

Draft Financial Reporting Guidelines for Non-Scheme Pipelines

Consultation Paper

October 2017



Request for submissions

Interested parties are invited to make written submissions to the Gas Market Reform Group (GMRG) in response to the Draft Financial Reporting Guidelines and this paper by the 5pm (AEST) **Friday 3 November 2017**.

Electronic submissions are preferred and can be sent via e-mail addressed to the GMRG at enquiries@gmrq.coagenergycouncil.gov.au.

Stakeholders who wish to provide hard copies by post may do so by addressing their submissions to:

Gas Market Reform Group

c/o Australian Energy Market Commission

PO Box A2449

Sydney South NSW 1235

The GMRG has a strong preference for public submissions to generate full and frank debate. All stakeholder submissions will be published on the GMRG's website at <http://gmrq.coagenergycouncil.gov.au/> unless stakeholders have clearly indicated that a submission should remain confidential, either in whole or in part.

Please note that this paper is intended for consultation and does not reflect the final views of the GMRG.

For further information about this paper or making a submission, please contact the GMRG via email at enquiries@gmrq.coagenergycouncil.gov.au

In addition to providing a written submission, stakeholders will have an opportunity to discuss their preliminary views at a number of roundtable discussions to be held in Melbourne and Perth from 18-20 October 2017. Separate roundtables will be held for shippers (gas producers, large gas users and gas retailers) and pipeline operators.

Stakeholders are encouraged to express their interest in attending a roundtable by contacting enquiries@gmrq.coagenergycouncil.gov.au.

The views and opinions expressed in this publication are those of the GMRG.

While reasonable efforts have been made to ensure that the contents of this publication are factually correct, the GMRG and its advisor, McGrathNicol, do not accept responsibility for the accuracy or completeness of the contents, and shall not be liable for any loss or damage that may be occasioned directly or indirectly through the use of, or reliance on, the contents of this publication.

Shortened forms

Shortened Form	Extended Form
AASB	Australian Accounting Standards Board
AER	Australian Energy Regulator
COAG	Council of Australian Governments
EBIT	Earnings before interest and tax
GMRG	Gas Market Reform Group
NGL	National Gas Law
NGR	National Gas Rules
NPAT	Net profit after tax

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1 Introduction and summary

The information disclosure and arbitration framework, as implemented through the *National Gas (Pipelines Access-Arbitration) Amendment Act and Rule 2017*, aims to facilitate access on reasonable terms to services provided by non-scheme pipelines. A key component of the framework is to provide prospective users of non-scheme pipelines with increased information to reduce the imbalance in bargaining power they can face when negotiating with service providers.

Under Part 23 of the National Gas Rules (NGR), service providers of non-scheme pipelines are required to publish a range of information, including financial information and weighted average price information. Financial and weighted average price information is intended to assist prospective users to carry out a high-level assessment of the reasonableness of the service provider's standing price, as well as the terms and conditions associated with the service.

Rather than specifying the financial and weighted average price information that service providers are required to report in the NGR, rule 557 of the NGR provides for the Australian Energy Regulator (AER) to publish and maintain financial reporting guidelines ('guideline'). In keeping with this rule, the guideline must:

- provide for the publication of financial information about each non-scheme pipeline on a pipeline by pipeline basis and in respect of the financial year of the service provider for the pipeline;
- specify the methods, principles and inputs to be used to calculate weighted average price information and the form this information is to take;
- specify the level of detail of information required, which must be the level of detail reasonably required given the objectives of Part 23 and to provide a true and fair statement of the financial performance of the non-scheme pipeline and weighted average prices for pipeline services on the non-scheme pipeline;
- specify any accounting or audit standards that apply to the reported information; and
- provide for the manner in which the financial information and weighted average price information is to be certified as being true and fair.

The transitional provisions in the NGR requires the initial guideline to be published prior to 1 January 2018.

1.1 Development of the draft guideline

In keeping with the timetable outlined above, the Gas Market Reform Group (GMRG) and its consultant (McGrathNicol) have been working in conjunction with the AER and ERA to develop a draft of the initial financial reporting guidelines ('draft guideline') and a financial reporting template that service providers of non-scheme pipelines would be required to complete and publish.

The draft guideline requires the reporting of financial statements that are prepared in accordance with accounting standards (with some exceptions).

The table below provides a summary of the key features of the draft guideline.

Table 1 Draft guideline—summary of obligations

Proposed reporting obligation	Requirements
Entity financial statements	Some service providers of non-scheme pipelines or parent entities currently publish audited entity financial statements. Where these are available, there is a requirement that they be published. No additional certification of these statements would be required.
Pipeline financial statements	<p>Service providers are required to annually publish financial statements for individual pipelines. Pipeline financial statements consist of:</p> <ul style="list-style-type: none"> - A balance sheet - An income statement - Supporting notes <p>The draft guideline requires this information to be audited. The auditor will be required to provide a reasonable level of assurance that this information is prepared in accordance with the AASBs identified in the guideline and the methodology, rules and principles set out in the guideline.</p>
Asset valuation under rule 569(4)	<p>The draft guidelines requires service providers of non-scheme pipelines to develop and publish a separate asset valuation from the pipeline financial statements using the methodology set out in rule 569(4) of the NGR.</p> <p>The draft guideline requires this information to be audited and for the auditor’s review to be based on agreed upon procedures.</p>
Weighted average price	<p>Service providers of non-scheme pipelines are required to publish weighted average price information for individual pipeline services annually. To ensure comparability, service providers are required to classify pipeline revenue by service categories and the method of calculating charges in order to calculate separate weighted average price information.</p> <p>The draft guideline requires this information to be audited and for the auditor’s review of this information to be based on agreed upon procedures.</p>

This consultation paper, which should be read in conjunction with the draft guideline and the financial reporting template, sets out the proposed approach to the reporting of financial information and weighted average price information, identifies the key issues involved and seeks stakeholder feedback on these issues. The positions outlined in the draft guideline and consultation paper are intended to facilitate consultation and should not be interpreted

as concluded positions of the AER, who will ultimately be responsible for making the guideline, or the GMRG, who is leading the consultation process.

1.2 Consultation process

Interested parties are invited to make written submissions to the GMRG in response to the draft guideline, the financial reporting template and this consultation paper by 5pm (AEST) **Friday 3 November 2017**.

In addition to providing a written submission, stakeholders will have an opportunity to discuss their preliminary views at a number of roundtable discussions to be held in Melbourne and Perth from 18-20 October 2017. Separate roundtables will be held for shippers (gas producers, large gas users and gas retailers) and pipeline operators.

Stakeholders interested in attending a roundtable should contact admin@gmrq.coagenergycouncil.gov.au.

The feedback received through this consultation process will inform the final form and content of the guideline and financial reporting template. The AER will be required to approve the final guideline and it will come into effect once published by the AER (which, under the NGR, is required to be prior to 1 January 2018).

A summary of the indicative timeline is provided below.

Table 2.3: Financial guideline timeline (indicative)

Step	Date
GMRG published draft guideline, financial reporting template and consultation paper	9 October 2017
Roundtable discussion with stakeholders	18-20 October 2017
Submissions due	3 November 2017
Meetings with key stakeholders	November 2017
AER Board considers the final guideline and financial reporting template	Early December 2017
Final guideline, financial reporting template and explanatory statement published	Before 1 January 2017* (expected mid-December)

* NGR requirement

1.3 Structure of this paper

The remainder of this consultation paper is structured as follows:

- Section 2 provides an overview of the development and application of the draft guideline;
- Section 3 focuses on the proposed reporting obligations for entity financial statements;
- Section 4 outlines the proposed reporting obligations for pipeline financial statements;
- Section 5 focuses on the proposed reporting obligations for the asset valuation methodology specified in rule 569(4) of the NGR;

- Section 6 outlines the proposed reporting obligations for the weighted average price information;
- Section 7 focuses on the form that independent certification could take;
- Section 8 considers whether there are likely to be any confidentiality issues associated with the publication of financial reports and, if so, how this could be dealt with; and
- Section 9 outlines the compliance and enforcement arrangements.

