

NT Electricity Ring-fencing Accounting and Cost Allocation

Procedure

CONTROLLED DOCUMENT

Required by the Northern Territory
Electricity Ring-fencing Code

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Martha Stewart

APPROVED

Chief Financial Officer
Power and Water Corporation

THIS PROCEDURE IS UNCONTROLLED WHEN PRINTED



We put
**PEOPLE
FIRST**



We value our
customers and
give them
OUR BEST



We have
pride in
ourselves and
OUR WORK



We work
better by
working
TOGETHER

Power and Water's values in action.

Essential. Every day.

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1 Purpose

This document contains the Accounting and Cost Allocation Procedures (Procedures) required by Clause 4 and detailed in Schedule 1 of the Northern Territory Electricity Ring-fencing Code Fourth Version 26 August 2020 (the Code).

The purpose of these Procedures is to set out how Power and Water Corporation (Power and Water) will enable financial accounts and reports to be prepared for each Prescribed Business under the Code.

The accounting and cost allocation principles and procedures are set out at Appendix 1. Their purpose is to provide more specific guidance to Power and Water's employee on how to allocate any costs, whether directly attributable or shared, between the Prescribed Business as defined in the Code and all other structural components of the Electricity Business.

2 Scope

Power and Water is a multi-utility that provides:

- electricity distribution services;
- water services; and
- waste water services

to the main population centres of the Northern Territory. Power and Water also supplies gas to the Territory's major power stations.

The delivery of electricity, water and sewerage services in remote communities is provided through Power and Water's wholly owned subsidiary Indigenous Essential Services Pty Ltd (IES), which is a not for profit business. These services are provided under a 'fee for service' agreement with the Department of Community Services.

Power and Water's executive and business units have been structured to provide these services. Administrative support functions are provided by the Corporate business units to all Power and Water operational business units, with costs being allocated through the Power and Water Corporate cost allocation process.

Electricity distribution operational services¹ are provided by parts of the Power Networks and System Control business units.

The Procedures set out in this document outline how Power and Water and its employees will ensure that its:

- financial accounts and cost allocation methodologies will comply with its obligations under the minimum ring-fencing requirements under clause 3 of the Code;
- procedures will be compliant and consistent with the accounting and cost allocation principles stated in Schedule 1 of the Code; and
- cost allocation methods (CAM) are the same as the Australian Energy Regulator (AER) approved CAM.

3 Minimum Ring-fencing Requirements

3.1 Financial accounts, procedures and reports

Power and Water as a multi-faceted NT government owned corporation is responsible for a range of services including the electricity network, provision of water and sewerage services, system controller business (business having system controller functions or 'Prescribed Business' as defined in the Code) and other functions.

Power and Water is able to establish, maintain and prepare financial accounts and reports in accordance clauses 3 and 4 of the Code such that:

- It is able to establish and maintain a separate set of financial accounts and reports in respect of each Prescribed Business (System Controller Business); and
- Prepare the financial accounts and reports in accordance with the Accounting Procedures as approved by the Utilities Commission of the Northern Territory under this Code.

Details of Power and Water's financial accounts, procedures and reports are detailed in **Appendix 1**. The accounting principles adopted are as stated in **Appendix 2**.

3.2 Cost allocation

Power and Water allocates its costs in accordance with the procedure outlined at **Appendix 3**.

Power and Water adopts the approved AER CAM as its method for allocating all costs within the organisation. Full details of this methodology are attached. They can also be found on the AER Web site via the attached link:

[Power and Water Corporation - Cost Allocation Method 2018 | Australian Energy Regulator \(aer.gov.au\)](https://www.aer.gov.au/power-and-water/cost-allocation-method-2018)

Whilst the AER CAM is stated as the articulated cost methodology for Distributed Services, its principles are applied to all areas of Power and Water. These methodologies are universally applied and are consistent with robust cost attribution methodologies, applicable to the business structures and operations and consistent with the business and accounting reporting frameworks.

Power and Water's Cost Allocation Procedures are therefore considered to meet the requirements of clauses 3.2 and 4.3(b) and the Principles outlined in Schedule 1, part 2 of the Code.

4 Definitions

Unless defined otherwise in Appendix 3, words and phrases in these Procedures will have the meanings attributed to them in Clause 13 of the Code.

Words and phrases have the meanings ascribed to them by the Code. The following additional terms are defined for the purposes of these Procedures.

Where terms or words are not included in the definitions section, refer to Power and Water's intranet glossary.

Term	Definition
Procedures	means Accounting and Cost Allocation Procedures, but not Information Procedures

5 Change Management and Continuous Improvement

5.1 Arrangement for revision

These procedures have been prepared on the basis that they set out a cooperative arrangement between Power and Water and the Commission to enable Power and Water to fulfil its obligations under the Code. In this regard, the Procedures introduce a number of explicit expectations of how Power and Water will work with the Commission to achieve these outcomes.

Power and Water may submit applications for revision in accordance with Clause 5 of the Code.

