



Final

**Electricity transmission network service providers  
Submission guidelines**

September 2007

© Commonwealth of Australia 2007

This work is copyright. Apart from any use permitted by the *Copyright Act 1968*, no part may be reproduced without permission of the Australian Competition and Consumer Commission. Requests and inquiries concerning reproduction and rights should be addressed to the Director Publishing, Australian Competition and Consumer Commission, GPO Box 3131, Canberra ACT 2601.

Inquiries concerning the currency of these guidelines should be addressed to the:

Australian Energy Regulator  
GPO Box 520  
Melbourne Vic 3001

Ph: (03) 9290 1444  
Fax: (03) 9290 1457  
Email: [AERInquiry@aer.gov.au](mailto:AERInquiry@aer.gov.au)

## **Amendment record**

---

<b>Version</b>	<b>Date</b>	<b>Pages</b>
1	September 2007	47pp.

---

# Contents

<b>Shortened forms .....</b>	<b>v</b>
<b>1. Nature and authority.....</b>	<b>1</b>
1.1 Introduction.....	1
1.2 Authority .....	1
1.3 Role of these guidelines .....	1
1.4 Confidentiality .....	2
1.5 Definitions and interpretation .....	2
1.6 Processes for revision .....	2
1.7 Version history and effective date .....	2
<b>2. General principles .....</b>	<b>3</b>
2.1 Compliance .....	3
2.2 Accounting principles and policies.....	3
2.3 Cost allocation .....	4
2.4 Substance over form .....	4
2.5 Materiality.....	4
2.6 Ad hoc information requirements .....	5
2.7 Information provided shall be verifiable.....	5
2.8 Audit assurance.....	5
2.9 Tripartite meeting.....	6
2.10 Directors' responsibility statement .....	6
2.11 Format of information.....	7
<b>3. Forecast regulatory information principles .....</b>	<b>8</b>
3.1 Underlying assumptions.....	8
3.2 Account headings.....	8
3.3 Discretionary headings.....	8
<b>4. Revenue proposal.....</b>	<b>10</b>
4.1 Introduction.....	10
4.2 Timing for submission of revenue proposal .....	10
4.3 Contents of revenue proposal.....	11
4.3.1 Audit assurance .....	11
4.3.2 Directors' responsibility statement .....	11
4.3.3 Capital expenditure .....	11
4.3.4 Operating expenditure.....	13
4.3.5 Interactions between capital and operating expenditure .....	15
4.3.6 Performance incentive scheme parameters .....	16
4.3.7 Efficiency benefits sharing scheme parameters .....	16
4.3.8 Total revenue cap and maximum allowed revenue.....	16
4.3.9 Regulatory asset base.....	17
4.3.10 Nominal risk free rate calculation period.....	17
4.3.11 Depreciation schedules .....	17
4.3.12 X factors.....	18
4.3.13 Length of regulatory control period.....	18
4.3.14 Proposed contingent projects .....	18
4.3.15 WACC parameters .....	19

4.3.16	Demand forecasts.....	19
4.3.17	Corporate income tax.....	19
4.3.18	Completed post-tax revenue model .....	19
4.3.19	Completed roll forward model.....	20
4.3.20	Cost pass-through rules.....	20
4.3.21	Self-insurance details .....	20
4.3.22	Services provided by the TNSP .....	21
4.3.23	Forecast map of transmission system .....	21
4.3.24	Related parties.....	21
4.4	Resubmission of revenue proposal or information .....	22
4.5	Submission of revised revenue proposal.....	22
4.6	Disclosure of information in the revenue proposal.....	22
<b>5.</b>	<b>Negotiating framework .....</b>	<b>23</b>
5.1	5.1 Introduction.....	23
5.2	Minimum information requirements.....	23
5.3	Other matters.....	25
5.4	Resubmission of negotiating framework or information .....	25
5.5	Submission of revised negotiating framework .....	25
5.6	Disclosure of information in the negotiating framework.....	25
5.7	Confidential information.....	25
	<b>Appendix A: Pro forma statements.....</b>	<b>30</b>
	<b>Appendix B: Example of a directors’ responsibility statement .....</b>	<b>32</b>
	<b>Appendix C: Examples of regulatory audit reports .....</b>	<b>33</b>
	<b>Appendix D: Checklist of requirements .....</b>	<b>40</b>

## Shortened forms

ACCC	Australian Competition and Consumer Commission
AER	Australian Energy Regulator
NEM	National Electricity Market
NER	National Electricity Rules
TNSP	transmission network service provider

# 1. Nature and authority

## 1.1 Introduction

- (a) Consistent with the requirements of clauses 6A.10.1 and 6A.10.2 of the *National Electricity Rules (NER)*, these *guidelines* set out the requirements to be followed by a *TNSP* for a *revenue proposal*, a proposed *negotiating framework* and a proposed *pricing methodology* that it submits to the *Australian Energy Regulator (AER)*
- (b) The *AER* will assess a *TNSP's revenue proposal* in order to make a *revenue determination*.
- (c) The *AER* will assess a *TNSP's proposed negotiating framework* in order to make a *negotiating framework determination*.
- (d) The *AER* will assess a *TNSP's proposed pricing methodology* in order to make a *pricing methodology determination*.

## 1.2 Authority

Clause 6A.10.2 of the *NER* requires the *AER* to make, according to the *transmission consultation procedures, submission guidelines* relating to a *TNSP's* preparation and submission of a *revenue proposal* and a *negotiating framework*.

## 1.3 Role of these guidelines

- (a) These *guidelines* detail the required basis for a *TNSP* preparing and submitting to the *AER* for approval its:
  - (1) *revenue proposal* relating to its *prescribed transmission services*
  - (2) proposed *negotiating framework* relating to its *negotiated transmission services*
  - (3) proposed *pricing methodology* relating to its *prescribed transmission services*.
- (b) These *guidelines* address:
  - (1) information requirements specified in the *NER*
  - (2) additional information requirements of the *AER*.

- (c) These *guidelines* stipulate the minimum information requirements of the *AER* relating to a *TNSP's revenue proposal* and *negotiating framework*. The obligation of a *TNSP* to comply with these *guidelines*:
  - (1) is additional to any obligation imposed under any other law applying to a *TNSP*
  - (2) does not derogate from such an obligation.

## 1.4 Confidentiality

The *AER's* obligations regarding confidentiality and the disclosure of information provided to it by a *TNSP* are governed by the *Trade Practices Act 1974*, the *National Electricity Law* and the *NER*.

## 1.5 Definitions and interpretation

- (a) In these *guidelines*:
  - (1) the words and phrases presented in italics *such as this* are defined in the glossary of these *guidelines* and have the meaning given to them in:
    - A. the glossary; or
    - B. if not defined in the glossary, the *NER*
  - (2) the words 'shall' and 'must' indicate mandatory requirements, unless the overall meaning of the phrase in which one of these words appears is otherwise.
- (b) Explanations in these *guidelines* about why certain information is required are provided for guidance only. They do not limit in any way the *AER's* objectives, functions or powers.

## 1.6 Processes for revision

The *AER* may amend or replace these *guidelines* from time to time according to clause 6A.10.2(e) of the *NER* and the *transmission consultation procedures*.

## 1.7 Version history and effective date

A version number and an effective date of issue will identify every version of these *guidelines*.

## 2. General principles

The *AER* requires both historic and forecast regulatory information:

- (a) This section of the *guidelines* sets out general principles common to both forms of regulatory information.
- (b) Section 3 of these *guidelines* sets out the specific principles for forecast regulatory information only.