2 About the financial reporting guidelines

2.1 Background

On 19 August 2016, the COAG Energy Council ('the Council') directed the Independent Chair of the GMRG, Dr Michael Vertigan AC, to examine the current test for the regulation of gas pipelines, in consultation with stakeholders.

Dr Vertigan undertook the *Examination of the current test for the regulation of gas pipelines* (Examination) in the latter half of 2016. The Examination recommended that steps be taken to strengthen the bargaining power of shippers by:

- requiring pipeline operators to publish the information that prospective users need to make an informed decision about whether to seek access to a pipeline service and to assess the reasonableness of an offer made by the pipeline operator; and
- introducing a binding commercially-oriented arbitration mechanism into the National Gas Law (NGL) that would be available to parties as a backstop if commercial agreement cannot be reached.

These recommendations were endorsed by the Council on 14 December 2016 and work commenced on the development of the information disclosure and arbitration framework shortly thereafter.

The new framework is set out in the *National Gas (Pipelines Access – Arbitration) Amendment Act 2017* and the National Gas (Pipelines Access - Arbitration) Amendment Rule 2017, which came into effect on 1 August 2017 in all jurisdictions excluding Western Australia. The GMRG understands that the Western Australian Government intends to adopt the framework but a number of processes must be undertaken under its version of the National Gas Law (NGL) for this to occur. Accordingly, the framework is unlikely to apply in WA before late 2017.

The overarching objective of the information disclosure and arbitration framework is set out in rule 546 of the NGR. In short, the objective is to facilitate access to services provided by non-scheme pipelines on reasonable terms, which is taken to mean at prices and on terms and conditions that, so far as practical, reflect the outcomes that would occur in a workably competitive market. To that end, the framework:

- provides for the publication and exchange of information to facilitate timely and effective commercial negotiations;
- provides for a commercially-oriented arbitration process to resolve disputes about proposed terms and conditions of access in a cost-effective and efficient manner; and
- sets out the principles an arbitrator must have regard to when determining disputes, consistent with the outcomes that would be expected in a workably competitive market.

The information disclosure regime, as reflected in rule 552 of the NGR, requires service providers of non-scheme pipelines that are not subject to an exemption, to publish a range of information on their website (or provide a link to the information if it is published on the Natural Gas Services Bulletin Board), including financial information and weighted average

price information. The disclosure regime also requires any information published under Part 23 to be prepared and maintained in accordance with the *access information standard*, which means the information:¹

- is not false or misleading in a material particular;
- in relation to information of a technical nature, is prepared in accordance with the practices, methods and acts that would reasonably be expected from an experienced and competent person engaged in the ownership, operation or control of a pipeline in Australia acting with all due skill, diligence, prudence and foresight; and
- in relation to a forecast or estimate, is supported by a statement of the basis of the forecast or estimate and:
 - is arrived at on a reasonable basis; and
 - represents the best forecast or estimate possible in the circumstances.

The information that is to be disclosed under rule 552 of the NGR is intended to provide a prospective user with adequate information to consider whether it should seek access to services on a non-scheme pipeline and to carry out a high-level assessment of the reasonableness of the service provider's standing price, as well as terms and conditions associated with the services available.

While rule 557 of the NGR provides some bounds on the nature and scope of the financial information and weighted average price information to be reported, the AER does have some discretion to determine the type and level of detail of information to be reported, the methods, principles and inputs to be used and the certification requirements. When exercising this discretion, the AER will have regard to the objective of the information disclosure and arbitration framework in rule 546 of the NGR and the National Gas Objective (NGO), which states:²

The objective of this Law is to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas.

2.1.1 Legal framework

The NGL is set out in a schedule to the *National Gas (South Australia) Act 2008* (South Australia). The NGL applies in each participating jurisdiction (other than Western Australia) under application legislation of each jurisdiction. The NGR are made under the NGL and have the force of law.

The *National Gas (South Australia) (Pipelines Access—Arbitration) Amendment Act 2017* introduced a new section 83A (relating to information) and a new Chapter 6A, amended section 271 and gave the South Australian Minister the power to make the initial rules about, among other things, access proposals, access disputes and arbitrations under Chapter 6A.

¹ See rule 551 of the NGR.

² See section 23 of the NGL.

The initial rules made by the Minister are set out in Part 23 of the NGR, while Schedule 4 to the NGR sets out a number of derogations and transitional provisions.

The draft guideline should be read in conjunction with:

- the NGL;
- the NGR and, in particular Part 23;
- the Non-Scheme Pipeline Arbitration Guide;³ and
- the Gas Pipeline Information Disclosure and Arbitration Framework – Initial National Gas Rules Explanatory note (*Explanatory note for the initial rules*), that was published by the GMRG on 2 August 2017.⁴

2.1.2 Role of the AER

The AER is an independent statutory authority established under Part IIIAA of the *Competition and Consumer Act 2010* (Commonwealth).

The AER has two roles under Chapter 6A of the NGL and Part 23 of the NGR, as both regulator and scheme administrator. The final guideline will be published by the AER in its capacity as regulator.

Once implemented, the GMRG understands that the Western Australian Energy Regulatory Authority (ERA) will take a similar role under the information disclosure and arbitration to that of the AER, including the requirement to publish the guideline. Given numerous non-scheme pipeline service providers will be required to report in respect of pipelines located across Australia, the GMRG and McGrathNicol are working closely with the AER and ERA to develop a guideline with the intention of that guideline being consistently applied.

2.2 Application

The information disclosure and arbitration framework, as articulated in Part 23 of the NGR, applies to non-scheme transmission and distribution pipelines. The term “non-scheme pipeline” is defined in section 83A of the NGL as a transmission or distribution pipeline that is not a scheme pipeline, while the term “scheme pipeline” is defined in section 2 of the NGL as:

- a covered pipeline; or
- an international pipeline to which a price regulation exemption applies.

The guideline will apply in relation to each service provider of a non-scheme pipeline that is not subject to an exemption.

A non-scheme pipeline service provider may apply to the AER for an exemption from the information disclosure and arbitration framework where the pipeline satisfies the relevant exemption criteria stipulated in rule 585. Exemptions do not apply automatically. To rely on

³ See: <https://www.aer.gov.au/networks-pipelines/non-scheme-pipelines/arbitration-of-access-disputes>.

⁴ See: <http://gmrq.coagenergycouncil.gov.au/publications/explanatory-note-final-initial-rules>.

an exemption, the service provider for the non-scheme pipeline must apply to the AER under Division 6 of Part 23 and be granted the exemption.

Further information on the exemptions available can be found in Section 1.6 of the draft guideline and on the [AER website](#).

2.3 Commencement date and reporting requirements

The AER Board is expected to consider the final draft of the guideline and the reporting template, incorporating stakeholder feedback, in December. Following Board agreement the final guideline will be published and come into effect which is required by the transitional provisions in the NGR to occur by prior to 1 January 2018. The required timeframes for the publication of information in accordance with the guideline are set out in Section 2 of the draft guideline.

2.3.1 Annual reporting requirements

In accordance with rule 552(2) of the NGR, the financial information and weighted average price information must be published annually within four months of the end of the service provider's reporting period. The table below sets out the dates by which service providers of non-scheme pipelines must publish this information.

Table 2.1: Reporting dates for annual financial reporting and weighted average price information

Reporting Period	Reporting Dates
1 January – 31 December	By 30 April 2019 and every year thereafter
1 July – 30 June	By 31 October 2019 and every year thereafter
1 April – 31 March	By 31 July 2019 and every year thereafter

2.3.2 Transitional reporting requirements

Schedule 4 of the NGR contains a number of transitional rules for Part 23 of the NGR, including transitional rules relating to the initial guideline and the publication of financial information and weighted average prices.⁵

Under the transitional rules, initial financial reporting and weighted average prices covering a six month period must be published in October 2018 or January 2019, depending on the service provider's reporting period. Under the draft guideline this transitional reporting requirement only applies to pipeline statements and weighted average price information. There is no requirement for entity financial information to be provided for the six month period. There is also no requirement for this initial financial reporting to include a comparison to a previous year.

