



**SEQ Price Monitoring
Information Requirements for 2013-15**

April 2013

Level 19, 12 Creek Street Brisbane Queensland 4000
GPO Box 2257 Brisbane Qld 4001
Telephone (07) 3222 0555
Facsimile (07) 3222 0599

general.enquiries@qca.org.au
www.qca.org.au

© Queensland Competition Authority 2013

The Queensland Competition Authority supports and encourages the dissemination and exchange of information. However, copyright protects this document. The Queensland Competition Authority has no objection to this material being reproduced, made available online or electronically but only if it is recognised as the owner of the copyright and this material remains unaltered.

TABLE OF CONTENTS

	PAGE
1. INTRODUCTION	2
2. REQUIREMENTS	4
3. PRINCIPLES	6
4. REVIEW AND ADJUSTMENT	9
5. DETAILS	10
6. DEFINITIONS AND INTERPRETATION	19
7. PROFORMA BOARD MEMBERS RESPONSIBILITY STATEMENT	27
8. PROFORMA COUNCILLORS RESPONSIBILITY STATEMENT	28
9. PRICE MONITORING ACCOUNTING STATEMENT TEMPLATES	29

1. INTRODUCTION

1.1 Purpose

- 1.1.1 These Information Requirements (Requirements) have been developed by the Queensland Competition Authority (the *Authority*) to assist the *entities* to provide information to the Authority for the purposes of the 2013-15 price monitoring investigation.
- 1.1.2 The Requirements should be read in conjunction with the *Ministerial Direction* and the Authority's Final Report on the SEQ Interim Price Monitoring Framework (2010). Copies can be downloaded from the Authority's website at www.qca.org.au.
- 1.1.3 The Requirements apply to the price monitoring period which commences on 1 July 2013 and ends on 30 June 2015.

1.2 Authorising Provision

- 1.2.1 The *Ministerial Direction* by the Treasurer and Minister for Trade, and the Attorney-General and Minister for Justice requires the Authority to monitor prices for the monopoly distribution and retail water and wastewater activities of the *entities*.

1.3 The Entities

- 1.3.1 The entities are:
- (a) Unitywater;
 - (b) Queensland Urban Utilities (QUU);
 - (c) Logan City Council (LCC);
 - (d) Redland City Council (RCC); and
 - (e) Gold Coast City Council (GCCC).

1.4 Commencement and Application

- 1.4.1 These Requirements take effect on 30 June 2013 and apply to each entity.
- 1.4.2 The Requirements apply from 1 July 2013 to 30 June 2015.
- 1.4.3 The *entities* must comply with these Requirements for the financial years relevant to a particular review.

For 2013-15, *price monitoring information returns* must be submitted by 30 June 2013 for Unitywater and QUU and 30 September 2013 for Logan, Redland and Gold Coast City Councils.

The *price monitoring information returns* must incorporate information for 2012-13 and forecasts for each year to 30 June 2015; or, where an entity chooses to set revenues and prices over a longer period, for that period.

For the purpose of calculating the opening Regulatory Asset Base (RAB) for the review year, information on capital expenditure, disposal and contributions since the date of the initial RAB (1 July 2008 for QUU and Unitywater and 1 July 2010 for GCCC, LCC and RCC), must be provided (refer to section 5.6).

- 1.4.4 Should an entity materially change prices more frequently, the Authority must be notified and the Authority may initiate further reporting.

1.5 Amendment to these Information Requirements

- 1.5.1 The Authority may amend these Requirements on its own initiative, in response to a proposal by an entity or other stakeholder or as the result of a review of the price monitoring information returns submitted by the entities.
- 1.5.2 The Authority will not make material amendments to these Requirements until entities and other stakeholders have had an opportunity to comment on the nature of any proposed amendment and those comments have been considered.
- 1.5.3 The Authority will give reasonable notice to each entity of any amendments to these Requirements.

2. REQUIREMENTS

2.1 General Obligation

- 2.1.1 An *entity* must prepare, maintain and submit *price monitoring information returns* to the Authority in accordance with these Requirements.
- 2.1.2 An *entity* must ensure that it keeps information that enables it to prepare *price monitoring information returns* which properly record and explain the transactions and financial position of that *entity* in accordance with these Requirements.
- 2.1.3 An *entity* must provide any information relating to price and revenues that may be reasonably required by the Authority.

2.2 Preparation of Returns

- 2.2.1 An *entity* must prepare *price monitoring information returns* in accordance with the templates in Section 9.
- 2.2.2 Where required by the templates, an *entity* must prepare explanatory notes which explain the basis of the information recorded in the *price monitoring information returns*.

2.3 Submission of Returns

- 2.3.1 An *entity* must submit *price monitoring information returns* to the Authority in hard copy (two copies) and electronic format by the due dates set out in 1.4.3 above, unless the Authority has agreed in writing to an extension of time prior to that date.

Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Email: seqwater@qca.org.au

2.4 Publication of Prices

- 2.4.1 An *entity* must set and publish a list of all prices for water and wastewater services on its website as soon as these are determined and before 1 July of each year.

2.5 Retention of Accounting Records

- 2.5.1 An *entity* must retain its accounting records from which *price monitoring information returns* were prepared for five *financial years* immediately following the reporting year in respect of which the *price monitoring information returns* were submitted.

