Draft Financial Reporting Guidelines for Non-Scheme Pipelines

October 2017

Contents

1 Nature and authority

1.1 Introduction

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 by implementing an information disclosure and arbitration framework. A key component of the framework is to provide **prospective users** of non-scheme pipelines with increased information in an effort 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** for non-scheme pipelines are required to publish specific 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.

This Financial Reporting Guidelines for non-scheme pipelines ('**Guideline**') is published by the **AER** in accordance with rule 557 of the **NGR**. Broadly the **NGR** require that the **Guideline**:

- 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 this Part 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 **Guideline** refers to the **financial reporting template** and sets out the requirements for **service providers** to complete the template. This **Guideline** is to be read in conjunction with the Financial Reporting Guidelines for non-scheme pipelines Explanatory Statement.

This **Guideline** prescribes:

- the form and content of financial information required to be published;
- the methodology, principles and inputs used to calculate the financial information;
- the form and content of the **weighted average price information** to be published;
- the methodology, principles and inputs used to calculate the w**eighted average price information**; and

- the manner in which the above information must be certified by an independent auditor.

1.2 Application of this Guideline

1.2.1 Legal framework

The National Gas Law (**NGL)** is set out in the schedule to the *National Gas (South Australia) Act 2008* (SA). 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.[1]

The *National Gas (South Australia) (Pipelines Access—Arbitration) Amendment Act 2017* amended the NGL. It 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.

The initial **rules** made by the Minister comprise a new Part 23 in the **NGR** and a new Schedule 4 to the **NGR**. Schedule 4 sets out derogations and transitional provisions.

This **Guideline** should be read in conjunction with:

- the National Gas (South Australia) Act 2008 (**NGL**)
- the National Gas Rules (**NGR)** and, in particular Part 23
- the Non-scheme Pipeline Arbitration Guide
- the Gas Pipeline Information Disclosure and Arbitration Framework – Initial National Gas Rules Explanatory note, that was published by the **GMRG** on 2 August 2017.

1.2.2 The 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. This **Guideline** is published by the **AER** in its capacity as regulator.

As regulator, the **AER** has the monitoring, investigative and enforcement powers conferred on it by the **NGL**.

1.2.3 Commencement

This **Guideline** commences on [xx December 2017]. Further detail regarding transitional reporting following this date is provided in Section 2.1.

1.2.4 Application

[1] See section 26 of the NGL.

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;[2] or
- an international pipeline to which a price regulation **exemption** applies.

1.2.5 Process for revisions

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

1.3 Interpretation

In this **Guideline**, unless the contrary intention appears:

- A term in bold type that is expressly defined in Section 1.4 of this **Guideline** has the meaning set out in that Section.
- A term in bold type that is not expressly defined in Section 1.4 of this **Guideline** has the same meaning it has in the **NGR**.
- The singular includes the plural, and vice versa.
- A reference to any legislation, legislative instrument or other instrument is a reference to that legislation or instrument as in force from time to time.
- Explanations in this **Guideline** about why certain information is required are provided for guidance only. They do not limit in any way the **AER**'s objectives, functions or powers.

1.4 Definitions

In this **Guideline**:

- **AASB** means the accounting standards prescribed by the Australian Accounting Standards Board.
- **AER** refers to the Australian Energy Regulator.
- **application date** means:
  - a) in relation to a pipeline that is a non-scheme pipeline on the **commencement date**, the date falling five months after the **commencement date**
  - b) in relation to a pipeline that becomes a non-scheme pipeline within five months of the **commencement date,** the date falling five months after the **commencement date**
  - c) in relation to any other pipeline, the later of:
    - i. the date the pipeline is commissioned (as defined in section 12 of the **NGL**), and

[2] A covered pipeline means a pipeline to which a coverage determination applies or is deemed to be a covered pipeline by the operation of section 126 or 127 of the NGL

   ii. the date the pipeline becomes a non-scheme pipeline.

- **capital base**, in relation to a pipeline, means the capital value to be attributed, in accordance with this **Guideline**, to **pipeline assets**.
- **commencement date** means 1 January 2018.
- **capital expenditure** means pipeline expenditure of a capital nature that complies with the criteria specified in Section 4.2.2.
- **depreciation** means depreciation of the **capital base**.
- **exemption** means an exemption granted by the **AER** in accordance with Division 6 of the **NGR.**
- **financial reporting template** means the financial reporting template for non-scheme pipelines developed in accordance with this **Guideline** using the format, structure and calculation methodology provided.
- **GMRG** refers to the Gas Market Reform Group.
- **Guideline** refers to the financial reporting guidelines for non-scheme pipelines.
- **initial financial reporting and average weighted prices** has the meaning set out in Schedule 4 Part 1 of the **NGR** and refers to the information prepared for an initial six month period.
- **NGL** refers to the National Gas Law.
- **NGR** refers to the National Gas Rules.
- **operating expenditure** means operating, maintenance and other costs and expenditure of a non-capital nature incurred in providing pipeline services.
- **pipeline** has the meaning in the **NGL.**
- **service provider** of a pipeline has the meaning given in section 8 of the **NGL**.
- **pipeline assets** in relation to a pipeline, means capital assets that constitute the pipeline or are otherwise used by the **service provider** to provide services, including construction costs capitalised (or acquisition costs capitalised where allowed by the **Guideline**), capitalised maintenance and any other capital improvements.
- **prospective user** has the meaning in section 216B of the **NGL** and is used to refer to existing and prospective shippers (it is used interchangeably with the term shipper).
- **related body corporate** has the meaning given to it in the *Corporations Act 2001*, this term is used interchangeably with the term related party.
- **reporting entity** means the body that prepares financial statements, which may be the service provider or a direct parent entity where the service provider does not prepare financial statements.
- **reporting period** means the annual financial year for which the **reporting entity** ordinarily prepares financial information.
- **return of capital** has the meaning specified in Section 5.

