fund
FITB	Future Income Tax Benefit
FRC	Full Retail Contestability
Gas Code	National Third Party Access Code for Natural Gas Pipeline Systems
GHD report	The asset valuation report prepared by a consortium consisting of Gutteridge Haskins & Davey, Worley International, and Arthur Andersen entitled <i>ORDC Valuation of Network Assets</i> and dated February 1999, prepared for the Tribunal's December 1999 report <i>Regulation of New South Wales Electricity Distribution Networks Determination and Rules under the National Electricity Code</i>
GST	Goods and Services Tax
GWh	Gigawatt hour (one GWh = 1000 megawatt hours or one million kilowatt hours)
HV	High Voltage
IDT	Inter Distributor Transfer: payments between Distributors for use of the distribution network
kV	1,000 Volts
kVA	1,000 Volt-Amperes which is a measure of the apparent power flow which determines the amount of capacity required to supply the customer's load
kW	1,000 Watts which is a measure of the actual power being consumed
kWh	Kilowatt hour (the standard unit of energy which represents the consumption of electrical energy at the rate of one kilowatt over a period of one hour)

Legal Entity	An entity that is: <ul style="list-style-type: none"> (i) Incorporated under the Corporations Law (ii) Established as a statutory corporation, or (iii) Established by royal charter
LV	Low Voltage
MWh	Megawatt hour (one MWh = 1000 kilowatt hours)
NARR working group	National Alignment of Regulatory Reporting working group
National Electricity Code	Contains the market rules governing the operation of the National Electricity Market, which commenced in December 1998. The National Electricity Code was approved by Ministers of the participating jurisdictions under s6 of the National Electricity Law in force in New South Wales by virtue of the <i>National Electricity (New South Wales) Act 1997</i>
NEM fees	National Electricity Market fees: fees charged to Distributors by the National Electricity Market Management Company
Nominal terms	means amounts expressed in dollars of the day
Non System Assets	Fixed assets that are not System Assets
Non-residential HV	all non-residential customers on high voltage (HV) tariffs, including standard, time-of-use and demand tariffs
Non-residential LV	includes non-residential customers on low voltage (LV) tariffs, including standard, time-of-use and demand tariffs. It may include residential customers who are on a general (ie not specifically residential) tariff, excluding the domestic component of rural tariffs
Non-residential ST	all non-residential customers on sub-transmission tariffs
NPV	Net Present Value
NUOS	Network Use Of System charge: the access charge for use of the transmission, sub-transmission and distribution system for the supply of electricity to customers' premises. Network charges also include recoverable works charges, miscellaneous charges, and monopoly charges associated with contestable works. NUOS charges are broken into Transmission Use of System Charges (TUOS) and Distribution Use of System Charges (DUOS)
O&M	Operating and Maintenance expenses
ODV	Optimised Deprival Value
OECD	Organisation for Economic Co-operation and Development
OFWAT	Office of the Water Regulator (UK)
Opex	Operating expenditure
ORC	Optimised Replacement Cost

P&L Statement	Profit and Loss Statement, or Statement of Financial Performance
PABX	Private Automatic Branch Exchange
PDIT	Provision for Deferred Income Tax
PIP	Pricing Information Package
RAB	Regulatory Asset Base
Regulated Network Business	That part of a Distributor's business that undertakes Prescribed Distribution Services as defined in the Tribunal's December 1999 report <i>Regulation of New South Wales Electricity Distribution Networks Determination and Rules under the National Electricity Code</i>
Regulated purchase price for electricity	The prices set out for each Distributor in the Tribunal's March 2000 report <i>Pricing for the retail supply of electricity to franchise customers - Notification on energy costs pass through</i>
Regulated Retail Business	That part of a Distributor's business that is a Standard Retail Supplier as set out in the <i>Electricity Supply Act 1995</i>
Regulatory Accounting Period	The annual period ending on 30 June that is the period spanned by Regulatory Financial Statements
Regulatory Financial Statements	The Excel workbook provided annually to each Distributor containing the Tribunal's information requirements, which the Distributors are required to complete and return to the Tribunal in accordance with the Accounting Separation Code of Practice
Related Parties	A Related Party of a Regulated Network Business or Regulated Retail Business is any business that, operating with that business, pursues objectives consistent with those of the regulated business, which are termed Common Economic Goals
Revenue Cap	The maximum allowable revenue applicable to DNSPs' businesses
Ring fencing	The clear separation of subsidiaries or divisions of a company that may have competitive advantages in dealing with each other
Rural Residential	includes customers on rural residential (domestic) tariffs (if applicable). The domestic component of rural tariffs that are not specifically residential must also be included in the revenue and load data. Rural customers with a domestic component must be reported as residential customers (and not as non-residential customers)
SCADA	Supervisory Control And Data Acquisition: A computerised control system that enables remote control and monitoring of the electrical network
ST	Sub Transmission

Standard Retail Supplier	A business that supplies electricity to small retail and eligible default customers as defined in the <i>Electricity Supply Act 1995</i>
SWER	Single Wire Earth Return
System Assets	Fixed assets comprising the Distribution System, as defined in the National Electricity Code
TransGrid	NSW transmission authority provider of transmission services for conveyance of electricity from NSW generators to bulk supply points throughout NorthPower's service area
Tribunal	The Independent Pricing and Regulatory Tribunal, established under the <i>Independent Pricing and Regulatory Tribunal Act 1992</i>
TUOS	Transmission Use Of System
Unregulated Business	That part of a Distributor's operations that is not the Regulated Network Business or the Regulated Retail Business
Urban Residential	Includes all customers on urban residential (domestic) tariffs, including standard, time-of-use and controlled load tariffs
V	Volt (the unit of electric potential or electromotive force)
W	Watt (a measure of the power present when a current of one ampere flows under a pressure of one volt)
WDV	Written Down Value
Worley report	The capital expenditure review report prepared by Worley International entitled <i>Report to the Independent Pricing and Regulatory Tribunal on Capital Expenditure Review in NSW Electricity Distribution</i> and dated May 1998 for the Tribunal's December 1999 report <i>Regulation of New South Wales Electricity Distribution Networks Determination and Rules under the National Electricity Code</i>

APPENDIX 1 PRO FORMA DIRECTORS' RESPONSIBILITY STATEMENT

In the opinion of the Directors of DISTRIBUTOR, the attached Regulatory Financial Statements are drawn up so as to present fairly in accordance with the requirements of the Accounting Separation Code of Practice and determinations issued by the Independent Pricing and Regulatory Tribunal dated (version date), the results of each Regulated Business for the Regulatory Accounting Period ended (period end), and all required information concerning the state of affairs at (period end) of each Regulated Business.

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

Signed in accordance with a resolution of Directors:

(Name of Director)
Director

Dated

(Name of Director)
Director

Dated

APPENDIX 2 PRO FORMA AUDIT REPORT

To the Independent Pricing and Regulatory Tribunal of NSW

Scope

We have audited the attached special purpose financial report comprising the Regulatory Financial Statements of DISTRIBUTOR for the year ended 30 June 20XX and the prospective information requested in the Regulatory Financial Statements. DISTRIBUTOR's Directors are responsible for the Regulatory Financial Statements and have determined that the accounting policies used are consistent with the requirements of the Accounting Separation Code of Practice and are appropriate to meet the needs of the Independent Pricing and Regulatory Tribunal of NSW. We have conducted an independent audit of the Regulatory Financial Statements in order to express an opinion on it to the Independent Pricing and Regulatory Tribunal of NSW. No opinion is expressed as to whether the accounting policies used are appropriate to the needs of the Independent Pricing and Regulatory Tribunal of NSW.

The Regulatory Financial Statements have been prepared for the purpose of fulfilling the Directors' reporting requirements under the Accounting Separation Code of Practice. We disclaim any assumption of responsibility for any reliance on this report or on the Regulatory Financial Statements to which it relates to any person other than the Independent Pricing and Regulatory Tribunal of NSW, or for any purpose other than that for which it was prepared.

Our audit has been conducted in accordance with Australian Auditing Standards. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the Regulatory Financial Statements and the evaluation of significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the Regulatory Financial Statements are presented fairly in accordance with requirements of the Accounting Separation Code of Practice and the Tribunal's determinations.

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

Audit Opinion

In our opinion, the Regulatory Financial Statements present a true and fair view in accordance with the requirements of the Accounting Separation Code of Practice and the Tribunal's determinations

- the financial position of DISTRIBUTOR as at 30 June 20XX and the results of its operations and its cash flows for the year then ended;
- the prospective financial information requested in the Regulatory Financial Statements; and
- the non-financial information requested in the Regulatory Financial Statements.

Date
Address

Firm
Partner

APPENDIX 3 TRANSFER PRICING PRINCIPLES FOR RELATED PARTY TRANSACTIONS

As set out in section 3.4 of the Accounting Separation Code of Practice, the Tribunal requires each Distributor to develop and document principles and policies for trading between the Regulated Network Business and Regulated Retail Business and Related Parties. The use of a novel method or combination of methods is acceptable to the Tribunal, provided the resulting methodology meets the following criteria:

- is consistent with the arm's length principle
- is simple, practical and robust, permitting clear interpretation by Distributors, Auditors, and the Tribunal
- is able to be practically supported by adequate reliable market information
- is based on a commonly accepted methodology.

Set out below are eleven methodologies for transfer pricing between Related Parties. The first six methods are ones traditionally used by regulators (as shown in the section at the end of this Appendix on overseas regulatory use of transfer pricing techniques.) The next five methods are taken from the OECD guidelines.¹³

Competitive tendering has also been proposed as a method of determining market price. Appendix 4 contains guidelines on competitive tendering. If a Distributor can prove to the satisfaction of the Auditor and the Tribunal that a competitive tender has been conducted appropriately, and has resulted in an arm's length price, it may be allowed as a methodology for pricing a transaction with a Related Party.

Other methodologies may be used if it can be clearly demonstrated to the Auditor and the Tribunal that they meet the Tribunal's criteria, listed above.¹⁴

Method 1 Fully allocated costs

Fully allocated costs equal the sum of the direct costs plus an appropriate share of indirect costs.

The fully allocated costs methodology provides that revenues collected from the sale of services and products or capital assets equal the sum of the direct costs plus an appropriate share of indirect costs. It results in the regulated and non-regulated businesses paying the same price for shared services or products. Regulators have historically often used the fully allocated prices methodology to set transfer prices for services and products.

The method eliminates any cross subsidisation as the Related Party bears all of the incremental costs plus a proportional share of the fixed costs. However, it may prevent economic transactions if the market price is above incremental costs but below fully allocated costs.

¹³ OECD, *Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations*, 1995.

¹⁴ Namely, that they are consistent with the arm's length principle; are simple, practical and robust, permitting clear interpretation by Distributors, Auditors, and the Tribunal; can be supported by adequate reliable market information; and are based on a commonly accepted methodology.

Method 2 Incremental pricing

Incremental pricing refers to the pricing of services or products based on only the additional costs added by the operation while one or more pre-existing services or products support the fixed costs.

Transfer prices based on incremental costs will not prevent or discourage economically justified transactions. Any transaction at a price that exceeds incremental cost will result in lower costs to all customers as opposed to the transaction not occurring at all.

Incremental costs include incremental capital costs.

Method 3 Prevailing market prices

Prevailing market prices are generally accepted market values that can be substantiated by clearly comparable transactions, auction prices or appraisal values. These prices are those that would be set for a non-related transaction. If a prevailing market price is available, it should be the preferred transfer price, as it reflects the price of the product based on supply and demand conditions in the market it and thus maintains the arm's length nature of the transaction. It could also be considered to promote economic efficiency as it takes into account both the supplier's cost of production and the buyer's measure of value.

However, frequently there is not the range of necessary transactions for this method to be available. Market prices that reflect the value of intra-firm transactions often do not exist, as these transactions may be unique. In addition, since the market for some services has only recently been opened up to competition, workable competition in these markets may not exist and therefore a true market price may not be available.

Method 4 Tariff-based pricing

Tariff-based pricing uses prices that are pre-approved by the regulator. A review of the transaction is made before it takes place, and issues concerning the methods or cost are resolved up front. The resulting prices are non-discriminatory; however, they may not provide adequate flexibility if prices do not change when circumstances in the market change.

Method 5 Negotiated pricing

Negotiated pricing requires the related entities to base prices on results of arm's length negotiations. The terms should be discussed and agreed upon by the parties involved in the transaction. It should result in pricing that reflects changing market conditions, and avoid distortions that may occur for pre-established tariff-based prices that do not reflect current market conditions.

Negotiated pricing can lead to different prices for customers that purchase goods at different points in time. This may be perceived as unfair if a related business is able to obtain the product at the lower price just because of the timing of its purchase or because of its strength relative to the other party.

In the absence of prevailing market prices, it may be difficult to demonstrate that a genuine arm's length price has been negotiated.

Method 6 Asymmetric pricing

Asymmetric pricing refers to the use of differing pricing methods depending on the direction of the transfer. The lower of cost or market price is used for transfers from a related business to a regulated business whereas the higher of cost or market price is used for transfers from a regulated business to a related business.

This methodology ensures that the utility does not pay more (or less) than the regulator would consider fair for the services, products or assets. Asymmetric pricing ensures that the regulated services are not subsidising non-regulated services.

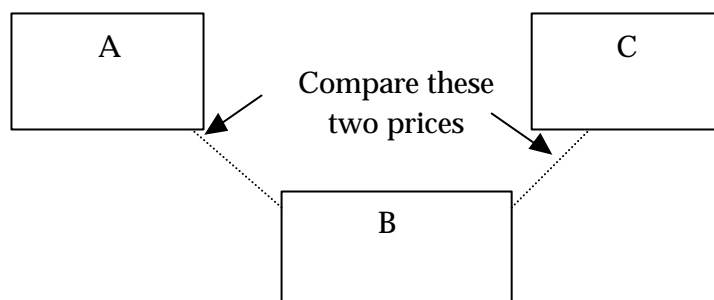
Use of asymmetric pricing results in many of the same problems experienced when using fully allocated costs. Although this methodology is considered fair by regulators, it can discourage otherwise economic transactions that could lower the price for all customers.

Method 7 Comparable uncontrolled price

The comparable uncontrolled price method compares the price for property or services transferred between related enterprises to the price charged for property or services between independent entities in comparable circumstances. A transaction is considered comparable if either:

- none of the difference between the transaction being compared or the enterprises undertaking the transactions could materially effect the price in the open market
- or reasonably accurate adjustments can be made to take account of these material differences.

The comparable uncontrolled price method is represented in the following diagram. A and B are related businesses and C is an independent business. B sells the same good to both C and A.



The comparable uncontrolled price method compares the price paid for the transaction between A and B and the price paid between B and C. If there is a difference between the two prices, the commercial and financial relations between the related businesses may not be at arm's length.