### 2.1 Compliance

- (a) Clause 6A.10.1(c) of the *NER* requires that a *TNSP's revenue proposal* and proposed *negotiating framework* must comply with the requirements of these *guidelines*.
- (b) Clause 6A.10.1(d) of the *NER* requires that a *TNSP's proposed negotiating framework* must also comply with the requirements of clause 6A.9.5 of the *NER*.
- (c) Clause 6A.10.1(e) of the *NER* requires that a *TNSP's proposed pricing methodology* must:
  - (1) give effect to and be consistent with the *pricing principles for prescribed transmission services*; and
  - (2) comply with requirements of, and contain or be accompanied by such information as is required by, the *pricing methodology guidelines* made for that purpose under clause 6A.25 of the *NER*.

### 2.2 Accounting principles and policies

- (a) If so requested by the *AER*, a *TNSP* must give the *AER* full and detailed documentation of the financial and regulatory accounting principles and policies adopted in the preparation of the *TNSP's revenue proposal*. This must be provided in a way that ensures the *AER* understands the regulatory information and can make comparisons over time.
- (b) Any changes to the accounting principles and policies from those previously applied by the *TNSP*, and the rationale for such changes must be brought to the *AER's* attention. Where applicable, the impact of the changes on the regulatory information should be quantified and given to the *AER*.
- (c) The regulatory information requirements should be completed according to applicable Australian accounting standards except where these *guidelines* or other *AER guidelines* prescribe otherwise or no relevant Australian accounting standard exists.



## 2.3 Cost allocation

To the extent that completion of the pro forma included in appendix A requires a *TNSP* to allocate costs between different categories of *transmission services*, such allocations must comply with:

- (a) the *cost allocation methodology* approved by the *AER* under clause 6A.19.4; or
- (b) if paragraph (a) does not apply, the *cost allocation methodology* submitted by the *TNSP* with its *revenue proposal*; or
- (c) if paragraphs (a) and (b) do not apply, the *cost allocation guidelines* applicable to the *TNSP*.

## 2.4 Substance over form

- (a) The regulatory information provided by a *TNSP* in response to these *guidelines* must report both the substance and detail of transactions and events.
- (b) When the commercial substance of a transaction or event differs from legal form, it is the commercial substance that must be reported.
- (c) In determining the substance of a transaction or events, all aspects and implications will be considered, including the expectations of and motivations for it.
- (d) To determine the substance of a transaction or event, a group of transactions or events that achieves, or is designed to achieve, an overall commercial effect shall be viewed together.

## 2.5 Materiality

- (a) The *AER* requires that all *material* items must be disclosed when providing the required regulatory information.
- (b) The *AER* will apply the following standards of *materiality*:

An item is material if its omission, misstatement or non-disclosure has the potential to prejudice the understanding of the financial or operational position and nature of the *prescribed transmission services*, gained by reading the required regulatory information.

## 2.6 Ad hoc information requirements

The *AER* may require ad hoc information in order to assess a *TNSP's revenue proposal*. If such information is required by the *AER*, the *AER* would request the information from the *TNSP* in writing, specifying:

- (a) the type of information required
- (b) the format in which it is required
- (c) where relevant, the applicable accounting principles and policies
- (d) the time by which the information is to be delivered
- (e) the form of management assurance or responsibility statement required.

## 2.7 Information provided shall be verifiable

- (a) A *TNSP* shall ensure that all information provided to the *AER* is verifiable. As guidance, the *AER* anticipates that it will interpret 'verifiable' as meaning, at least, that information can be traced to a source document or assumption, by an independent party such as an *auditor*.
- (b) A *TNSP* must maintain accounting and reporting arrangements that:
  - (1) enable separate regulatory information to be prepared for submission to the *AER*
  - (2) provide information in the *revenue proposal* that can be verified.
- (c) If the *AER* requires more detailed information than a *TNSP* provides, the *AER* reserves the right to request access to the underlying schedules and accounting records.

## 2.8 Audit assurance

- (a) According to clause 6A.10.2(b)(2) of the *NER*, the *AER* may require any information contained in or accompanying the *revenue proposal* to be audited or otherwise verified.
- (b) The *AER* requires that an audit of the historic capex and opex information is performed before, and be provided to the *AER* to accompany, the submission of a *TNSP's Revenue proposal*.
- (c) The audit of historic capex and opex information must be a *regulatory audit report* as outlined in these *guidelines* (see examples set out at appendix C) and must cover at a minimum the following matters:
  - (1) basis and application of *cost allocation methodology*

- (2) arithmetic accuracy
- (3) reconciliation to financial statements.
- (d) Without limiting the scope of an audit, where the *AER* requests an audit of regulatory information that has been prepared by applying a *TNSP*'s approved *cost allocation methodology*, the scope of that audit or the form of independent assurance must include an assessment of whether an appropriate sample of the allocation of shared costs is according to the *TNSP*'s approved *cost allocation methodology*.
- (e) Where the *AER* requests an audit, the *TNSP* will be responsible for:
  - (1) employing an *auditor* to report on the information
  - (2) ensuring that the *AER* receives the *auditor*'s assurance that the information can be relied upon for regulatory purposes.
- (f) A *TNSP* shall consult with the *AER* on the choice of *auditor* before submission of its *revenue proposal*.
- (g) The *AER* may consider the independence and the expertise required of the *auditor* when determining their suitability.
- (h) Any *regulatory audit report* prepared by the *auditor* according to these *guidelines* shall be addressed to the *AER* as well as the *TNSP*.
- (i) If the audit fails to satisfy the *AER*'s requirements, the *AER* may require a further audit. The *AER* also reserves the right to appoint an *auditor* to be employed by the *TNSP*.

## 2.9 Tripartite meeting

If the *AER* requests the *auditor*'s opinion to be explained, or requires more information about the *auditor*'s work, the *AER*, or its agent, can meet with the *auditor* in the presence of the relevant *TNSP*, both before and after the finalisation of the relevant *revenue* determination.

## 2.10 Directors' responsibility statement

- (a) According to the requirements of clauses S6A.1.1(5) and S6A.1.2(6) of the *NER*, the *revenue proposal* must be accompanied by a *directors' responsibility statement*.
- (b) The *directors' responsibility statement* must include:
  - (1) a reference to the specific documents for which responsibility is accepted
  - (2) assurances that the documents given to the *AER* comply with these *guidelines*.

- (c) Where applicable, the *directors' responsibility statement* must also include assurances relating to the full disclosure to the *AER* of:
  - (1) *related party transactions*
  - (2) *third party benefit transactions*
  - (3) *financing transactions.*
- (d) An example of a *directors' responsibility statement* for the *revenue proposal* is set out in appendix B.

## **2.11 Format of information**

- (a) A *TNSP* must submit all possible information to the *AER* in both electronic and printed form.
- (b) Before doing so, a *TNSP* must ensure that its information can be transmitted in an electronic format compatible with the *AER's* information systems.
- (c) Information can be submitted to the:

Australian Energy Regulator  
GPO Box 520  
Melbourne Vic 3001

Ph: (03) 9290 1444  
Fax: (03) 9290 1457  
Email: [AERInquiry@AER.gov.au](mailto:AERInquiry@AER.gov.au)

### 3. Forecast regulatory information principles

Forecast regulatory information refers to information based on assumptions about events that may occur in the future and possible actions by a *TNSP*. The following sections set out specific principles for a *TNSP* preparing forecast regulatory information for submission to the *AER*.

#### 3.1 Underlying assumptions

A *TNSP* must give the *AER* the following minimum information to support its forecast regulatory information:

- (a) the assumptions on which all material forecast regulatory information is based
- (b) a full and detailed explanation of the basis of preparation of the forecast regulatory information.

#### 3.2 Account headings

(a) Appendix A specifies for the forecast regulatory information:

- (1) minimum disclosure requirements
- (2) *mandatory headings*.

(b) Subject to s. 3.3 of these *guidelines*, a *TNSP* may, within the context of the *mandatory headings*, define *discretionary headings* that are most appropriate to conveying an understanding of the *TNSP's* business.