- **shared supporting assets** are assets used to support the operation of multiple pipelines and/or other revenue generating activities other than just the pipeline. Where an asset is used to support the operation of multiple pipelines or other revenue generating activities, an apportionment of the asset is required as outlined in Section 4.2.4.
- **weighted average price information** has the meaning defined in section 556 of the **NGR**.

1.5 Other issues

1.5.1 Establish and maintain accounts

In order to meet the certification requirements discussed at Section 7 of this **Guideline** (below), a **service provider** must establish and maintain appropriate internal accounting procedures. These internal accounting procedures must allow the **service provider** to demonstrate the extent and nature of transactions associated with each non-scheme pipeline, and the allocation of applicable revenues, costs, assets and liabilities.

1.5.2 Inflation

No values provided in the **financial reporting template** for the current or previous year are to be restated for inflation.

1.5.3 Currency and GST

All amounts provided in the **financial reporting template** are required to be provided in Australian Dollars and exclusive of goods and services Tax (GST). Where currency is required to be converted to Australian dollars, the requirements in the relevant **AASB** standard should be followed.

Where a foreign owned entity is the **reporting entity**, in accordance with Section 3, the **reporting entity** is able to provide audited entity financial statements in the currency they are prepared in.

1.6 Exemptions

For the avoidance of doubt, this section is for information only, and does not alter or qualify the AER's discretions or functions relating to exemptions under Part 23 of the NGR.

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 a relevant **exemption** criteria as stipulated in rule 585. There are three categories of **exemptions** for non-scheme pipelines as outlined in Table 1.1.

Table 1.1: Exemptions available under Part 23 of the NGR

Exemption category	Exemption criteria
Category 1: Exemption from arbitration of access disputes	The pipeline does not provide third party access

Exemption category	Exemption criteria
Category 2: Exemption from information disclosure provisions	Either of the following: ▪ The pipeline does not provide third party access. ▪ The pipeline is a single shipper pipeline.
Category 3: Exemption from publishing service usage information, service availability information and financial information	At any time, the average daily injection of natural gas into the non-scheme pipeline calculated over the immediately preceding 24 months is less than 10TJ/day.

The **AER** determines whether or not an **exemption** is granted. **Exemptions** may be time-limited, subject to conditions and varied at the **AER's** discretion.

Exemptions do not apply automatically. To receive 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**.

A **service provider** who wishes to apply for an **exemption** must complete the application form available on the **AER** website. All applications will be assessed by the **AER** in accordance with the **NGR**.

Non-scheme pipelines that hold an **exemption** will be identified in a public register of **exemptions** on the **AER** website. The public register contains additional information including the location and/or part of the pipeline, the category of **exemption**, the date the **exemption** was granted and applicable conditions.

1.7 Publication

The service provider is required publish the financial information and weighted average price information by making the information publicly available on the service provider's website. The information must be maintained on the website for a period of 5 years after the date the information is first published in accordance with rule 553(6).

2 Timing of information publication

A non-scheme pipeline is required to commence publication of information in accordance with the **Guideline** where the **service provider's reporting period** ends after 1 December 2017.

In accordance with rule 552(2) 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**. Table 2.1 sets out the dates by which **service providers** 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

2.1 Transitional arrangements

The *National Gas (Pipelines Access-Arbitration) Amendment Rule 2017* contains transitional rules that form part of Schedule 4 of the **NGR**. The transitional rules address the transitional arrangements in relation to the **initial financial reporting** and **average weighted prices**.

Under the transitional rules, **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**. This transitional reporting requirement only applies to pipeline statements and weighted average price information.

Table 2.2 sets out the reporting dates for the **initial financial reporting and average weighted prices.**

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

Prior year information is not required to be submitted in the first year that the reporting requirements apply (i.e. prior year information will not be required to be included in the information reported in the first full year **financial reporting template).**

3 Requirement to publish financial information - entity financial statements

3.1 Obligations

The **reporting entity** for the **service provider** is required to publish on its website its audited financial statements that are prepared in the ordinary course of business. If numerous parties have an interest in a pipeline, the party that has the largest interest in the pipeline (directly or indirectly) is required to provide audited financial statements. Where two or more parties have an equally large interest, these parties are required to provide audited financial statements.

The **reporting entity** is defined in Section 1.4. If the direct owner of the pipeline does not prepare financial statements, financial statements for the parent entity must be provided.

If the **reporting entity** and any parent entities do not prepare audited financial statements as part of the ordinary course of business, there is no requirement for a **service provider** to prepare audited financial statements.