Adjustments for comparability can take a variety of forms. It may be that the only difference is in the volume of the service or good delivered, with a higher volume resulting in a greater discount. In this case, the relevant market should be researched to establish an appropriate discount.

This method is encouraged if accurate adjustments can be made for material differences. It is most suited to transactions where there is a provision of an individual and identifiable service that can be provided by a third party, as the information is readily available to make a comparison of the price charged between related and independent businesses.

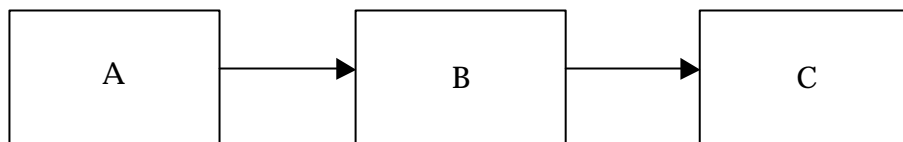
The method would not be appropriate (or at least could not as easily be implemented) if the transaction was one involving provision of an individual and identifiable service that was unique, as it would be very hard to find a comparable transaction. Further, where a transaction involves a bundled service (for example, a management contract) it may be necessary to break down the bundle to a level where comparisons can be found for the individual services performed and goods provided. The sum of the costs of these individual components would then be adjusted by either an amount for economies gained through performing all services or a risk premium for committing in advance to perform all services regardless of what they may entail. If an entire contract is treated as a transaction, it is likely that a comparable transaction would not be available as no one management contract would entail the exact same tasks as another.

Extensive adjustments allowing comparisons may introduce an unacceptable degree of subjectivity into the analysis.

Method 8 Resale price

The resale price method is based on the price at which a product that has been purchased from an associated enterprise is resold to an independent enterprise. The resale price is reduced by an appropriate margin (the resale price margin), which represents the amount out of which the reseller would seek to cover its selling and other operating expenses and in the light of functions performed make an appropriate profit. The amount left can be regarded, after adjustments for the other costs associated with the purchase of the product, as an arm's length price of the original transaction between related businesses.¹⁵

The resale price method is represented by the following diagram, where A and B are related businesses and C is an independent business.



In the above diagram, A has sold a good to B, which has on-sold it to C. The resale price method looks at the price charged to C and then reduces it by an appropriate margin. The margin reflects the amount out of which B would cover its selling and other operating expenses and make an appropriate profit. The remainder, after adjustments for the other costs associated with the purchase of the product, would be the arm's length price of the original transaction between A and B.

¹⁵ OECD, *Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations*, 1995, section 2.14.

The resale price margin is then compared to the resale price margin that B or an independent business earns in comparable transactions between unrelated businesses.

The resale price margin can be determined by reference to the resale price margin that either the reseller or an independent enterprise earns on items purchased and sold in comparable uncontrolled transactions.

A transaction will be comparable for the resale price method if either:

- none of the difference between the transactions being compared or between the enterprises undertaking those transactions could materially affect the resale price margin in the open market
- or reasonably accurate adjustments can be made to eliminate the material effects of such differences.

Fewer adjustments are needed under the resale price method than the comparable uncontrolled method as minor product differences are less likely to have a material effect on the profit margins than price. In a market economy the compensation for performing similar tasks will generally be equalised across different activities where the price for two goods will only be similar if they are substitutes for one another. Although broader product differences are allowed under the resale price method, the product or services must still be comparable. Of course, a better result will occur when the two products or services are more similar.

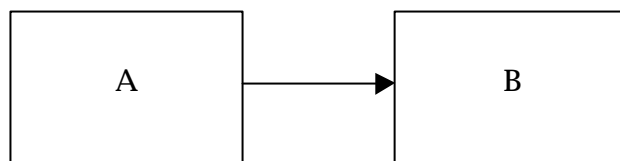
The resale price method is easiest to use when the reseller does not add substantially to the value of the product and is more accurate where it is realised within a short time of the reseller's purchase of the goods. The longer the period the more likely that other factors in the market will need to be taken into consideration.

This method will generally not be applicable for use by businesses regulated by the Tribunal because most regulated businesses do not on-sell goods without substantially adding value to the product.

Method 9 Cost plus

The cost plus method begins with the costs incurred by the supplier of goods or services in a transaction for goods or services it provides to a related business. A mark-up is then added to this cost to make an appropriate profit in light of the functions performed and the market conditions.

The following diagram represents the cost plus method where A and B are related businesses.



This method looks at A's costs in supplying the goods or services to B and then adds a mark up to these costs that will allow A to make an appropriate profit in light of the functions performed and market conditions.

This method is most useful if the related businesses have concluded joint facility agreements, long-term buy and supply arrangements exist, or if the transaction concerns the provision of services. The costs to be included are both the direct and indirect costs of production of the relevant goods and services.

Two transactions will be comparable if either:

- none of the differences between the transactions being compared or between the enterprises undertaking those transactions materially affect the cost plus mark up in the open market
- or reasonably accurate adjustments can be made to eliminate the material effects of such differences.

In making the comparisons, fewer adjustments are generally needed under the cost plus method than are needed under the comparable uncontrolled price method, as minor product differences are less likely to have such a material effect on profit margins as they do on price.

This method may be most appropriately used where the transaction involves the provision of an individual and identifiable service that is unique. The costs of the service can be determined and an appropriate mark up can be added in order to arrive at the arm's length price. This method would not be appropriate for a transaction involving a contract to operate an asset where the individual services within the contract are not specified. As the particular services within the contract are not specified, it would be difficult to determine the costs associated with the contract and the appropriate mark up to add.

Method 10 Profit split

This method of transfer pricing identifies the total profit from a transaction between related businesses and then splits that profit between the businesses. This split is made on an economically valid basis that approximates a division of profits that would be anticipated and reflected in an agreement made at arm's length between independent parties.

The profit could be the total profit or a residual profit that cannot be assigned to one of the parties (for example profit arising from intangibles). The contribution is based on a functional analysis, which is described later in this Appendix and in Appendix 5.

An advantage of this method is that it does not rely on closely comparable transactions and it can therefore be used in cases when no such transactions between independent enterprises can be used. This may be appropriate for use by Distributors where a transaction does not have an appropriate comparable transaction as the service provided is unique. The profit split method offers flexibility by taking into account the unique or special circumstances of the related enterprises that are not present in independent enterprises. In addition, as both sides to the transaction are taken into account, it is very unlikely that either party will be left with an extreme or improbable result.

A disadvantage of using this method is that the external data considered will mean that the transactions between related enterprises will be less closely connected than in the case of some other method used. It may also be difficult to access the data needed, as independent enterprises do not normally use the profit split method.

There are a number of approaches for estimating the division of profits based on either projected or actual profits, including:

- **Contribution analysis.** The relative value of the functions performed by each enterprise is used to divide the profit from the transaction between the related enterprises. This would be supplemented as much as possible by external market data indicating how independent enterprises would have divided the profits in similar circumstances.
- **Residual analysis.** A basic return would first be ascertained by reference to market returns for similar transactions for independent enterprises. The profit from the transaction is then allocated between the related businesses so each is provided with sufficient profit for a basic return for the transaction. Secondly, any residual profit would be allocated on an analysis of facts and circumstances that might indicate how the residual would have been divided between independent enterprises.

The profit split method would be appropriate when the transaction is a contract to operate an asset where the individual services within the contract are not specified. As the detail of the contract is not available, it may be more appropriate to be able to split the profits between the related businesses based on the functions they have performed and the risks undertaken.

This method would not be appropriate for a transaction that involves a provision of an individual and identifiable service that can be provided to a third party as in this case the comparable uncontrolled price method is more accurate and appropriate.

Method 11 Transactional net margin method

This method examines the net profit margin relative to an appropriate base (for example costs, sales, or assets) for related businesses. This is then compared to a similar transaction between independent enterprises. If a similar transaction is not available then the net margin earned in a comparable transaction by an independent business can be used. The comparable transaction should be between the same utility and an independent enterprise in comparable circumstances. If it is a transaction by an independent enterprise, any material differences between the businesses should be taken into account. A functional analysis should be done to determine if the transactions are comparable and what adjustments are needed to obtain reliable results.

This method is less affected by transactional differences than methods based on price (such as the comparable uncontrolled price method). The net margins are also more tolerant to functional differences between the related businesses and independent transactions than gross profit margins. Differences in the functions performed are often reflected in variations in operating expenses. Therefore, firms can have a wide range of gross profit margins but still broadly similar levels of net profits.

This method may be appropriate in those situations where detailed comparable data is unavailable or where items affecting functional comparability can only be considered by taking account of items below the gross profit line. A weakness with this method is that the net margin of an entity may be influenced by factors that either do not have an effect, or have a less substantial or direct effect on price or gross margins. In addition, the information concerning the uncontrolled transactions by independent firms may be difficult to obtain.

The method may be appropriate for a transaction that involves a contract to operate an asset where the individual services within the contract are not specified. In this situation the profit margin relative to the base can be compared to other similar contracts to see if these ratios are similar and can be considered arm's length.

Like the profit split method, this method is not appropriate for use in a transaction where there is a provision of individual and identifiable services that can be provided by a third party—in such a case, the comparable uncontrolled price method is more efficient.

Comparable transactions

Comparability with transactions in an independent or unrelated market is a key concept in applying the arm's length principle. Many matters may influence price and margins. Comparability means that none of the differences between the situations being compared could materially affect the condition being examined in the methodology or that reasonably accurate adjustments can be made to eliminate the effects of such differences.

Implicit in the arm's length principle is the notion that when independent parties evaluate the terms of a potential deal, they compare the deal to other options that are realistically available to them and enter the deal only if there was no alternative clearly of greater commercial advantage. This would include the option of not entering into the transaction at all.

In making the comparisons, material differences between the compared transactions should be taken into account. It is necessary to compare attributes of the transactions or enterprises that would affect conditions in arm's length dealings. The factors that determining comparability include:

- **Characteristics of property or services.** Differences in the specific goods or services often account for (at least in part) the differences in the valuation in the open market. Similarity in characteristics will matter most when comparing prices and less when considering profit margins. These could include the nature and extent of services or the physical characteristics of the goods.
- **Functional analysis.** The compensation received usually reflects the functions that each enterprise performs. Therefore, to look at the comparability, the functions performed will need to be considered. This is based on a 'functional analysis', which seeks to identify and to compare the economically significant activities and responsibilities taken by independent and associated enterprises. Issues that should be considered in functional analysis include:
 - the assets that are employed or are to be employed. This could include the type of assets used, the nature of assets used, and the use of valuable intangibles; and
 - the risks assumed by the different parties. In an open market, an increase in risk will be compensated by the expected return. The risks include market risk (including input cost and output price fluctuations), risks of loss associated with the investment in and use of property, plant and equipment, financial risks, and credit risks.

A checklist of items that could be considered in undertaking functional analysis is contained in Appendix 5.

- **Contractual terms.** Contractual terms generally define how the responsibilities, risks and benefits are to be divided between the parties. In dealings between independent parties, there is usually a divergence of interests and therefore parties make sure the other party is held to the contract. Related parties typically will not have this divergence of interests. For example, the risks for a related entity that leases vehicles and specialised equipment to a monopoly network are different to those of a general fleet lessor competing in an open market to lease vehicles to a competitive business.
- **Economic circumstances.** Arm's length prices may vary across different markets even for transactions involving the same property or service. Therefore, to compare between markets, the markets should be sufficiently similar. Economic circumstances that may be relevant to determine market comparability include geographical location, size of the markets, extent of competition, the availability of substitute goods and services, levels of supply and demand, nature and extent of government regulation, and costs of production.
- **Business strategies.** Business strategies include innovation and new product development, degree of diversification, risk aversion, assessment of political changes, and other factors bearing on the daily conduct of business. Market penetration schemes, where a firm may temporarily lower its price to gain a market share in order to enter a market, or for expansion purposes may temporarily incur higher costs are other strategies. Some business strategies may work and some may not and this should be taken into consideration. However, if an unsuccessful strategy were continued for longer by a related business than an independent business would endure, then the level of comparability would be lower.

Regulatory use of transfer pricing methodologies in other countries

The following information is provided to assist Distributors in selecting a commonly used methodology. It should not preclude other methods being used if they meet the Tribunal's criteria.¹⁶

Guidelines issued by a United States regulators' association¹⁷ recognise that too much flexibility in pricing transactions between a regulated business and related entities can result in subsidisation, but too rigid a method can lead to economic transactions being discouraged. Flexibility should be provided to allow exceptions where it is in the best interest of the utility, its customers and competition.

The US guidelines conclude that:

- Generally, the price for service and products provided by the regulated business to a related entity should be at the higher of fully allocated costs or prevailing market prices. Under appropriate circumstances this price can be based on incremental cost or other pricing mechanisms as determined by the regulator.
- Generally, the price for services and products provided by the related entity to a regulated business should be at the lower of fully allocated costs or prevailing market

¹⁶ Namely, that they are consistent with the arm's length principle; are simple, practical and robust, permitting clear interpretation by Distributors, auditors, and the Tribunal; and are based on a commonly accepted methodology.

¹⁷ The National Association of Regulatory Utility Commissioners, *Guidelines for Cost Allocation and Affiliate Transactions*, 1999.

prices. Under appropriate circumstance this price can be based on incremental cost or other price mechanisms determined by the regulator.

- The transfer of capital assets from the utility to the related entity should be at the greater of prevailing market price or net book value. For a transfer from a related entity to a regulated business, this price should be at lower of prevailing market price or net book value.

Codes issued in Canada¹⁸ require that:

- If a regulated business provides a service, resource or product to a related entity, this shall be at a sale price that is no less than the fair market value of the service or product.
- If a related business provides a service or product to the utility, the utility should not pay more than the fair market value.
- If a fair market value is not available, the utility should charge no less than a cost based price for its product and services, and pay no more than a cost based price for product and services from the related business. A cost based price should reflect the costs of producing the service or product including a return on invested capital. The return should be the higher of the utilities approved rate of return or the bank prime rate.
- A utility should not sell assets to a related business at a price less than the book value.
- A utility may provide loans or guarantee indebtedness, but shall not invest or provide guarantees of other financial support if the total support to the related business on an aggregated basis is greater than 25 per cent of the utilities total equity. These loans should not be on any more favourable terms than what a related business would be able to get on the capital markets.
- The general method for charging indirect costs should be on a fully allocated cost basis. All direct and allocated costs between regulated and non-regulated business should be traceable to the accounting records.
- Each utility should maintain a cost allocation document that is available for Board review.
- To the maximum extent possible, costs should be allocated on a direct basis.
- A primary cost driver should be used to allocate the cost between the regulated and non-regulated lines of business.
- The method used for the allocation of costs should be determined and reviewed on a regular basis.