2.6 Confidentiality

- 2.6.1 Under the *Ministerial Direction*, the Authority must undertake an open consultation process with all relevant parties and considers submissions within the timetable for the review and reports. Consistent with section 34 of the *Queensland Competition Authority Act 1997* (the QCA Act), all reports and submissions must be published on the Authority's website.
- 2.6.2 In the interests of transparency and to promote informed discussion, the Authority would prefer all information to be made publicly available wherever this is reasonable. However, if an *entity* does not want information to be public, the *entity* should claim confidentiality in respect of that information.

Claims for confidentiality should be clearly noted on the front page of the *price monitoring information return* and the relevant sections should be marked as confidential, so that the remainder of the document can be made publicly available. It would also be appreciated if two copies of each version of these submissions (i.e. the complete version and another excising confidential information) could be provided. Again, it would be appreciated if each version could be provided on disk.

- 2.6.3 Should a claim for confidentiality be made, the *entity* must provide information supporting its claim that addresses each of the requirements of section 187 of the QCA Act. Under this section, the Authority must take all reasonable steps to ensure that information claimed as confidential is not disclosed without the person's consent, provided the Authority is satisfied that the person's belief is justified and that the disclosure of the information would not be in the public interest.

Where it is unclear why information has been marked 'confidential', the status of the submission will be discussed with the *entity* making the submission.

While the Authority will endeavour to identify and protect material claimed as confidential as well as exempt information and information disclosure of which would be contrary to the public interest (within the meaning of the *Right to Information Act 2009* (RTI)), it cannot guarantee that information will not be made publicly available. Notwithstanding s187 of the QCA Act, there is a possibility that the Authority may be required to reveal confidential information as a result of a RTI request.

3. PRINCIPLES

3.1 Substance of Transactions

- 3.1.1 *Price monitoring information returns* must report the substance of transactions.
- 3.1.2 If the substance of a transaction differs from the legal form of the transaction, the substance of the transaction must be reported.
- 3.1.3 For the purposes of determining the substance of a transaction, a group or series of transactions which achieves, or is designed to achieve, an overall commercial effect must be reported in a consistent manner.

3.2 Returns to be derived from Statutory Accounts and Budget

- 3.2.1 The price monitoring information returns must be consistent with the statutory accounts and Budget of the entity.
- 3.2.2 The *price monitoring information returns* must include any revenue earned, asset utilised and liability or cost incurred in relation to the supply of the *monopoly business activities* by:
- (a) excluding cost items associated with the supply of services which are *non-regulated services* (but not disaggregated by service);
 - (b) eliminating adjustments not permitted by these Requirements;
 - (c) including adjustments required by these Requirements; and
 - (d) allocating or disaggregating details as required in clause 3.4.2 and section 5.
- 3.2.3 Movements from an *entity's statutory accounts* and Budget must be clearly reported in the *price monitoring information returns* of that *entity*.
- 3.2.4 *Price monitoring information returns* must contain information that is consistent with the general *ledger* which records the actual *statutory account* costs of the relevant *entity*.
- 3.2.5 An *entity* must ensure that the *price monitoring information returns* referred to in clause 2.3.1 above are able to be reconciled with:
- (a) the *statutory accounts* and Budget in respect of the *entity*;
 - (b) the *chart of accounts* and trial balance underlying the *statutory accounts*; and
 - (c) a statement of all price monitoring accounting principles and policies which were used by the *entity* to prepare the *price monitoring information returns*.

3.3 General principles

- 3.3.1 An *entity* must adopt price monitoring accounting principles and policies in the preparation of *price monitoring information returns* so that:
- (a) there is a recognisable and rational economic basis that underlies the utilisation of those principles; and
 - (b) the *price monitoring information returns* satisfy the accounting concepts of relevance and reliability.

3.4 Allocation Principles

- 3.4.1 The *price monitoring information returns* of an *entity* must provide information that is consistent with the *statutory accounts* and Budget in accordance with the allocation principles referred to in this clause.
- 3.4.2 For 2013-15, the details in chapter 5 must be disaggregated by each *entity* according to the following deemed categories:
- (a) each Activity;
 - (b) each geographic area;
 - (c) each *core service* and (in aggregate) *non-regulated services*;
 - (d) each *asset class* and cost driver as required; and
 - (e) each *customer group*.
- 3.4.3 Allocations are required in relation to:
- (a) revenue;
 - (b) the RAB;
 - (c) capital expenditure; and
 - (d) operating costs.
- 3.4.4 The allocations in 3.4.2 must be based on the principle that:
- (a) amounts are directly attributable to that category;
 - (b) amounts which are not directly attributable to a category must be allocated on a *causal* basis, except where a *causal* relationship cannot be reasonably established. Amounts may be allocated on a non-*causal* basis provided that:
 - (i) there is likely to be a strong positive correlation between the non-causal basis and the actual cause of resource or service consumption or utilisation that those costs represent; or
 - (ii) the cost to derive the causal allocation outweighs the benefits of allocating items on that basis; and
 - (iii) the aggregate of all amounts allocated on a non-causal basis is not material to the *price monitoring information returns*.
- 3.4.5 The *entity* must report the basis for the allocation of amounts..

3.5 Statement of Accounting Principles and Policies

- 3.5.1 An *entity* must provide to the Authority as part of the *price monitoring information returns* full and detailed documentation and disclosure of:
- (a) details of the *accounting principles and policies* that were used to prepare the *statutory accounts* and Budget;

- (b) *any price monitoring accounting principles and policies* that were used to prepare the *price monitoring information returns* that are additional to, or in place of, the accounting principles and policies used to prepare its statutory accounts and Budget; and
- (c) any changes in the *accounting principles and policies* which were used to prepare its *statutory accounts* and Budget or in its *price monitoring accounting principles and policies* which occurred since the submission by the *entity* of the last *price monitoring information returns*. Where such a change has occurred, an *entity* must disclose to the Authority:
 - (i) the nature of the change;
 - (ii) the reasons for the change; and
 - (iii) the effect of the change on the *price monitoring information returns*.