The entity that owns the pipeline will be required to publish this information for the most recently completed full financial year which ends after the **commencement date**.

3.2 Financial statements for the entity that owns the Pipeline

3.2.1 Required Statements

Required statements are:

- 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.

3.2.2 Compliance with accounting standards

Where the **reporting entity** has not complied with any **AASB**, the **reporting entity** should set out what, if any, accounting standards have not be complied with.

Where the entity financial statements are prepared in accordance with another country's framework or the International Financial Reporting Standards, this should be disclosed.

3.2.3 Certification

The **reporting entity** financial statements are required to be audited in accordance with Section 7.1.1 and prepared in accordance with the access information standard discussed in Section 7.2.

4 Requirement to publish financial information – pipeline statements

4.1 Pipeline statements

Rule 555 of the **NGR** requires a **service provider** of a non-scheme pipeline to prepare and publish on its website financial information about each of its non-scheme pipelines.

This part of the **Guideline** sets out the financial information required to be completed in the **financial reporting template**. The methodology and principles to be followed are set out at Section 4.2.

The **financial reporting template** includes:

- Income statement
- Balance Sheet
- **Weighted average price information**
- Notes to the pipeline statements

In the **financial reporting template**, **service providers** are required to set out the income statement and balance sheet for:

- the most recent financial year, and
- the prior financial year.

Different arrangements will, however, be in place for the transitional period as outlined in Section 2.1.

A single set of financial statements will be reported for each non-scheme pipeline even if there is more than one service provider.

In preparing the **financial reporting template**, **service providers** are required to comply with the **AASB**, except as outlined at Appendix A or where the **Guideline** provides a methodology that is not consistent with that disclosed under the **AASB**.

Terms in the **pipeline reporting template** have the same meaning as those set out in the Accounting Standards unless specified otherwise in this **Guideline.**

4.1.1 Income statement

The income statement at worksheet 2 of the **financial reporting template** provides an overview of the revenue generated from pipeline operations and the costs associated with the pipeline.

<u>Revenue</u>

Revenue is to be reported at worksheet 2.1 of the **financial reporting template**.

Revenue is to be reported by service category, and the service categories are set out in the **financial reporting template**. Where there is uncertainty as to which service category revenue applies, the **service provider** is to estimate and disclose in the notes the basis for allocation to a particular revenue category.

The **service provider** is required to comply with revenue recognition principles in ***AASB** 101 – Presentation of Financial Statements*, ***AASB** 15 – Revenue from contracts with customers and **AASB** 118 – Revenue* (to be superseded).

The **service provider** is required to provide notes regarding the preparation of the income statement, as detailed in Section 4.1.3.

The **service provider** is required to separately identify items in the income statement which relate to transactions with **related parties** as these may not be based on normal commercial terms. Further information regarding **related party** transactions is provided in Section 4.2.6.

Where revenue is allocated to the pipeline which is not 100 per cent attributable to the pipeline the basis for allocation must be provided as discussed further in Section 4.2.4.

<u>Costs</u>

In reporting costs incurred in the operation of the pipeline in the income statement and notes to the income statement, **service providers** are to categorise costs in accordance with the following categories provided in the **financial reporting template**:

Direct costs

- Repairs and maintenance
- Direct employee costs
- **Depreciation**
- Insurance
- Licence and regulatory costs
- Directly attributable finance charges
- Leasing and rental costs
- Other direct costs

Shared costs

- Shared Employee costs
- Information technology and communication costs
- Indirect operating expenses
- Shared asset **depreciation**
- Rental and leasing costs
- Borrowing costs
- Impairment Losses (nature of the impairment loss)
- Other indirect costs
- Total indirect costs allocated
- Interest expense allocated

Expenditure recognition principles in the **AASBs** listed at Appendix A should be applied when preparing the income statement and notes to the income statement.

Service providers are required to allocate only a fair proportion of indirect costs such as corporate overheads to each pipeline. Further details regarding cost allocation principles is provided in Section 4.2.4.

In determining whether to capitalise or expense a transaction (for example in determining whether maintenance is an operating expense or capitalised maintenance), **service providers** should refer to the capitalisation principles in the **AASBs** listed at Appendix A and Section 4.2.2.

Guidance regarding the reporting of **depreciation** costs is provided in Section 4.2.5.

Service providers are not required to separate expense items by service type in the **financial reporting template**, however, this information may be required in the event of an arbitration.

4.1.2 Balance sheet

Service providers are required to provide a balance sheet for the pipeline at worksheet 3 of the **financial reporting template**. The balance sheet provides an overview of the assets utilised in the pipeline operations and the debt/liabilities required to fund the pipeline.

Unless specified otherwise in this **Guideline** or in Appendix A, **AASBs** should be applied in determining asset and liability values.

<u>Assets</u>

For reporting purposes, **service providers** are required to classify assets into the following categories:

- **Pipeline assets**
- **Shared supporting assets** that are apportioned to the pipeline.

Guidance on capitalisation and the valuation of assets in each of these categories is provided in Section 4.2.

Details of the calculation of **depreciation** and the carrying value of each category of assets is provided in Section 4.2.5.

<u>Liabilities</u>

Service providers are required to separately disclose liabilities that directly relate to the pipeline.