¹⁸ Ontario Energy Board, *Affiliate Relationships Code for Electricity Distributors and Transmitters*, effective 1/1/2000; *Affiliate Relationships Code for Gas Utilities*, effective 31/7/1999; and *Accounting Procedures Handbook*, issued 1/4/1999 and revised 1/2/01.

The Office of Water Services in the United Kingdom (OFWAT)¹⁹ requires that:

- transfer prices are to be based on market prices or less, and where there are no market prices they are to be based on costs
- market prices should be determined by market testing at least every three years (unless circumstances change drastically)
- the market testing process should be conducted in a fair, open and transparent manner. The market test should be a real market test and the work should be awarded to the tender that is the most economically advantageous
- if the related business gains a substantial proportion of its turnover from the regulated utility, the price the related business charges should include a discount to reflect:
 - inherent long term guarantee of the work
 - lower marketing and sales costs
 - lower commercial risk
 - lower bad debt risk
- if no market exists for the service or product it should be based on cost, following OFWAT's cost allocation guidelines
- if there is a market for the good, and the regulated utility does not choose to test the market for that good, the transfer price should be at cost
- if the regulated entity transacts with a related business but does not test the market then the transfer price will not be regarded as arm's length.

OFWAT rejected comparison of the prices to published list prices, third-party evaluation and benchmarking as they involve a large amount of subjectivity. It decided that competitive tendering was the only method that objectively states and preserves the competitive market. In times where competitive tendering is impractical, comparison to published list prices, third party evaluation and benchmarking can be used to demonstrate arm's length dealings.

Costs should be allocated in relation to the way that resources are consumed. Utilities should have policies and procedures for a clear cost allocation methodology. Allocation of indirect costs should be achieved by:

- identifying the activities that comprise a particular service and what drives the level of activity
- determining the relationship between activities and resources consumed
- costing the activities by costing the resources consumed
- pooling costs that cannot be related and allocating them on a subjective basis.

¹⁹ OFWAT, *Transfer Pricing in the Water Industry, Regulatory Accounting Guideline 5.03*, issued in April 1997 and revised in March 2000.

APPENDIX 4 COMPETITIVE TENDERING

Competitive tendering has been proposed as a means of ascertaining the market price for a transaction with a Related Party, as it should result in direct competition between service providers to improve service delivery outcomes.

The resulting prices would have greater credibility if a Distributor can establish that the competitive tendering process has been conducted in accordance with the following principles, which are based on reports and guidelines prepared by the New South Wales Government, the Productivity Commission and the Independent Commission Against Corruption.²⁰ The effective design and management of each of the elements set out below is important if the potential benefits of competitive tendering are to be realised.

Service specifications

The service specifications are the primary source of information for bidders. To ensure the service meets the expectations of the various stakeholders:

- the expected service outcomes should be clearly specified
- program and policy objectives should be explicit and related to the desired outcomes
- the purchaser should develop and demonstrate a systematic approach to considering client views, as well as those of service providers
- performance and non-performance events and criteria should be clear and objectively observable.

The specification of service requirements could be achieved by documenting required process characteristics (input related) or desired performance attributes (output focussed).

In general, it is better to outline desired outcomes or performance levels and allow providers to outline how these desired results could be best achieved. This approach allows providers to consider alternative processes and approaches and supports innovation in service delivery.

Contract size

The tender process should include consideration of the benefits and disadvantages of broadly based and more specific contracts. The reasons for the decision should be documented.

Broadly based contracts that group the delivery of a number of services into one contract give bidders the potential to offer innovative solutions regarding the integration of related or complementary services. This approach also provides greater scope for achievement of the benefits of large-scale operations and allows opportunities for collaboration in meeting service requirements to be considered.

²⁰ New South Wales Council on the Cost and Quality of Government, *Service Competition Guidelines*, Chapter 3: How to Undertake Competitive Tendering, January 1999, available at www.occg.nsw.gov.au; Productivity Commission, *Competitive Tendering and Contracting by Public Sector Agencies*, January 1996, available at www.pc.gov.au; and Independent Commission Against Corruption, *Probity Auditing: When, Why and How*, December 1996, available from www.icac.nsw.gov.au.

On the other hand, a broad-based approach would reduce competition if it locked out smaller specialised providers from the process. Similarly, the purchasing process may need to allow for consortia bids that allow suppliers to offer specialised services using expertise across a range of contractors. Cooperative solutions would be a natural extension of current articulation and infrastructure sharing arrangements and may provide opportunities for considerable cost savings.

Contract scope

In developing tenders, the implications of the spatial distribution of suppliers for the scope of the contract need to be addressed. Tenders should be organised on a geographical or zonal basis with the aim of promoting economies in the supply as well as the distribution of services.

Contract scope should recognise the need for genuine rivalry between suppliers, an absence of collusion between bidders and the attributes of the good or service. Where there are a small number of potential bidders (particularly in rural and regional areas and where the nature of the services is specialised) a tendering process may not be sufficiently competitive and may result in the tendering organisation being quoted inflated prices or inferior service levels.

Collusion between bidders can significantly undermine the benefits associated with competitive tendering. This is compounded where there are an insufficient number of potential bidders.

Contract length

The tender process should consider the benefits and disadvantages of short-term and long-term contracts. The reasons for decisions in relation to contract length should be documented. In any event, a contract should be re-tendered no less frequently than every five years.

Short contracts with regular re-tendering provide opportunities to revisit service specifications, ensure flexibility in responding to changing needs and resources, and provide opportunities for new providers to emerge. They may also carry less risk of inadequate performance, particularly in service areas where it is difficult to monitor quality.

Longer-term contracts give providers greater opportunities to invest in developing staff, processes and physical facilities. They also provide greater certainty. These features of longer-term contracts may provide stronger incentives for improvements in service quality and effectiveness and/or reductions in service costs.

Form of the tender process

Before commencing the tender process, the benefits and disadvantages of a single-stage or multi-stage tender process should be considered and reasons for the decision in relation to the form of the tender process should be documented.

In a single stage process, bidders address the full range of selection criteria and conditions specified in the tender. This maximises the number of potential participants but can impose significant cost burdens on bidders and the contractor.

A multi-stage tender process enables short listing of bidders through an initial expression of interest. This allows the purchaser to undertake a preliminary evaluation of the bids with a view to inviting a smaller number of bidders to prepare a full tender. This approach has the advantage of leaving the purchaser with a more manageable number of tenders to evaluate. In addition, bidders with limited prospects of ultimate success are spared the cost of preparing a full tender.

Evaluating proposals

The relevant evaluation criteria and associated ranking or weighting system should be included in the tender documentation to assist bidders in preparing their tenders and enhance the objectivity of the tender decision.

The process of evaluating proposals must be objective, and probity maintained. Evaluation must be based on the pre-determined criteria. Factors to consider include:

- Evaluation Team—the team should consist of people experienced in tender evaluation, with skills relevant to the area of the tendered service. At least one member of the team should be from outside the contracting organisation. No member of the team should be part of an in-house bid, or have had any part in developing the in-house bid where one exists. The team should have access to expert opinion on technical, legal and financial matters where required. Any conflicts of interest must be disclosed at the commencement of the process.
- Evaluation Criteria—whether a tender exactly meets the requirements set out in the original specification and the acceptability of any contractual qualifications or variations must be assessed and documented, especially where variations relate to delivery or quality.

Comparison of costs

The evaluation should identify all relevant costs of bids and convert these to net present values. Costs include:

- initial (once off) costs
- on-going cost of providing the service
- monitoring and contract administration costs to the purchaser
- transition costs (where relevant) such as retraining staff or redundancies
- the costs of any losses of scale within the purchaser's organisation
- change over costs at the expiry of the contract
- net avoidable costs (those that would be avoided if performance of the activity was transferred to an external party).

Particular attention is needed when comparing the costs of in-house and external bids.

Probity auditor

An independent probity auditor must be appointed to:

- act as an independent observer and comment on all relevant processes from beginning to end, including briefing sessions with potential bidders, evaluation committee meetings, key working committee sessions (including all meetings of the tender evaluation team) and direct negotiations with bidders
- scrutinise the process to determine whether relevant guidelines and appropriate policies are being followed, and that best practice has been followed
- ensure the process has been impartial with no party being given advantage over another
- provide information to interested parties on the probity of the process
- ensure all relevant parties are aware of their responsibilities to disclose conflicts of interest
- review and assess all relevant documentation to ensure accountability
- monitor procedures used by the purchaser to protect confidential information
- identify whether the process has been applied consistently according to the pre-established evaluation model
- conduct a risk assessment and identify possible probity issues that may arise before the process commences
- provide advice to the contracting organisation and interested parties on how emerging issues can be resolved or managed
- observe and document the process followed and document and report any probity issues that may arise
- liaise with the Tribunal or other agencies if appropriate
- submit reports to management based on predetermined contract milestones, or as requested
- prepare a signed, written final report describing the contracting organisation's performance when conducting the process (that is to be made available to the Tribunal)
- ensure in-house bids are conducted in accordance with the principles set out in this Appendix.

Performance monitoring processes

The competitive tendering mechanism should incorporate performance indicators against which to assess outcomes and the ongoing performance of the successful bidder (service provider). An incentive framework to encourage service providers to improve their performance should be a part of the successful bid.

Performance monitoring is an important element of any purchase-provider arrangement and should be closely linked to the agreed service specifications. At the same time, the performance monitoring process needs to be well focussed to ensure that providers are not burdened with unnecessary costs.

Competitive tendering arrangements should also incorporate an incentive framework to reward good performance and penalise poor performance. Examples of potential rewards and sanctions include increasing or decreasing the rigours of performance monitoring, providing bonus payments or applying penalties, allowing providers to retain a portion of any cost savings they realise, and expanding or reducing the value of future contracts.

Where an in-house bid is successful (and a Related Party becomes the service provider) conditions of the contract should not be able to be altered during the term of the agreement, to prevent the upward negotiation of prices or downward negotiation of service levels. Appropriate sanctions such as penalties or termination of contract should be applied to ensure compliance.

In-house bidding

In-house bidding is bidding by a Related Party, as defined in the Accounting Separation Code of Practice. In-house bids would only be permitted where special arrangements are made to ring fence the in-house team from the service standard specifiers and evaluators of the bid process, and where all costs of the bid are included in the in-house bidder's costs.

The advantage of in-house bidding is that it allows access to a wider range of potential bidders and, where those bidders are current suppliers, knowledge of the contracting organisation's needs exists.

The disadvantages revolve around a perception that where in-house bids are allowed, external bidders would be treated unequally and unfairly, so that external firms may be less likely to bid and consequently the pool of competitive tenderers would be reduced. To compensate for this, an in-house bidder must be seen to (and in fact):

- have no access to internal information
- have no ability to influence the service specifications in such a way as to benefit themselves
- have no access to the people who evaluate the bids
- include all costs associated with its bid, and overhead and indirect, allowing accurate comparisons between the in-house and external bids.

The introduction of an effective form of organisation separation is central to the maintenance of confidence in the in-house bids. This will be achieved by:

- separating the in-house team from all aspects of service regulation and specification, tender evaluation and contract management
- giving the in-house bidder and the contracting business separate commercial autonomy
- ensuring the relationship between the in-house bidder and the contracting business is transparent.

The independent probity auditor must ensure that these conditions are met. Any additional cost should be borne by the bidder, not by the contracting organisation, and should be included in the bidder's costs.

APPENDIX 5 FUNCTIONAL ANALYSIS USED IN ASSESSING COMPARABLE TRANSACTIONS

To determine which transfer pricing methodology is most appropriate, the regulated business will need to perform a functional analysis that identifies the functions performed and risks assumed by the regulated businesses and its related parties. This functional analysis helps to identify potentially comparable transactions and to determine the appropriate transfer pricing methodology to use. The following table provides examples of some of the questions and the level of detail that would be used in performing a functional analysis. This is not a comprehensive list and would need to be expanded for use by each Distributor.

Description of Function	Function performed by		
	Regulated Business	Related Party (1)	Related Party (2)
PRODUCTS Marketing Develops general group marketing strategy Develops marketing strategy for the regulated business Develops marketing strategy for related parties Performs market research and provides new services Controls/co-ordinates marketing activities in regulated business			
Product Strategy Develops promotional activities Trains sales force and develops training materials Co-ordinates marketing strategy implementation Identifies needs for service modifications Introduces new services to market place in regulated business			
Advertising Plans advertisements Determines media to use Plans promotional materials			
Sales Establishes pricing policy for all products Sells products to end users Sells products to retailers Sells products to wholesalers Determines sales personnel needs Sets sales personnel remuneration Determines sales price to third party customers Has direct customer contact Completes tender costings/supply contracts Monitoring and provision of feedback on market acceptance and customer satisfaction			
Intangibles Owns trade names Owns trademarks Owns patents Owns technical know how Owns confidential information Owns distributor network (customer lists) Holds licence for distribution rights Pays for Research and development (R&D) Owns developments from R&D			

Independent Pricing and Regulatory Tribunal

Description of Function	Function performed by		
	Regulated Business	Related Party (1)	Related Party (2)
Purchasing activities Determines/negotiates prices of goods Negotiates the pricing of goods with third party vendors Determines quantities and orders the goods Performs purchasing analysis			
Distribution Maintains distribution network			
After sale activities Handles customer complaints Handles billing and collections Provide technical support to customers			
FINANCIAL RISKS After sales risks Credit risks of customers Handles customer complaints			
Other Risks Financing of capital expenditure Losses incurred if licence cancelled Property and casualty losses exceeding insurance coverage			
GENERAL AND ADMINISTRATION Financial Prepares Financial Statements Identifies financial needs and develops regulated business budget Performs regulated business cash management function Provides loan guarantees Provides finance as a lender			
Accounting system Develops systems and software Owns software Maintains accounting records Performs tax planning and administration Makes collections and payments			
Legal responsibilities Negotiates contracts with large purchases Handles government regulatory matters Prepares and examines local contracts Defends challenges to intangible assets			
Pricing Determines pricing to major customers Establishes credit terms for sales to unrelated parties Prepares sales documentation for large purchaser consideration			
Insurance Purchases property & casualty insurance Purchases credit risk insurance			
Property Plant and equipment Owns system assets Owns land and office buildings Owns non system assets			
Management Develops business plans for regulated business Carries out day to day management of regulated business Provides senior management training Trains regulated business staff			

APPENDIX 6 PRO FORMA REGULATORY FINANCIAL STATEMENTS

Hard copy of the excel workbook

Appendix 6 Accounting Separation Code of Practice - Pro forma Regulatory Financial Statements

Distributor NSW

Date

Information for financial year ending 2002 (enter year only)

Audited Regulatory Financial Statements, Independent Audit Report and Director's Responsibility Statement to be received by 31 October 2002

Check list

- A) Please complete all compulsory tables. Any incomplete or missing data should be accompanied by explanatory notes or comments. We may request alternative information if data is incomplete or missing from this spreadsheet.
- B) Please do not enter text into coloured areas of tables unless specifically requested to do so. If information is not available, leave cells blank. Text may be entered in the "Comments to the Tribunal" column.
- C) If there are "error" messages in the control edit boxes, please provide explanations.
- D) Please ensure that the calculated values shown in purple have been checked and verified.
- E) Please note that data for the Regulated Retail sector must be entered separately for the periods July - December 2000 and January - June 2001 (Section 13)
- F) Please DO NOT add or delete rows or columns in any of sheets 1 - 9. The Export screens (to be added later by IPART) use "look up" functions and may not work correctly if rows and columns have been added or deleted.
- G) Please attach:
 - Director's Responsibility Statement
 - Independent Audit Report
- H) If you have any queries, please contact
Patrick Lam (02 9290 8448 or patrick_lam@ipart.nsw.gov.au) or
Bee Thompson (02 9290 8496 or bee_thompson@ipart.nsw.gov.au) or
Michael Seery (02 9290 8421 or michael_seery@ipart.nsw.gov.au)

Colour coding of input sheets:

Light blue = Input cells recording actual historical data. Information is compulsory.