⁵ Note that the terms weighted average prices and average weighted prices are used interchangeably in Part 23 and Schedule 4 of the NGR.

The table below sets out the reporting dates for the initial six month financial reporting and reporting of weighted average prices.

Table 2.2: Reporting dates for initial financial reporting and weighted average prices

Reporting Period	Reporting Dates
1 January – 31 December	By 31 October 2018 for period 1 January 2018-30 June 2018
1 July – 30 June	By 31 October 2018 for period 1 January 2018-30 June 2018
1 April – 31 March	By 31 January 2019 for period 1 April 2018-30 September 2018

2.4 Process for revisions

The AER may amend or replace the guideline from time to time, in accordance with rule 557(3) and the standard consultative procedure in rule 8 of the NGR. A date of issue will identify each version of the guideline.

2.5 Interpretation

The terms and definitions used in this consultation paper are as specified in Section 1.4 of the draft guideline, unless indicated otherwise.

3 Entity financial statements

Some service providers of non-scheme pipelines currently publish audited entity financial statements, often at a consolidated level. This information may be useful to prospective users in considering a price offered by a non-scheme pipeline service provider for access to a pipeline service or services as it may:

- provide a sense of the profits generated by the service provider at an aggregate level (which can then be compared to those of the pipeline);
- provide shippers with comfort regarding the veracity of pipeline information provided (see Section 4) as it can be compared to the service provider's information; and
- where shared amounts are allocated in pipeline financial statements, show that the total balance of these shared amounts has been audited.

Where the total value of shared amounts to be allocated have been audited previously as part of the audit of financial statements, this may reduce certification costs for pipeline financial statements.

Where service providers do not prepare audited entity financial statements in the ordinary course of business, they are not required to publish entity financial statements.

3.1 Draft guideline position

The draft guideline requires the entity that owns the pipeline to publish on its website audited financial statements that are prepared in the ordinary course of business. This requirement is not designed to place additional burden on service providers, but to take advantage of existing information prepared by service providers.

The GMRG is seeking feedback from service providers on the challenges that may be faced in meeting this requirement and any alternative methods of disclosing the information relevant to shippers, which could include:

- providing information on the overall return on assets and return on equity generated at an entity level; or
- shippers relying solely on pipeline financial information (see Section 4) and, where available, publicly available entity financial statements.

The GMRG is also interested in hearing shippers' views on the items in an entity's financial statements that would be useful in forming a view regarding the reasonableness of non-scheme pipeline prices and if there are any other ways that this information could be provided. For example, rather than reporting entity financial statements the service provider could be required to provide a statement on how costs are allocated across jointly owned assets. Some specific questions the GMRG is seeking feedback on are set out in Section 3.1.4.

3.1.1 Required statements

The draft guideline requires service providers to publish the following entity level financial statements if this information is prepared in their ordinary course of business:

- Income statement (Profit and Loss statement).
- Statement of Financial position (Balance sheet).
- Statement of cash flows.
- Statement of change in equity.
- Notes to the accounts.

3.1.2 Compliance with accounting standards

Where the financial statements are not prepared in accordance with AASB, the draft guideline requires the service provider to set out what, if any, accounting standards have not been complied with.

A number of pipelines are owned by multinational companies or foreign owners. Where financial statements are prepared in accordance with another country's accounting framework or the International Financial Reporting Standards, the draft guideline requires that this be disclosed.

3.1.3 Certification

Under the draft guideline, an entity is not required to have the entity level financial statements certified again where they have already been adequately certified. As such, if the entity has already had these financial statements certified in accordance with AASB or International Financial Reporting Standards for annual reporting purposes, these financial statements will be considered to have met the requirements of the draft guideline.

3.1.4 Questions for stakeholders

The box below contains a number of questions the GMRG is seeking further feedback on.

Box 3.2: Questions on entity level financial statements

1. What existing entity level financial statements are prepared by service providers?
 - Are these existing statements prepared in accordance with Australian accounting standards or international financial reporting standards?
 - Where the pipeline is operated by a joint venture, does the joint venture prepare financial information? Is it audited?
2. Do you think service providers should be required to provide annual reports for the entity that owns or operates the pipeline?
 - If so, please:
 - explain what benefits you think this information will provide users that are seeking access to the services provided by non-scheme pipelines; and
 - outline if you think there are any other ways this information could be provided.
 - If not, please explain why not.
3. Are service providers likely to face any challenges publishing entity level financial statements?
4. If entity level financial statements are not required, do you think there would be value in requiring the service provider to report the entity level return on assets and return on equity?

4 Pipeline financial information

Rule 557 requires the guideline to provide for the publication of annual financial information about each non-scheme pipeline on a pipeline-by-pipeline basis, which may include:

- financial statements;
- information on the methods, principles and inputs used to calculate asset values, depreciation allowances and for cost allocation purposes; and
- financial performance metrics.

4.1 Draft guideline position

The draft guideline requires service providers of non-scheme pipelines to publish the following information for the current year and prior financial year:

- an income statement;
- a balance sheet; and
- notes to the pipeline statements.

These financial statements are to be prepared in accordance with accounting standards and the methods, principles and inputs specified in the draft guideline. In its current form, the draft guideline specifies the methods, principles and inputs that service providers are required to use when reporting:

- asset values (including capitalisation principles);
- depreciation allowances;
- the allocation of costs and revenues between different categories of services provided by the pipeline and the allocation of costs to the pipeline if the service provider operates more than one pipeline; and
- related party transactions.

In addition to publishing financial statements, the draft guideline requires service providers to publish each non-scheme pipeline's return on assets and return on equity.

The draft guideline requires a single set of financial statements to be reported for each non-scheme pipeline even if there is more than one service provider for that pipeline.

The certification requirements for this information are outlined in Section 7.

As outlined in Section 2.1, different reporting arrangements will apply during the transitional period.

4.1.1 Pipeline financial statements information to be reported

The financial statements that are to be provided for the pipeline are based primarily on principles contained in Australian accounting standards. However, some limitations have been included in the draft guideline in some circumstances where the Australian accounting standards allow flexibility or different methodologies to calculate the amount to be disclosed.

Income statement

The income statement provides an overview of the revenue generated from pipeline operations and the costs associated with earning this revenue.

In relation to revenue, the draft guideline requires service providers to separate revenue by service type in the notes to the income statement. In the case of revenue that does not clearly relate to a specific pipeline or other revenue generating business activity, the draft guideline requires service providers to allocate this revenue (shared revenue) and provide an explanation of the basis for the allocation.

In relation to costs, the financial reporting template requires costs directly incurred in pipeline operations and the portion of overhead costs allocated to be reported separately. Overhead, or shared costs reflect that the cost of earning revenue for a pipeline includes support functions provided by the service provider. The draft guideline provides details of how costs that do not directly relate to the pipeline should be allocated.

Initial feedback from service providers suggests there may be challenges allocating group interest expenses and tax payments to a pipeline and that it may be preferable to not disclose this information. If this approach was adopted, pipeline earnings before interest and tax (EBIT) would be disclosed.

Balance sheet

The balance sheet provides shippers with an overview of the assets used in the pipeline's operations and an understanding of the debt/liabilities used to fund the pipeline. The draft guideline currently requires the pipeline to report on the asset value and debt/liabilities but not the equity value (noting this could be inferred from deducting the liabilities from the assets).