4. REVIEW AND ADJUSTMENT

- 4.1.1 Each *entity* must acknowledge that the Authority or a person appointed by the Authority may review the compliance of the *price monitoring information returns* submitted by that *entity* with these Requirements.
- 4.1.2 As part of such a review and without limitation the *entity* must:
- (a) provide access to the *entity's* accounting records retained in accordance with these Requirements;
 - (b) provide any information reasonably requested by the Authority or a person appointed by the Authority; and
 - (c) provide any assistance reasonably requested by the Authority or a person appointed by the Authority.
- 4.1.3 Following review of the *entity's price monitoring information returns*, the *entity* may be required to:
- (a) make any adjustments to the *price monitoring information returns* which are required by the Authority; and
 - (b) change its *price monitoring accounting principles and policies* to ensure future compliance with the Requirements.
- 4.1.4 If at a later date information becomes available that materially changes the results or values reported in the *entity's price monitoring information returns*, the *entity* shall advise the Authority of any such change.
- 4.1.5 An *entity* must submit:
- (a) a responsibility statement in the form set out in section 7 or 8 signed by a Board Member or Councillor of the *entity*; and
 - (b) an extract from the minutes of the *entity's* Board or Council that confirms the *price monitoring information returns* are fairly presented.
- 4.1.6 In its *price monitoring information return*, an *entity* must clearly identify and explain any changes to data provided as part of a previous *price monitoring information return*.

5 DETAILS

For the purpose of section 5, an *entity* is required to provide the requested historical information to the extent that further records and information have been provided to the *entity* by the participating councils or other predecessor organisations.

5.1 Statutory Accounts and Budget

For each year of the price monitoring period, an *entity* must provide each of the statutory accounts listed below for the preceding year. In addition, Budget documentation is required relating to the year under review.

5.1.1 Profit And Loss

- (a) an *entity* must provide high level details of the profit and loss statement (or income statement) as recorded in the business's *statutory accounts* and Budget for the following revenue and expenditure categories:
 - (i) Revenue;
 - (ii) Investment income;
 - (iii) Net profit from sales of assets;
 - (iv) Contributions;
 - (v) Operating expenditure;
 - (vi) Depreciation;
 - (vii) Bad debts;
 - (viii) Borrowing costs;
 - (ix) Net loss from the sale of assets; and
- (b) net loss from the sale of assets; and where appropriate an *entity* should refer the Authority to any relevant notes that are included in the *entity's* statutory accounts and Budget that will assist in interpretation of the *price monitoring information returns*.

5.1.2 Balance Sheet

- (a) an *entity* must provide high level details of the balance sheet (or statement of financial position) as recorded in the business's *statutory accounts* and Budget must be consistent with that relating to the deemed categories included in the *price monitoring information template* in section 9;
- (b) where appropriate, an *entity* should refer the Authority to any relevant notes that are included in the *entity's* *statutory accounts* and Budget that will assist in interpretation of the balance sheet template; and
- (c) in the explanatory notes section, an *entity* is required to provide explanation of any change in accounting treatment from the previous year.

5.1.3 Cash flow statement

- (a) an *entity* must provide high level details of the cash flow statement as recorded in the *entity's statutory accounts* and Budget, in accordance with the categories included in the template in section 9;
- (b) where appropriate, an *entity* should refer the Authority to any relevant notes that are included in the *entity's statutory accounts* and Budget that will assist in interpretation of the cash flow statement template; and
- (c) in the explanatory notes section, an *entity* is required to provide explanation of any change in accounting treatment from the previous year.

5.2 Revenue

5.2.1 Actual and forecast revenue from Prices

For revenue allocated to each deemed category as in 3.4.2, an *entity* must provide details of:

- (a) revenues, tariff structures and associated sales for each year as per section 1.4.3;
- (b) any pricing policy, and supporting documents, for the price monitoring period including the rationale for any smoothing adopted;
- (c) the expected date at which any change to forecast revenues (including tariff structure) is to take place, and the revenues (including tariff structures) that would apply before and after the change;
- (d) the costs and other factors underlying annual price increases, including the method of calculating prices, and a copy of relevant models and spreadsheets; and
- (e) the processes and outcomes of engagement with customers to inform them of the costs and other factors underlying prices and the provision of water and sewerage services;
- (f) a comprehensive price list for all regulated services, including all tariff charge rates and relevant rebates and subsidies for each of the years 2012-13, 2013-14 and 2014-15.

For revenue allocated as in 3.4.2, an *entity* will be required to provide estimated actual revenues for the preceding year of the review. Where an *entity's* actual or forecast revenues differs from previous estimates provided to the Authority the *entity* must explain the cause of the variance. The *entity* may also be required to further allocate this revenue between revenue sources that are determined under pricing principles.

5.2.2 Revenue from Other Sources

An *entity* must allocate revenue from other sources to each deemed category in 3.4.2 and further between (i) revenue that will offset prices/revenue requirement and (ii) revenue that will not offset the revenue requirement.

5.3 Service Standards¹

5.3.1 An *entity* must provide details (relevant to each deemed category in 3.4.2) of:

¹ The Authority may obtain details of past performance as reported to the National Water Commission under the National Performance Reporting framework using the Statewide Information Management (SWIM) database.