#### 3.3 Discretionary headings

(a) Subject to the provisions of this section, the *discretionary headings* applied by a *TNSP* shall be:

- (1) consistent with the *discretionary headings* applied to the historic regulatory information provided
- (2) applied consistently to subsequent forecast regulatory information.

(b) Where applicable, *discretionary headings* applied by a *TNSP* in any forecast regulatory information shall be consistent with the *discretionary headings* in its *certified annual statements*.

(c) A *TNSP* shall meet with the *AER* before submitting forecast regulatory information, so that the *AER* can assess whether a *TNSP's* proposed *discretionary headings* meet its requirements.

(d) A *TNSP* may vary the *discretionary headings* from those used in a preceding *revenue cap application* or *revenue proposal* if:

(1) A revision of these *guidelines* should require such a change.

Or

(2) The *AER* issues written approval after receiving an application from a *TNSP* for a variation; however, such an application:

A. does not change a *TNSP*'s obligations under s. 2 of these *guidelines*

B. should include an explanation of the relationships between revised account headings and their predecessors.

## 4. Revenue proposal

### 4.1 Introduction

- (a) According to clause 6A.3 of the *NER*:
- (1) the *revenue* that a *TNSP* may earn in any *regulatory year* of a *regulatory control period* from the provision of *prescribed transmission services* is the *maximum allowed revenue*, including any adjustments made by the *AER*
  - (2) the *maximum allowed revenue* is determined according to a *revenue determination* made by the *AER* and the provisions of part C of chapter 6 of the *NER*.
- (b) Part E of chapter 6 of the *NER* details the procedure for the *AER* making a *revenue determination* and includes a requirement for a *TNSP* to submit to the *AER* a *revenue proposal* to the *AER* relating to the *prescribed transmission services* provided by a *TNSP* by means of, or in connection with, a *transmission system* owned, controlled or operated by the *TNSP*.
- (c) This section outlines the minimum information a *TNSP* must provide to the *AER* in its *revenue proposal*.
- (d) Sections 2 and 3 of these *guidelines* set out the principles that a *TNSP* must follow when preparing its *revenue proposal*. In case of any conflict of guidance, these principles take precedence over the pro forma statements in appendix A and the guidance set out in this section of the *guidelines*.
- (e) Appendix A sets out the pro forma statements a *TNSP* must use to submit its *revenue proposal* to the *AER*.

### 4.2 Timing for submission of revenue proposal

Under clauses 6A.10.1(a)(1) and 6A.10.1(a)(2) of the *NER*, a *TNSP* must submit its *revenue proposal* to the *AER*:

- (a) if any of the *prescribed transmission services* are subject to a *transmission determination*, 13 months before the expiry of the period in respect of which that *transmission determination* applies, or
- (b) where the *prescribed transmission services* are not subject to a *transmission determination*, three months after being required to do so by the *AER*.

## 4.3 Contents of revenue proposal

A *TNSP's revenue proposal* must contain, or be accompanied by, the information specified in s. 4.3 of these *guidelines*.

A checklist of the requirements that need to be met is included as appendix D.

### 4.3.1 Audit assurance

A *TNSP's revenue proposal* must be accompanied by all audit assurances that the *AER* requires under s. 2.8 of these *guidelines*.

### 4.3.2 Directors' responsibility statement

A *TNSP's revenue proposal* must be accompanied by a *directors' responsibility statement* as required under s. 2.10 of these *guidelines*.

### 4.3.3 Capital expenditure

(a) In accordance with clause 6A.10.2(b)(4) and clause S6A.1.1 of the *NER*, a *TNSP's revenue proposal* must contain at least the following information and matters relating to capital expenditure:

- (1) Forecasts of the capital expenditure for each year of the relevant *regulatory control period* which comply with clause 6A.6.7(a) of the *NER* and which identify the forecast capital expenditure by reference to well accepted categories such as:
  - A. asset class (e.g. transmission lines, substations etc), or
  - B. category driver (e.g. *regulatory obligation*, replacement, *reliability*, net market benefit, business support etc.)

and which identify, in respect of proposed *material* assets:

- C. the location of the proposed asset
  - D. the anticipated or known cost of the proposed asset
  - E. the categories of *transmission services* which are to be provided by the proposed asset.
- (2) The methodology used for developing the capital expenditure forecasts.
  - (3) The forecasts of load growth relied upon to derive the capital expenditure forecasts and the methodology used for developing those forecasts of load growth.
  - (4) The key assumptions that underlie the capital expenditure forecasts.



- (5) A certification of the reasonableness of the key assumptions by the directors of the *TNSP* as part of the *directors's responsibility statement* required under s. 4.3.2 of these *guidelines*.
  - (6) Capital expenditure for each of the first three years of the current *regulatory control period* and the expected capital expenditure for each of the last two years of that *regulatory control period*, categorised in the same way as for the capital expenditure forecasts.
  - (7) An explanation of any significant variations in the forecast capital expenditure from historical capital expenditure.
- (b) A *TNSP's revenue proposal* must:
- (1) include in the forecast of capital expenditure referred to in subsection (a) an amount of any unspent capital expenditure for a *contingent project* of the kind described in clause 6A.6.7(e) of the *NER*
  - (2) not include in the forecast of capital expenditure referred to in subsection (a) an amount of any capital expenditure for a *contingent project* of the kind described in clause 6A.6.7(h) of the *NER*.
- (c) A *TNSP's revenue proposal* must contain an explanation of why it considers that its forecast of capital expenditure is required to:
- (1) efficiently meet the expected demand for *prescribed transmission services* over the *regulatory control period*;
  - (2) comply with all applicable *regulatory obligations* associated with the provision of *prescribed transmission services*;
  - (3) maintain the quality, *reliability* and security of supply of *prescribed transmission services*; or
  - (4) maintain the *reliability*, safety and security of the *transmission system* through the supply of *prescribed transmission services*.
- (d) The *AER* has developed a number of capital expenditure pro forma statements that *TNSPs* must fill out as part of their provision of information to the *AER* as part of a *TNSP's revenue proposal*. The following table identifies the relevant capital expenditure pro forma statements in appendix A that a *TNSP* must prepare and submit to the *AER* as part of its revenue proposal. All relevant fields must be filled out where possible, including the sections for qualitative commentary.

<b>Pro forma number</b>	<b>Pro forma reference</b>
3.1	Historic capex by category
3.2	Historic capex by asset class
3.3	Historic capex—network

Pro forma number	Pro forma reference
3.4	Historic capex—non-network
4.1	Forecast capex by category
4.2	Forecast capex by asset class
4.3	Forecast capex—network
4.4	Forecast capex—non-network

#### 4.3.4 Operating expenditure

(a) Under clauses 6A.10.2(5) and S6A.1.2 of schedule 6A.1 of the *NER*, a *TNSP's revenue proposal* must contain at least the following information and matters relating to operating expenditure:

(1) Forecasts of the operating expenditure for each year of the relevant *regulatory control period* which comply with clause 6A.6.6(a) of the *NER* and which identify the forecast operating expenditure by reference to well accepted categories such as:

- A. particular programs, or
- B. types of operating expenditure (e.g. maintenance, payroll, materials etc.)

and which identify in respect of each such category:

- C. to what extent that forecast expenditure is on costs that are fixed and to what extent it is on costs that are variable, and
- D. the categories of *transmission services* to which that forecast expenditure relates.

- (2) The methodology used for developing the operating expenditure forecasts.
- (3) The forecasts of key variables relied upon to derive the operating expenditure forecasts and the methodology used for developing those forecasts of key variables.
- (4) The methodology used for determining the cost associated with planned maintenance programs designed to improve the performance of the relevant *transmission system* for the purposes of any *service target performance incentive scheme* that is to apply to the *TNSP* in respect of the relevant *regulatory control period*.
- (5) The key assumptions that underlie the operating expenditure forecasts.