The balance sheet does not require the equity value of the pipeline to be reported because:

- a number of items in the equity section of the balance sheet would be difficult to allocate to a particular pipeline (for example issued capital, retained earnings and reserves); and
- it would be difficult to make the total equity assigned to a pipeline balance the net asset's reported.

Asset values are able to be reported at book value in accordance with accounting standards, which can be based on acquisition or construction cost plus capitalised expenditure (noting that upward revaluations are not allowed), less depreciation and impairment. The draft guideline provides further detail regarding the determination of an asset's opening value, capitalised expenditure, depreciation and impairment.

Notes to financial statements

The draft guideline requires notes to the financial statements as specified in the financial reporting template. The notes provide details and additional information to shippers that:

- Enable an understanding of how the amounts reported in the pipeline financial statements are determined or calculated.

- Assist with interpretation of information reported in the pipeline financial statements.
- Assist with comparison of information provided in the pipeline financial statements to the service provider as a whole.
- Provide an understanding of how shared amounts are allocated.

The following notes to the Income Statement are required:

- A breakdown of revenue by service type (worksheet 2.1 of the reporting template).
- A list of capital contributions received (including both customer and government contributions) (worksheet 2.2 of the reporting template). Capital contributions are excluded from the asset base in the balance sheet.
- A list of the indirect revenue allocated to the pipeline and an explanation of the basis for allocation (worksheet 2.3 of the reporting template).
- A list of the indirect costs allocated to the pipeline and an explanation of the basis for allocation (worksheet 2.4 of the reporting template).

The following notes to the Balance Sheet are required:

- The schedule of pipeline assets, which provides the calculation for the carrying value in accordance with the methodology set out in the draft guideline (worksheet 3.1 of the reporting template).
- The asset useful life schedule, which provides the basis for calculating depreciation for different classes of assets and the reason for choosing this basis (worksheet 3.2 of the reporting template).
- A schedule of the upwards revaluations made to pipeline assets – note that these revaluations cannot be included in the balance sheet (worksheet 3.3 of the reporting template).
- A schedule of impairments made to pipeline assets (worksheet 3.4 of the reporting template).
- A depreciation schedule to show the straight line depreciation calculation for pipeline assets (worksheet 3.5 of the reporting template).
- The shared supporting asset schedule, which provides the basis for allocating shared assets to the pipeline (worksheet 3.6 of the reporting template).
- The shared liability schedule, which provides the basis for allocating shared liabilities to the pipeline (worksheet 3.7 of the reporting template).

Other information

Whilst the financial statements prepared for an entity under Australian accounting standards include a statement of cash flows and a statement of changes in equity, the draft guideline does not require these to be provided as part of the pipeline financial statements. A statement of cash flows and a statement of changes in equity were not considered likely to be relevant to shippers in assessing prices offered by service providers.

Questions for stakeholders

The box below contains a number of questions the GMRG is seeking further feedback on.

Box 4.1: Questions on pipeline financial statements

Income statement

5. Are there any categories of revenue missing from the income statement that you think should be reported? If so, what information is missing is and why is it required?
6. Are there any categories of revenue that may be particularly difficult to find a basis for allocation to a pipeline?
7. Are there any categories of expenses missing from the income statement that you think should be reported? If so, what information is missing and why is it required?
8. Should interest expense and tax expense be required to be included in the pipeline income statement?

Balance sheet

9. Are there any categories of assets and liabilities missing from the balance sheet that you think should be reported? If so, what information is missing is and why is it required?
10. Should liabilities and equity be disclosed in the pipeline balance sheet?

Notes to the financial statements

11. Do you think any additional notes should be provided to the financial statements?

Other issues

12. Do you think any other financial statements (e.g. cash flow statements) should be published for a pipeline? If so, please explain what value this would provide prospective users when assessing the reasonableness of an offer.
13. Is it feasible to report pipeline financial information in the event the pipeline is owned by multiple service providers (e.g. through a joint venture)? If so, what process do you suggest is used to identify the service provider responsible for publishing pipeline financial information?

4.1.2 Methods, principles and inputs used

Rule 557 of the NGR states that the guideline can include information on the methods, principles and inputs used to report asset values, depreciation allowances and for cost allocation purposes. An overview of the methods, principles and inputs that have been included in the draft guideline is provided below.

Asset valuation principles

The draft guideline requires an asset disclosed in the pipeline balance sheet to be valued as:

- construction or acquisition cost (where the asset was acquired prior to the commencement of the guideline);
- *plus* certain expenditure which meets the requirements to be capitalised since asset acquisition or construction;
- *less* accumulated depreciation;

- *less disposals;*
- *less any impairment charges.*

The asset valuation methodology in Section 4 of the draft guideline differs from the asset valuation methodology in Section 5 of the draft guideline.

Where an asset has been acquired from a related entity prior to the commencement of the guideline, rather than disclosing the amount paid to a related entity, this asset should be recognised at construction cost or the cost at which the related entity acquired the asset from an unrelated third party. This recognises the potential for related party transactions to not reflect an arm's length market value. The certification required to confirm an arm's length market rate may also significantly increase the costs of certifying the financial reporting template.

Where a pipeline is acquired following the commencement of the guideline, the opening asset value for the reporting period should be reported in accordance with the closing balance from the financial reporting template prepared by the previous service provider.

In order to minimise the potential for asset values and rate of return measures to be manipulated through revaluation, the draft guideline does **not** permit assets to be revalued upward in the balance sheet. Service providers can, however, disclose revalued amounts in the notes to the reporting template.

Pipeline assets are likely to be impairment tested regularly as part of the service provider's group audit procedures. Asset impairments are able to be included in the balance sheet, but the reasons and amounts must be disclosed in the notes to the financial reporting template.

The draft guideline does not provide for the indexation of pipeline assets. Some service providers have, however, expressed concerns that this would lead to misleading information as prices charged to customers will increase for inflation over time. The draft guideline does not include an ability to adjust asset values for indexation as this is not allowable under Australian accounting standards.

Capitalisation principles

For balance sheet reporting, assets are to be capitalised at either construction cost or acquisition cost in accordance with the guideline. The conditions for an amount to be capitalised specified in the draft guideline are broadly consistent with the approach adopted in the AASB.

Allocation principles

The draft guideline provides service providers with some flexibility to develop their own policies to allocate revenue, expenses, assets and liabilities to a pipeline consistent with the broad principles set out in the guideline.

The basis used to allocate these items must be provided in the notes to the pipeline reporting template.

Asset life principles

The draft guideline contains a range of common useful lives for various classes of assets at Appendix B. Where an asset's useful life does not fall within this range, the draft guideline requires the service provider to explain why this is the case in the notes. The explanation is intended to provide shippers with an understanding of why the asset life is longer or shorter than those for similar types of assets (for example, a pipeline with a longer potential operational life may be depreciated over a shorter estimated useful life when there is an expectation that gas will no longer be required due to changing customer needs).

The inclusion of a range of useful lives in the draft guideline is intended to reduce the burden on service providers, because if their asset lives fall within the range they will not be required to provide an explanation for the basis for the asset's useful life. If a range of asset lives were not prescribed, service providers would be required to explain the basis of the useful life for each asset (or class of assets) disclosed in the balance sheet.

Depreciation principles

While the AASB provides some flexibility in the methodology that can be applied to depreciate assets, for simplicity, the draft guideline requires assets to be depreciated on a straight line basis.

The draft guideline does not currently provide for land or easements to be depreciated. Some service providers have, however, indicated that easements may have a fixed term life, so this issue needs to be consulted upon further.

The draft guideline allows the residual value of the asset to be negative to recognise circumstances where there are required costs associated with decommissioning an asset (for example legally required environmental rehabilitation costs). Where a residual value is negative, the depreciation charge will be higher in each year than an asset with a positive residual value.

Related party transactions

A number of service providers have complex corporate structures that result in transactions with related parties (for example, one entity may own the pipeline assets and lease this asset to the entity that operates the pipeline or have an outsourcing arrangement with a related party).