Yellow = Projections. Information is compulsory.

Green = Voluntary inputs (actual and/or projections). Information to be provided if possible.

Grey - Not applicable. No information required

Purple type indicates figures that are calculated as residuals, and need to be checked

Dark blue = EDIT CHECK boxes. No information required.

Pink type = spreadsheet calculation checks

Text on bright yellow background - Transmission information relevant to Energy Australia only

Leave coloured cells blank if no information exists - PLEASE DO NOT ENTER TEXT unless specifically requested to do so.

Text may be entered in the "Comments to the Tribunal" column

Appendix 6 Accounting Separation Code of Practice - Pro forma Regulatory Financial Statements

Index of Tables

Section 1 - Profit and Loss Statements

Table 1.1 Regulated Retail Business Profit and Loss Statement (nominal \$'000)	1-P&L
Table 1.2 Regulated Network Business Profit and Loss Statement (nominal \$'000)	1-P&L
Table 1.3 Unregulated Business Profit and Loss Statement (nominal \$'000)	1-P&L
Table 1.4 Combined Businesses Profit and Loss Statement (nominal \$'000)	1-P&L
Table 1.5 Consolidated Business Statutory Profit and Loss Statement (nominal \$'000)	1-P&L
Table 1.6 Reconciliation between Combined Businesses and Consolidated Profit and Loss Statement (nominal \$'000)	1-P&L

Tab name

Section 2 - Balance Sheets

Table 2.1 Regulated Retail Business Balance Sheet (nominal \$'000)	2-Bal Sheet
Table 2.2 Regulated Network Business Balance Sheet (nominal \$'000)	2-Bal Sheet
Table 2.3 Unregulated Business Balance Sheet (nominal \$'000)	2-Bal Sheet
Table 2.4 Combined Businesses Balance Sheet (nominal \$'000)	2-Bal Sheet
Table 2.5 Statutory Balance Sheet of the Consolidated Business (nominal \$'000)	2-Bal Sheet
Table 2.6 Reconciliation between Combined Businesses and Consolidated Statutory Balance Sheets - (nominal \$'000)	2-Bal Sheet
Table 2.10 Reserves	2-Bal Sheet

Section 3 - Non Financial Data

Table 3.1 Regulated Retail Business Customer Numbers and MWh sales	3-Nonfin
Table 3.2 Regulated Network Business Customer Numbers and MWh sales	3-Nonfin
Table 3.3 Inflation forecast used by Distributor in nominal calculations	3-Nonfin

Section 4 - Revenue Data

Table 4.1 Revenue accrued/allocated to Regulated Retail Business (nominal \$'000)	4-Rev
Table 4.2 NUOS revenue by customer type (excluding GST & EDL, including estimated unread meter sales)	4-Rev
Table 4.3 Revenue accruing/allocated to Regulated Network Business (nominal \$'000)	4-Rev

Section 5 - Operating Expenditure

Table 5.1 Operating Expenditure of Regulated Retail Business - (nominal \$'000)	5-Opex
Table 5.2 Operating Expenditure of Regulated Network Business (nominal \$'000)	5-Opex

FINAL FOR 2000/01 FINANCIAL YEAR

Section 6 - Capital Expenditure, Capital Contributions and Asset Disposals

Table 6.1	Capital Expenditure of Regulated Network Business and Regulated Retail Business by purpose (nominal \$'000)	6-Capex
Table 6.2	Regulated Retail Business Capital Expenditure by asset category (nominal \$'000)	6-Capex
Table 6.3	Regulated Network Business Capital Expenditure by asset category (nominal \$'000)	6-Capex
Table 6.4	Check Regulated Network Business Capital Expenditure against Worley review	6-Capex
Table 6.5	Cash Capital Contributions by asset category (nominal \$'000)	6-Capex
Table 6.6	Book value of Regulated Network Business disposals by asset category (nominal \$'000)	6-Capex
Table 6.7	Regulatory value of Regulated Network Business disposals by asset category (nominal \$'000)	6-Capex

Section 7(a) - Fixed Assets and Depreciation - Book Values

Table 7.1	End of year Accounting (Book) Value of Regulated Retail Business and Regulated Network Business Assets (nominal \$'000)	7a-book PPE
Table 7.2	Accounting Depreciation of Regulated Retail Business and Regulated Network Business Assets (nominal \$'000)	7a-book PPE
Table 7.3	Written down value of accumulated Contributed Assets (nominal \$'000)	7a-book PPE

Section 7(b) - Fixed Assets and Depreciation - Tax Values

Table 7.4	End of year Tax Value of Regulated Network Business Assets acquired before 1 July 2000 (nominal \$'000)	7b-tax PPE
Table 7.5	End of year Tax Value of Regulated Network Business Assets acquired after 1 July 2000 (nominal \$'000)	7b-tax PPE
Table 7.6	Tax Depreciation of Regulated Network Business Assets acquired before 1 July 2000 (nominal \$'000)	7b-tax PPE
Table 7.7	Tax Depreciation of Regulated Network Business Assets acquired after 1 July 2000 (nominal \$'000)	7b-tax PPE

Section 7(c) - Fixed Assets and Depreciation - Regulatory values of Regulated Network Assets

Table 7.8	End of year Regulatory Value of Regulated Network Business Assets calculated by Distributor (nominal \$'000)	7c-RAB
-----------	--	--------

Section 8 - Interest Rates and Borrowings

Table 8.1	Interest Rates and Borrowings (nominal \$'000)	8-Loans
-----------	--	---------

Section 9 - Regulated Network Business Overs and Unders Account

Table 9.1	Determination of the Annual Aggregate Revenue Requirement of the Regulated Network Business (nominal \$'000)	9-O&U
Table 9.2	Calculation of the Over/(Under) recovery of Regulated Network Business Revenue (nominal \$'000)	9-O&U

Section 10 - Bases Used For Allocating Operating Costs Across the Regulated Network Business, Regulated Retail Business and Unregulated Business

10-Cost Alloc

Section 11 - Related Party Transactions

Table 11.1	Capital Expenditure	11-Rel Party
Table 11.2	Profit and Loss Charges	11-Rel Party

Section 12 - Other Information and Analysis (blank sheet)

12-Other

Section 13 - Regulated Retail Non-financial, Revenue and Cost Data for 2001

Special Table 3.1	Regulated Retail Business Customer Numbers and MWh sales in 2001	13- Retail 2001
Special Table 4.1	Revenue accrued/allocated to Regulated Retail Business (nominal \$'000) in 2001	13- Retail 2001
Special Table 5.1	Operating Expenditure of Regulated Retail Business - (nominal \$'000) in 2001	13- Retail 2001

Appendix 6 Accounting Separation Code of Practice - Pro forma Regulatory Financial Statements

Distributor

NSW

Section 1 - Profit and Loss Statements

Colour coding of input sheets:
Light blue = Input cells recording actual historical data. Information is compulsory.
Yellow = Projections. Information is compulsory.
Green = Voluntary inputs (actual and/or projections). Information to be provided if possible.
Grey - Not applicable. No information required
Purple type indicates figures that are calculated as residuals, and need to be checked
Dark blue = EDIT CHECK boxes. No information required.
Pink type = spreadsheet calculation checks
Text on bright yellow background - Transmission information relevant to Energy Australia only

Leave coloured cells blank if no information exists - PLEASE DO NOT ENTER TEXT unless specifically requested to do so.
Text may be entered in the "Comments to the Tribunal" column

FINAL FOR 2000/01 FINANCIAL YEAR

Financial year ending			2002	2002
Unit			Actual	Comments to the Tribunal
Table 1.1 Regulated Retail Business Profit and Loss Statement (nominal \$'000)				
- Sales of electricity	I	\$'000		
- Government funding (transitional/grants)	I	\$'000		
- Miscellaneous charges	I	\$'000		
- Profit/(-loss) on the sale of assets	I	\$'000		
- Other revenue	I	\$'000		
Total revenue	C	\$'000	-	
- Purchases of electricity (at <u>Regulated price</u>)	I	\$'000		
- Line costs (NUOS)	I	\$'000		
- NEM fees (including ancillary charges)	I	\$'000		
- Operating and maintenance expenses	I	\$'000		
Total cost before depreciation	C	\$'000	-	
Earnings before interest, tax, depreciation (EBITDA)	C	\$'000	-	
Depreciation	I	\$'000		
Earning before interest and tax (EBIT)	C	\$'000	-	
Interest/investment income	I	\$'000		
Interest expenses	I	\$'000		
Operating profit	C	\$'000	-	
Net CSO income (-expense)				
Profit before tax	C	\$'000	-	
Tax (notional allocation)	I	\$'000		
Profit after tax	C	\$'000	-	
Outside equity interest	I	\$'000		
Profit attributable to shareholders	C	\$'000	-	
Retained profits at beginning of year	I	\$'000		
Adjustments/Transfers	C	\$'000		
Total available for appropriation	C	\$'000	-	
Dividends (notional allocation)	I	\$'000		
Retained profit at the end of year	C	\$'000	-	

FINAL FOR 2000/01 FINANCIAL YEAR

Financial year ending			2002	2002
Unit			Actual	Comments to the Tribunal
Table 1.2 Regulated Network Business Profit and Loss Statement (nominal \$'000)				
- Use of system charges (including EDL, before IDTs)	I	\$'000		
- Inter-distributor transfer receipts (IDTs)	I	\$'000		
- Street lighting use of system charges	I	\$'000		
- Government funding (transitional/grants)	I	\$'000		
- Miscellaneous charges	I	\$'000		
- Monopoly fees	I	\$'000		
- Profit/(-loss) on the sale of assets	I	\$'000		
- Other revenue	I	\$'000		
Total revenue	C	\$'000	-	
- Line cost- TUOS	I	\$'000		
- Inter-distributor transfer payments (IDTs)	I	\$'000		
- Electricity distribution levy (EDL)	C	\$'000		
- Distribution O&M expenses	I	\$'000		
- Transmission O&M expenses (EA only)	I	\$'000		
Total cost before depreciation	C	\$'000	-	
Earnings before interest, tax, depreciation (EBITDA)	C	\$'000	-	
Distribution Depreciation	I	\$'000		
Transmission Depreciation (EA only)	I	\$'000		
Earning before interest and tax (EBIT)	C	\$'000	-	
Interest/investment income	I	\$'000		
Interest expenses	I	\$'000		
Operating profit	C	\$'000	-	
Capital contributions	I	\$'000		
Net CSO income (-expense)	I	\$'000		
Profit before tax	C	\$'000	-	
Tax (notional allocation)	I	\$'000		
Profit after tax	C	\$'000	-	
Outside equity interest	I	\$'000		
Profit attributable to shareholders	C	\$'000	-	
Retained profits at beginning of year	C	\$'000		
Adjustments/Transfers	I	\$'000		
Total available for appropriation	C	\$'000	-	
Dividends (notional allocation)	I	\$'000		
Retained profit at the end of year	C	\$'000	-	

FINAL FOR 2000/01 FINANCIAL YEAR

	Financial year ending	2002	2002
	Unit	Actual	Comments to the Tribunal
Table 1.3 Unregulated Business Profit and Loss Statement (nominal \$'000)			
- Sales of electricity	I	\$'000	
- Miscellaneous charges	I	\$'000	
- Monopoly fees		\$'000	
- Profit/(-loss) on the sale of assets	I	\$'000	
- Other revenue	I	\$'000	
Total revenue	C	\$'000	-
- Purchases of electricity (at Regulated price)	I	\$'000	
- Line costs (NUOS)	I	\$'000	
- NEM fees (including ancillary charges)	I	\$'000	
- Operating and maintenance expenses	I	\$'000	
Total cost before depreciation	C	\$'000	-
Earnings before interest, tax, depreciation (EBITDA)	C	\$'000	-
Depreciation	I		
Earning before interest and tax (EBIT)	C	\$'000	-
Interest/investment income	I	\$'000	
Interest expenses	I	\$'000	
Operating profit	C	\$'000	-
Capital contributions	I	\$'000	
Net CSO income (-expense)	I	\$'000	
Profit before tax	C	\$'000	-
Tax (notional allocation)	I	\$'000	
Profit after tax	C	\$'000	-
Outside equity interest	I	\$'000	
Profit attributable to shareholders	C	\$'000	-
Retained profits at beginning of year	I	\$'000	
Adjustments/Transfers	I	\$'000	
Total available for appropriation	C	\$'000	-
Dividends (notional allocation)	I	\$'000	
Retained profit at the end of year	C	\$'000	-