- (6) A certification of the reasonableness of the key assumptions by the directors of the *TNSP* as part of the *directors' responsibility statement* required under s. 4.3.2 of these *guidelines*.
  - (7) Operating expenditure for each of the first three years of the current *regulatory control period*, and the expected operating expenditure for each of the last two years of that *regulatory control period*, categorised in the same way as for the operating expenditure forecasts.
  - (8) An explanation of any significant variations in the forecast operating expenditure from historical operating expenditure.
- (b) A *TNSP's revenue proposal* must contain a justification for its forecast of operating expenditure on the basis that it is required to:
- (1) efficiently meet the expected demand for *prescribed transmission services* over the *regulatory control period*
  - (2) comply with all applicable *regulatory obligations* associated with the provision of *prescribed transmission services*
  - (3) maintain the quality, *reliability* and security of supply of *prescribed transmission services*, or
  - (4) maintain the *reliability*, safety and security of the *transmission system* through the supply of *prescribed transmission services*.
- (c) In determining whether the *AER* is satisfied with the forecast operating expenditure proposed by a *TNSP*, clause 6A.6.6(e) of the *NER* requires the *AER* to have regard to ten *operating expenditure factors*. The following requirements of the operating expenditure forecasting process are relevant to the *efficiency benefit sharing scheme*:
- (1) The past expenditure profile of a *TNSP* may vary and it may be uneven. An uneven expenditure profile may arise for legitimate operational reasons or, in some circumstances, may indicate cost-shifting. The *AER* will require that a business provide an explanation for the profile of expenditure sufficient to demonstrate that the operating expenditure incurred in the regulatory period is related to operational needs as they arose and does not entail instances of cost-shifting.
  - (2) A *TNSP* must provide a detailed description of any changes in capitalisation policies that have arisen in the current *regulatory control period*, or that are proposed to apply in the next *regulatory control period*. This description must be accompanied by a calculation of the impact of those changes in capitalisation policy. If the *AER* is not satisfied that a change in capitalisation policy is appropriate, it may adjust the forecast operating expenditure allowance of the *TNSP* as allowed by clause 6A.6.6(f) of the *NER*.
  - (3) The operating expenditure forecast must include any necessary adjustments for changes in responsibilities that result from compliance

with a new or amended law or licence, or other statutory or regulatory requirement, including a requirement that can be demonstrated to arise directly from a recognised policy, practice or policy generally applicable to similar firms participating in the *National Electricity Market*.

- (4) A *TNSP* must include in its *revenue proposal* its proposed basis for accounting for growth in demand in the next *regulatory control period*. This must be accompanied by evidence that the proposed adjustment mechanism accurately reflects the impact of changes in expected growth in demand from a baseline forecast (positive and negative) on operating expenditure.
- (d) The *AER* has developed a number of operating expenditure pro forma statements that *TNSPs* must fill out as part of their provision of information to the *AER* as part of a *TNSP's Revenue proposal*. The following table identifies the relevant operating expenditure pro forma statements in appendix A that a *TNSP* must prepare and submit to the *AER* as part of its *revenue proposal*. All relevant fields must be filled out where possible, including the sections for qualitative commentary.

<b>Pro forma number</b>	<b>Pro forma reference</b>
1.1	Historic opex by category—summary
1.2	Historic opex by category (any part year)
1.3	Historic opex by category year 1
1.4	Historic opex by category year 2
1.5	Historic opex by category year 3
1.6	Historic opex by category year 4
1.7	Historic opex by category year 5
2.1	Forecast opex by category—summary
2.2	Forecast opex by category year 6
2.3	Forecast opex by category year 7
2.4	Forecast opex by category year 8
2.5	Forecast opex by category year 9
2.6	Forecast opex by category year 10

#### **4.3.5 Interactions between capital and operating expenditure**

Under clause S6A.1.3(1) of schedule 6A.1 of the *NER*, a *revenue proposal* must contain an identification and explanation of any significant interactions between the *TNSP's* forecast capital expenditure and forecast operating expenditure programs.

#### **4.3.6 Performance incentive scheme parameters**

- (a) Under clause S6A.1.3(2) of schedule 6A.1 of the *NER*, a *TNSP's revenue proposal* must contain:
- (1) the values, weightings and other elements that the *TNSP* proposes are to be attributed to the *performance incentive scheme parameters* for the purposes of the application to the *TNSP* of the *service target performance incentive scheme* that applies during the relevant *regulatory control period*
  - (2) an explanation of how the proposed values, weightings and other elements to be attributed to those *performance incentive scheme parameters* comply with any requirements relating to them set out in that scheme.
- (b) The *AER* has developed the pro forma statement 7.3 at appendix A to assist *TNSPs* to provide the required information to the *AER* relating to *performance incentive scheme parameters*. A *TNSP* must prepare and submit this pro forma statement to the *AER* as part of its *revenue proposal*.

#### **4.3.7 Efficiency benefits sharing scheme parameters**

- (a) Under clause S6A.1.3(3) of schedule 6A.1 of the *NER*, a *revenue proposal* must contain:
- (1) the values that the *TNSP* proposes are to be attributed to the *efficiency benefit sharing scheme parameters* for the purposes of the application to the *TNSP* of the *efficiency benefit sharing scheme* that applies in respect of the relevant *regulatory control period*
  - (2) an explanation of how the values proposed to be attributed to the *efficiency benefit sharing scheme parameters* comply with any relevant requirements set out in that scheme.
- (b) The *AER* has developed the pro forma statement 7.4 at appendix A to assist *TNSPs* to provide the required information to the *AER* relating to *efficiency benefit sharing scheme parameters*. A *TNSP* must prepare and submit this pro forma statement to the *AER* as part of its *revenue proposal*.

#### **4.3.8 Total revenue cap and maximum allowed revenue**

Under clause S6A.1.3(4) of schedule 6A.1 of the *NER*, a *revenue proposal* must contain:

- (a) the *TNSP's* calculation of the estimated total *revenue cap* for the relevant *regulatory control period*
- (b) the *TNSP's* calculation of the *maximum allowed revenue* for each year of the relevant *regulatory control period*,

using the *post-tax revenue model* referred to in rule 6A.5 of the *NER*, together with:

- (c) details of all amounts, values and other inputs used to generate the calculations
- (d) a demonstration that any such amounts, values and other inputs comply with the relevant requirements of part C of chapter 6A of the *NER*
- (e) an explanation of the calculation of the amounts referred to in subsections (a) and (b), together with an explanation of the amounts, values and inputs referred to in subsection (c).

#### **4.3.9 Regulatory asset base**

Under clause S6A.1.3(5) of schedule 6A.1 of the *NER*, a *revenue proposal* must contain the *TNSP's* calculation of the regulatory asset base for the relevant *transmission system* for each year of the *regulatory control period* using the *roll forward model* referred to in clause 6A.6.1 of the *NER*, together with:

- (a) details of all amounts, values and other inputs used by the *TNSP* for that purpose
- (b) a demonstration that any such amounts, values and other inputs comply with the relevant requirements of part C of chapter 6A of the *NER*
- (c) an explanation of the calculation of the regulatory asset base for each *regulatory year* of the relevant *regulatory control period* and of the amounts, values and inputs referred to in subsection (a).

#### **4.3.10 Nominal risk free rate calculation period**

Under clause S6A.1.3(6) of schedule 6A.1 of the *NER*, the *TNSP's revenue proposal* must nominate a commencement and length of the period to be used by the *AER* to calculate the nominal risk free rate for the *regulatory control period* according to clause 6A.6.2(c)(2) of the *NER*.