The draft guideline requires related party transactions in the reporting period to be separately disclosed. This information is required to be reported because, as noted above, there is the potential for related party transactions to not reflect arm's length market rates and the certification required to confirm an arm's length market rate may significantly increase the costs of certifying the financial reporting template.

Questions for stakeholders

The box below contains a number of questions the GMRG is seeking further feedback on.

Box 4.2: Questions on methods, principles and inputs used

Asset valuation principles

14. Should asset value impairments be allowed? If so, in what circumstances?
15. Do you have any concerns with the use of acquisition values for the purposes of calculating the book value used in the Balance Sheet? If so, please explain why.

Capitalisation principles

16. Do you agree with the proposed capitalisation principles?

Allocation principles

17. Are there any categories of revenue, costs, assets or liabilities which will be particularly difficult to find a basis for allocation to a pipeline?
18. What difficulties arise in allocating interest and tax expenses to an individual pipeline?
19. Do you think shared costs should be separated into the various categories in Section 4.1.1 of the draft guideline, or is it sufficient for these to be reporting as one line “shared costs”?
20. If liabilities and equity are disclosed in the pipeline balance sheet, how should shared debt / equity be allocated?
21. If allocation principles form part of an arbitrator’s final determination under Part 23 of the NGR, should the service provider be required to note this in the pipeline financial information?

Other methods, principles or inputs

22. Are there any methods, principles or inputs that you think should be specified in the guideline?

4.1.3 Financial performance metrics

The draft guideline requires the following financial performance metrics to be reported:

- return on assets (EBIT on total assets); and
- return on equity (NPAT after tax on total equity).

The return on assets metric is to be reported on a reporting entity and standalone pipeline basis.

As equity is not required to be determined and reported for an individual pipeline, the return on equity metric is required to be reported for the service provider as a whole and return on net assets is required to be reported for the individual pipeline. A potential alternative approach to considering return on equity includes return on equity for the pipeline using equity based on the gearing ratio of the service provider.

These metrics are able to be determined for an individual pipeline based on information in the financial reporting template, whereas other metrics may be more difficult to determine at a pipeline level.

Questions for stakeholders

The box below contains a number of questions the GMRG is seeking further feedback on.

Box 4.3: Questions on financial metrics

23. Should the pipeline statements (performance metrics) show the return on equity for the pipeline, or is it sufficient to show the return on assets only? What benefit could shippers derive from understanding a pipeline's return on equity?
24. What other financial performance metrics would be useful to shippers and why?

4.1.4 Certification

The draft guideline requires service providers to have the pipeline statement (prepared through submission of the financial reporting template) audited in accordance with *ASA 800* and *ASA 805*.

The auditor will be required to provide a reasonable level of assurance that the pipeline statements are prepared in accordance with:

- the AASBs, except where specifically excluded by the guideline; and
- the methodology, rules and principles set out in the guideline.

Certification requirements are further discussed in Section 7.

5 Asset valuation in accordance with rule 569(4)

The arbitration principles in rule 569(4) of the NGR require the value of any assets used in the provision of pipeline services to be determined using asset valuation techniques that are consistent with the objective of Part 23 and unless inconsistent with this objective, the value is to be calculated as:

- (i) the cost of construction of the pipeline and pipeline assets incurred before commissioning of the pipeline (including the cost of acquiring easements and other interests in land necessary for the establishment and operation of the pipeline);

plus:

- (ii) the amount of capital expenditure since the commissioning of the pipeline;

less:

- (iii) the return of capital recovered since the commissioning of the pipeline; and
- (iv) the value of pipeline assets disposed of since the commissioning of the pipeline.

For ease of reference, this asset valuation technique is referred to in this paper and the draft guideline as the 'recovered capital method'.

As noted in the *Explanatory Note to the Initial Rules*, the GMRG expected the asset valuation arising from the application of this technique to be reported in the service provider's financial reports and updated on an annual basis to account for any subsequent capital expenditure, capital recovery and/or asset disposals that have occurred in the preceding year. The publication of this information is intended to inform a shipper's consideration as to whether the service provider's offer is reasonable and whether the asset value used in the calculation of prices is consistent with this valuation or not.

While service providers will be required to publish this information, arbitrators will not, as noted in the *Explanatory Note to the Initial Rules*, be bound by this information or by any of the methods, principles or inputs specified in the guideline. Prospective users and service providers will therefore have an opportunity to debate the methodology and inputs used in the calculation of the recovered capital asset valuation if an access dispute arises and proceeds to arbitration under Part 23 of the NGR.

5.1 Draft guideline position

The draft guideline requires service providers to disclose the asset value of the non-scheme pipeline using the asset valuation method arising from the application of the recovered capital method set out in rule 569(4)(b) in the notes at worksheet 3.1 of the financial reporting template. Importantly, this information does not impact the asset values reported in the pipeline balance sheet or depreciation in the pipeline income statement.

As noted in the *Explanatory Note to the Initial Rules*, the recovered capital method is consistent with the method set out in rule 77(1)(b), although the term 'depreciation' in rule 77(1)(b)(iii) has been replaced with 'return of capital recovered since the commissioning of the pipeline' to avoid any confusion about what is meant by the term 'depreciation'. The term

'return of capital' is used in this context to refer to the capital recovered through tariffs and any capital contributions made by shippers.

The recovered capital method can be expressed formulaically as follows:

Value of Capital Base_t

$$= \text{Construction Cost}_0 + \sum_{i=1}^t \text{Capex}_i - \sum_{i=1}^t \text{Return of Capital}_i - \sum_{i=1}^t \text{Asset Disposals}_i$$

Where

$$\sum_{i=1}^t \text{Return of Capital}_i = \sum_{i=1}^t \text{Revenue}_i - \left[\sum_{i=1}^t \text{Opex}_i + \sum_{i=1}^t \text{Return on Capital}_i + \sum_{i=1}^t \text{Net Tax Liabilities}_i \right]$$

The term return of capital in this formula is used to refer to the change in the economic value of the asset and is equal to the difference between:

- the revenue earned by the service provider (including any capital contributions); and
- the costs incurred by the service provider, where costs include operating expenditure, net tax liabilities and a return on capital.

To calculate the value of the pipeline under this methodology, service providers will require historic information on:

- the cost of constructing the pipeline (including shared assets);
- any capital expenditure that has occurred since the pipeline was constructed;
- asset disposal revenue and costs that have occurred since the pipeline was constructed; and
- the return of capital that has occurred since the pipeline was constructed, which requires historic information on:
 - revenue that has been generated since the pipeline was constructed from the provision of all pipeline services;
 - the operating expenditure that has been incurred since the pipeline was constructed;
 - the net tax liabilities that have been incurred since the pipeline was constructed; and
 - the return on capital required by the service provider in each year, which will require information on:
 - the closing value of the capital base in each year; and
 - the rate of return to be applied to the closing value of the capital base from the immediately preceding year, which should be determined for each year and based on a commercial rate of return that is commensurate with the prevailing

conditions in the market for funds and reflect the risks the service provider faces in providing services.

The inputs used in this calculation are intended to be robust and to comply with the same revenue attribution and cost allocation principles as those used in the pipeline statements.

It is worth noting in this context that under the recovered capital method, if a service provider has not generated sufficient revenue to recover the operating expenditure, return on capital and net tax liabilities in a year, then the return of capital value will be negative, which will increase the value of the capital base. Note also that if the application of this approach produces a negative value for the capital base, then the value of the capital base will be zero.⁶

5.1.1 Certification

The draft guideline requires service providers to have this information independently reviewed in accordance with Auditing Standards for Review Engagements - ASRE 4400. The review is to report in accordance with whether the information has been prepared in accordance with the requirements set out in Section 7.1.3 of the draft guideline.

Certification requirements are further discussed in Section 7.

