Attachment A

AGIG's response to GMRG's specific questions in relation to the draft financial reporting guidelines

	Questions	Feedback
3	**Entity 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?
		• Within the Australian Gas Infrastructure Group (AGIG) in normal course and relevantly to non-scheme pipelines financial reports would prepared for
		  ○ DBP Development Group Pty Ltd
		  ○ Australian Gas Networks Ltd Group
		• Where companies are considered to be a 'small proprietary company' (less than $12.5m in assets and $25.0m in annual revenue) the entity is not required to prepared statutory reports
		• There is one exception relevant to the DBP Development Group where a financial report is prepared for a Joint Venture (JV) – the ownership of the Fortescue River Gas Pipeline
		• AGIG's reporting is consistent with Australian Accounting Standards (AASB) and as such complies with International Financial Reporting Standard (IFRS).
		• In AGIG's experience, one party of the JV will prepare financial statements, which are then shared with the parties to the venture.

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. • If not, please explain why not.	• Entity level financial reports are consolidated to include a number of assets. It is our view that consolidated information will be of limited value to a prospective shipper wanting to understand the financial characteristics of a specific asset. • Further, it would not be possible to perform any meaningful reconciliation between the consolidated report and asset level financial information without substantial explanation and detailed spreadsheets. • If the reason for requiring entity level financial information is to provide comfort that asset level information is sound, then our reconciliation point is relevant. Without the ability to sensibly reconcile the two sets of financial information,

	Questions	Feedback
		there would be little utility in having the consolidated financial report.
3.	Are service providers likely to face any challenges publishing entity level financial statements?	• Where they are prepared in the normal course of business there is unlikely to be a challenge in publishing entity level financial information. However, as discussed above we question the value in the GMRG's Financial Guideline requiring them to be published, as they will not be easily reconcilable to asset level information and therefore will not be informative to prospective shippers of a particular asset's financial metrics and characteristics. • We suggest therefore the requirement to publish entity level financial reports should be demonstrated to meet the objective of the new framework before it is made a requirement of the Financial Reporting Guidelines.

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?	• No, there is no reason why the entity level of rate of return, which would in most cases consolidate a number of assets of various classes, should be compared to that to the commercial return applicable to a specific asset being considered by a prospective shipper. We point to 2 hypothetical examples:
		  ○ Say hypothetically, a pipeline service provider was earning multiples of what could reasonably thought fair commercial return at the entity level – how would that information be informative to commercial negotiation or an arbitrators considerations in the context of access to a specific pipeline? Should the arbitrator find in favour of the shipper and land on a lower tariff taking into account the aggregate returns of the service provider? We this this would be inconsistent with the objective in Part 23 of the NGR.
		  ○ Alternatively, if the non-scheme pipeline comprises a small proportion of the overall return on assets and remaining assets are all regulated, the return achieved by the regulated asset would not be instructive to what a reasonable commercial return should be for a non-scheme pipeline with a different risk profile to the regulated assets. .
		• We suggest the GMRG should demonstrate how the entity level return on asset assists in the achievement of the objective of Part 23 of the NGR before it is made a requirement in the GMRG guideline.

	Questions	Feedback
4	**Pipeline financial statements**	
5.	Are there any categories of revenue missing from the income statement that you think should be reported? If so, please what information is missing is and why it is required?	N/A
6.	Are there any categories of revenue that be particularly difficult to find a basis for allocation to a pipeline?	N/A
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?	N/A
8.	Should interest expense and tax expense be required to be included in the pipeline income statement?	We consider that requiring the inclusion of interest and tax expense is problematic as it may not be possible to measure interest at the pipeline level where a group manages its debt at a parent or group level. If interest is not reported, it would follow that it wouldn't be possible to calculate a complete tax expense, and it would be even more difficult if the service provider was part of a consolidated tax group. We therefore suggest that the financial reports for pipelines be determined at an EBIT level.
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?	N/A
10.	Should liabilities and equity be disclosed in the pipeline balance sheet?	While direct liabilities are likely to be easily recorded against a single asset there are likely to be group or parent level liabilities that would need to be allocated which are likely to be a challenge to reporting a complete set of liabilities relevant

	Questions	Feedback
		to a single pipeline asset. Also, in a similar way described above for interest, borrowings may not be recorded at an asset level if finance is arranged at the parent or group level. It's on this basis that we are of the view that liabilities should not be disclosed on the pipeline balance sheet. We also suggest that reporting equity is irrelevant and likely to be misleading. The level of equity shown in the balance sheet of a particular asset is irrelevant to a prospective shipper and likely to be misleading as assets can be structured in various ways to meet financial objectives of the larger group.
11.	Do you think any additional notes should be provided to the financial statements?	Only those that are reasonably required to meaningfully understand the financial statements contained in the GMRG reporting template, not those that would be prepared in the course of preparing and auditing 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.	No, cash flow statements are not commonly prepared at an asset level therefore we consider it to be unnecessary to do so for the purposes of the new framework.
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?	Practically, whichever party completes the financial reports for the JV will need to complete the financial reports if required to do so under the new framework. In our experience, one party to the JV will be assigned the task of preparing financial reports under a service agreement.
14.	Should asset value impairments be allowed? If so, in what circumstances?	If impairments are required for the purpose of financial reporting, both positive and negative impairments must be allowed. If only negative impairments are allowed (or required to be recorded in pipeline