#### **4.3.11 Depreciation schedules**

- (a) Under clause S6A.1.3(7) of schedule 6A.1 of the *NER*, a *revenue proposal* must contain:
  - (1) the depreciation schedules nominated by the *TNSP* for the purposes of clause 6A.6.3 of the *NER*. The depreciation schedules must categorise the relevant assets by reference to well accepted categories such as:
    - A. asset class (e.g. transmission lines and substations), or
    - B. category driver (e.g. *regulatory obligation*, replacement, *reliability*, net market benefit and business support), and also by location
  - (2) details of all amounts, values and other inputs used by the *TNSP* to compile those depreciation schedules and an explanation of the calculation of those amounts, values and inputs

- (3) a demonstration that the depreciation schedules conform with the requirements set out in clause 6A.6.3(b) of the *NER*.
- (b) The *AER* has developed the pro forma statement 7.2 at appendix A to assist *TNSPs* to provide to the *AER* the required information relating to its depreciation schedules. A *TNSP* may prepare and submit this pro forma statement to the *AER* as part of its *revenue proposal*.

#### **4.3.12 X factors**

Under clause S6A.1.3(8) of schedule 6A.1 of the *NER*, a *revenue proposal* must contain the X factors nominated by the *TNSP* for each year of the relevant *regulatory control period* for the purposes of clause 6A.6.8(a) of the *NER*, together with a demonstration that those X factors comply with the requirements set out in clause 6A.6.8(b) of the *NER*.

#### **4.3.13 Length of regulatory control period**

Under clause S6A.1.3(9) of schedule 6A.1 of the *NER*, a *revenue proposal* must contain the commencement and length of the *regulatory control period* proposed by the *TNSP*.

#### **4.3.14 Proposed contingent projects**

Under clause S6A.1.3(10) of schedule 6A.1 of the *NER*, if the *TNSP* is seeking a determination by the *AER* that a *proposed contingent project* is a *contingent project* for the purposes of the relevant *revenue determination*, the *TNSP's revenue proposal* must contain:

- (a) a description of the *proposed contingent project*, including reasons why the *TNSP* considers the project should be accepted as a *contingent project* for the *regulatory control period*
- (b) a forecast of the capital expenditure which the *TNSP* considers is reasonably required for the purpose of undertaking the *proposed contingent project*
- (c) the methodology used for developing that forecast and the key assumptions that underlie it
- (d) information that demonstrates that the undertaking of the *proposed contingent project* is reasonably required to meet one or more of the objectives referred to in clause 6A.8.1(b)(1) of the *NER*
- (e) information that demonstrates that the proposed contingent capital expenditure for the *proposed contingent project* complies with requirements set out in clause 6A.8.1(b)(2) of the *NER*
- (f) the proposed trigger events relating to the *proposed contingent project* and an explanation of how each of those conditions or events addresses the matters referred to in clause 6A.8.1(c) of the *NER*.

#### **4.3.15 WACC parameters**

- (a) A *revenue proposal* must contain a breakdown of the *weighted average cost of capital calculation* nominated by the *TNSP* for the purposes of clause 6A.6.2 of the *NER*, together with a demonstration that this calculation complies with the requirements set out in clause 6A.6.2(b) of the *NER*.
- (b) The *AER* has developed the pro forma statement 7.1 at appendix A in order to assist *TNSPs* to provide to the *AER* the required information relating to the *weighted average cost of capital*. A *TNSP* must prepare and submit this pro forma statement to the *AER* as part of its *revenue proposal*.

#### **4.3.16 Demand forecasts**

- (a) A *TNSP's revenue proposal* must contain:
  - (1) the demand forecasts that the *TNSP* has used as the basis for its forecasts of operating and capital expenditure for the forthcoming *regulatory control period*
  - (2) the assumptions on which the demand forecasts have been based, and full and detailed explanations of the basis of their preparation.
- (b) As a minimum, the *TNSP's* demand forecasts must be presented for each *regulatory year* of the *regulatory control period*. It is expected that the *TNSP's* demand forecasts will be in the same form as that provided to *NEMMCO*.

#### **4.3.17 Corporate income tax**

A *TNSP's revenue proposal* must contain details of the estimated cost of corporate income tax calculated by the *TNSP* for the purposes of clause 6A.6.4 of the *NER*, together with a demonstration that the calculation complies with the requirements of that clause.

#### **4.3.18 Completed post-tax revenue model**

- (a) Under clause 6A.5.1 (a) of the *NER*, a *TNSP* must prepare its *revenue proposal* using a *post-tax revenue model* according to the requirements of chapter 6A of the *NER*.
- (b) In accordance with clause 6A.10.2(c)(1)(i) of the *NER*, a *TNSP's revenue proposal* must be accompanied by a *post-tax revenue model*, completed in a manner that demonstrates its application to the *TNSP*.
- (c) Consistent with clause 6A.10.2(c)(2) of the *NER*, the completed *post-tax revenue model* and the information in that model will not be publicly disclosed without the consent of the *TNSP*, except to the extent that the information is provided or otherwise available apart from it being contained in that model.



#### 4.3.19 Completed roll forward model

- (a) Under clause 6A.10.2(c)(1)(ii) of the *NER*, a *TNSP's revenue proposal* must be accompanied by:
- (1) a completed *roll forward model*
  - (2) the *TNSP's* calculation of the regulatory asset base for the relevant *transmission system* for each *regulatory year* of the relevant *regulatory control period* using the *roll forward model* referred to in clause 6A.6.1 of the *NER*, together with:
    - A. details of all amounts, values and other inputs used by the *TNSP* for the purpose of that calculation
    - B. a demonstration that any such amounts, values and other inputs comply with the relevant requirements of part C of chapter 6 of the *NER*
    - C. an explanation of the calculation of the regulatory asset base for each *regulatory year* of the relevant *regulatory control period* and of the amounts, values and inputs used to develop that calculation.
- (b) Consistent with clause 6A.10.2(c)(2) of the *NER*, the completed *roll forward model* and the information in that model will not be publicly disclosed without the consent of the *TNSP*, except to the extent that the information is provided or otherwise available apart from it being contained in that model.

#### 4.3.20 Cost pass-through rules

- (a) If requested to do so by the *AER*, a *TNSP's revenue proposal* must contain details of the information a *TNSP* intends to provide in support of any application made to the *AER* to pass through a *positive pass through amount* or a *negative pass through amount* under clause 6A.7.3 of the *NER*.
- (b) In accordance with clause 6A.17.2(f) of the *NER*, a *TNSP* must provide any written statement seeking the approval of the *AER* to pass through a *positive pass through amount* or a *negative pass through amount* according to any requirements specified in the *information guidelines*.

#### 4.3.21 Self-insurance details

If requested to do so by the *AER*, a *TNSP's revenue proposal* must contain the values that the *TNSP* proposes are to be attributed to self-insurance costs for each *regulatory year* of the relevant *regulatory control period*, together with:

- (a) details of all amounts, values and other inputs used by the *TNSP* to calculate its proposed self-insurance costs
- (b) an explanation of the *TNSP's* calculation of these amounts, values and inputs

- (c) the following information and reporting requirements:
  - A. a board resolution to self-insure (i.e. a copy of the signed minutes recording resolution made by the board)
  - B. confirmation that the *TNSP* is in a position to undertake credible self-insurance for those events
  - C. self-insurance details setting out the specific risks the *TNSP* has resolved to self-insure
  - D. a report from an appropriately qualified actuary or risk specialist verifying the calculation of risks and corresponding insurance premiums
  - E. the annual regulatory accounts must record the cost of self-insurance as an operating expense and establish a self-insurance reserve
  - F. when a claim against self-insurance is made, an appropriate deduction to the self-insurance reserve must be recorded.