5.2 Key issues in the recovered capital method

The draft guideline assumes that historic information is available on the cost of constructing the pipeline and the capital expenditure, asset disposals and return of capital that has occurred since the commissioning of the pipeline and the return of capital recovered since the commissioning of the pipeline. The draft guideline does not currently provide an alternative where service providers are unable to locate historical cost information either from their own records, or from information filed with the Australian Securities and Investment Commission, prior regulatory decisions or public sources.

Service providers have suggested that where historical information is not available they be allowed to provide an estimate of the relevant inputs. If this option was allowed, a process would need to be undertaken, and documented, to show that the service provider has made all reasonable efforts to obtain historical information and that the estimates that have been used have been arrived at on a reasonable basis and represent the best estimate possible in the circumstances. The auditor/reviewer would then need to confirm that this process has been adequately carried out as part of the certification process.

While the GMRG understands there may be genuine cases where a service provider does not have some of this information in its records (either due to the age of the pipeline or because the pipeline has changed hands), service providers should be expected to take all reasonable steps to try and obtain this information. This could involve obtaining information from statutory accounts, gas transportation agreements (including foundation agreements), media releases, prior regulatory decisions (if the pipeline was previously regulated) and other public sources. If these avenues have been exhausted and there are still some gaps in

⁶ This is consistent with the principle that an asset should be depreciated only once (i.e. the return of capital should not exceed the value of the asset at the time of its inclusion in the capital base).

the information requirements then there may be a case for estimating some of the inputs. However, in the GMRG's view, this should be a last resort and subject to clear principles in the guideline to ensure that any estimates have been arrived at on a reasonable basis, reflect the best estimate in the circumstances and are not false or misleading.

To take advantage of existing available information, where a pipeline was previously covered and the AER has made a determination of the depreciated actual cost, the service provider can use this value as the opening value for the calculation under this method from the date the determination was made and to roll it forward using the method set out in the guideline.

5.2.1 Questions for stakeholders

The box below contains a number of questions the GMRG is seeking further feedback on.

Box 5.1: Questions on key issues

25. If a service provider does not have records of all the historic information required to apply the recovered capital method (either due to the age of the pipeline or because the pipeline has changed hands), what steps do you think the service provider should be required to demonstrate they have taken to obtain this information?
26. If the service provider has exhausted all avenues for obtaining this information, do you think it should be required to develop an estimate of the missing information?
 - If not, please explain why not?
 - If so, what guidance should be provided in the guideline on how these estimates are to be generated?
27. If estimates are permitted:
 - how reliable do you think the estimates are likely be and is there a risk that this information could be misleading to shippers?
 - how could estimates be tested or reviewed to ensure they have been arrived at on a reasonable basis and reflect the best estimate in the circumstances?
 - what level of certification is relevant / possible if the information is based on estimates?
28. Are there likely to be any challenges including shared assets in this valuation approach?
29. Are there likely to be any challenges in determining a commercial rate of return for each year (including the rate of return for a previous owner of the pipeline)?
30. Is any further prescription required regarding what net tax liability amounts consist of?

6 Weighted average price information

Rule 556 requires a service provider for a non-scheme pipeline to prepare and publish on its website weighted average price information for each of its non-scheme pipelines on an annual basis. In accordance with subrule (1), weighted average price information must:

- be determined using a methodology set out in the guideline;
- be in the form and contain the information specified in the guideline; and
- be certified in the manner provided for in the guideline.

In a similar manner to financial information, rule 557 requires the guideline to specify the methods, principles and inputs to be used to calculate the weighted average price information and the form this information is to take.

6.1 Draft guideline position

Weighted average price information provides a measure of the amount that shippers are charged, on average, for a particular service. This information is intended to enable shippers to determine whether the price they are being charged or offered is higher or lower than the average price paid by existing pipeline users in the most recent financial year.

The draft guideline requires service providers to publish weighted average prices for each service type and charging method. Service providers are required to publish this information for the most recent financial year. Where more than one charging method is used for a particular service type (e.g. zonal, distance or postage stamp tariffs), the weighted average price arising under each charging method must be separately disclosed for the service.

As outlined in Section 6.6 of the draft guideline, a service provider can seek an exemption from publishing weighted average prices for a pipeline service for a financial year if:

- the service was provided, directly or indirectly, to no more than two users of the non-scheme pipeline; and
- the service provider gives a notice to the AER at least 20 business days before the date required for publication certifying this.

This exemption is designed to protect the confidentiality of prices paid by individual shippers for particular services.

When such a notice is given, the AER has the discretion, by notice to the service provider, to require services to be combined for the purpose of calculating the weighted average price.

6.1.1 Information to be reported and methods to be used

Worksheet 5 in the financial reporting template provides a template for service providers to input information to calculate weighted average price information.

Service providers are required to classify pipeline revenue for the most recent financial year into the following service categories in order to calculate separate weighted average price information for each service:

- Transportation services:
 1. Firm forward haul transportation services (includes bi-directional services, if a pipeline operates in a bi-directional manner).
 2. Interruptible or as available transportation service.
 3. Backhaul services.
- Compression services:
 1. Firm compression service.
 2. Interruptible or as available compression services.
- Storage services:
 1. Firm park services.
 2. Firm park and loan services.
 3. Interruptible or as available park services.
 4. Interruptible or as available park and loan services.
- Trading and other ancillary services:
 1. Capacity trading service.
 2. In pipe trading service.
 3. Redirection services.
- Other services

To enable weighted average prices to be compared in a meaningful manner with the prices shippers are paying or are being offered, the weighted average prices charged to customers for transportation services must be further classified based on the method of calculating the charges.

The GMRG understands that the methods for calculating the weighted average price differ depending on whether the service has a capacity based charge and/or or a volumetric based charge. For example:

- if the service is a firm forward haul service that is charged on a \$/GJ of MDQ basis, then the weighted average price is to be calculated as the revenue received from the provision of that service in the last year divided by the capacity (measured in GJ of MDQ) that shippers using that service had reserved over the same period; and
- if the service is an interruptible transportation service that is charged on a \$/GJ basis, then the weighted average price is to be calculated as the revenue received from the provision of that service in the last year divided by the volume of gas transported under the interruptible service over the same period.

The method may also differ if the service provider utilises a distance, zonal or postage stamp tariff structure. For example, if the service provider utilises a per km charge then the weighted average prices for major delivery points on the pipeline will also need to be expressed on a per km basis, while if the service provider utilises a postage stamp tariff structure then the weighted average price will also need to be expressed on this basis. If the

service provider utilises a zonal stamp tariff structure then weighted average prices would also need to be calculated for each zone.

6.1.2 Certification

The draft guideline requires service providers to have the weighted average price information independently reviewed in accordance with Auditing Standards for Review Engagements - ASRE 4400. The review is to report in accordance with the following procedures:

- The weighted average price information has been prepared in accordance with the requirements for the weighted average price information set out at Section 6 of the guideline.
- Inputs used to calculate weighted average prices agree to supporting documentation.

The reviewer is to report the factual findings against the agreed upon procedures reviewed.

Certification requirements are further discussed in Section 7.

6.2 Key issues for weighted average prices

6.2.1 Service categories

In preliminary discussions, some service providers have advised that they may have a mix of pricing structures on each pipeline (e.g. some shippers may be on a zonal tariff structure and others on a postage stamp tariff structure) and that a requirement to report weighted average prices at a disaggregated level may give rise to confidentiality issues and exemption applications. These service providers have therefore suggested that a principles based approach be employed and that service providers be required to publish a weighted average price for any pipeline service offered with a standing price, however details regarding the proposed approach were not provided.

Under the approach proposed by these service providers, the service provider would be required to publish an explanation of how it has aggregated any services to come up with the weighted average prices and the auditor would review this as part of an agreed upon procedure. It was also suggested that the AER could conduct a review of the procedures on a case by case basis.