Liabilities that do not relate directly to a single pipeline are classified as shared liabilities and are required to be apportioned between the non-scheme pipeline and other operations of the **service provider**. **Service providers** must disclose the basis for this allocation and provide an explanation for the use of this basis. Guidance regarding the allocation of liabilities is provided in Section 4.2.4.

4.1.3 Notes to the pipeline statements

The following notes to the income statement are required:

- A breakdown of revenue by service type (worksheet 2.1 of the **financial reporting template**).
- A list of capital contributions received (including both customer and government contributions) (worksheet 2.2 of the **financial reporting template**).
- A list of the indirect revenue allocated to the pipeline and an explanation of the basis for allocation (worksheet 2.3 of the **financial 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 **financial 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 provided in Section 4.2.1 (worksheet 3.1 of the **financial 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 **financial reporting template**).
- A schedule that sets out any revaluations 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 **financial reporting template**).
- A **depreciation** schedule to show the straight line **depreciation** calculation for **pipeline assets** (worksheet 3.5 of the **financial reporting template**).
- The **shared supporting asset** schedule, which provides the basis for allocating shared assets to the pipeline (worksheet 3.6 of the **financial reporting template**).
- The shared liability schedule, which provides the basis for allocating shared liabilities to the pipeline (worksheet 3.7 of the **financial reporting template**).

4.2 Methods, principles and inputs used

4.2.1 Asset valuation principles

Asset valuation principles apply to the following categories of assets:

- **Pipeline assets.**
- **Shared supporting assets**.

Upward revaluation of assets are not allowed for any category of assets disclosed.

Where assets have been revalued upwards for reporting outside the scope of this **Guideline**, the revalued value and the reason for revaluation can be disclosed in the notes in worksheet 3.3.

Pipeline assets

Pipeline assets include the following categories of assets:

- Pipelines
- Compressors
- City gates, supply regulators and valve stations
- Metering
- Odorant plants
- SCADA (Communications)
- Buildings
- Land and easements
- Other depreciable **pipeline assets**
- Other non-depreciable **pipeline assets**

For **pipeline assets**, a depreciated book value approach must be used based on straight line **depreciation** and the asset lives set out in worksheet 3.2 (“depreciated book value method”).

The depreciated book value method is used to determine asset carrying values in the pipeline balance sheet and **depreciation** for the income statement.

Using the depreciated book value method, **service providers** are required to report **pipeline assets** by asset class, and construction cost/value at acquisition less straight-line **depreciation** in accordance with **AASBs**, unless the **AASBs** are specifically excluded at Appendix A.

Using the depreciated book value method, each of these asset classes should be determined at cost (where applicable) and this **depreciation** should be undertaken on a straight line basis in accordance with the **AASB**.

Shared supporting assets

Shared supporting assets are required to be apportioned between the non-scheme pipeline and other operations of the service provider. **Service providers** must disclose the basis for this allocation and provide an explanation for the use of this basis in worksheet 3.4 to 3.6 of the **financial reporting template**. Guidance regarding the allocation of **shared supporting assets** is provided in Section 4.2.4.

Depreciated book value method

The value of an asset under the depreciated book value method is calculated as:

- the historical construction cost of the **pipeline asset** (or acquisition cost if the asset was acquired by the **service provider** prior to the commencement of this **guideline**), less any impairment amounts;
- plus any **capital expenditure** or acquisitions during the period (at cost);
- less the value of any assets disposed of during the period; and
- less **depreciation** incurred using the methodology set out in Section 4.2.5 below.

Where an asset has been acquired from a **related party** prior to the commencement of the guideline, rather than disclosing the amount paid to a **related party**, this asset should be recognised at construction cost or the cost at which the **related party** acquired the asset from an unrelated third party.

Construction, acquisition and maintenance costs should be capitalised in accordance with the **AASBs** set out in Appendix A and Section 4.2.2.

Land and easements

Where land or easements are owned by the **service provider**, these assets are required to be recorded at historical cost and not depreciated (except where accounting standards allow such assets to be depreciated).

4.2.2 Capitalisation principles

Service providers are required to determine whether expenditure is appropriately classified as an operating expense or **capital expenditure**. This classification should be undertaken in accordance with the **AASBs** and any exclusions set out in Appendix A.

Additional guidance material is set out below.

Construction cost

The construction costs for **pipeline assets** are able to be capitalised where they meet the requirements for capitalisation according to the **AASB**. Where an asset was not constructed by the **service provider**, the acquisition cost should be used if the asset was acquired by the **service provider** prior to the commencement of this **guideline**.

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**.

Expenditure on pipeline assets

In accordance with ***AASB** 116 – Property, plant and equipment,* certain expenditure on **pipeline assets** can be capitalised as part of the cost of that asset. Broadly, expenditure on **pipeline assets** can be capitalised where the expenditure results in an improvement to the **pipeline asset**. That is, as a result of the expenditure the **pipeline asset's** condition is enhanced beyond its original standard of performance or capacity. Examples of such enhancements include:

- increasing the **pipeline asset's** useful life, function or service capacity;
- enhancing the quality of services delivered using the asset; or
- significantly reducing the operating costs associated with the asset.