- (a) service standards² as per section 1.4.3;
- (b) the expected date at which any change to service standards³ is to take place, and the standards that would apply before and after the change.

5.4 Demand

5.4.1 An *entity* must provide details (relevant to each deemed category in 3.4.2) of:

- (a) demand for each year as per section 1.4.3, and corresponding non-revenue water and bulk water purchases (where relevant);
- (b) additional forecasts of demand necessary to substantiate proposed capital expenditure; and
- (c) the method and supporting spreadsheets adopted to forecast demand used for setting prices and for calculating capital and operating expenditure, and the relationship between these forecasts.

5.4.2 Where an *entity's* demand (actual or forecast) differs from previous estimates provided to the Authority an *entity* must explain the cause of the variance. It is anticipated that each *entity* is also required to provide a more sophisticated basis for demand forecasting to substantiate the increased costs and to improve the accuracy of forecasts.

5.5 Regulatory Asset Base

5.5.1 Opening Regulatory Asset Base for Unitywater and Queensland Urban Utilities

Unitywater and QUU must provide for each deemed category in 3.4.2 (except for customer groups) for 1 July 2008³:

- (a) details of assets, including a description and unique identifier derived from the asset register, by individual asset or asset class.;
- (b) values for the initial RAB, by asset or asset class of common type or function, that are consistent with the (then) Minister for Natural Resources, Mines and Energy and Minister for Trade's advised asset values. The RAB values should be based on audited values adjusted by the ratio of the total initial RAB as at 1 July 2008 to total written down audited values for the relevant assets.

5.5.2 Opening Regulatory Asset Base for Logan, Redland and Gold Coast City Councils

Logan, Redland and Gold Coast City Councils must provide:

- (a) the RAB for each individual council which reflects their agreed disaggregation of the total Allconnex RAB as at 1 July 2010;
- (b) a copy of the agreement between the councils relating to the disaggregation of the total Allconnex RAB as at 1 July 2010; and

² Also required are details of contractual service standards, or changes in contractual service standards.

³ Where audited asset values are not available as at 1 July 2008 (e.g. the values are only available as at 15 March 2008) these must be rolled forward to 1 July 2008 in a manner consistent with the formulae in the Ministerial Direction.

- (c) for each deemed category in 3.4.2 (except for customers groups) for 1 July 2010, details of assets, including a description and unique identifier derived from the asset register, by individual asset or asset class. Bulk water assets should be excluded.

5.5.3 Rolling Forward the RAB

- (a) an *entity* must provide for each deemed category in 3.4.2 (except for customer groups) sufficient detail to allow the Authority to roll forward asset values for each year to 30 June 2015, according to the following formula:

$$\text{RAB}_t = (\text{RAB}_{t-1} + \text{Capital Expenditure}_t - \text{Regulatory Depreciation}_t - \text{Disposals}_t^4 + \text{Indexation}_t)$$

where t = the year under consideration.

- (b) an *entity* must also provide details of its asset base roll forward used for pricing purposes.

5.6 Capital Expenditure

5.6.1 For each deemed category in 3.4.2 (except for customer groups):

- (a) Queensland Urban Utilities and Unitywater must provide details of capital expenditure to allow the Authority to roll forward the 1 July 2008 RAB for each year to 30 June 2015;
- (b) Redland, Logan and Gold Coast City Councils must provide details of capital expenditure to allow the Authority to roll forward the 1 July 2010 RAB for each year to 30 June 2015;

5.6.2 An *entity* must allocate capital expenditure items and the regulatory asset base between asset classes.

5.6.3 An *entity* must provide to the Authority a complete list of capital expenditure items, identifying their values, the effect of indexation and the expected commissioning year. Capital expenditure should be included in the RAB when it is commissioned, and contributes productive capacity to the system.

5.6.4 Criteria and Processes for Capital Expenditure

- (a) Prudency

For the purposes of establishing the prudency of capital expenditure, an *entity* must allocate *capital expenditure* items between the following *cost drivers*:

- (i) growth – Capital expenditure associated with increasing the capacity of assets or construction of new assets, to meet growth in demand, or to provide additional security of supply should be included in growth;
- (ii) renewal of existing infrastructure – Capital expenditure associated with replacing assets and generally maintaining service levels should be included in renewal of existing infrastructure;

⁴ For (individual) assets retired prior to being fully depreciated could remain in the RAB and be depreciated over their remaining life, provided that the individual asset does not account for more than 5% of the asset class. The Authority may review this approach in light of its experience in actual price monitoring.

- (iii) improvements – Capital expenditure associated with improving service levels and reliability to meet customer preferences should be included in improvements; and
 - (iv) compliance – Capital expenditure associated with meeting price monitoring or legislative obligations should be included in compliance.
- (b) Efficiency

For the purpose of establishing efficient capital expenditure, information is required on:

- (i) the scope of the works (a description of the characteristics of the capital item);
 - (ii) the standard of the works including the technical, design and construction standards adopted (in accordance with legislation, industry and other standards, codes and manuals); and
 - (iii) the cost of the defined scope and standard of works and its timing (year). This should be linked, where relevant, to the underlying cost components such as unit rates, on-costs and contingencies and any other supporting materials such as consultant reports.
- (c) Policies and Procedures

For the purpose of establishing the prudence and efficiency of capital expenditure (as well as operating expenditure), information is required on policies and procedures, including for program planning and delivery processes. The relevant sections of the *entity's* net services plans to this effect should be provided. In addition, links to strategic development plans, risk and asset management planning, corporate directives, evidence of external drivers, and review of procurement practices should be identified.