#### **4.3.22 Services provided by the TNSP**

A *TNSP's revenue proposal* must contain:

- (a) the name and description of each individual *prescribed transmission service* provided by the *TNSP* that is the subject of that *revenue proposal*
- (b) the quality, *reliability* and security of supply of each *prescribed transmission service* provided by the *TNSP*
- (c) the *reliability*, safety and security of the *transmission system* provided by the *TNSP* in the supply of *prescribed transmission services*.

#### **4.3.23 Forecast map of transmission system**

A *TNSP's revenue proposal* must contain a forecast map of the *transmission system* for the relevant *regulatory control period*. This map, together with any appropriate accompanying notes, should also indicate the location of new major network assets proposed to be constructed over the *regulatory control period* and should identify:

- (a) the different ratings of the transmission lines
- (b) other major network assets.

#### **4.3.24 Related parties**

A *TNSP's revenue proposal* must contain the following:

- (a) details of the following information relating to any *material related party transactions* whose costs are attributed to, or allocated between, categories of *transmission services* provided by the *TNSP*:
  - A. details of the *related party*

- B. the terms of the *related party* contract
  - C. a description of the goods and/or services that are the subject of the transaction, and
  - D. a description of the procurement process undertaken in respect of the goods and/or services that are the subject of the transaction, and, in particular, whether the procurement process was a *competitive process*.
- (b) The *TNSP's* confirmation that the terms and conditions of any *related party* contract that it has require the *related party* to provide sufficient information to the *TNSP* to enable the *TNSP* to meet obligations to attribute or allocate the costs of that *related party* contract under these *guidelines*.

#### **4.4 Resubmission of revenue proposal or information**

Under the requirements of clause 6A.11.2 of the *NER*, if the *AER* notifies a *TNSP* of a determination under clause 6A.11.1 of the *NER*, the *TNSP* must, within one month of that notice, resubmit its *revenue proposal* or the required information (as the case may be) in a form that complies with that determination.

#### **4.5 Submission of revised revenue proposal**

A *TNSP* may submit a revised *revenue proposal* under clause 6A.12.3 of the *NER*.

#### **4.6 Disclosure of information in the revenue proposal**

- (a) The *AER* is permitted to publish all of the information that is required to be provided by a *TNSP* in, or to accompany, its *revenue proposal* under s. 4.3 of these *guidelines* other than information defined as protected information for the purposes of clause 6A.18.1 of the *NER*:
- (b) The *AER* will publish a *TNSP's revenue proposal* according to the requirements of clause 6A.11.3(a) of the *NER*.

## 5. Negotiating framework

### 5.1 Introduction

- (a) The *negotiating framework* is a document prepared by the *TNSP* that sets out the procedure to be followed in negotiations between the *TNSP* and any person (a *service applicant* or applicant) who wishes to receive a *negotiated transmission service* from the *TNSP*, as to the price and other terms and conditions at which the service is to be provided.
- (b) Under clause 6A.10.1(b) of the *NER*, a *TNSP* must submit to the *AER* a proposed *negotiating framework* at the same time as it submits a *revenue proposal*.
- (c) Under clauses 6A.10.1(c) and 6A.10.1(d) of the *NER*, a *TNSP*'s proposed *negotiating framework* must also comply with the requirements of these *guidelines* and clause 6A.9.5 of the *NER*.
- (d) This section outlines the specific information required to be included in a *TNSP*'s proposed *negotiating framework*.
- (e) A checklist of the requirements that need to be met is included as appendix D.

### 5.2 Minimum information requirements

- (a) A *TNSP*'s *negotiating framework* must contain, or be accompanied by, the information specified in this section (5.2).
- (b) A *TNSP*'s *negotiating framework* must specify a requirement for the *TNSP* to provide a description to the *service applicant* of the nature of the *negotiated transmission service* that is the subject of negotiation, including details of what the *TNSP* would provide to the *service applicant* as part of that service.
- (c) Consistent with clause 6A.9.5(c)(1) of the *NER*, a *TNSP*'s *negotiating framework* must specify a requirement for the *TNSP* and a *service applicant* to negotiate in good faith the price at which the *negotiated transmission service* is to be provided.
- (d) Consistent with clause 6A.9.5(c)(2) of the *NER*, a *TNSP*'s *negotiating framework* must specify a requirement for the *TNSP* to provide all such commercial information as a *service applicant* may reasonably require to enable that applicant to engage in effective negotiation with the *TNSP* as to the price at which the *negotiated transmission service* is to be provided, including the cost information described below.

- (e) Consistent with clause 6A.9.5(c)(3) of the *NER*, a *TNSP's negotiating framework* must specify a requirement for the *TNSP* to:
  - (1) identify, and inform a *service applicant* of, the reasonable costs, and/or the increase or decrease in costs (as appropriate), of providing the *negotiated transmission service*
  - (2) demonstrate to a *service applicant* that the charges for providing the *negotiated transmission service* reflect those costs and/or the cost increment or decrement (as appropriate).
- (f) Consistent with clause 6A.9.1(1) of the *NER*, a *TNSP's negotiating framework* must specify a requirement for the *TNSP* to base its price for a *negotiated transmission service* on the costs incurred in providing that service, determined according to the *TNSP's approved cost allocation methodology*.
- (g) A *TNSP's negotiating framework* must specify a requirement for the *TNSP* to provide the *service applicant* with the terms and conditions on which the *TNSP* would provide its *negotiated transmission service* to the *service applicant*.
- (h) Consistent with clause 6A.9.5(c)(4) of the *NER*, a *TNSP's negotiating framework* must specify a requirement for a *service applicant* to provide all such commercial information as the *TNSP* may reasonably require to enable the *TNSP* to engage in effective negotiation with that applicant as to the price at which the *negotiated transmission service* is to be provided.
- (i) Consistent with clause 6A.9.5(c)(5) of the *NER*, a *TNSP's negotiating framework* must specify a requirement for:
  - (1) the *TNSP* to provide a reasonable period of time for commencing, progressing and finalising negotiations with a *service applicant* as to the price at which the *negotiated transmission service* is to be provided
  - (2) each party to the negotiation to use its reasonable endeavours to adhere to those time periods during the negotiation.
- (j) Consistent with clause 6A.9.5(c)(6) of the *NER*, a *TNSP's negotiating framework* must specify a requirement for the *TNSP* to provide a process for dispute resolution that provides that all disputes about the price at which *negotiated transmission services* are to be provided are to be dealt with according to schedule 6A.3 of the *NER*.
- (k) Consistent with clause 6A.9.5(c)(7) of the *NER*, a *TNSP's negotiating framework* must specify for payment by a *service applicant* of the *TNSP's* reasonable direct expenses incurred in processing the application to provide the *negotiated transmission service*.

### **5.3 Other matters**

- (a) Under clause 6A.9.5(d) of the *NER*, notwithstanding ss. 5.1 and 5.2 of these *guidelines*, the *negotiating framework* must not be inconsistent with any of the requirements of chapters 4, 5 and 6A of the *NER*, and, in the event of any inconsistency, those requirements prevail.
- (b) Under clause 6A.9.5(e) of the *NER*, each *TNSP* and *service applicant* negotiating for the provision of a *negotiated transmission service* by the *TNSP* must comply with the requirements of the *negotiating framework* according to its terms.
- (c) Nothing in this section (5) of these *guidelines* or in clause 6A.9 of the *NER* is to be taken as imposing an obligation on a *TNSP* to provide any service to the *service applicant*.

### **5.4 Resubmission of negotiating framework or information**

In accordance with the requirements of clause 6A.11.2 of the *NER*, if the *AER* notifies a *TNSP* of a determination under clause 6A.11.1 of the *NER*, the *TNSP* must, within one month of that notice, resubmit its *negotiating framework* or the required information (as the case may be) in a form that complies with that determination.