	Questions	Feedback
		financial reports) it should be explained why a service provider should not be allowed to recover its investment.
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.	We support the use of acquisition values being used for the purpose of calculating the book value. As it is highly likely that all the historical records required by the GMRG financial reporting guidelines are not likely to be available prior to an asset's acquisition. We are therefore of the view the acquisition value should be adopted if it exists.
16.	Do you agree with the proposed capitalisation principles?	Capitalisation should be consistent with accounting standards.
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?	Yes, we refer to the responses provided above regarding the difficulties in preparing financial reports that contain borrowings, a complete suite of liabilities, interest, and tax assets and liabilities.
18.	What difficulties arise in allocating interest and tax expenses to an individual pipeline?	We refer to the responses provided above.
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"?	No, we note that this level of information is not required for regulated assets and question why it would be of value in this context. In Regulatory Information Notices (RINs) direct and shared costs are aggregated, therefore it could be inferred there is little relevance in understanding that level of information. RINs may however include notes explaining how shared costs have been apportioned.
20.	If liabilities and equity are disclosed in the pipeline balance sheet, how should shared debt / equity be allocated?	We do not agree that shared debt/equity should be disclosed in the pipeline balance sheet.
21.	If allocation principles form part of an arbitrator's	No, we don't see why specific aspects of the arbitrators decision should be made

	Questions	Feedback
	final determination under Part 23 of the NGR, should the service provider be required to note this in the pipeline financial information?	publically available.
22.	Are there any methods, principles or inputs that you think should be specified in the guideline?	No
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?	We do not consider that the return on equity either at an asset level or consolidated parent entity level should be disclosed.
24.	What other financial performance metrics would be useful to shippers and why?	None
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?	We refer to the cover letter and points made relevant to the asset valuation in NGR 569(4)
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	Yes, we do think estimates should be allowed in the relevant circumstances. We do not think a prescriptive approach is required to be outlined by the guidelines for the reasons outlined below.

	Questions	Feedback
	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?	We think the prescription and over regulating this requirement can and should be avoided. The framework provides its own natural incentive for service providers to put forward estimates and appropriate justification and explanation. If the shipper feels that any estimates used are questionable they can be tested through arbitration. Service providers, with the knowledge that estimates may be tested by an arbitrator, are incentivised to only put forward those it feels are the most robust and can withstand scrutiny. We therefore think there is little for the guidelines to do in this space.
28.	Are there likely to be any challenges including shared assets in this valuation approach?	There could be – for example where an asset is managed by an operator who owns its own pipelines.
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)?	Yes
30.	Is any further prescription required regarding what net tax liability amounts consist of?	See the comments above about the appropriateness of reporting only at an EBIT level.
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	This could become quite difficult where a single gas transportation agreement contains a number of services provided to the shipper.

	Questions	Feedback
	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**	
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?	We consider that the audit requirement should be to a level of assurance that is referred to as a 'reasonably satisfied' review that would see the auditor state reports are free from material error.
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?	While we disagree with the requirement to include the NGL 569(4) asset valuation in the financial report, if the NGR 569(4) asset valuation is required, an Agreed Upon Procedures review is the only level of audit review that is appropriate in the circumstances and the asset valuation not being consistent with any accounting standard.
36.	What level of assurance is required for the weighted average pricing information? If agreed upon procedures are appropriate, what should these procedures be?	Agreed upon procedures review would be appropriate
37.	What mechanism should be used in the guideline to ensure any revisions to accounting standards are reflected?	A simple statement that any new or revised accounting standards have been applied, should be sufficient

	Questions	Feedback
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?	In the normal course of preparing financial reports, the accounting policy notes only comment on the expected impact of incoming revisions or new accounting standards. Once implemented no further disclosure is required. The guidelines should not include any further requirements.
39.	What level of assurance is appropriate for initial reporting requirements? Why?	As above
8	**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?	Consistent with the approach usually adopted by the regulatory for regulated pipelines, the cost of debt and the cost of specific items such as fuel gas should not be disclosed or aggregated to a level that maintains the confidentiality of information. Service providers are also likely to have obligations to maintaining the confidentiality of shipper information which may relate to disaggregated revenue information.
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?	Aggregate information up to a reasonable level.
42.	Is a confidentiality regime required? If so, how do you suggest this should operate?	If the information is aggregated up to a reasonable level, then a confidentiality regime shouldn't be required. However we would like to discuss this further.