Evidence of any consideration of alternative investments, the substitution possibilities between capex and opex, and non-network alternatives such as demand management is required.

Further, information on the compatibility with existing and adjacent infrastructure is relevant and consideration of modern engineering equivalents and technologies.

5.6.5 Explanatory Notes

An *entity* is required to provide information on all capital expenditure items that have been allocated across items in section 3.4.2, including a description of the item, its value, the basis of allocation (including the percentage split), reason for choosing this basis and any relevant notes from the business's annual report.

An *entity* is required to provide an explanation of any areas of significant change in costs and identify the reasons why. Where an *entity's* capital expenditure (actual or forecast) differs from previous estimates provided to the Authority an *entity* must explain the cause of the variance.

5.6.6 Exclusions:

- (a) asset revaluations or adjustments for impairment (whether the adjustments would have the effect of increasing or decreasing asset values) are not permitted in price monitoring accounts unless they are specifically agreed to or required by the Authority; and

- (b) goodwill and any related impairments are not permitted in *price monitoring information returns*.

5.7 Contributed, Donated and Gifted Assets

5.7.1 An *entity* must provide for each deemed category in 3.4.2 (except for customer groups) details of:

- (a) contributed, donated and gifted assets for each year as per section 1.4.3, and for each year that the asset offset method is adopted to allow the Authority to roll forward the RAB for each year to 30 June 2015;
- (b) capital contributions (cash and infrastructure charges) for each year as per section 1.4.3;
- (c) each infrastructure charge and associated demand consistent with the above;
- (d) any SEQ infrastructure charges schedule and supporting documents with the details of related assets where available, for the interim period including the rationale for any smoothing adopted;
- (e) details of the method and any supporting models adopted by the *entity* for the forecast of contributed, donated and gifted assets and capital contributions (cash and infrastructure charges);
- (f) any date nominated by the *entity* to adopt the asset offset method; and
- (g) the expected date at which any changes to forecast revenues is to take place (including the basis for the change) and the *revenues* (including tariff structures) that would apply before and after the change.

Where an *entity's* contributed, donated and gifted assets (actual or forecast) or capital contributions (cash and infrastructure charges) differ materially from previous estimates provided to the Authority an *entity* must explain the cause of the variance.

5.8 Depreciation

5.8.1 An *entity* must provide the following information for each deemed category in 3.4.2 (except for customer groups):

- (a) details of depreciation of RAB values and capital expenditure to roll forward the opening RAB for each year to 30 June 2015 on the physical assets calculated on a straight line basis using existing useful lives attaching to the individual assets. Individual assets should be grouped by *asset class*. Or, if different asset lives are adopted, appropriate supporting information should be provided.

5.9 Indexation

5.9.1 An *entity* must index:

- (a) the RAB values (where relevant) for the year starting 1 July 2008 at 2.0% (the ABS Brisbane All Groups CPI June to June), 1 July 2009 at 3.2% (the ABS Brisbane All Groups CPI June to June), 1 July 2010 at 3.6% (the ABS Brisbane All Groups CPI

March to March), 1 July 2011 at 1.3% (the ABS Brisbane All Groups CPI March to March), and 1 July 2013 at the ABS Brisbane All Groups CPI March to March⁵; and

- (b) the forecast RAB values for each year of the period from 1 July 2013 to 30 June 2015 using 2.5%⁶.

5.10 Return on Capital

5.10.1 An *entity* must provide details of the target return on capital for each year as per section 1.4.3, including the values attached to the key underlying parameters and the method of WACC calculation.

5.11 Operating costs

5.11.1 An *entity* must provide details, allocated between the deemed categories in 3.4.2, of operating costs for each year as per section 1.4.3, according to:

- (a) bulk water costs;
- (b) employee expenses;
- (c) contractor expenses;
- (d) GSL Payments;
- (e) electricity charges;
- (f) sludge handling costs;
- (g) chemicals costs;
- (h) other materials and services (not relating to capital expenditure);
- (i) licence or regulatory fees;
- (f) non-recurrent costs;
- (j) corporate costs; and
- (g) indirect taxes.

5.11.2 Comparative Data

An *entity* is required to provide an explanation of any significant change in expenditure and in particular to identify and explain any areas of significant cost increase.

5.11.3 Explanatory notes

An *entity* is required to provide information on all operating expenditure items that have been allocated across *entity business segments* or asset categories, including a description of the

⁵ The previous Ministerial Direction for SEQ price monitoring (published in the Queensland Government Gazette Vol. 357, No. 68 on 29 June 2011) specified that the Authority must for the annual periods between 1 July 2008 and 30 June 2010 use the annual June to June ABS CPI (all groups, Brisbane).

⁶ 2.5% is the mid-point of the Reserve Bank of Australia's (RBA's) target inflation band. It is also the RBA's forecast for CPI over 2013-15 in its Statement on Monetary Policy (February 2013).

item, the value in thousands of dollars, the basis of allocation (including the percentage split), reason for choosing this basis and any relevant notes from the business's annual report.

An *entity* is also required to provide the reasons for anticipated changes in operating costs . Where an *entity's* operating costs differ materially from previous estimates provided to the Authority an *entity* must explain the cause of the variance. An *entity* is also required to provide further explanation of significant one-off expenditure items or any allocations made that would assist the Authority in its assessment of the *entity's price monitoring information returns*.