Where a significant component of a **pipeline asset** is replaced, this can also be capitalised into the carrying value of the asset, however the value of the component that is being removed must be simultaneously derecognised as a disposal.

A condition of continuing to operate a **pipeline asset** may be performing regular major inspections for faults. Consistent with ***AASB** 116*, regardless of whether this inspection results in faults being identified and rectified, the **service provider** may include the cost of the major inspection in the carrying value of the **pipeline asset** in the capital maintenance line in the **financial reporting template**. However, any remaining costs of a previous major inspection relating to that asset must be simultaneously derecognised.

In contrast, routine maintenance, day-to-day servicing, replacement of minor parts and repairs are not considered to be improvements and cannot be capitalised. Costs associated with routine maintenance and repairs, including the following must be also expensed when incurred:

- administration and general overhead costs;
- labour and consumables associated with routine repairs and maintenance; and
- costs of staff training.

Please see ***AASB** 116 – Property, plant and equipment* which provides more details of expenditure on property, plant and equipment that may and may not be capitalised.

Research and development

General research and development costs must be expensed or capitalised in accordance with ***AASB** 138 – Intangible assets*. That is, expenditure on research must be expensed when it is incurred whilst expenditure on development can only be capitalised where it meets all the conditions listed at 57(a)-(f) of ***AASB** 138 – Intangible assets.*

4.2.3 Asset life principles

Asset lives are relevant for the purposes of determining:

- **depreciation** expense in the income statement; and
- the carrying value of assets reported in the balance sheet.

Where the depreciated book value method is applied, **service providers** are required to disclose in worksheet 3.2 of the **financial reporting template** the asset life based on a range of standard lives for asset classes set out at Appendix B or, if a different asset life is considered appropriate, provide an explanation for the use of an alternative asset life.

4.2.4 Allocation principles

This section sets out the principles, methodology and arrangements **service providers** should adopt to determine:

- the allocation of costs to the pipeline, including direct costs and indirect (shared) costs for the purpose of completing the pipeline income statement;
- the allocation of revenues to the pipeline, and the allocation of revenue between the categories of service for the purpose of completing the pipeline income statement; and
- the allocation of assets and liabilities to the pipeline for the purpose of completing the pipeline balance sheet.

General principles for allocation of costs

Each **service provider** is responsible for developing the detailed principles and policies for attributing costs to a pipeline.

A **service provider's** detailed principles and policies for attributing costs directly or indirectly to a pipeline must meet the following requirements:

- The allocation of costs must be determined according to the substance of a transaction or event rather than its legal form.
- Only the following costs may be allocated to a pipeline:
    - Costs that are directly attributable to the provision of services for the pipeline only ("direct costs").
    - Costs that are not directly attributable to the provision of the pipeline's services, but which are incurred in providing those services ("indirect costs"), in which such costs must be allocated to the provision of those services using an appropriate allocator which should:
        - except to the extent the cost is immaterial or a causal based method of allocation cannot be established without undue cost and effort, be causation based; and
        - to the extent the cost is immaterial or a causal based method of allocation cannot be established without undue cost and effort, be an allocator that accords with a well-accepted cost allocation method.
- The same cost must not be allocated more than once.

Information on methodology to be disclosed

The **service provider** must disclose in the notes:

- How the direct costs have been identified, and how they are recorded and tracked in the financial management information systems.
- For indirect costs, the **service provider** must disclose in the notes:
    - the nature of the allocator, or allocators, to be used for allocating each cost item, the reasons for selecting the allocator, or allocators, for each cost item;

  - an explanation of why the allocator or allocators used is the most appropriate available allocator, or set of allocators, for the cost item; and
  - the numeric quantity or percentage of the allocator to be applied for each cost item, including an explanation of how the numeric quantity or percentage has been calculated, including where the data for determining this numeric quantity or percentage have been sourced.

The **financial reporting template's** compliance with the general allocation principles will need to be independently audited, as outlined in Section 7.1.2.

General principles for allocation of revenue to a pipeline

Each **service provider** is responsible for developing the detailed principles and policies for attributing revenue to a pipeline. A **service provider's** detailed principles and policies for attributing revenue directly or indirectly to a pipeline, and between categories of services, must meet the following requirements:

- All revenue directly earned by the pipeline must be allocated to the pipeline ("direct revenue").
- Any revenue that is generated under agreements that do not separate the revenue by pipeline must be allocated to each pipeline using an appropriate allocator or allocators.
- Any other revenue that does not directly relate to a specific pipeline must be allocated to each pipeline using an appropriate allocator or allocators ("indirect revenue").
- Allocation of revenue between pipelines must be based on a causal or well accepted allocation methodology.
- For revenue that is indirect or relates to more than one pipeline, the **service provider** must disclose in the notes:
  - the nature of the allocator, or allocators, to be used for allocating each revenue item, the reasons for selecting the allocator, or allocators, for each revenue item
  - an explanation of why the allocator or allocators used is the most appropriate available allocator, or set of allocators, for the revenue item; and
  - the numeric quantity or percentage of the allocator to be applied for each revenue item including an explanation of how the numeric quantity or percentage has been calculated, including where the data for determining this numeric quantity or percentage have been sourced.