FINAL FOR 2000/01 FINANCIAL YEAR

	Financial year ending	2002	2002
	Unit	Actual	Comments to the Tribunal
Table 1.4 Combined Businesses Profit and Loss Statement (nominal \$'000)			
THE VALUES SHOWN IN THIS TABLE ARE CALCULATED AND MUST BE CHECKED AGAINST ACTUAL VALUES BY THE DISTRIBUTOR			
- Sales of electricity	C	\$'000	-
- Use of system charges (including EDL, before IDTs)	C	\$'000	-
- Inter-distributor transfer receipts (IDTs)	C	\$'000	-
- Street lighting use of system charges	C	\$'000	-
- Government funding (transitional/grants)	C	\$'000	-
- Miscellaneous charges	C	\$'000	-
- Monopoly fees	C	\$'000	-
- Profit/(-loss) on the sale of assets	C	\$'000	-
- Other revenue	C	\$'000	-
Total revenue	C	\$'000	-
- Purchases of electricity (at Regulated price)	C	\$'000	-
- Line costs (NUOS)	C	\$'000	-
- Line cost- TUOS	C	\$'000	-
- NEM fees (including ancillary charges)	C	\$'000	-
- Inter-distributor transfer payments (IDTs)	C	\$'000	-
- Electricity distribution levy (EDL)	C	\$'000	-
- Operating and maintenance expenses	C	\$'000	-
Total cost before depreciation	C	\$'000	-
Earnings before interest, tax, depreciation (EBITDA)	C	\$'000	-
Depreciation	C	\$'000	-
Earning before interest and tax (EBIT)	C	\$'000	-
Interest/investment income	C	\$'000	-
Interest expenses	C	\$'000	-
Operating profit	C	\$'000	-
Capital contributions	C	\$'000	-
Net CSO income (-expense)	C	\$'000	-
Abnormal items - (specify)	C	\$'000	-
Profit before tax	C	\$'000	-
Tax	C	\$'000	-
Profit after tax	C	\$'000	-
Outside equity interest	C	\$'000	-
Profit attributable to shareholders	C	\$'000	-
Retained profits at beginning of year	C	\$'000	-
Adjustments/Transfers	C	\$'000	-
Total available for appropriation	C	\$'000	-

FINAL FOR 2000/01 FINANCIAL YEAR

	Financial year ending	Unit	2002 Actual	2002 Comments to the Tribunal
Dividends	C	\$'000	-	
Retained profit at the end of year	C	\$'000	-	
Figures checked against actual?	I	yes/no		

FINAL FOR 2000/01 FINANCIAL YEAR

Financial year ending	2002	2002
Unit	Actual	Comments to the Tribunal

Table 1.5 Consolidated Business Statutory Profit and Loss Statement (nominal \$'000)

- Sales of electricity	I	\$'000	
- Use of system charges (including EDL, before IDTs)	I	\$'000	
- Inter-distributor transfer receipts (IDTs)	I	\$'000	
- Street lighting use of system charges	I	\$'000	
- Government funding (transitional/grants)	I	\$'000	
- Miscellaneous charges	I	\$'000	
- Monopoly fees	I	\$'000	
- Profit/(-loss) on the sale of assets	I	\$'000	
- Other revenue	I	\$'000	
Total revenue	C	\$'000	-
- Purchases of electricity (at Regulated price)	I	\$'000	
- Line costs (NUOS)	I	\$'000	
- Line cost- TUOS	I	\$'000	
- NEM fees (including ancillary charges)	I	\$'000	
- Inter-distributor transfer payments (IDTs)	I	\$'000	
- Electricity distribution levy (EDL)	I	\$'000	
- Operating and maintenance expenses	I	\$'000	
Total cost before depreciation	C	\$'000	-
Earnings before interest, tax, depreciation (EBITDA)	C	\$'000	-
Depreciation	I		
Earning before interest and tax (EBIT)	C	\$'000	-
Interest/investment income	I	\$'000	
Interest expenses	I	\$'000	
Operating profit	C	\$'000	-
Capital contributions	I	\$'000	
Net CSO income (-expense)	I	\$'000	
Profit before tax	C	\$'000	-
Tax	I	\$'000	
Profit after tax	C	\$'000	-
Outside equity interest	I	\$'000	
Profit attributable to shareholders	C	\$'000	-
Retained profits at beginning of year	C	\$'000	
Adjustments/Transfers	I	\$'000	
Total available for appropriation	C	\$'000	-

FINAL FOR 2000/01 FINANCIAL YEAR

	Financial year ending	2002	2002
	Unit	Actual	Comments to the Tribunal
Dividends	I \$'000		
Retained profit at the end of year	C \$'000	-	

FINAL FOR 2000/01 FINANCIAL YEAR

Financial year ending Unit	2002 Actual	2002 Comments to the Tribunal
-------------------------------	----------------	----------------------------------

Table 1.6 Reconciliation between Combined Businesses and Consolidated Profit and Loss Statement (nominal \$'000)

THE RECONCILIATION VALUES ARE CALCULATED AND MUST BE CHECKED AGAINST ACTUAL VALUES BY THE DISTRIBUTOR

Please provide explanations in the Comments column, and/or in section 12

- Sales of electricity	C	\$'000	-
- Use of system charges (including EDL, before IDTs)	C	\$'000	-
- Inter-distributor transfer receipts (IDTs)	C	\$'000	-
- Street lighting use of system charges	C	\$'000	-
- Government funding (transitional/grants)	C	\$'000	-
- Miscellaneous charges	C	\$'000	-
- Monopoly fees	C	\$'000	-
- Profit/(-loss) on the sale of assets	C	\$'000	-
- Other revenue	C	\$'000	-
Total revenue	C	\$'000	-
- Purchases of electricity (at Regulated price)	C	\$'000	-
- Line costs (NUOS)	C	\$'000	-
- Line cost- TUOS	C	\$'000	-
- NEM fees (including ancillary charges)	C	\$'000	-
- Inter-distributor transfer payments (IDTs)	C	\$'000	-
- Electricity distribution levy (EDL)	C	\$'000	-
- Operating and maintenance expenses	C	\$'000	-
Total cost before depreciation	C	\$'000	-
Earnings before interest, tax, depreciation (EBITDA)	C	\$'000	-
Depreciation	C	\$'000	-
Earning before interest and tax (EBIT)	C	\$'000	-
Interest/investment income	C	\$'000	-
Interest expenses	C	\$'000	-
Operating profit	C	\$'000	-
Capital contributions	C	\$'000	-
Net CSO income (-expense)	C	\$'000	-
Abnormal items - (specify)	C	\$'000	-
Profit before tax	C	\$'000	-
Tax	C	\$'000	-
Profit after tax	C	\$'000	-
Outside equity interest	C	\$'000	-
Profit attributable to shareholders	C	\$'000	-
Retained profits at beginning of year	C	\$'000	-
Adjustments/Transfers	C	\$'000	-

FINAL FOR 2000/01 FINANCIAL YEAR

	Financial year ending	2002	2002
	Unit	Actual	Comments to the Tribunal
Total available for appropriation	C \$'000	-	
Dividends	C \$'000	-	
Retained profit at the end of year	C \$'000	-	
Figures checked against actual?	I yes/no		

Appendix 6 Accounting Separation Code of Practice - Pro forma Regulatory Financial Statements
Distributor NSW
Section 2 - Balance Sheets

Financial year ending			2002	2002
Unit			Actual	Comments to the Tribunal
Table 2.1 Regulated Retail Business Balance Sheet (nominal \$'000)				
- Cash	I	\$'000		
- ETEF balance	I	\$'000		
- Receivables	I	\$'000		
- Accrued revenue	I	\$'000		
- Inventory	I	\$'000		
- Investments	I	\$'000		
- Prepayments	I	\$'000		
- Future income tax benefit	I	\$'000		
- Property, plant and equipment	I	\$'000		
- Other assets	I	\$'000		
Total Assets	C	\$'000	-	
- Bank overdraft	I	\$'000		
- Trade creditors	I	\$'000		
- Accruals	I	\$'000		
- Borrowings	I	\$'000		
- Customer deposits	I	\$'000		
- Provision for income tax	I	\$'000		
- Provision for deferred income tax	I	\$'000		
- Provision for dividend	I	\$'000		
- Other provisions (employee etc)	I	\$'000		
- Other liabilities	I	\$'000		
Total Liabilities	C	\$'000	-	
Net Assets	C	\$'000	-	
- Share capital	I	\$'000		
- Asset revaluation reserves	I	\$'000		
- Other reserves	I	\$'000		
- Accumulated profits/losses	I	\$'000		
- Outside equity interest	I	\$'000		
Total shareholders funds	C	\$'000	-	
Check Net assets = s/h funds	C		ok	
Accumulated profits/losses from P&L	C	\$'000	-	
% difference between P&L and Bal Sheet	%		nc	

FINAL FOR 2000/01 FINANCIAL YEAR

Financial year ending Unit	2002 Actual	2002 Comments to the Tribunal
-------------------------------	----------------	----------------------------------

Table 2.2 Regulated Network Business Balance Sheet (nominal \$'000)

- Cash	I	\$'000		
- Receivables	I	\$'000		
- Accrued revenue	I	\$'000		
- Inventory	I	\$'000		
- Investments	I	\$'000		
- Prepayments	I	\$'000		
- Future income tax benefit	I	\$'000		
- PPE - Distribution	I	\$'000		
- PPE- Transmission (EA only)	I	\$'000		
- Other assets	I	\$'000		
Total Assets	C	\$'000	-	
- Bank overdraft	I	\$'000		
- Trade creditors	I	\$'000		
- Accruals	I	\$'000		
- Borrowings	I	\$'000		
- Customer deposits	I	\$'000		
- Provision for income tax	I	\$'000		
- Provision for deferred income tax	I	\$'000		
- Provision for dividend	I	\$'000		
- Other provisions (employee etc)	I	\$'000		
- Other liabilities	I	\$'000		
Total Liabilities	C	\$'000	-	
Net Assets	C	\$'000	-	
- Share capital	I	\$'000		
- Asset revaluation reserves	I	\$'000		
- Other reserves	I	\$'000		
- Accumulated profits/losses	C	\$'000		
- Outside equity interest	I	\$'000		
Total shareholders funds	C	\$'000	-	
Check Net assets = s/h funds	C		-	ok
Accumulated profits/losses from P&L	C	\$'000	-	
% difference between P&L and Bal Sheet		%		nc

FINAL FOR 2000/01 FINANCIAL YEAR

Financial year ending		2002	2002
Unit		Actual	Comments to the Tribunal
Table 2.3 Unregulated Business Balance Sheet (nominal \$'000)			
- Cash	I	\$'000	
- Receivables	I	\$'001	
- Accrued revenue	I	\$'000	
- Inventory	I	\$'000	
- Investments	I	\$'000	
- Prepayments	I	\$'000	
- Future income tax benefit	I	\$'000	
- Property, plant and equipment	I	\$'000	
- Other assets	I	\$'000	
Total Assets	C	\$'000	-
- Bank overdraft	I	\$'000	
- Trade creditors	I	\$'000	
- Accruals	I	\$'000	
- Borrowings	I	\$'000	
- Customer deposits	I	\$'000	
- Provision for income tax	I	\$'000	
- Provision for deferred income tax	I	\$'000	
- Provision for dividend	I	\$'000	
- Other provisions (employee etc)	I	\$'000	
- Other liabilities	I	\$'000	
Total Liabilities	C	\$'000	-
Net Assets	C	\$'000	-
- Share capital	I	\$'000	
- Asset revaluation reserves	I	\$'000	
- Other reserves	I	\$'000	
- Accumulated profits/losses	C	\$'000	
- Outside equity interest	I	\$'000	
Total shareholders funds	C	\$'000	-
Check Net assets = s/h funds			ok

Financial year ending		2002	2002
Unit		Actual	Comments to the Tribunal
Table 2.4 Combined Businesses Balance Sheet (nominal \$'000)			
THESE VALUES ARE CALCULATED AND MUST BE CHECKED AGAINST ACTUAL VALUES BY THE DISTRIBUTORS			
- Cash	C \$'000	-	
- ETEF balance	C \$'000	-	
- Receivables	C \$'000	-	
- Accrued revenue	C \$'000	-	
- Inventory	C \$'000	-	
- Investments	C \$'000	-	
- Prepayments	C \$'000	-	
- Future income tax benefit	C \$'000	-	
- Property, plant and equipment	C \$'000	-	
- Other assets	C \$'000	-	
Total Assets	C \$'000	-	
- Bank overdraft	C \$'000	-	
- Trade creditors	C \$'000	-	
- Accruals	C \$'000	-	
- Borrowings	C \$'000	-	
- Customer deposits	C \$'000	-	
- Provision for income tax	C \$'000	-	
- Provision for deferred income tax	C \$'000	-	
- Provision for dividend	C \$'000	-	
- Other provisions (employee etc)	C \$'000	-	
- Other liabilities	C \$'000	-	
Total Liabilities	C \$'000	-	
Net Assets	C \$'000	-	
- Share capital	C \$'000	-	
- Asset revaluation reserves	C \$'000	-	
- Other reserves	C \$'000	-	
- Accumulated profits/losses	C \$'000	-	
- Outside equity interest	C \$'000	-	
Total shareholders funds	C \$'000	-	
Figures checked against actual?	I yes/no		

FINAL FOR 2000/01 FINANCIAL YEAR

Financial year ending			2002	2002
Unit			Actual	Comments to the Tribunal
Table 2.5 Statutory Balance Sheet of the Consolidated Business (nominal \$'000)				
- Cash	I	\$'000		
- ETEF balance	I	\$'000		
- Receivables	I	\$'000		
- Accrued revenue	I	\$'000		
- Inventory	I	\$'000		
- Investments	I	\$'000		
- Prepayments	I	\$'000		
- Future income tax benefit	I	\$'000		
- Property, plant and equipment	I	\$'000		
- Other assets	I	\$'000		
Total Assets	C	\$'000	-	
- Bank overdraft	I	\$'000		
- Trade creditors	I	\$'000		
- Accruals	I	\$'000		
- Borrowings	I	\$'000		
- Customer deposits	I	\$'000		
- Provision for income tax	I	\$'000		
- Provision for deferred income tax	I	\$'000		
- Provision for dividend	I	\$'000		
- Other provisions (employee etc)	I	\$'000		
- Other liabilities	I	\$'000		
Total Liabilities	C	\$'000	-	
Net Assets	C	\$'000	-	
- Share capital	I	\$'000		
- Asset revaluation reserves	I	\$'000		
- Other reserves	I	\$'000		
- Accumulated profits/losses	C	\$'000		
- Outside equity interest	I	\$'000		
Total shareholders funds	C	\$'000	-	
Check Net assets = s/h funds				ok
Accumulated profits/losses from P&L	C	\$'000		-
% difference between P&L and Bal Sheet	%			nc