5.2 Approval, effective date and version history

These Procedures must be endorsed by the Chief Financial Officer and approved by the Utilities Commission.

These Procedures become effective after approval by the Commission and notification on the Commission's website. Each revision to these Procedures will bear the effective date and a version number.

5.3 Review

The requirements of this procedure are mandatory and shall be reviewed and updated periodically for its ongoing effectiveness. This procedure will be reviewed, at a minimum, every three years or in the event of any significant change in our vision, values, long term goals, risk appetite, policy statement, management standard, business model or organisational structure, or related systems or processes.

5.4 Internal References and Related Documents

Document title	Record number
Finance Management Standard	CONTROL0409
Finance Policy Statement	CONTROL0289

5.5 External References, Legislative and Regulatory Obligations

- Northern Territory Electricity Ring-fencing Code
- [Power and Water Corporation - Cost Allocation Method 2018 | Australian Energy Regulator \(aer.gov.au\)](#)

5.6 Records Management

These procedures and all related documents are captured, stored and managed in our Electronic Document and Records Management System and controlled in the Controlled Document Register.

5.7 Improvement Suggestions

Improvement suggestions are captured and managed in our process improvement and event information management system. To log an improvement suggestion for this document please see the 'how to report an event' user guide located on our intranet or contact events@powerwater.com.au.

5.8 Document History

Date of issue	Version	Prepared by	Description of changes
09/03/2021	0.1	Compliance	Initial Draft
28/04/2021	0.2	A/Snr Mgr Corporate Finance	Reviewed and edited
19/05/2021	0.3	Finance Business partner - Corporate	Additional updates
03/06/2021	0.4	Snr Mgr Corporate Finance	Document reviewed, prior to CFO review.
06/06/2021	0.5	Snr Mgr Corporate Finance	Incorporated feedback from Martha Stewart (A/CFO). A/CFO endorsed.
07/06/2021	0.6	Compliance	Draft document submitted to Utilities Commission for review and approval.
18/06/2021	0.7	Utilities Commission	Draft document reviewed and feedback to PWC
25/06/2021	0.8	Compliance	Updated draft document - submitted to Utilities Commission for review and approval
08/07/2021	0.9	Compliance	Typographical errors updated (Sect A1.4 & A2.1), following Utilities Commission review.
08/07/2021	1.0	Compliance	Utilities Commission approval received

Appendix 1: Financial accounts, procedures and reports

A.1.1 Financial management system

Power and Water's Financial Management System (FMS), Oracle, contains the organisation's General Ledger System which provides the Corporation's complete record of all financial transactions. Outputs from this system are used as the basis for the preparation of year-end Statutory Financial Reports as prepared and audited under the requirements of the Government Owned Corporations Act 2001 and the Corporations Act 2001. All financial statements and reporting for the Prescribed Business (the System Controller Business) under the Code are based on the Statutory Financial Statements of Power and Water.

A.1.2 Organisational structure and chart of accounts

Power and Water as a multi-faceted NT government owned corporation is responsible for a range of services including the electricity network, provision of water and sewerage services, system controller business (business having system controller functions or 'Prescribed Business') and other functions.

The FMS uses a General Ledger chart of accounts structure that naturally captures and allocates all costs (and revenue) by:

- Entity – divisions within Power and Water;
- Business Unit – group and sections within the entity;
- Location – geographical area in which costs occurs; and cost type.
- Activity; and
- Cost type.

A.1.3 Accounting records and subsidiary systems

All transactions and accounting records in the FMS are supported by either:

- Individual transactions, and associated supporting documentation, reflecting the substance of the transaction. These details may comprise of:
 - Invoices;
 - Time sheets;
 - Work orders;
 - Agreements; or
- Aggregations of individual transactions into groups which are then allocated (e.g. refer to **Appendix 3: Cost allocation Procedures and Principles**) using methodologies that are approved, fair and reasonable, consistent, rational and auditable. The details outlined in Appendix 3 cover costs and the attribution of costs that comprise of:
 - Direct costs;
 - Indirect costs;
 - Asset management system allocations to depreciation transactions; and
 - Corporate shared / Overhead costs.
- Details held within subsidiary accounting systems that provide transactional level details and support the reporting of:
 - Costs;
 - Revenues;
 - Assets employed;
 - Liabilities.

A.1.4 Accounting procedures and controls

Accounting procedures and controls are embedded so that they occur on an ongoing basis to ensure the completeness and accuracy of accounting transactions and profit and loss and balance sheets reports.