The **financial reporting template's** compliance with the general allocation principles will need to be independently certified, as outlined in Section 7.1.2.

General principles for allocation of assets and liabilities

Each **service provider** is responsible for developing the detailed principles and policies for attributing assets and liabilities directly or indirectly to a pipeline. A **service provider's** detailed principles and policies for attributing assets and liabilities directly or indirectly to a pipeline, and between categories of assets, must meet the following requirements:

- All assets directly used by a specific pipeline and liabilities incurred directly in relation to a specific pipeline must be allocated to that pipeline.

- Any assets that are shared between pipelines or liabilities that do not relate directly to a specific pipeline must be allocated to each pipeline using an appropriate allocator or allocators.
- Allocation of assets and liabilities between pipelines must be based on a causal or well accepted allocation methodology.
- For assets that are "shared assets" and liabilities that are "shared liabilities" the **service provider** must disclose in the notes:
  - the nature of the allocator, or allocators, to be used, the reasons for selecting the allocator, or allocators for each asset or liability;
  - an explanation of why the allocator or allocators used is the most appropriate available allocator, or set of allocators, for the asset or liability; and
  - the numeric quantity or percentage of the allocator to be applied for each asset or liability including an explanation of how the numeric quantity or percentage has been calculated, including where the data for determining this numeric quantity or percentage has been sourced.

The **financial reporting template's** compliance with the general allocation principles will need to be independently certified, as outlined in Section 7.1.2.

4.2.5 Depreciation principles

The **depreciation** principles set out the basis on which **pipeline assets** and shared supporting assets are to be depreciated.

Assets are required to be depreciated using straight line **depreciation** based on asset lives set out in worksheet 3.2 ("depreciated book value method").

The asset base used to calculate **depreciation** for each class of asset includes:

- the construction or acquisition cost (where the asset was acquired prior to the commencement of the guideline)
- additions
- capitalised maintenance
- less disposals
- less any impairments.

Upward revaluations of any of the above items or the total asset base are not permitted in the balance sheet. Where assets are revalued by the **service provider**, these revaluations can be disclosed in worksheet 3.3. Where assets are impaired, the reasons for impairment should be disclosed in the notes at worksheet 3.4.

The useful life of the asset and the reason for choosing this useful life is required to be disclosed in worksheet 3.2 of the **financial reporting template**. These should be consistent with asset life principles in Section 4.2.3.

Assets should be depreciated on a straight line basis over the asset's useful life in accordance with the methodology specified in ***AASB*** *116*. The Cost Model outlined in ***AASB*** *116* should be applied (not the Revaluation Model).

The **depreciation** for each year is calculated as:

$$Depreciation = \frac{asset\ base - estimated\ residual\ value}{estimated\ useful\ life}$$

In some circumstances, the residual value of a pipeline asset may be negative.

4.2.6 Related party transactions

Related party transactions where a pipeline transacts with a **related body corporate** are required to be separately reported in the income statement, balance sheet and various notes to the financial statements (worksheets 2, 2.1, 2.2, 2.3 and 2.4).

4.3 Financial performance metrics

Service providers are required to report the following financial performance metrics in the **financial reporting template**:

- Return on assets (Earnings Before Interest and Tax (EBIT) on total assets).
- Return on equity (Net Profits After Tax (NPAT) after tax on total equity).

Return on assets is to be provided on a **reporting entity** and standalone pipeline basis.

As equity is not required to be determined and reported for an individual pipeline, return on equity is required to be reported for the **reporting entity** as a whole and return on net assets is required for the pipeline.

4.4 Certification

The financial statements for individual non-scheme pipelines must be certified by an independent auditor in the manner specified in Section 7.1.2 and prepared in accordance with the access information standard discussed in Section 7.2.

5 Asset valuation in accordance with rule 569(4)

The asset valuation method arising from the application of the method set out in rule 569(4)(b) ("the recovered capital method") is required to be disclosed in the notes at worksheet 3.1 of the **financial reporting template** but does not impact the asset values reported in the pipeline balance sheet or depreciation in the pipeline income statement.

Rule 569(4) of the **NGR** states that the value of any assets used in the provision of the pipeline service:

(a) must be determined using asset valuation techniques that are consistent with the objectives of this Part set out in rule 546(1); and

(b) unless inconsistent with (a), the value of any assets 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.

To determine the reported value of **pipeline assets** under this method, **service providers** are to complete the schedule at worksheet 3.1 of the **financial reporting template**.

In preparing the **template**, **service providers** are to provide the following:

- The construction date of the **pipeline assets**.
- The construction cost of the **pipeline assets**, by year.
- For shared assets:
  i. the construction cost, by year, if the asset is of a type constructed by the **service provider; or**
  ii. the acquisition costs, by year, if the asset is not of a type constructed by the **service provider** (for example, motor vehicles and information technology equipment).
- Any **capital expenditure** on pipeline assets that has been incurred, by year, and at cost.
- Any disposals of **pipeline assets**, by year, and at cost.
- The **return of capital** calculated using the methodology provided below.