The concerns that the GMRG has with this proposal are that:

- the aggregation of services may give rise to misleading measures of weighted average prices and undermine the objective of reporting this information, which is to allow prospective users to carry out a high level assessment of the reasonableness of a standing price or price offer; and
- allowing each service provider to determine the method to be used to calculate the weighted average price may give rise to different measurement approaches across pipelines, which could confuse prospective users and give rise to a significant amount of work for the AER.

The GMRG is, however, interested in getting more feedback on this issue and whether any of the service categories listed in Section 6.1.1 could be aggregated (e.g. park and park and loan) because the prices are similar.

6.2.2 Estimates

Some estimates may be required to prepare weighted average price information. For example:

- where a customer is charged for the use of more than one service type under an agreement, an estimate of the proportion of revenue that is attributable to a particular service may be required; or
- where estimates are applied as agreements do not separate revenue under a pipeline or service type, disclosure of the basis of allocation between pipelines and service types is required in the weighted average price notes in the reporting template.

In light of the possible requirement for a service provider to use estimates in some circumstances where agreements with customers do not provide sufficient detail, the draft guideline requires the information to be subject to a review based on agreed upon procedures as the inclusion of estimates creates challenges in obtaining a positive assurance.

6.2.3 Questions for stakeholders

The box below contains a number of questions the GMRG is seeking further feedback on.

Box 5.1: Questions on weighted average price information

31. Do you agree with the proposed approach to calculating weighted average prices by service type and charging method? If not, please explain why not and set out the alternative methodology you think should be employed.
32. Should estimates be allowed where agreements do not separate revenue? If not, how should these revenues be allocated?
33. Is the proposed level of disaggregation of services appropriate, or could some service categories be aggregated and still provide a meaningful benchmark against which prices and offers can be compared?

7 Certification

Rule 557 requires the guideline to specify any accounting or audit standards that are to apply to the reported information and to provide for the manner in which the financial information and weighted average price information is to be certified as being true and fair.

7.1 Draft guideline position

As outlined above, the draft guideline requires:

- a reasonable level of assurance for the financial statements for the reporting entity;
- a reasonable level of assurance for pipeline financial statements; and
- a review based on agreed upon procedures for the asset valuation prepared in accordance with rule 569(4) and the weighted average price information.

A reasonable level of assurance involves certification by auditors that the information provided is free from material misstatement.

An agreed upon procedures review provides a report on factual findings based on the scope of the review undertaken. No audit opinion is provided.

A reasonable level of assurance provides shippers with a higher degree of confidence in the accuracy of information provided, relative to a review based on agreed upon procedures. However, the requirements that must be met to provide a reasonable level of assurance mean that costs are also generally higher than an agreed upon procedures review.

These different requirements for financial statements and weighted average price information recognise a need to balance the cost of certification with obtaining information that is certified to a level that can be relied upon by shippers and minimises the opportunity to manipulate reported amounts. The GMRG is, however, seeking feedback on whether the current balance between certification requirements and associated costs is appropriate.

7.2 Key issues for certification

7.2.1 Mechanism to update the guideline when accounting standards change

The draft guideline contains a list of sections in the AASB that do not apply in completing the financial reporting template. AASB standards can change over time and the process for revising this list must be made clear in the guideline to ensure updates are made in the event the AASB standards change.

The following options are available to address this issue:

- requiring the guideline to be updated each time the a AASB standard is amended; or
- removing the list and including a section in the guideline that states the AASB apply unless an alternative approach is specified in the guideline.

The GMRG is interested in hearing stakeholders' views on these options.

7.2.2 Reporting when accounting standards change

The draft guideline does not currently specify how comparative financial information from prior years should be reporting in circumstances where accounting standards change. As such, the process and disclosure principles for restating comparative amounts provided in the AASB standards should be implemented.

7.2.3 Transitional certification arrangements

As outlined in Section 2.3.2, Schedule 4 of the NGR includes a transitional rule relating to the initial financial reporting and reporting of weighted average prices.⁷ Initial financial reporting and average weighted prices covering a six month period must be published in October 2018 or January 2019, depending on the service provider's reporting period. Under the draft guideline this transitional reporting requirement only applies to pipeline statements and weighted average price information and there is no requirement for a comparison to be carried out with a prior year.

The draft guideline currently requires the same level of certification for initial pipeline statements and weighted average price information that will be required on an ongoing basis. Service providers have raised concerns with this proposal and noted that the additional costs associated with certifying the initial information would not align with their current audit timing.

A number of options have been raised to overcome this concern, including:

- not requiring independent certification for the initial reporting, but rather a declaration by a senior member of management that the information is prepared in accordance with the requirements of the guideline; or
- requiring a review rather than a reasonable level of assurance.

The GMRG is interested in hearing stakeholders' views on these options for the transitional period.

7.3 Questions for stakeholders

The box below contains a number of questions the GMRG is seeking further feedback on.

Box 7.1: Questions on certification

34. What level of assurance is appropriate for the pipeline financial statements? Would this change if there is information in the pipeline statement that is required to be estimated?
35. What level of assurance is required for the asset valuation carried out using the method set out in rule 569(4)? If agreed upon procedures are appropriate, what should these procedures be?
36. What level of assurance is required for the weighted average pricing information? If agreed upon procedures are appropriate, what should these procedures be?
37. What mechanism should be used in the guideline to ensure any revisions to accounting standards are reflected?

⁷ See rule 2, Schedule 4, NGR.

Box 7.1: Questions on certification

38. Where there are changes in accounting standards, should the service provider be required to outline the impact of changes in accounting standards, and adjust prior year information for changes, or is it sufficient for the guideline to state the information prepared for prior periods should not need to be amended for changes in accounting standards?
39. What level of assurance is appropriate for initial reporting requirements? Why?

8 Confidentiality

The draft guideline does not currently include a confidentiality regime.

In preliminary discussions, some service providers have raised concerns with this approach and noted the potential for confidential information to have to be disclosed in order to comply with the draft guideline. The examples that service providers cited include details of shared costs and liabilities allocated to non-pipeline assets, which service providers consider is confidential to those other assets. To address this concern, service providers have suggested a mechanism be included in the guideline to allow the service provider to submit confidentiality claims over certain information in the financial reporting template.

The GMRG notes that this proposal could result in the information losing its meaningfulness if particular inputs are withheld. The cost of the AER assessing confidentiality applications could also be significant. The GMRG is nevertheless interested in hearing whether stakeholders think a confidentiality regime is required.

8.1 Questions for stakeholders

The box below contains a number of questions the GMRG is seeking further feedback on.

Box 6.1: Questions regarding confidentiality

40. Do you think that any of the information required by the draft guideline is confidential? If so:
 - What information do you believe is confidential and why?
 - What impact would the disclosure of this information have on service providers?
41. How could this information be presented to avoid confidentiality concerns but still meet the objectives of the NGR? For example, could this information be aggregated in a manner that was still meaningful?
42. Is a confidentiality regime required? If so, how do you suggest this should operate?

9 Compliance and enforcement

Pursuant to rule 552(3)(a), a service provider for a non-scheme pipeline must publish the financial information and weighted average price information by making the information publicly available on the service provider's website. Service providers are required to notify the AER in writing without delay that the financial information and weighted average price information has been published in accordance with rule 553(4) and must attach the completed financial reporting template and associated review/audit reports.

A service provider for a non-scheme pipeline must ensure that historical financial and weighted average price information for its non-scheme pipeline continues to be publicly available for a period of 5 years after the date the information is first published in accordance with rule 553(6)

Section 27 of the NGL requires the AER to monitor, investigate and enforce compliance with the NGL and NGR. The AER has these roles in relation to the information disclosure requirements in Part 23, including with regard to the financial information reporting in accordance with the guideline.

Under the NGL, the enforcement tools that the AER could employ if a service provider fails to comply with the disclosure requirements will depend on whether the disclosure framework is classified as a civil penalty provision and/or conduct provision. If a disclosure requirement is not classified in either of these ways, then the AER will only be able to:

- seek an administrative resolution, which may include a voluntary commitment by the service provider to rectify non-compliance; or
- institute civil proceedings in the Federal Court and seek an injunction or an order that the service provider cease or remedy the conduct.