5.12 Third Party Transactions

5.12.1 Where an *entity* enters into transactions with a *third party* which total greater than \$1,000,000 of operating expenditure in aggregate, or \$10,000,000 of *capital expenditure* in aggregate for the *financial year*, the *entity* must disclose:

- (a) the name of the *third party*;
- (b) a description of the services provided by the *third party*;
- (c) the value of the payments made to the *third party*;
- (d) a description of how the basis for the payment was determined; and
- (e) a description of how the payment is reflected in the *price monitoring information returns*, including the asset class or cost category that the costs are included in.

5.13 Related Party Transactions

5.13.1 Where an *entity* enters into a transaction with a *related party* the *price monitoring information returns* must disclose for each transaction:

- (a) the name of the *related party* which incurred the cost in providing the service to the *entity* and a description of the *entity's* interest in the *related party*;
- (b) a description of the service provided or received by the *related party*;
- (c) the value of the payments for the service;
- (d) demonstration that the value reflects that which would be paid by two companies dealing at arm's length dealing with each other;
- (e) a description of how the value was arrived at, including any market testing undertaken;
- (f) description of how the payment for the service is reflected in the *price monitoring information returns*; and
- (g) a description of how shared costs have been allocated.

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

5.14 Non-regulated Services

- 5.14.4 An *entity* is required to provide explanation of the basis of any allocations made to *non-regulated services* that would assist the Authority in its assessment of the business' *price monitoring information returns*.

5.15 Tax

- 5.15.1 An *entity* must provide for each deemed category in 3.4.2 (except for customer groups) asset values and useful lives for tax purposes for each asset or asset class for the years as per section 1.4.3.

5.16 Maximum Allowable Revenue

- 5.16.1 An *entity* must provide details of the maximum allowable revenue/s used by the *entity* in setting prices for 2013-15 and any smoothing period adopted by the *entity*.

6 DEFINITIONS AND INTERPRETATION

6.1 Definitions

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

Accounting principles and policies mean principles and policies that are used by an *entity* to prepare the statutory accounts and budget.

Activity means each of the water retail/distribution activities and wastewater retail/distribution activities, pending any declaration of activities as monopoly business activities under Part 3.

Asset class means a group of assets with common characteristics and asset lives. As a minimum, asset classes are:

- (a) distribution infrastructure not included in the following categories:
- (b) reservoirs;
- (c) pump stations;
- (d) treatment;
- (e) associated telemetry and control systems;
- (f) meters;
- (g) billing systems;
- (h) corporate systems;
- (i) sundry property, plant and equipment;
- (j) land;
- (k) buildings other than infrastructure housing;
- (l) support services; and
- (m) mains and pipes.

Authority means the Queensland Competition Authority established under the *Queensland Competition Authority Act 1997*.

Budget means the budget adopted by the *entity* at the time of setting prices.

Bulk water costs means all direct and indirect operating expenditure associated with the purchase of bulk services including costs associated with: the purchase of bulk water; and the purchase of bulk sewerage services.

Capital Contribution means cash (potentially in the form of an infrastructure charge payment) contributed to an *entity* with the expectation of a future benefit (either in the form of a price offset or future rebate from an *entity*).

Capital expenditure means any expenditure, which has been disclosed as a non-current asset in the balance sheet of the *entity's statutory accounts* and Budget provided that the expenditure conforms with at least one of the following:

- (a) the expenditure relates to the purchase, development or construction of a new non-current asset of the *entity*;
- (b) the expenditure will increase the capacity or functionality of the *entity's* non-current assets;
- (c) the expenditure will significantly reduce the ongoing maintenance of the *entity's* non-current assets; and/or
- (d) the expenditure will extend the service life of the *entity's* non-current assets beyond that expected when the assets were originally installed.

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

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

Chemical costs means all chemical costs incurred in the process of treating water, sewerage or recycled water during the year.

Contributed assets means assets contributed to an *entity* with the expectation of a future benefit (either in the form of a price offset or future rebate from an *entity*).

Contractor expenses means a person (or team of persons) who provides services including consultancy and agency staff) to the business but is not directly employed by the business. This does not include contractors engaged in the provision of Information Technology (IT) maintenance and support services (these are to be included in the IT expenditure allocation sub-category under corporate costs).

Core service is a monopoly service provided by the business to customers on a continuous basis. Each core service is typically differentiated by a standard description that defines the type, characteristics and attributes that logically separates that service from all other core services. Core services for water include: the supply of drinking water delivered by the distribution network, and the supply of recycled water via a separate distribution network. Core services for wastewater include acceptance and disposal of sewerage directly from users' premises to the sewer network (core wastewater service) and acceptance and disposal of trade waste from users' premises to the sewer network.

Corporate costs means general corporate expenditure that cannot be reasonably allocated to other cost types, including such costs associated with:

- (a) personnel in the corporate group/division;
- (b) general management;
- (c) board members;
- (d) legal counsel;
- (e) company secretary;

- (f) procurement;
- (g) insurance;
- (h) quality/business improvement;
- (i) corporate relations;
- (j) strategy and planning;
- (k) human resource management;
- (l) risk management;
- (m) insurance management;
- (n) environment management;
- (o) property management;
- (p) financial management;
- (q) support staff for the corporate office;
- (r) costs incurred by the corporate office, including:
 - (i) property rental, repair and maintenance, utilities, and taxes for the corporate office;
 - (ii) printing and stationery;
 - (iii) telephone and fax;
 - (iv) travel expenses;
 - (v) legal fees;
 - (vi) consultants;
 - (vii) auditing;
 - (viii) board fees;
 - (ix) brand advertising and corporate image making;
 - (x) corporate/community sponsorships and donations;
 - (xi) internal communication;
 - (xii) membership fees for industry or trade organisations;
 - (xiii) freight, courier and postage;
- (s) membership fees for industry or trade organisations;

-
- (t) IT costs other than costs associated with SCADA (Supervisory Control and Data Acquisition control system). Telemetry and other 'operational' IT costs should be allocated to the relevant activity area; and
 - (u) price monitoring staff, providing information requested by the Authority, preparing submissions in response to consultations conducted by the Authority, non-financial audits and the preparation of price monitoring accounts.