Financial year ending Unit	2002 Actual	2002 Comments to the Tribunal
Table 2.6 Reconciliation between Combined Businesses and Consolidated Statutory Balance Sheets - (nominal \$'000)		
THE RECONCILIATION VALUES ARE CALCULATED AND MUST BE CHECKED AGAINST ACTUAL VALUES BY THE DISTRIBUTOR		
Please provide explanations in the Comments column, and/or in section 12		
- Cash	C \$'000	-
- ETEF balance	C \$'000	-
- Receivables	C \$'000	-
- Accrued revenue	C \$'000	-
- Inventory	C \$'000	-
- Investments	C \$'000	-
- Prepayments	C \$'000	-
- Future income tax benefit	C \$'000	-
- Property, plant and equipment	C \$'000	-
- Other assets	C \$'000	-
Total Assets	C \$'000	-
- Bank overdraft	C \$'000	-
- Trade creditors	C \$'000	-
- Accruals	C \$'000	-
- Borrowings	C \$'000	-
- Customer deposits	C \$'000	-
- Provision for income tax	C \$'000	-
- Provision for deferred income tax	C \$'000	-
- Provision for dividend	C \$'000	-
- Other provisions (employee etc)	C \$'000	-
- Other liabilities	C \$'000	-
Total Liabilities	C \$'000	-
Net Assets	C \$'000	-
- Share capital	C \$'000	-
- Asset revaluation reserves	C \$'000	-
- Other reserves	C \$'000	-
- Accumulated profits/losses	C \$'000	-
- Outside equity interest	C \$'000	-
Total shareholders funds	C \$'000	-
Figures checked against actual?	I yes/no	

The hidden tables below (Tables 2.7 - 2.9) are for future modelling purposes and are not required on an annual basis

FINAL FOR 2000/01 FINANCIAL YEAR

Financial year ending Unit	2002 Actual	2002 Comments to the Tribunal
Table 2.10 Reserves Transfers from/(to) accumulated profits to/(from) reserves	I \$'000	

Appendix 6 Accounting Separation Code of Practice - Pro forma Regulatory Financial Statements
Distributor NSW
Section 3 - Non Financial Data

Financial year ending 30 June		2002	2002
Input/Calculated	Unit	Actual	Comments to the Tribunal

Table 3.1 Regulated Retail Business Customer Numbers and MWh sales			
Regulated Retail Customer Base - number of customers by customer type (at year end)			
Note : The categories are defined by tariff class, not physical location - see below, row 77			
<u>Residential customers</u>			
- Residential (excluding rural residential)	I	no.	
- Rural residential	I	no.	
- Controlled load (excl rural controlled load)	I	no.	
- Rural controlled load	I	no.	
Total residential	C	no.	-
<u>Non-residential customers</u>			
<u>Street lighting</u>			
Regulated Retail Customer Base - MWh sales by customer type (including estimates of unread meter sales)			
<u>Residential customers</u>			
- Residential (excluding rural residential)	I	MWh	
- Rural residential	I	MWh	
- Controlled load (excl rural controlled load)	I	MWh	
- Rural controlled load	I	MWh	
Total residential	C	MWh	-
<u>Non-residential customers</u>			
<u>Street lighting</u>			
Total MWh delivered	C	MWh	-
Regulated Retail Customer Base - MWh purchases of electricity			
Electricity purchased for regulated	I	MWh	
Calculated losses	C	%	0.0%
Error check	C		ok

Financial year ending 30 June			2002	2002
Input/Calculated	Unit		Actual	Comments to the Tribunal
Table 3.2 Regulated Network Business Customer Numbers and MWh sales				
Network Customer Base - number of customers by customer type (at year end)				
<u>Residential customers</u>				
- Residential (excluding rural residential)	I	no.		
- Rural residential	I	no.		
- Controlled load	I	no.		
Total residential	C	no.	-	
<u>Non-residential customers</u>				
- Non-residential LV	I	no.		
- Non-residential HV	I	no.		
- Non-residential ST	I	no.		
<u>Street lighting</u>	I	no.		
Total number of customers	C	no.	-	
Customer Base - MWh energy delivered by customer type (including estimates of unread meter sales)				
<u>Residential customers</u>				
- Residential (excluding rural residential)	I	MWh		
- Rural residential	I	MWh		
- Controlled load	I	MWh		
Total residential	I	MWh	-	
<u>Non-residential customers</u>				
- Non-residential LV	I	MWh		
- Non-residential HV	I	MWh		
- Non-residential ST	I	MWh		
<u>Street lighting</u>	I	MWh		
Total energy delivered to customers	C	MWh	-	
<u>IDT transfers</u>	I	MWh		
Total energy delivered	C	MWh	-	
Network Maximum MW demand				
Total demand	I	MW		

Table 3.3 Inflation forecast used by Distributor in nominal calculations				
Inflation forecast	I	%		
Inflation factor	C		1.00	

these forecasts are required for future modelling purposes and are not required on an annual basis

FINAL FOR 2000/01 FINANCIAL YEAR

Financial year ending 30 June Input/Calculated Unit	2002 Actual	2002 Comments to the Tribunal
Definitions of Customer Categories		
Residential		
- <u>Residential (excluding rural residential)</u>		
This includes all customers on a residential (domestic) tariff that is not specifically rural, including standard and time-of-use tariffs.		
- <u>Rural residential</u>		
This includes customers on rural residential (domestic) tariffs (if applicable). The domestic component of rural tariffs that are not specifically residential must be included in the revenue and load data. Rural customers with a domestic component must be reported as residential customers.		
- <u>Controlled load (excl rural controlled load)</u>		
This includes all customers on a residential (domestic) controlled load tariff that is not specifically rural controlled load.		
- <u>Rural controlled load</u>		
This includes all customers on a specifically rural controlled load tariff.		
Non-residential		
- <u>Non-residential LV</u>		
This includes non-residential customers on low voltage (LV) tariffs, including standard, time-of-use and demand tariffs. This category may include income from residential customers who are on a general (i.e. not specifically residential) tariff, excluding the domestic component of rural tariffs (see Rural Residential		
- <u>Non-residential HV</u>		
This includes all income from non-residential customers on high voltage (HV) tariffs, including standard, time-of-use and demand tariffs.		
- <u>Non-residential ST</u>		
This includes all income from non-residential customers on sub-transmission tariffs.		

Appendix 6 Accounting Separation Code of Practice - Pro forma Regulatory Financial Statements
Distributor NSW
Section 4 - Revenue Data

Financial year ending 30 June		2002	2002	Comments to the Tribunal
Unit		Actual		
Table 4.1 Revenue accrued/allocated to Regulated Retail Business (nominal \$'000)				
A. Revenue from electricity sales (excluding GST, including estimated unread meter sales)				
Accrued revenue after CSO rebates and reimbursements (excluding GST, including estimated unread meter sales)				
<u>Residential customers</u>				
- Residential (excluding rural residential)	I	\$'000		
- Rural residential	I	\$'000		
- Controlled load (excl rural controlled load)	I	\$'000		
- Rural controlled load	I	\$'000		
Total residential	I	\$'000	-	
<u>Non-residential customers</u>				
<u>Street lighting</u>				
Total revenue from sales before CSO	C	\$'000	-	
CSO rebates and reimbursements				
- CSO rebates	I	\$'000		
- CSO reimbursements	I	\$'000		
Total revenue from sales after CSO	C	\$'000	-	
B. Other revenue				
- Government funding (transitional/grants)	C	\$'000	-	
- Miscellaneous charges	C	\$'000	-	
- Investment/interest income	C	\$'000	-	
- proceeds from asset disposals	I	\$'000		
- book value of assets disposed	C	\$'000	-	
- Profit/(-loss) on the sale of assets	C	\$'000	-	
- Other income (details required if > 20% "Other revenue")	C	\$'000	-	
Total other revenue	C	\$'000	-	
Total Regulated Retail Business revenue	C	\$'000	-	
Check Revenue from sales before CSO = Revenue from sales in P&L				
Sales of electricity from P&L	C	\$'000	-	
% difference	C	%	0.0%	
Explain if difference >1%	C		nc	
Explanation				

Distributor NSW
Section 4 - Revenue Data

Financial year ending 30 June	2002	2002	Comments to the Tribunal
Unit	Actual		

check network revenue =0

-

Table 4.2 NUOS revenue by customer type (excluding GST & EDL, including estimated unread meter sales)			
<u>Residential customers</u>			
- Residential (excluding rural residential)	I	\$'000	
- Rural residential	I	\$'000	
- Controlled load	I	\$'000	
<u>Non-residential customers</u>			
- Non-residential LV	I	\$'000	
- Non-residential HV	I	\$'000	
- Non-residential ST	I	\$'000	
<u>Street lighting</u>	I	\$'000	
NUOS revenue from customers	C	\$'000	-
<u>IDT receipts</u>	C	\$'000	-
Total NUOS revenue	C	\$'000	-
<u>IDT payments</u>	C	\$'000	-
Net NUOS revenue (excl GST and EDL)	C	\$'000	-
Check NUOS revenue from customers = Use of System charges (excluding EDL and IDTs) in P&L			
Use of system charges (excluding EDL, before IDTs)		\$'000	-
% difference	C	\$'000	0%
Explain if difference >1%	C		nc
Explanation			

Distributor NSW
Section 4 - Revenue Data

Financial year ending 30 June		2002	2002	Comments to the Tribunal
Unit		Actual		
Table 4.3 Revenue accruing/allocated to Regulated Network Business (nominal \$'000)				
A. Revenue regulated by the network cap				
- DUOS excluding TUOS	C	\$'000	-	
- TUOS - TransGrid	C	\$'000	-	
- TUOS - Energy Australia (EA only)	I	\$'000		
- TUOS - other entities	I	\$'000		
Total NUOS revenue	C	\$'000	-	
- Street lighting use of system charges	C	\$'000	-	
- Miscellaneous charges	C	\$'000	-	
- Monopoly fees	C	\$'000	-	
- Transitional treasury funding/other grants	C	\$'000	-	
- Other income from access to network assets	C	\$'000	-	
Total revenue regulated by network cap	C	\$'000	-	
B. Other revenue accruing/allocated to the regulated network business				
- Capital contributions (cash)	C	\$'000	-	
- Capital contributions (in-kind)	I	\$'000		
- Additional grant revenue	I	\$'000		
- Investment/interest income	C	\$'000	-	
- Proceeds from asset disposals	I	\$'000		
- Book value of assets disposed	C	\$'000	-	
- Profit/(-loss) on the sale of assets	C	\$'000	-	
- Other revenue	I	\$'000		
Total other network revenue	C	\$'000	-	
Total network revenue	C	\$'000	-	
Check growth in network revenue regulated by network cap				
Total revenue regulated by network cap	C	%	0.0%	

check network revenue =0

Appendix 6 Accounting Separation Code of Practice - Pro forma Regulatory Financial Statements
Distributor NSW
Section 5 - Operating Expenditure

Financial year ending 30 June Unit	2002 Actual	2002 Comments to the Tribunal
---------------------------------------	----------------	----------------------------------

Table 5.1 Operating Expenditure of Regulated Retail Business - (nominal \$'000)

Note: This breakdown of operating expenditure is similar to that used for the 1999 investigation into default retail tariffs

A. Energy and line costs

- Purchases of electricity (at Regulated price)	C	\$'000	-
- Line costs (NUOS)	C	\$'000	-
- NEM fees (including ancillary charges)	C	\$'000	-
Total energy and line costs	C	\$'000	-

B. Operating and maintenance costs

- Meter reading	I	\$'000	
- Full retail contestability costs	I	\$'000	
-advertising, marketing and promotions	I	\$'000	
- Other expenses			
-computer processing and billing	I	\$'000	
-call centre operations, customer communication/relations	I	\$'000	
-finance	I	\$'000	
-other	I	\$'000	-
Total O&M (excluding energy and line costs)	C	\$'000	-
Total retail operating expenditure	C	\$'000	-
check expenditure = 0			-

Check Regulated Retail Opex (excluding energy and line costs) against forecasts provided for the 2000 Retail Review

Total O&M previously provided	IPART	\$'000	98,244
% difference	C	%	-100%
"explain?" = explanation required, difference > 5%			explain?

Explanation:

--	--	--	--

Distributor NSW
Section 5 - Operating Expenditure

Financial year ending 30 June			2002	2002
Unit			Actual	Comments to the Tribunal
Table 5.2 Operating Expenditure of Regulated Network Business (nominal \$'000)				
Definitions of these categories are provide below - see row 80				
A. Line costs				
Total line costs (incl IDT payments)	C	\$'000	-	
B. Network operating costs				
C. Network maintenance costs				
- Inspection	I	\$'000		
- Pole replacement	I	\$'000		
- Maintenance and repair	I	\$'000		
- Vegetation Management	I	\$'000		
- Emergency Response	I	\$'000		
- Other network maintenance costs (specify any component that exceeds 10% of total operating costs)	C	\$'000	-	
- Total network maintenance costs	I	\$'000		
D. Other costs				
- Meter Reading costs	I	\$'000		
- Customer service	I	\$'000		
- Advertising, marketing and promotions	I	\$'000		
- Full Retail Contestability costs	I	\$'000		
- Other operating costs (specify any component that exceeds 10% of total operating costs)	C	\$'000	-	
- Total other costs	C	\$'000	-	
E. Energy Australia Transmission Opex (EA only)		\$'000	-	
Total O&M (excluding line costs)	C	\$'000	-	
Total network operating expenditure	C	\$'000	-	
Operating (excluding line) costs allocated as follows (see Section 10)				
Directly attributed costs	I	\$'000		
Allocated costs	C	\$'000	-	
Have calculated costs been checked?	I	yes/no		

Distributor NSW
Section 5 - Operating Expenditure

Financial year ending 30 June			2002	2002
Unit			Actual	Comments to the Tribunal
check opex = 0			-	
Check growth in network expenditure regulated by network cap				
Total operating expenditure	C	%	0%	
Check Total Network O&M forecasts against forecast used in 1999 Determination (excluding line costs)				
Total network Opex in 1999 Determination	IPART	\$'000	213,866	
% difference	C	%	-100%	
"explain?" = explanation required, difference > 5%	C		explain?	
Explanation:				

Appendix 6 Accounting Separation Code of Practice - Pro forma Regulatory Financial Statements
Distributor NSW
Section 6 - Capital Expenditure, Capital Contributions and Asset Disposals

Financial year ending			2002	2003	2004	2002	Comments to the Tribunal
Unit			Actual	Budget	Projection		
Table 6.1 Capital Expenditure of Regulated Network Business and Regulated Retail Business by purpose (nominal \$'000)							
Inflation rate assumed in capital expenditure projections							
Note: Capital expenditure must include all payments made on capital items during the year, including the value of cash capital contributions.							
A. Retail Regulated Business Capital Expenditure							
- Full retail contestability	I	\$'000					
- Other	I	\$'000					
Total Regulated Retail Capex	C	\$'000	-	-	-		
B. Regulated Network Business Capital Expenditure							
System Assets							
- Asset renewal/replacement	I	\$'000					
- Reliability enhancement	I	\$'000					
- Full retail contestability	I	\$'000					
- Growth and other improvement	I	\$'000					
- Transmission assets (EA only)	I	\$'000					
Total system Capex	C	\$'000	-	-	-		
Non-system assets							
- Full retail contestability	I	\$'000					
- Other	I	\$'000					
- Transmission assets (EA only)	I	\$'000					
Total non-system Capex	C	\$'000	-	-	-		
Total regulated network Capex	C	\$'000	-	-	-		

Table 6.2 Regulated Retail Business Capital Expenditure by asset category (nominal \$'000)							
- IT systems	I	\$'000					
- Other assets (please describe briefly)	I	\$'000					
Total retail regulated capital Expenditure	C	\$'000	-	-	-		
check - regulated retail Capex "by purpose" = "by asset category" (2% difference permitted)							
% difference	C	%	0%	0%	0%		
"explain?" = explanation required, difference > 2%	C		nc	nc	nc		
Explanation:							

Distributor NSW
Section 6 - Capital Expenditure, Capital Contributions and Asset Disposals

Financial year ending	2002	2003	2004	2002	Comments to the Tribunal
Unit	Actual	Budget	Projection		

Table 6.3 Regulated Network Business Capital Expenditure by asset category (nominal \$'000)

Notes : 1. Capital expenditure must include all payments made on capital items during the year, including the value of cash capital contributions.