Rules classified as civil penalty provisions allow the AER to issue an infringement notice to the service provider, or institute civil proceedings in the Federal Court seeking an order that the penalty be paid.

Rules classified as conduct provisions give rise to private enforcement rights. In general, conduct provisions apply to conduct of one industry participant that will affect another industry participant.

The GMRG has recommended that a number of rules in Part 23 of the NGR are classified as civil penalty provisions and/or conduct provisions. For example, the GMPRG has recommended the obligation to publish and maintain financial information be classified as civil penalty provisions.⁸ To give effect to these recommendations, the National Gas Regulations will need to be amended to specify these disclosure requirements as civil penalty and/or conduct provisions.

Under the *Gas (South Australia) Act 2008*, Regulations prescribing the provisions as civil penalty provisions or conduct provisions need to be made on the unanimous recommendation of the Ministers of the participating jurisdictions of the Council sitting as the

⁸ The GMRG recommended to the COAG Energy Council that rules 551(1) and (3) and 552(1) be classified as civil penalty provisions.

Ministerial Council on Energy for that purpose. At the time of writing, none of the rules in Part 23 of the NGR have been prescribed as civil penalty or conduct provisions in the National Gas Regulations.

Appendix A –Stakeholder feedback template

The template on the following page below has been developed to enable stakeholders to provide their feedback on the questions posed in this paper and any other issues that they would like to provide feedback on. The GMRG strongly encourages stakeholders to use this template, so that it can have due regard to the views expressed by stakeholders on each issue. Stakeholders should not feel obliged to answer each question, but rather address those issues of particular interest or concern.

Feedback Template

	Questions	Feedback
3	Entity financial statements	
1.	<p>What existing entity level financial statements are prepared by service providers?</p> <ul style="list-style-type: none"> • Are these existing statements prepared in accordance with Australian accounting standards or international financial reporting standards? • Where the pipeline is operated by a joint venture, does the joint venture prepare financial information? 	
2.	<p>Do you think service providers should be required to provide annual reports for the entity that owns or operates the pipeline?</p> <ul style="list-style-type: none"> • If so, please explain what benefits you think this information will provide users that are seeking access to the services provided by non-scheme pipelines. • If not, please explain why not. 	
3.	<p>Are service providers likely to face any challenges publishing entity level financial statements?</p>	
4.	<p>If entity level financial statements are not required, do you think there would be value in requiring the service provider to report the entity level return on assets and return on equity?</p>	
4	Pipeline financial statements	
5.	<p>Are there any categories of revenue missing from the income statement that you think should be reported?</p>	

	Questions	Feedback
	If so, please what information is missing is and why it is required?	
6.	Are there any categories of revenue that be particularly difficult to find a basis for allocation to a pipeline?	
7.	Are there any categories of expenses missing from the income statement that you think should be reported? If so, what information is missing is and why is it required?	
8.	Should interest expense and tax expense be required to be included in the pipeline income statement?	
9.	Are there any categories of assets and liabilities missing from the balance sheet that you think should be reported? If so, please what information is missing is and why it is required?	
10.	Should liabilities and equity be disclosed in the pipeline balance sheet?	
11.	Do you think any additional notes should be provided to the financial statements?	
12.	Do you think any other financial statements (e.g. cash flow statements) should be published? If so, please explain what value this would provide prospective users when assessing the reasonableness of an offer.	
13.	Is it feasible to report pipeline financial information in the event the pipeline is owned by multiple service providers (e.g. through a joint venture)? If so, what	

	Questions	Feedback
	process do you suggest is used to identify the service provider responsible for publishing pipeline financial information?	
14.	Should asset value impairments be allowed? If so, in what circumstances?	
15.	Do you have any concerns with the use of acquisition values for the purposes of calculating the book value used in the Balance Sheet? If so, please explain why.	
16.	Do you agree with the proposed capitalisation principles?	
17.	Are there any categories of revenue, costs, assets or liabilities which will be particularly difficult to find a basis for allocation to a pipeline?	
18.	What difficulties arise in allocating interest and tax expenses to an individual pipeline?	
19.	Do you think shared costs should be separated into the various categories in Section 4.1.1 of the draft guideline, or is it sufficient for these to be reporting as one line “shared costs”?	
20.	If liabilities and equity are disclosed in the pipeline balance sheet, how should shared debt / equity be allocated?	
21.	If allocation principles form part of an arbitrator’s final determination under Part 23 of the NGR, should the service provider be required to note this in the pipeline financial information?	

	Questions	Feedback
22.	Are there any methods, principles or inputs that you think should be specified in the guideline?	
23.	Should the pipeline statements (performance metrics) show the return on equity for the pipeline, or is it sufficient to show the return on assets only? What benefit could shippers derive from understanding a pipeline's return on equity?	
24.	What other financial performance metrics would be useful to shippers and why?	
5	Recovered capital	
25.	If a service provider does not have records of all the historic information required to apply the recovered capital method (either due to the age of the pipeline or because the pipeline has changed hands), what steps do you think the service provider should be required to demonstrate they have taken to obtain this information?	
26.	If the service provider has exhausted all avenues for obtaining this information, do you think it should be required to develop an estimate of the missing information? <ul style="list-style-type: none"> • If not, please explain why not? • If so, what guidance should be provided in the guideline on how these estimates are to be generated? 	
27.	If estimates are permitted:	

	Questions	Feedback
	<ul style="list-style-type: none"> • how reliable do you think the estimates are likely be and is there a risk that this information could be misleading to shippers? • how could estimates be tested or reviewed to ensure they have been arrived at on a reasonable basis and reflect the best estimate in the circumstances? • what level of certification is relevant / possible if the information is based on estimates? 	
28.	Are there likely to be any challenges including shared assets in this valuation approach?	
29.	Are there likely to be any challenges in determining a commercial rate of return for each year (including the rate of return for a previous owner of the pipeline)?	
30.	Is any further prescription required regarding what net tax liability amounts consist of?	
6	Weighted average price	
31.	Do you agree with the proposed approach to calculating weighted average prices by service type and charging method? If not, please explain why not and set out the alternative methodology you think should be employed.	
32.	Should estimates be allowed where agreements do not separate revenue? If not, how should these revenues be allocated?	
33.	Is the proposed level of disaggregation of services appropriate, or could some service categories be	

	Questions	Feedback
	aggregated and still provide a meaningful benchmark against which prices and offers can be compared?	
7	Certification	
34.	What level of assurance is appropriate for the pipeline financial statements? Would this change if there is information in the pipeline statement that is required to be estimated?	
35.	What level of assurance is required for the asset valuation carried out using the method set out in rule 569(4)? If agreed upon procedures are appropriate, what should these procedures be?	
36.	What level of assurance is required for the weighted average pricing information? If agreed upon procedures are appropriate, what should these procedures be?	
37.	What mechanism should be used in the guideline to ensure any revisions to accounting standards are reflected?	
38.	Where there are changes in accounting standards, should the service provider be required to outline the impact of changes in accounting standards, or is it sufficient for the guideline to state the information prepared for prior periods should not need to be amended for changes in accounting standards?	
39.	What level of assurance is appropriate for initial reporting requirements? Why?	
8	Confidentiality	

	Questions	Feedback
40.	<p>Do you think that any of the information required by the draft guideline is confidential? If so:</p> <ul style="list-style-type: none"> • What information do you believe is confidential and why? • What impact would the disclosure of this information have on service providers? 	
41.	<p>How could this information be presented to avoid confidentiality concerns but still meet the objectives of the NGR? For example, could this information be aggregated in a manner that was still meaningful?</p>	
42.	<p>Is a confidentiality regime required? If so, how do you suggest this should operate?</p>	