Costs associated with the following items must be excluded, and separately identified, from corporate costs:

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

Customer group means, for example, residential, *non-residential*, or *other customer group* that is the source of revenue. Where there are commercially negotiated arrangements, these also need to be separately identified. Revenues from commercially negotiated arrangements include revenue that is *directly attributable* to the provision of services for which a price is not included in an *entity's* pricing schedule.

Directly attributable means, in relation to the allocation of an item, that the item is wholly and exclusively associated with the *activity* or *service*.

Distribution activity means activities related to the transmission, reticulation and treatment of water and wastewater.

Dividend means any dividend payments either paid or payable that relate to the profit earned during the financial year. For the avoidance of doubt, any dividend payments made during the financial year that relate to profits earned in previous financial years should not be reported.

Donated assets means assets provided to an *entity* with the expectation of a future benefit (either in the form of a price offset or future rebate from an *entity*). There may be instances where such a benefit is not anticipated. Details of the nature of the arrangement are required in this instance.

Electricity charges means all electricity costs that have been incurred during the year, including, as a separate item, renewable or green electricity expenditure.

Employee expenses means wages and costs related to employees directly employed by the business with the exception of labour costs for the provision of IT services and customer service and billing. Any agency staff or labour expenses incurred on contractors should be included in the 'Contractor expenses' category. Employee expenses should include: superannuation; WorkCover; long service leave; payroll tax; training; study assistance and overtime.

Entity means a provider of monopoly distribution and retail water and sewerage services as stated in the Ministerial Direction, listed under section 1.3 of these requirements as:

- (a) Unitywater;
- (b) Queensland Urban Utilities
- (c) Logan City Council;
- (d) Redland City Council; and

(e) Gold Coast City Council.

Establishment Costs means the costs involved in establishing the *entities*. Only the establishment costs approved by the (then) Minister for Natural Resources, Mines and Energy and Minister for Trade can be included in the *entities' price monitoring information returns*.

Estimated actual means the expected year end results for the year immediately prior to the reporting year as estimated at the time of drafting the price monitoring information returns.

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

General ledger means the detailed set of *accounts* of an *entity* upon which the detailed transactional information for each cost category and *revenue source* is recorded.

Geographic area means each of the council boundaries, and by system (catchment) where available.

Gifted assets means assets provided to an *entity* with the expectation of a future benefit (either in the form of a price offset or future rebate from an *entity*). There may be instances where such a benefit is not anticipated. Details of the nature of the arrangement are required in this instance.

GSL payments mean gross payments made to customers under section 94(1)(c) of the *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009*

Information Technology means all information technology costs that have been incurred during the year. This includes such items as software (where classified as an operating expenditure by the business), IT licence costs, IT maintenance and support arrangements and SCADA operating costs. Entities should also allocate any direct or contracted labour expenses related to the provision of IT services to this category. IT related to billing systems should be recorded separately under billing systems.

Licence and regulatory fees means fees paid to Queensland Government departments, the Energy and Water Ombudsman Queensland, Queensland Competition Authority or other relevant agency. Fees must be identified on the basis of the agency to which they relate. Licence fees must exclude membership fees for industry or trade organisations (to be included corporate costs).

Material means, in relation to an item, that the omission, misstatement or non-disclosure of the item has the potential to prejudice the understanding of the financial position and nature the entity and allocations between entity business segments and activity areas. For guidance, any variation above 5% is considered material.

Ministers means the Treasurer and Minister for Trade, and the Attorney-General and Minister for Justice.

Ministerial Direction means the Ministers' Direction Notice made under Section 23 (a) of the *Queensland Competition Authority Act 1997* and published in the Queensland Government Gazette Vol. 362, No. 24 on Friday 8 February 2013.

Monopoly business activity is an activity declared for the purposes of price monitoring under Part 3 of the QCA Act. To avoid doubt, *monopoly business activities* include core services and non-core services.

Non-regulated service means a service provided by an *entity* that is not required to satisfy any specified legal obligation or is provided by other service providers in a competitive market in which the business has no legal power to influence a customer's selection of the business as the service provider. For example, this could include laboratory services. Non-regulated services are not to be disaggregated between water and wastewater.

Non-residential customer means commercial and industrial customers and community or council groups.

Operating Costs means those costs which relate to the day to day operations of the *entity*.

Other Customer group means customers other than residential and non-residential (commercial and industrial) and typically includes the provision of irrigation, irrigation drainage, domestic and stock, surface water diversions and groundwater diversions.

Other Material and Services means all other operating expenditure accounts not already included in the previous operating expenditure categories. The Authority anticipates that this category would include a number of smaller expenditure accounts (to the extent that they are considered to be incurred in the provision of specified services), including, but in no way limited to:

- (a) membership fees;
- (b) advertising;
- (c) subscriptions and publications fees;
- (d) sponsorships;
- (e) entertainment;
- (f) meal expenses;
- (g) travel and accommodation;
- (h) vehicle fleet running costs
- (i) the hire of equipment to undertake maintenance works;
- (j) expenditure on concrete;
- (k) expenditure on steel and other metals or alloys;
- (l) expenditure on cables and other electrical materials ;
- (m) expenditure on wood or timber products;
- (n) expenditure on nuts, bolts and screws; and
- (o) expenditure on any other plant or materials that can be reasonably justified by the business for inclusion in this category.