These accounting and control procedures include:

- Delegated and systems controlled procedures over all expenditure transactions, in accordance with delegated schedules of authority;
- Adoption of Cost Allocations Methodologies (refer to Appendix 3) in accordance with the AER-approved CAM for all cost transactions within Power and Water;
- Preparation of detailed reconciliations on a monthly basis of all material Balance Sheet accounts;
- Preparation and review of detailed profit and loss Entity and Business Unit reports on a monthly basis;
- Ongoing review and the preparation of accounting adjustments, if necessary, in response to any errors, emissions or adjustments identified from reviews and reconciliations conducted;
- Conduct of Internal Audits throughout the year to ensure compliance with stated internal procedures and controls;
- Conduct of a yearly Audit of the Power and Water Statutory Financial Statements by the Auditor General of the Northern Territory;
- Conduct of yearly Regulatory Information Notice Audits as required by the AER;
- Approval by the Directors of all key Accounting Policies.

A.1.5 Financial statements and Audit

As a result of the FMS, structures and controls as outlined above, Power and Water keeps accounting records that:

- (a) correctly record and explain the transactions and financial position of each Prescribed Business, as defined under the Code;
- (b) enable financial statements and reports to be prepared in accordance with the Code as and when necessary; and
- (c) are capable of allowing an auditor to conveniently and properly form an opinion on the basis of the financial statements and reports as to the level of compliance with Schedule 1 of the Code, the Accounting Procedures as approved under the Code and the minimum ring-fencing requirements under the Code.

Furthermore, the financial statements and reports prepared in compliance with the Code will:

- give a fair and reasonable view of the profit and loss and balance sheet relating to each Prescribed Business under the Code and will, in so far as is reasonably practicable, be prepared in accordance with the accounting principles and policies applicable to the Statutory Financial Statements;
- be derived from the statutory accounts of Power and Water; and
- contain the entirety of the activities of each Prescribed Business by
 - eliminating non related costs;
 - ensuring that the costs disclosed are only related to Power and Water and pertain to the Prescribed Business; and
 - only disclosing accounts which have been precisely disaggregated from Power and Water's consolidated statutory accounts.

Appendix 2: Accounting principles

A.2.1 Accounting principles

Power and Water's accounting principles are consistent with those stated in Schedule 1 of the Code. Many of these principles are evidenced by matters outlined in Appendix 1: Financial accounts, procedures and reports, as stated above. Power and Water's other key accounting principles, policies and procedures are such that they:

- conform with Australian Accounting Standards;
- are consistently applied unless otherwise stated;
- utilise recognisable and rational economic basis;
- satisfy the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions is reported by:
 - where substance and form differ, reporting the substance rather than the legal form of a transaction or event;
 - considering all aspects and implications, including the expectations of and motivations for, the transactions; and
 - viewing in aggregate a group or series of transactions that achieves, or is designed to achieve, an overall commercial effect.

Appendix 3: Cost Allocation Procedures and Principles

A.3.1 Cost allocation methodology and procedures

Power and Water's financial accounts and systems are outlined in **Appendix 1**.

The cost allocation procedures and principles adopted by Power and Water are a key component to ensuring compliance with the minimum ring-fencing requirement of the Code. Power and Water's cost allocation methodology and procedures are outlined below.

A.3.2 AER-Approved Cost Allocation Method (AER CAM)

Power and Water adopts the approved AER CAM as its method for allocating all costs within the organisation. Full details of this methodology are attached. They can also be found on the AER Web site via the attached link: [Power and Water Corporation - Cost Allocation Method 2018 | Australian Energy Regulator \(aer.gov.au\)](https://www.aer.gov.au/power-and-water/cost-allocation-method-2018)

Whilst the AER CAM is stated as the articulated cost methodology for Distributed Services its principles are applied to all areas of Power and Water. These methodologies are universally applied as that are consistent with robust cost attribution methodologies, applicable to the business structures and operations and consistent with the business and accounting reporting frameworks.

Power and Water's Cost Allocation Procedures are therefore considered to meet the requirements of clauses 3.2 and 4.3(b) and the Principles outlined in Schedule 1, part 2 of the Code.

A.3.3 Cost Allocation Principles

Power and Water's cost allocation procedures as stated within its AER CAM, and as applied throughout the organisation, are consistent with the Cost Allocation Principles as outlined in Schedule 1, part 2 of the Code. Key points to note in relation to the Schedule 1, part 2 Principles of the Code are that they:

- comply with the minimum ring-fencing requirements of the Code;
- are consistent with the accounting policies and other regulatory instruments;
- are sufficiently detailed to enable replication of reported outcomes as stated for each separate cost category comprising:
 - direct costs;
 - indirect costs;
 - asset management system allocations to depreciation transactions; and
 - corporate shared / overhead costs.
- for each category of direct cost maintain sufficient detail (as appropriate) to outline the:
 - nature of each cost item;
 - category of service;
 - characteristics of the cost;
 - details describing how and where records are maintained to enable the basis of attribution to be audited.
- for each shared cost maintain sufficient details (as appropriate) to outline the:
 - nature of the cost item;
 - categories of service between which cost items are allocated;
 - nature of the allocator/s and reason for selection;
 - what the numeric quantities or percentage allocators are and how they will change along with explanation of the mechanisms for change;
 - how and where the records will be maintained to enable audit if required.
- the substance of allocations where they differ from the legal form;
- the causal allocators for shared cost.