For the purposes of this worksheet 3.1 , **pipeline assets** are required to be classified into the following categories (to the extent that they are used to provide pipeline services):

- Pipelines
- Compressors

- City gates, supply regulators and valve stations
- Metering
- Odorant plants
- SCADA (Communications)
- Buildings
- Land and easements
- Other depreciable assets
- Other non-depreciable assets
- Shared assets.

The recovered capital method is designed to take into account the capital that has already been recovered by the **service provider** and can be expressed formulaically as follows:

$$Value\ of\ Capital\ Base_t = Construction\ Cost\ _0 + \sum_{i=1}^{t} Capex_i - \sum_{i=1}^{t} Return\ of\ Capital_i - \sum_{i=1}^{t} Asset\ Disposals_i$$

Where

$$\sum_{i=1}^{t} Return\ of\ Capital_i = \sum_{i=1}^{t} Revenue_i - \left[\sum_{i=1}^{t} Opex_i + \sum_{i=1}^{t} Return\ on\ Capital_i + \sum_{i=1}^{t} Net\ Tax\ Liabilities_i\right]$$

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**; and
- the costs incurred by the **service provider**, where costs include operating expenditure, net tax liabilities and a return on capital.

In order to calculate the **return of capital** for **pipeline assets**, the **service provider** will require the following information:

- the actual revenue earned by the **service provider** from the provision of all services by the pipeline in each year following the construction of the asset;
- the **operating expenditure** (opex) incurred by the **service provider** in each year following the construction of the asset;
- the net tax liabilities incurred by the **service provider** in each year following the construction of the asset; 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

- 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 should be commensurate with the prevailing conditions in the market for funds and reflect the risks the **service provider** faces in providing pipeline services.

Where relevant, the inputs used in this calculation should be subject to the same allocation principles as those used for the pipeline statements.

The source of information used in the calculation of the value of the **capital base** should be documented in worksheet 3.1 of the **financial reporting template.**

Note 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.[3]

5.1 Certification

This information must also be certified by an independent auditor in the manner specified in Section 7.1.3 and prepared in accordance with the access information standard discussed in Section 7.2.

[3] 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).**

6 Requirement to publish weighted average price information

Service providers are required to publish **weighted average price information** for a non-scheme pipeline (see rule 556 or the **NGR**), including the weighted average prices paid by users for pipeline services and a description of the methodology used by the **service provider** to calculate the weighted average prices.

Weighted average price information provides a measure of the amount that shippers are charged, on average, for a particular service.

6.1 Obligations

Service providers are required to publish the weighted average price of each service provided in the **reporting period**. The weighted average price must be determined using the methodology set out in this **Guideline** and be in the form and contain the information specified in this **Guideline**. Where more than one charging method is used for a particular service type, the weighted average price under each charging method is to be separately disclosed for the service.

6.2 Form and content

Worksheet 5 of 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 **reporting period** (the most recent financial year) into the following service categories (where relevant) in order to calculate separate **weighted average price information** for each service:

- Transportation services
    - i. Firm forward haul transportation services (includes bi-directional services, if a pipeline operates in a bi-directional manner)
    - ii. Interruptible or as available transportation service
    - iii. Backhaul services
- Compression services
    - i. Firm compression service
    - ii. Interruptible or as available compression services
- Storage services
    - i. Firm park services
    - ii. Firm park and loan services
    - iii. Interruptible or as available park services
    - iv. Interruptible or as available park and loan services
- Trading services
    - i. Capacity trading service

ii. In-pipe trading service

iii. Redirection services

- Other services

To enable weighted average prices to be compared 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, which may include:

i. **The postage stamp charging method**

Where the same charge is payable along the length of the pipeline, irrespective of the distance transported.

ii. **The zonal based charging method**

Where a pipeline is separated into zones and a separate tariff is calculated based on the number of zones gas is transported through. Each zone is required to be disclosed separately.

iii. **Distance based charging method**

Where a charge for a service is based on the dollar per GJ per kilometre basis. Each major delivery point is required to be disclosed separately.

Each of the categories above are then required to be further allocated between:

- Capacity based charges where a service is charged on a dollar per GJ of maximum daily quantity (MDQ) of reserved capacity regardless of whether the customer fully utilises this capacity.
- Volumetric based charging: where a service is charged based on each GJ of gas transported by the customer.

6.3 Methods, principles and inputs used

6.3.1 Estimates

Where the calculation of weighted average prices requires the use of an estimate, information on the nature of an estimate must be supported by a statement of the basis of the estimate. Where actual information is unavailable, an estimate should not be used.

Estimates should be consistent with rule 74 of the **NGR**. That is the estimate:

(a) must be arrived at on a reasonable basis; and

(b) must represent the best estimate possible in the circumstances.

Where a customer is charged for the use of more than one pipeline under an agreement, an estimate of the proportion of this revenue that is attributable to a particular pipeline will be required.

Where a customer is charged for use of more than one service type under an agreement, an estimate of the proportion of revenue that is attributable to a particular service will be required.

Where estimates are applied because 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 **financial reporting template**.

6.3.2 Weighted average price calculations

The weighted average price calculation for the most recent financial year is determined as follows.

Capacity based charges = $\frac{\$Revenue}{Maximum\ daily\ quantity\ (GJ)}$

Volumetric based charging = $\frac{\$Revenue}{Gigajoules\ transported}$

Revenue is required to be reported on an accrual basis for the above, consistent with the revenue recognition requirements in Section 4.1.1.