Price monitoring information returns means financial records derived from an *entity's statutory accounts* and Budget that record transactions associated with the *Activities* and services of the *entity* and comply with these Information Requirements for 2013-15.

Price monitoring accounting principles and policies means *accounting principles and policies* that are used by an *entity* to prepare *price monitoring information returns* that are additional or in place of the accounting principles used to prepare the *statutory accounts* and budget.

QCA Act means the *Queensland Competition Authority Act 1997*.

Related party means in relation to an *entity* any other party that, at any time during the reporting period, is subject to (or may exert) control or significant influence by (or upon) the *entity*. For the avoidance of doubt, a related party would include an *entity's* participating councils.

Residential Customer means a person who provides revenue in exchange for services directly attributable to the provision of services to residences.

Revenue from other sources means:

- (a) Revenue that will offset prices/revenue requirement
 - (i) Proceeds from asset disposals (to be deducted from RAB) - Revenue collected from the disposal of assets used to provide monopoly business activities should be included in proceeds from asset disposals.
 - (ii) Government contributions (operating) - Government grants that are intended to offset prices for purposes other than capital expenditure should be included in government contributions (operating).
 - (iii) Government contributions (capital) - Government grants for capital purposes that are intended to offset prices should be included in government contributions (capital);
- (b) Revenue that will not offset prices/revenue requirement
 - (i) Proceeds from sale of assets (with no impact on the RAB) - Revenue collected from the disposal of assets used to provide non-regulated services should be included in proceeds from asset disposals.
 - (ii) Other non-regulated revenue - Revenue that is directly attributable to the provision of non-regulated services should be included in other non-regulated revenue (non-regulated revenue includes interest on investments, but not interest paid by customers on overdue accounts).

Seepage water means water that seeps from the ground into that part of a structure that is built below ground level. Examples of structures built below ground level – tunnels for traffic, underground car parks, basements, lift wells.

Service can be *core* or *non-core* or *non-regulated*, as per above definitions.

Statutory accounts means the *statutory accounts* of an *entity*, audited where available.

Statutory account amount means amounts taken from the *statutory accounts* for the purposes of allocating or disaggregating those amounts as required by these requirements.

Subsequent price monitoring accounting period means, from time to time, the price monitoring period directly following the previous price monitoring period.

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

Treatment means the treatment and disposal of sewage and trade waste.

Vehicle fleet running costs means all fuels and other vehicle fleet running and maintenance costs. Fuels include petrol, diesel, liquefied petroleum gas (LPG) or any other fuel used to power motor vehicles. Any labour costs incurred by the business in managing its fleet, should be included in the 'Labour costs' expenditure allocation category, rather than in this expenditure allocation category.

Year means financial year, unless otherwise specified.

6.2 Interpretation

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

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

7 PROFORMA BOARD MEMBERS RESPONSIBILITY STATEMENT

In the opinion of the Board Member/s of [name of *entity*]:

- (a) the *price monitoring information returns* set out on pages [] to [] are drawn up so as to fairly represent, in accordance with the requirements of the SEQ Price Monitoring Information Requirements for 2013-15 issued by the Queensland Competition Authority, (“Information Requirements”):
 - (i) the information required by the Information Requirements;
 - (ii) the information on *related party* transactions required;
 - (iii) the information on *third party* transactions required by the Information Requirements; and
- (b) no related party transactions of the type described in the Information Requirement arose during the current price monitoring accounting period that require disclosure under the Information Requirements (to be deleted only if disclosure is confirmed above);
- (c) no third party transactions of the type described in the Information Requirement occurred during the current price monitoring period that require disclosure under the Information Requirements (to be deleted only if disclosure is confirmed above); and
- (d) the terms and definitions used in this statement accord with the definitions set out in the Information Requirements.

Signed in accordance with a resolution of the Board:

(name of Board Member)

Dated

Please append an extract of the Minutes of the Board Meeting that the above attestation.

8 PROFORMA COUNCILLORS RESPONSIBILITY STATEMENT

In the opinion of the Councillor/s of [name of *entity*]:

- (e) the *price monitoring information returns* set out on pages [] to [] are drawn up so as to fairly represent, in accordance with the requirements of the SEQ Price Monitoring Information Requirements for 2013-15 issued by the Queensland Competition Authority, (“Information Requirements”):
 - (i) the information required by the Information Requirements;
 - (ii) the information on *related party* transactions required;
 - (iii) the information on *third party* transactions required by the Information Requirements; and
- (f) no related party transactions of the type described in the Information Requirement arose during the current price monitoring accounting period that require disclosure under the Information Requirements (to be deleted only if disclosure is confirmed above);
- (g) no third party transactions of the type described in the Information Requirement occurred during the current price monitoring period that require disclosure under the Information Requirements (to be deleted only if disclosure is confirmed above); and
- (h) the terms and definitions used in this statement accord with the definitions set out in the Information Requirements.

Signed in accordance with a resolution of the Council:

(name of Councillor)

Dated

Please append an extract of the Minutes of the Council Meeting that the above attestation.

9 PRICE MONITORING ACCOUNTING STATEMENT TEMPLATES

Information templates are available from the Authority's website www.qca.org.au.