### **5.5 Submission of revised negotiating framework**

A *TNSP* may submit a revised *negotiating framework* under clause 6A.12.3 of the *NER*.

### **5.6 Disclosure of information in the negotiating framework**

- (a) For the purposes of clause 6A.18.1(a)(2) of the *NER*, the *AER* is permitted to publish all information required to be provided by a *TNSP* in, or to accompany, its *negotiating framework* under s. 5.2 of these *guidelines*.
- (b) The *AER* will publish a *TNSP's* proposed *negotiating framework* under the requirements of clause 6A.11.3(a) of the *NER*.

### **5.7 Confidential information**

Confidential information required to be provided by a *TNSP* or a *service applicant* is governed by the clause 6A.9.6 of the *NER*.

## Glossary

These guidelines use the following definitions.

<i>actual cost</i>	the amount paid to the non- <i>related party</i> supplier of goods and/or services, and/or the prudent or efficient cost to a <i>TNSP</i> or a <i>related party</i> of providing the goods and/or services
<i>agreed-upon procedures report</i>	an agreed-upon procedures engagement report, prepared according to Australian Auditing Standard AUS 904. The objective is for the <i>auditor</i> to carry out procedures of an audit nature specified by the <i>AER</i> and to report factual findings.
<i>auditor</i>	a registered company <i>auditor</i> independent of a <i>TNSP</i> .
<i>audit report on a special purpose financial report</i>	an audit report on regulatory information submitted to the <i>AER</i> by a <i>TNSP</i> prepared according to Australian Auditing Standard AUS 802, and according to a financial reporting framework such as these <i>guidelines</i> , other than accounting standards and UIG consensus views.
<i>Australian Accounting Standards Board</i>	the body established under subs. 226(1) of the <i>Australian Securities and Investments Commission Act 1989</i> , which is continued in existence by s. 261 of <i>Australian Securities and Investments Commission Act 2001</i> .
<i>Australian Energy Markets Commission</i>	has the meaning set out in the <i>National Electricity Law</i> .
<i>Australian Energy Regulator</i>	has the meaning set out in the <i>National Electricity Law</i> .
<i>certified annual statement</i>	has the meaning given in clause 6A.17.1(a) of the <i>NER</i> .
<i>competitive process</i>	competitive letting of a contract. For example, it is a procurement process in which entities other than related parties have the capability to provide the goods and/or services in an economically efficient and effective manner are included, on equitable terms, in the invitation to tender a price for the goods and/or services.
<i>Director</i>	a director of a <i>TNSP</i> .
<i>Directors' responsibility statement</i>	a statement signed and dated by not less than two directors of a <i>TNSP</i> , prepared according to s. 2.10 and appendix A of these <i>guidelines</i> .
<i>discretionary heading</i>	<ul style="list-style-type: none"><li>▪ an account heading within regulatory information submitted to the <i>AER</i> by a <i>TNSP</i> that may be defined by a <i>TNSP</i>.</li></ul>
<i>financing transaction</i>	an accounting entry in regulatory information submitted to the <i>AER</i> by a <i>TNSP</i> the effect of which is to provide:

	<ul style="list-style-type: none"> <li>▪ a decrement to financing or interest costs in the statement of financial performance</li> <li>▪ relating to <i>prescribed transmission services</i>, a related: <ul style="list-style-type: none"> <li>▪ decrement to earnings before interest and tax</li> <li>▪ increase in asset values.</li> </ul> </li> </ul>
<i>guidelines</i>	these <i>submission guidelines</i>
<i>immaterial</i>	not <i>material</i>
<i>mandatory heading</i>	a mandatory account heading within the pro forma statements contained in appendix A
<i>material or materiality</i>	as set out at s. 2.5 of the <i>guidelines</i> .
<i>National Electricity Law</i>	as set out in schedule to the <i>National Electricity (South Australia) Act 1996</i> .
<i>NER</i>	as defined in the <i>National Electricity Law</i>
<i>negotiating framework determination</i>	has the meaning set out in clause 6A.9.3 of the <i>NER</i> .
<i>regulatory accounting date</i>	the end date of a <i>regulatory accounting period</i> .
<i>regulatory accounting period</i>	a period on which a single set of regulatory financial statements report.
<i>regulatory audit report</i>	<p>an <i>auditor's</i> report on regulatory information submitted to the <i>AER</i> by a <i>TNSP</i>. A <i>regulatory audit report</i> may include either:</p> <ul style="list-style-type: none"> <li>▪ an audit report on a <i>special purpose financial information</i></li> <li>▪ an <i>agreed-upon procedures report</i></li> <li>▪ a review of <i>financial reports</i>, or</li> <li>▪ a combination of the above reports.</li> </ul>
<i>related party</i>	<p>means, relating to all business segments within a <i>TNSP</i> either:</p> <ul style="list-style-type: none"> <li>(a) any entity that, at any time during the <i>regulatory accounting period</i>, has control or <i>material</i> influence over a <i>TNSP</i></li> <li>(b) any entity that, at any time during the <i>regulatory accounting period</i>, is subject to control or <i>material</i> influence by a <i>TNSP</i></li> <li>(c) any entity that, at any time during the <i>regulatory accounting period</i>, is controlled by the same entity that controls a <i>TNSP</i></li> </ul>



- (d) any entity that, at any time during the *regulatory accounting period*, is controlled by an entity that materially influences a *TNSP*
- (e) any entity that, at any time during the *regulatory accounting period*, is materially influenced by an entity with control over a *TNSP*
- (f) any entity that, at any time during the *regulatory accounting period*, is materially influenced by an entity with *material* influence over a *TNSP*
- (g) any entity that, at any time during the *regulatory accounting period*, controlled or materially influenced by an entity which is subject to control or *material* influence by a *TNSP*
- (h) any director of a *TNSP* or any of their director-related entities
- (i) any director of any entity identified as a *related party* in subsection (a) to (g) above, or any of their director-related entities, or
- (j) any other business segment within a *TNSP*.

but excludes any other entity (except those identified as a *related party* under subsection (h)) where the *related party* relationship results solely from normal dealings of:

- (k) financial institutions
- (l) authorised trustee corporations (as defined in the Corporations Law)
- (m) fund managers
- (n) trade unions
- (o) statutory authorities
- (p) government departments, or
- (q) local governments.

*related party transaction*

a transaction, or a number of transactions intended to achieve a common commercial effect, conducted with a *related party*.

*review of financial reports*

prepared according to Australian Auditing Standard AUS 902. An *auditor* should carry out procedures sufficient to enable them to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to their attention that causes them to believe that the financial report is not prepared, in all *material* aspects, according to an identified financial reporting framework, e.g. these *guidelines*. The review report contains a clear written expression of negative assurance.

*submission guidelines*

these *guidelines*

*third party benefit transactions*

a transaction, or a number of transactions intended to achieve a common commercial effect, conducted with a third party

## Appendix A: Pro forma statements

This is the list of the pro forma statements that a *TNSP* must use in order to provide the information required as part of its *revenue proposal* to the *AER*.

<b>Historic operating expenditure</b>	
1.1	Historic opex by category—Summary
1.2	Historic opex by category—any part year
1.3	Historic opex by category year 1
1.4	Historic opex by category year 2
1.5	Historic opex by category year 3
1.6	Historic opex by category year 4
1.7	Historic opex by category year 5
<b>Forecast operating expenditure</b>	
2.1	Forecast opex by category—summary
2.2	Forecast opex by category year 6
2.2	Forecast opex by category year 6
2.3	Forecast opex by category year 7
2.4	Forecast opex by category year 8
2.5	Forecast opex by category year 9
2.6	Forecast opex by category year 10
<b>Historic capital expenditure</b>	
3.1	Historic capex by category
3.2	Historic capex by asset class

3.3	Historic capex—network
3.4	Historic capex—non-network
<b>Forecast capital expenditure</b>	
4.1	Forecast capex by category
4.2	Forecast capex by asset class
4.3	Forecast capex—network
4.4	Forecast capex—non-network
<b>Commentary</b>	
5.1	Commentary on opex
5.2	Commentary on historic capex
5.3	Commentary on forecast capex
<b>Instructions/definitions</b>	
6.1	opex instructions
6.2	Historic capex instructions
6.3	Forecast capex instructions
<b>Other matters</b>	
7.1	Weighted average cost of capital
7.2	Depreciation
7.3	Performance incentive scheme parameters
7.4	Efficiency benefit sharing scheme parameters

Electronic copies of these pro forma statements are available at: [www.aer.gov.au](http://www.aer.gov.au).