2. Network asset categories are those of the GHD report

System assets

Sub-transmission lines and cables

- 132 kV Tower Lines		\$'000		
- 132 kV Concrete and Steel Pole Lines		\$'000		
- 132 kV Other Lines		\$'000		
- 132 kV Underground Cable		\$'000		
- 66 kV Concrete Pole Lines		\$'000		
- 66 kV Other Lines		\$'000		
- 33 kV Concrete and Steel Pole Lines		\$'000		
- 33 kV Other Lines		\$'000		
- 66 kV Underground Cable		\$'000		
- 33 kV Underground Cables (Gas Type)		\$'000		
- 33 kV Underground Cables (Solid Type)		\$'000		
Total Sub-transmission lines and cables		\$'000		

projections remain voluntary

Distribution lines and cables

- 22 kV Distribution Overhead Lines		\$'000		
- 11 kV Distribution Overhead Lines		\$'000		
- SWER Lines		\$'000		
- 22 kV Underground Cable		\$'000		
- 11 kV Underground Cable		\$'000		
Total Distribution lines and cables		\$'000		

Distributor NSW
Section 6 - Capital Expenditure, Capital Contributions and Asset Disposals

	Financial year ending	2002	2003	2004	2002	
	Unit	Actual	Budget	Projection		Comments to the Tribunal
<u>Substations</u>						
- Sub -Transmission Substations (132/66/33 kV Includes Building Excludes Land)	\$'000					
- Zone Substations (Includes Building, Excludes Land)	\$'000					
- Pole Substations (Excluding Transformers)	\$'000					
- Group/Kiosk/Chamber/Ground Substations (Excluding Transformers)	\$'000					
- HV Customers Subs/Tap changing/Misc Subs (including TXs)	\$'000					
- Generation Station Switchyards	\$'000					
Total Substations	\$'000					
<u>Transformers</u>						
- 132/66/33/22/11 kV Transformers	\$'000					
- Pole Transformers	\$'000					
- Group/Kiosk/Chamber/Ground Transformers	\$'000					
Total Transformers	\$'000					
<u>Low Voltage Lines and Cables</u>						
- LV Distribution Overhead Lines (Including Service	\$'000					
- LV Underground Cable	\$'000					
Total Low Voltage Lines and Cables	\$'000					
<u>Customer Metering and Load Control</u>	\$'000					
<u>Communications</u>						
- SCADA and Central Control Facilities	\$'000					
- Pilots	\$'000					
- Communication Bearer Systems (Excludes Mobile	\$'000					
Total Communications	\$'000					
<u>Land and easements</u>						
- Land	\$'000					
- Easements	\$'000					
<u>Public lighting</u>						
- Street Lighting Overhead (Including Mains)	\$'000					
- Street Lighting Underground (Including Mains)	\$'000					
Total Public lighting	\$'000					

Distributor NSW
Section 6 - Capital Expenditure, Capital Contributions and Asset Disposals

Financial year ending			2002	2003	2004	2002
Unit			Actual	Budget	Projection	Comments to the Tribunal
Other system assets	I	\$'000				
- Emergency Spares (Major Plant, Excludes Invento	I	\$'000				
- Work in Progress @ 30 June	I	\$'000				
Total Other system assets	I	\$'000				
Total system assets	C	\$'000	-	-	-	
Non-system assets						
- IT systems	I	\$'000				
- Furniture, fittings, plant and equipment	I	\$'000				
- Motor vehicles	I	\$'000				
- Buildings	I	\$'000				
- Land (non-system)	I	\$'000				
- Other non system assets (please describe briefly)	I	\$'000		-	-	
Total non-system assets	C	\$'000				
Total regulated network Capex	C	\$'000	-	-	-	
check - regulated network Capex "by purpose" = "by asset category" (2% difference permitted)						
% difference	C	%	0%	0%	0%	
"explain?" = explanation required, difference > 2%	C		nc	nc	nc	
Explanation:						

Table 6.4 Check Regulated Network Business Capital Expenditure against Worley review						
Worley Regulated Network Capital Expenditure						
projections	IPART	\$'000	163,408	189,135	206,358	
% difference	C	\$'000	-100%	-100%	-100%	
"explain?" = explanation required, difference > 5%	C		explain?	explain?	explain?	
Explanation:						

Distributor NSW
Section 6 - Capital Expenditure, Capital Contributions and Asset Disposals

Financial year ending		2002	2003	2004	2002	Comments to the Tribunal
Unit		Actual	Budget	Projection		
Table 6.5 Cash Capital Contributions by asset category (nominal \$'000)						
Note: This information is voluntary, and is used to roll forward the regulatory asset base. Distributors are urged to provide an estimated breakdown where actual information is not available, and indicate in the "Comments" column that figures are estimates only.						
IPART will make its own estimates for calculation purposes if no breakdown is provided.						
System assets						
Sub-transmission lines and cables	I	\$'000				
Distribution lines and cables	I	\$'000				
Substations	I	\$'000				
Transformers	I	\$'000				
Low Voltage Lines and Cables	I	\$'000				
Customer Metering and Load Control	I	\$'000				
Communications	I	\$'000				
- Land	I	\$'000				
- Easements	I	\$'000				
Public lighting	I	\$'000				
Other system assets	I	\$'000				
Total system capital contributions	C	\$'000	-	-	-	
- of which transmission assets (EA only)	I	\$'000				
Check: Total cash capital contributions from Section 4 = Sum of cash capital contributions entered in this table						
Total cash capital contributions from Section 4	C	\$'000	-	-	-	
Error or ok?	C	%	nc	nc	nc	

Distributor NSW
Section 6 - Capital Expenditure, Capital Contributions and Asset Disposals

Financial year ending		2002	2003	2004	2002	Comments to the Tribunal
Unit		Actual	Budget	Projection		
Table 6.6 Book value of Regulated Network Business disposals by asset category (nominal \$'000)						
Note : This information is voluntary, and may be used to roll forward the regulatory asset base (see next table).						
System assets						
Sub-transmission lines and cables	I	\$'000				
Distribution lines and cables	I	\$'000				
Substations	I	\$'000				
Transformers	I	\$'000				
Low Voltage Lines and Cables	I	\$'000				
Customer Metering and Load Control	I	\$'000				
Communications	I	\$'000				
- Land	I	\$'000				
- Easements	I	\$'000				
Public lighting	I	\$'000				
Other system assets	I	\$'000				
Total system disposals	C	\$'000	-	-	-	
- of which transmission assets (EA only)	I	\$'000				
Non-system assets						
- IT systems	I	\$'000				
- Furniture, fittings, plant and equipment	I	\$'000				
- Motor vehicles	I	\$'000				
- Buildings	I	\$'000				
- Land (non-system)	I	\$'000				
- Other non system assets (please describe briefly)	I	\$'000				
Total non-system disposals	C	\$'000	-	-	-	
- of which transmission assets (EA only)	I	\$'000				
Total disposals	C	\$'000	-	-	-	
Check Total book value of disposals from Section 4 = sum of disposals entered in this table						
Total cash capital contributions from Section 4	C	\$'000	-	-	-	
Error or ok?	C	%	nc	nc	nc	

Distributor NSW
Section 6 - Capital Expenditure, Capital Contributions and Asset Disposals

Financial year ending		2002	2003	2004	2002	Comments to the Tribunal
Unit		Actual	Budget	Projection		
Table 6.7 Regulatory value of Regulated Network Business disposals by asset category (nominal \$'000)						
Note: The regulatory value of disposals will be estimated by the Tribunal unless the Distributor provides alternative values in this table.						
The Tribunal's adjustment factor to the book value of each asset class is likely to be (regulatory value of assets)/(book value of assets)						
System assets						
Sub-transmission lines and cables	I	\$'000				
Distribution lines and cables	I	\$'000				
Substations	I	\$'000				
Transformers	I	\$'000				
Low Voltage Lines and Cables	I	\$'000				
Customer Metering and Load Control	I	\$'000				
Communications	I	\$'000				
- Land	I	\$'000				
- Easements	I	\$'000				
Public lighting	I	\$'000				
Other system assets	I	\$'000				
Total system disposals	C	\$'000	-	-	-	
- of which transmission assets (EA only)	I	\$'000				
Non-system assets						
- IT systems	I	\$'000				
- Furniture, fittings, plant and equipment	I	\$'000				
- Motor vehicles	I	\$'000				
- Buildings	I	\$'000				
- Land (non-system)	I	\$'000				
- Other non system assets (please describe briefly)	I	\$'000				
Total non-system disposals	C	\$'000	-	-	-	
- of which transmission assets (EA only)	I	\$'000				
Total network regulatory value of disposals	C	\$'000	-	-	-	

Appendix 6 Accounting Separation Code of Practice - Pro forma Regulatory Financial Statements
Distributor NSW
Section 7(a) - Fixed Assets and Depreciation - Book Values

Financial year ending		2002	2002
Unit		Actual	Comments to the Tribunal
Table 7.1 End of year Accounting (Book) Value of Regulated Retail Business and Regulated Network Business Assets (nominal \$'000)			
Is the book value indexed to inflation?	yes/no		
If "yes":			
Inflation rate used to index book value	%		
A. Regulated Retail Business			
- IT systems	I \$'000		
- Other assets (please describe briefly)	I \$'000		-
Total Retail regulated book value of assets	C \$'000		-
B. Regulated Network Business			
Note: These categories correspond those used in Table 6.3 Regulated Network Business Capital Expenditure by asset category (nominal \$'000)			
System assets			
Sub-transmission lines and cables	I \$'000		
Distribution lines and cables	I \$'000		
Substations and Transformers	I \$'000		
Low Voltage Lines and Cables	I \$'000		
Customer Metering and Load Control	I \$'000		
Communications	I \$'000		
- Land	I \$'000		
- Easements	I \$'000		
Public lighting	I \$'000		
Other system assets	I \$'000		
Total system assets	C \$'000		-
- of which transmission assets (EA only)	C \$'000		-
Non-system assets			
- IT systems	I \$'000		
- Other non system assets	C \$'000		-
Total non-system assets	C \$'000		-
- of which transmission assets (EA only)	I \$'000		
Total regulated network fixed assets	C \$'000		-
- of which transmission assets (EA only)	C \$'000		-

Financial year ending		2002	2002
Unit		Actual	Comments to the Tribunal
Table 7.2 Accounting Depreciation of Regulated Retail Business and Regulated Network Business Assets (nominal \$'000)			
Regulated Retail depreciation			
- IT systems	I	\$'000	
- Other assets	C	\$'000	-
Total regulated retail depreciation	C	\$'000	-
Regulated Network depreciation			
System assets			
Sub-transmission lines and cables	I	\$'000	
Distribution lines and cables	I	\$'000	
Substations and Transformers	I	\$'000	
Low Voltage Lines and Cables	I	\$'000	
Customer Metering and Load Control	I	\$'000	
Communications	I	\$'000	
Public lighting	I	\$'000	
Other system assets	I	\$'000	
Total depreciation of System assets	C	\$'000	-
- of which transmission assets (EA only)	C	\$'000	-
Non-system assets			
- IT systems	I	\$'000	
- Other non system assets	C	\$'000	-
Total depreciation of Non-system assets	C	\$'000	-
- of which transmission assets (EA only)	I	\$'000	
Total depreciation of Network assets	C	\$'000	-
- of which transmission assets (EA only)	C	\$'000	-
Table 7.3 Written down value of accumulated Contributed Assets (nominal \$'000)			
Book Value of Distributor's Total Accumulated Contributed Assets	I	\$000	

Appendix 6 Accounting Separation Code of Practice - Pro forma Regulatory Financial Statements
Distributor NSW
Section 7(b) - Fixed Assets and Depreciation - Tax Values

Financial year ending Unit	2002 Actual	2002 Comments to the Tribunal
-------------------------------	----------------	----------------------------------

PLEASE NOTE:.

- The tables below request that assets acquired before and after 1 July 2000 be separately recorded, due to the change in tax depreciation rules
- However, if it is not possible to provide separate information, please record the year-end tax value of all assets in Table 7.4 and the Tax depreciation of all assets in Table 7.