6.4 Certification

The **weighted average price information** must be certified by an independent auditor in the manner provided for in Section 7.1.3 and prepared in accordance with the access information standard discussed in Section 7.2.

6.5 Exemptions

To maintain the confidentiality of shippers, in accordance with rule 556(3) of the **NGR**, the **service provider** is not required to publish the **weighted average price information** for a pipeline service if:

- the pipeline 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.

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

Where services are combined in response to a notice by the **AER**, the **weighted average price information** for combined services are to be disclosed in row 29 of worksheet 5 of the financial reporting templates and a list of the combined services must be disclosed in the weighted average price notes at worksheet 5 of the templates.

7 Certification

In order for shippers to be able to rely on the financial information, the following information provided by **service providers** is required to be certified:

- Entity financial statements and the accompanying notes.
- Pipeline statements, including the notes as set out in the **financial reporting template.**
- **Weighted average price information** and the notes set out in the **financial reporting template**.

The auditor's opinion and report on factual findings are required to be published with the **financial reporting template**.

The certification requirements of each category of financial information is outlined below.

7.1.1 Annual financial statements for the entity

Where the entity's financial statements are prepared in accordance with **AASB** or International Financial Reporting Standards and this has been certified, this certification meets the requirements of this **Guideline**. If these statements have been audited, there is no additional requirement to have them audited again for the purposes of complying with this **Guideline.**

If the **reporting entity** and any parent entities do not prepare audited financial statements as part of the ordinary course of business, there is no requirement for a **service provider** to prepare audited financial statements.

7.1.2 Financial statements for individual non-scheme pipelines

In order for shippers to have assurance over the pipeline financial statements, **service providers** are required to have the pipeline statement (part of the **financial reporting template**) audited in accordance with *ASA 800 – Audits of financial reports prepared in accordance with special purpose frameworks* and *ASA 805 – Audits of single financial statements and specific elements, accounts or items.*

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

- the **AASBs** identified in this **Guideline**; and
- the methodology, rules and principles set out in the **Guideline**.

7.1.3 Asset valuation in accordance with rule 569(4)

In order for shippers to have confidence in the accuracy of the asset valuation in accordance with rule 569(4), **service providers** are required 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 recovered capital reporting template has been prepared in accordance with the requirements for the information at Section 5 of this **Guideline**.

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

7.1.4 Weighted average price information

In order for shippers to have confidence in the accuracy of the **weighted average price information**, **service providers** are required 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 report template has been prepared in accordance with the requirements for the weighted average price information at Section 6 of this 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.

7.2 Access information standard

Rule 551(1) of the **NGR** requires the information published under Division 2 of Part 23 to be prepared and maintained in accordance with the *access information standard*. The access information standard means that the information:

- 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.

Where a **service provider** becomes aware that information required to be published does not comply with the access information standard, rule 551(3) requires the **service provider** to publish information that does comply as soon as practicable after the **service provider** becomes aware of the non-compliance.

Rule 551(4) requires information published under Part 23 to include the date of publication, the date to which the information is current and, if the information replaces an earlier version as provided for by subrule (3), notice of that fact.

8 Compliance and enforcement

8.1 Maintaining compliance

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

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).

1. Appendix A

AASB exclusions for Pipeline reporting		
AASB No.	**AASB Title**	**Paragraphs excluded**
108	Accounting Policies, Changes in accounting estimates and errors	14 - 53
116	Property, Plant and Equipment	29 - 66 76 - 82
101	Presentation of Financial Statements	36 - 44 106 - 111 125 - 138
1054	Australian additional disclosures	8 - 9 12 - 16
1031	Materiality	No exclusions
1048	Interpretation of Standards	No exclusions
15	Revenue from contracts with customers	No exclusions
118	Revenue [superseded by AASB 15 Revenue from Contracts with Customers for periods beginning on or after 1 January 2018]	No exclusions
2	Share-based payment	All excluded
4	Insurance contracts	All excluded
7	Financial Instruments: Disclosures	All excluded
10	Consolidation of Financial Statements	All excluded
13	Fair value management	All excluded
14	Regulatory deferral accounts	All excluded
107	Statement of Cash Flows	All excluded
110	Events after the reporting period	All excluded
133	Earnings per Share	All excluded
138	Intangible Assets	All excluded
139	Financial Instruments: Recognition and Measurement	All excluded
1004	Contributions	All excluded
1038	Life insurance contracts	All excluded
1049	Whole of Government and General Government Sector Financial Reporting	All excluded
1055	Budgetary reporting	All excluded
1056	Superannuation entities	All excluded
1058	Income of Not-For-Profit entities	All excluded

2. Appendix B – Pipeline asset lives

Pipeline asset category	Low	High
Distribution pipeline		
Pipelines	50	60
City gates, supply regulators and valve stations	30	50
Metering	15	30
SCADA (Communications)	15	20
Buildings	40	50
IT systems	5	10
Transmission pipeline		
Pipelines	60	80
Compressors	30	35
City gates, supply regulators and valve stations	30	50
Metering	30	50
SCADA (Communications)	15	15
Buildings	80	80
IT systems	5	5