## Appendix B: Example of a directors' responsibility statement

The directors of [the *TNSP*] hereby certify that:

- In accordance with schedule 6A.1.1(5), the key assumptions used in the capital expenditure forecasts are reasonable.
- In accordance with schedule 6A.1.2(6), the key assumptions used in the operating expenditure forecasts are reasonable.
- Capital and operating expenditure forecasts are based on the best available information at the time of submission.
- The historic capital and operating expenditure information provided in support of this *revenue proposal* is drawn up to present fairly according to the *AER's submission guidelines* and *cost allocation guidelines*.

Signed according to a resolution of directors:

---

[Name of director] Dated

Director

---

[Name of director] Dated

Director

## **Appendix C: Examples of regulatory audit reports**

Example of an audit report on a special purpose financial report

Example of a review of financial report

Example of a report of factual findings from agreed-upon procedures

*Example of an audit report on a special purpose financial report*

[Date]

[NAME]

The Chief Executive Officer

[TITLE]

[The *TNSP*]

Australian Energy Regulator  
GPO Box 520  
Melbourne Vic 3001

Dear \_\_\_\_\_

**REGULATORY FINANCIAL STATEMENTS**

**PERIOD ENDED [period end]**

**Scope**

We have audited the regulatory financial statements and other required statements, schedules and work papers (other required statements) of [the *TNSP*] for the regulatory accounting period ended 30 June [200x].

These statements are special purpose financial reports consisting of the statements, schedules and work papers listed in appendix A of the *AER's Transmission network service provider submission guidelines* set out on pages [ ] to [ ].

[The *TNSP*]'s directors are responsible for preparing and presenting the regulatory financial statements and other required statements. The directors have determined that the accounting principles and policies used are appropriate to meet the requirements of the *AER's Transmission network service provider submission guidelines*.

We have conducted an independent audit of the regulatory financial statements and other required statements to express an opinion on them to the *AER* and the directors on their preparation and presentation. No opinion is expressed about whether the accounting principles and policies used are appropriate to the needs of the *AER*.

The statements have been prepared to fulfil the requirements of the *AER*. We have prepared this report to submit to the *AER* and for the disclosure of [the *TNSP*] and it is not to be used for any other purpose than that. We disclaim any responsibility for any reliance on this report, or on the regulatory financial statements and other required statements to which it relates, to any person other than that for which it was prepared.

Our audit has been conducted according to Australian Auditing Standards. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the statements, and the evaluation of significant accounting estimates. These procedures have been undertaken to form an opinion about whether,

in all *material* respects, the regulatory financial statements and other required statements are presented fairly according to the regulatory accounting principles and policies and the requirements of the *AER*. These principles and policies do not require all accounting standards be applied nor other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

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

**Audit opinion**

In our opinion, the regulatory financial statements and other required statements present fairly the financial position of [the *TNSP*] as at [period end], the results of its operations and its cash flows for the period then ended, as required by the *AER* .

Yours faithfully

[*Name of Auditor*]

Chartered Accountants

[*Name of signatory*]

[*Position of signatory*]



*Example of a review of financial report*

[Date]

[NAME]

[TITLE]

Australian Energy Regulator  
GPO Box 520  
Melbourne Vic 3001

The Chief Executive Officer

[The *TNSP*]

Dear \_\_\_\_\_

**REGULATORY FINANCIAL STATEMENTS**

**PERIOD ENDED [period end]**

**Scope**

We have reviewed the regulatory financial statements and other required statements, schedules and work papers of [the *TNSP*] for the *regulatory accounting period* ended 30 June [200x]. The regulatory financial statements and other required statements are listed in appendix A of the *AER's Transmission network service provider submission guidelines* set out on pages [ ] to [ ].

[The *TNSP*]'s directors are responsible for preparing and presenting the regulatory financial statements and other required statements and the information contained therein. We have reviewed the statements to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that they are not presented fairly as required by the *AER*.

The statements have been prepared to fulfil the *AER*'s requirements. This report is for submission to the *AER* and for the directors of [the *TNSP*] and is not to be used for any other purpose. We disclaim any responsibility for any reliance on this report, or on the regulatory financial statements and other required statements to which it relates, to any person other than that for which it was prepared.

Our review has been conducted according to Australian Auditing Standards that apply to review engagements. A review is limited primarily to inquiries of company personnel and analysis of the financial data. These procedures do not provide all the evidence necessary in an audit, and thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, do not express an audit opinion.

## Statement

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the regulatory financial statements and other required statements of [the *TNSP*] for the period 30 June [200x], ended 30 June [200x], period end, does not fairly present the regulatory information according to the *AER's Transmission network service provider submission guidelines*.

Yours faithfully

[*Name of Auditor*]

Chartered Accountants

[*Name of signatory*]

[*Position of signatory*]

*Example of a report of factual findings from agreed-upon procedures*

[Date]

[NAME]

[TITLE]

Australian Energy Regulator  
GPO Box 520  
Melbourne Vic 3001

The Chief Executive Officer

[The *TNSP*]

Dear \_\_\_\_\_

**REGULATORY FINANCIAL STATEMENTS**

**PERIOD ENDED [period end]**

**Scope**

We have performed the procedures agreed with you as detailed in the written instructions of [date] and described below with respect to the regulatory financial statements and other required statements, schedules and work papers of [*TNSP*] for the period ending [date] set forth in the attached schedules [describe and reference the schedules].

Our engagement was undertaken according to Australian Auditing Standards that apply to agreed-upon procedures engagements. The responsibility for determining the adequacy or otherwise of the procedures agreed to be performed is that of [those who engaged the *auditor*]. The procedures were performed solely to assist you in evaluating [e.g. the compliance of *TNSP*] with paragraphs [detail paragraphs considered] of the *AER's Transmission network service provider submission guidelines* and are summarised as follows:

- [Agreed upon procedure]
- [Agreed upon procedure]
- [Agreed upon procedure]

Because the above procedures do not constitute either an audit according to Australian Auditing Standards or a review according to Australian Auditing Standards that apply to review engagements, we do not express any assurance on the regulatory financial statements and other required statements of [the *TNSP*]. Had we performed additional procedures or an audit according to Australian Auditing Standards or a review according to the standards, other matters might have come to our attention that would have been reported to you.

## **Findings**

We report as follows:

- (a) With respect to 1 above ...
- (b) With respect to 2 above ...
- (c) With respect to 3 above ...

[Detail any exceptions noted]

Our report is solely for the purpose set forth in the first paragraph of this report and for submission to the *AER* and is not to be used for any other purpose or distributed to any other party. This report refers only to the accounts and items specified above and does not extend to any financial report of [the *TNSP*], taken as a whole.

Yours faithfully

[*Name of Auditor*]

Chartered Accountants

[*Name of signatory*]

[*Position of signatory*]

## **Appendix D: Checklist of requirements**

This checklist covers the requirements under these *guidelines* for both the *revenue proposal* and the *negotiating framework*.

An electronic copy of this checklist is available at: [www.aer.gov.au](http://www.aer.gov.au).