System assets			
Sub-transmission lines and cables	I	\$'000	
Distribution lines and cables	I	\$'000	
Substations and Transformers	I	\$'000	
Low Voltage Lines and Cables	I	\$'000	
Customer Metering and Load Control	I	\$'000	
Communications	I	\$'000	
Land	I	\$'000	
Easements	I	\$'000	
Public lighting	I	\$'000	
Other system assets	I	\$'000	
Total system assets	C	\$'000	-
- of which transmission assets (EA only)	I	\$'000	
Non-system assets			
- IT systems	I	\$'000	
- Other non system assets	I	\$'000	
Total non-system assets	C	\$'000	-
- of which transmission assets (EA only)	I	\$'000	
Total regulated network fixed assets	C	\$'000	-
- of which transmission assets (EA only)	C	\$'000	-

Table 7.5 End of year Tax Value of Regulated Network Business Assets acquired after 1 July 2000 (nominal \$'000)			
System assets			
Sub-transmission lines and cables	I	\$'000	
Distribution lines and cables	I	\$'000	
Substations and Transformers	I	\$'000	
Low Voltage Lines and Cables	I	\$'000	
Customer Metering and Load Control	I	\$'000	
Communications	I	\$'000	
Land	I	\$'000	
Easements	I	\$'000	
Public lighting	I	\$'000	
Other system assets	I	\$'000	
Total system assets	C	\$'000	-
- of which transmission assets (EA only)	I	\$'000	
Non-system assets			
- IT systems	I	\$'000	
- Other non system assets	I	\$'000	
Total non-system assets	C	\$'000	-
- of which transmission assets (EA only)	I	\$'000	
Total regulated network fixed assets	C	\$'000	-
- of which transmission assets (EA only)	C	\$'000	-

Table 7.6 Tax Depreciation of Regulated Network Business Assets acquired before 1 July 2000 (nominal \$'000)			
System assets			
Sub-transmission lines and cables	I	\$'000	
Distribution lines and cables	I	\$'000	
Substations and Transformers	I	\$'000	
Low Voltage Lines and Cables	I	\$'000	
Customer Metering and Load Control	I	\$'000	
Communications	I	\$'000	
Land	I	\$'000	
Easements	I	\$'000	
Public lighting	I	\$'000	
Other system assets	I	\$'000	
Total depreciation of System assets	C	\$'000	-
- of which transmission assets (EA only)	I	\$'000	
Non-system assets			
- IT systems	I	\$'000	
- Other non system assets	I	\$'000	
Total depreciation of Non-system assets	I	\$'000	-
- of which transmission assets (EA only)	I	\$'000	
Total depreciation of Network assets	C	\$'000	-
- of which transmission assets (EA only)	C	\$'000	-

System assets				
Sub-transmission lines and cables	I	\$'000		
Distribution lines and cables	I	\$'000		
Substations and Transformers	I	\$'000		
Low Voltage Lines and Cables	I	\$'000		
Customer Metering and Load Control	I	\$'000		
Communications	I	\$'000		
Land	I	\$'000		
Easements	I	\$'000		
Public lighting	I	\$'000		
Other system assets	I	\$'000		
Total depreciation of System assets	C	\$'000		-
- of which transmission assets (EA only)	I	\$'000		
Non-system assets				
- IT systems	I	\$'000		
- Other non system assets	I	\$'000		
Total depreciation of Non-system assets	I	\$'000		-
- of which transmission assets (EA only)	I	\$'000		
Total depreciation of Network assets	C	\$'000		-
- of which transmission assets (EA only)	C	\$'000		-

Appendix 6 Accounting Separation Code of Practice - Pro forma Regulatory Financial Statements

Distributor

NSW

Section 7(c) - Fixed Assets and Depreciation - Regulatory values of Regulated Network Assets

Financial year ending Unit	1998	1998	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2002 Comments to the Tribunal
----------------------------	------	------	-------------	-------------	-------------	-------------	-------------------------------

Table 7.8 End of year Regulatory Value of Regulated Network Business Assets calculated by Distributor (nominal \$'000)

			ORC value at 30/6/98 per GHD report	DORC value a "Rolled forward" Regulatory Asset Base		
				→		
Inflation rate to be used for roll forward of RAB	I	IPART		1.66%	to be advised	1.85%
System assets						
<u>Sub-transmission lines and cables</u>						
- 132 kV Tower Lines	I	\$'000				
- 132 kV Concrete and Steel Pole Lines	I	\$'000				
- 132 kV Other Lines	I	\$'000				
- 132 kV Underground Cable	I	\$'000				
- 66 kV Concrete Pole Lines	I	\$'000				
- 66 kV Other Lines	I	\$'000				
- 33 kV Concrete and Steel Pole Lines	I	\$'000				
- 33 kV Other Lines	I	\$'000				
- 66 kV Underground Cable	I	\$'000				
- 33 kV Underground Cables (Gas Type)	I	\$'000				
- 33 kV Underground Cables (Solid Type)	I	\$'000				
Total Sub-transmission lines and cables						
<u>Distribution lines and cables</u>						
- 22 kV Distribution Overhead Lines	I	\$'000				
- 11 kV Distribution Overhead Lines	I	\$'000				
- SWER Lines	I	\$'000				
- 22 kV Underground Cable	I	\$'000				
- 11 kV Underground Cable	I	\$'000				
Total Distribution lines and cables						
<u>Substations</u>						
- Sub -Transmission Substations (132/66/33 kV Includes Building Excludes Land)	I	\$'000				
- Zone Substations (Includes Building, Excludes Land)	I	\$'000				
- Pole Substations (Excluding Transformers)	I	\$'000				
- Group/Kiosk/Chamber/Ground Substations (Excluding Transformers)	I	\$'000				
- HV Customers Subs/Tap changing/Misc Subs (including TXs)	I	\$'000				
- Generation Station Switchyards	I	\$'000				
Total Substations						

FINAL FOR 2000/01 FINANCIAL YEAR

Financial year ending Unit			1998	1998	1999	2000	2001	2002	2002
					Actual	Actual	Actual	Actual	Comments to the Tribunal
Transformers									
- 132/66/33/22/11 kV Transformers	I	\$'000							
- Pole Transformers	I	\$'000							
- Group/Kiosk/Chamber/Ground Transformers	I	\$'000							
Total Transformers									
Low Voltage Lines and Cables									
- LV Distribution Overhead Lines (Including Services)	I	\$'000							
- LV Underground Cable	I	\$'000							
Total Low Voltage Lines and Cables									
Customer Metering and Load Control	I	\$'000							
Communications									
- SCADA and Central Control Facilities	I	\$'000							
- Pilots	I	\$'000							
- Communication Bearer Systems (Excludes Mobile)	I	\$'000							
Total Communications									
Land and easements									
- Land	I	\$'000							
- Easements	I	\$'000							
Public lighting									
- Street Lighting Overhead (Including Mains)	I	\$'000							
- Street Lighting Underground (Including Mains)	I	\$'000							
Total Public lighting									
Other system assets									
- Emergency Spares (Major Plant, Excludes Inventory)	I	\$'000							
- Work in Progress @ 30 June	I	\$'000							
Total Other system assets									
Total system assets	C	\$'000	-	-	-	-	-	-	
- of which transmission assets (EA only)	I	\$'000							
Non-system assets									
- IT systems	I	\$'000							
- Furniture, fittings, plant and equipment	I	\$'000							
- Motor vehicles	I	\$'000							
- Buildings	I	\$'000							
- Land (non-system)	I	\$'000							
- Other non system assets	C	\$'000	-	-	-	-	-	-	
Total non-system assets	I	\$'000							
- of which transmission assets (EA only)	I	\$'000							
Total value of assets	C	\$'000	-	-	-	-	-	-	
- of which transmission assets (EA only)	C	\$'000	-	-	-	-	-	-	
Capital contributions	I	\$'000	-	-	-	-	-	-	
Regulatory value of total assets	C	\$'000							

Appendix 6 Accounting Separation Code of Practice - Pro forma Regulatory Financial Statements

Distributor NSW

Section 8 - Interest Rates and Borrowings

Financial year ending			2000	2001	2002	2003	2004	2002
Unit			Actual	Actual	Actual	Budget	Projection	Comments to the Tribunal
Table 8.1 Interest Rates and Borrowings (nominal \$'000)								
Average Interest Rates on:								
- cash	I	%						
- investments	I	%						
- bank overdraft	I	%						
- existing borrowings	I	%						
- new borrowings	I	%						
Borrowings of the Consolidated Businesses								
Opening balance	I/C	\$'000		-	-	-	-	
Scheduled new loans drawn	I	\$'000						
Scheduled repayments (-)	I	\$'000						
Closing balance	C	\$'000		-	-	-	-	
Check borrowings at close of period = balance sheet borrowings in table 7.5								
Total borrowing from Balance sheet			-	-	-			
borrowings	C	\$'000	ok	ok	ok			

Appendix 6 Accounting Separation Code of Practice - Pro forma Regulatory Financial Statements
Operator NSW
Section 9 - Regulated Network Business Overs and Unders Account

Financial year ending			2000	2001	2002	2001
Input Unit			Actual	Actual	Actual	Comments to the Tribunal
Table 9.1 Determination of the Annual Aggregate Revenue Requirement of the Regulated Network Business (nominal \$'000)						
Inflation rate (lagged, excluding GST)	IPART			1.85%	2.93%	
X of (CPI-X)	I	no.			-	
Base revenue	I/C	\$'000		-	-	
Plus						
- TUOS - TransGrid	C	\$'000		-	-	
- TUOS - other entities	C	\$'000		-	-	
- Avoided transmission charges (note 1)	I	\$'000				
- Demand management costs (note 1)	I	\$'000				
- Full retail contestability costs (note 2)	I	\$'000				
- Inter-distributor transfer payments	C	\$'000		-	-	
Annual Aggregate Revenue Requirement	C	\$'000		-	-	
Notes:						
1. Tribunal approval is required for the avoided TUOS and demand management costs included in the AARR.						
2. Benchmark full retail contestability costs determined by the Tribunal are to be included in the AARR.						

Operator NSW
Section 9 - Regulated Network Business Overs and Unders Account

			Financial year ending	2000	2001	2002	2001
			Input Unit	Actual	Actual	Actual	Comments to the Tribunal
Table 9.2 Calculation of the Over/(Under) recovery of Regulated Network Business Revenue (nominal \$'000)							
Revenue from network prices (excluding GST, EDL and public lighting)	C	\$'000			-	-	
Add:							
- Public lighting use of system charges	C	\$'000			-	-	
- Miscellaneous charges	C	\$'000			-	-	
- Monopoly fees	C	\$'000			-	-	
- Transitional treasury funding/other grants	C	\$'000			-	-	
- Inter-distributor receipts	C	\$'000			-	-	
- Other income from access to network assets	C	\$'000			-	-	
Total regulated network revenue					-	-	
Maximum allowable network revenue	C	\$'000			-	-	
Over/(under) recovery of network revenue for the year	C	\$'000			-	-	
% Deviation from AARR	C	%			0.0%	0.0%	
Year-end balance of revenue over- and under-recovery (in accordance with Rule 99/1 made under Clause 6.10.1(f) National Electricity Code)							
Interest rate applicable to interest charge/credit	IPART	%			5.59%		
Opening balance	C	\$'000			-	-	
Over /(under) recovery for financial year	C	\$'000			-	-	
Interest charge/credit	C	\$'000			-	-	
Closing balance	C	\$'000			-	-	
Closing balance as % AARR					0.0%	0.0%	
Maximum under-recovery permitted (% of AARR)	IPART	%			5.0%	5.0%	
Permitted Over/(Under) recovery balance	C	\$'000			-	-	

check regulated revenue = 0

Appendix 6 Accounting Separation Code of Practice - Pro forma Regulatory Financial Statements

Operator

A NSW AGENCY

Section 11 - Related Party Transactions

Financial year ending 30 June 2001

Table 11.1 Capital Expenditure			Comments to the Tribunal
Below materiality level:	No of transactions	Amount (\$'000)	
Above materiality level			
Description of transaction/contract including method of pricing	Regulated business and Related Party names	Amount (\$'000)	

Operator **A NSW AGENCY**
Section 11 - Related Party Transactions

Table 11.2 Profit and Loss Charges		
Below materiality level:	No of transactions	Amount (\$'000)
Above materiality level		
Description of transaction/contract including method of pricing	Regulated business and Related Party names	Amount (\$'000)

Appendix 6 Accounting Separation Code of Practice - Pro forma Regulatory Financial Statements

Distributor NSW

Section 12 - Other Information and Analysis (blank sheet)

Distributor

NSW

Section 13 - Regulated Retail Non-financial, Revenue and Cost Data for 2001

Financial year ending 30 June 2001		6 months	6 months	Comments to the Tribunal
Input/Calculated	Unit	Jul-Dec 2000	Jan-June 2001	

Special Table 3.1 Regulated Retail Business Customer Numbers and MWh sales in 2001				
Regulated Retail Customer Base - number of customers by customer type (at end of period)				
Note : The categories are defined by tariff class, not physical location - see Section 3 for definitions.				
<u>Residential customers</u>				
- Residential (excluding rural residential)	I	no.		
- Rural residential	I	no.		
- Controlled load (excl rural controlled load)	I	no.		
- Rural controlled load	I	no.		
Total residential	C	no.	-	-
<u>Non-residential customers</u>				
<u>Street lighting</u>				
Regulated Retail Customer Base - MWh sales by customer type (including estimates of unread meter sales)				
<u>Residential customers</u>				
- Residential (excluding rural residential)	I	MWh		
- Rural residential	I	MWh		
- Controlled load (excl rural controlled load)	I	MWh		
- Rural controlled load	I	MWh		
Total residential	C	MWh	-	-
<u>Non-residential customers</u>				
<u>Street lighting</u>				
Total MWh delivered	C	MWh	-	-
Regulated Retail Customer Base - MWh purchases of electricity				
Electricity purchased for regulated	I	MWh		
Calculated losses	C	%	0.0%	0.0%
Error check	C	0	ok	ok

Special Table 4.1 Revenue accrued/allocated to Regulated Retail Business (nominal \$'000) in 2001			
A. Revenue from electricity sales (excluding GST, including estimated unread meter sales)			
Accrued revenue after CSO rebates and reimbursements (excluding GST, including estimated unread meter sales)			
<u>Residential customers</u>			
- Residential (excluding rural residential)	I	\$'000	
- Rural residential	I	\$'000	
- Controlled load (excl rural controlled load)	I	\$'000	
- Rural controlled load	I	\$'000	
Total residential	I	\$'000	- -
<u>Non-residential customers</u>			
Street lighting	I	\$'000	
Total revenue from sales before CSO	C	\$'000	- -
CSO rebates and reimbursements			
- CSO rebates	I	\$'000	
- CSO reimbursements	I	\$'000	
Total revenue from sales after CSO	C	\$'000	- -
B. Other revenue			
- Government funding (transitional/grants)	C	\$'000	- -
- Miscellaneous charges	C	\$'000	- -
- Investment/interest income	C	\$'000	- -
- proceeds from asset disposals	I	\$'000	
- book value of assets disposed	C	\$'000	- -
- Profit/(-loss) on the sale of assets			- -
- Other income	C	\$'000	- -
Total other revenue			- -
Total Regulated Retail Business revenue	C	\$'000	- -
Check Revenue from sales before CSO = Revenue from sales in P&L			
Sales of electricity from P&L	C	\$'000	
% difference	C	%	
Explain if difference >1%	C		
Explanation:			

Special Table 5.1 Operating Expenditure of Regulated Retail Business - (nominal \$'000) in 2001			
Note: This breakdown of operating expenditure is similar to that used for the 1999 investigation into default retail tariffs			
A. Energy and line costs			
- Purchases of electricity (at Regulated price)	C	\$'000	
- Line costs (NUOS)	C	\$'000	
- NEM fees (including ancillary charges)	C	\$'000	
Total energy and line costs	C	\$'000	
B. Operating and maintenance costs			
- Meter reading	I	\$'000	
- Full retail contestability costs	I	\$'000	
-advertising, marketing and promotions	I	\$'000	
- Other expenses			
-computer processing and billing	I	\$'000	
-call centre operations, customer communication/relations	I	\$'000	
-finance	I	\$'000	
-other	C	\$'000	
Total O&M (excluding energy and line costs)	I/C	\$'000	
Total retail operating expenditure	C	\$'000	