Draft financial reporting guidelines for non-scheme pipelines

Alinta Energy

Submission

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1. Introduction

Alinta Energy (**Alinta**) welcomes the opportunity to provide a submission to the Gas Market Reform Group's (**GMRG**) *Draft financial reporting guidelines for non-scheme pipelines consultation paper* (**Consultation Paper**)*.*

Alinta is both a generator and retailer of electricity and gas in the east and west coast energy markets. Alinta has an owned and contracted electricity generation portfolio of 1957MW, including 1700MW of gas-fired generation facilities, and in excess of 800,000 customers including more than 250,000 in east coast markets. Alinta has an 11.8% investment in the Goldfields Gas Transmission Pipeline in Western Australia and is the owner of the Braemar Gas Pipeline in Queensland, which is used to supply the Braemar Power Station and transport gas to the Roma to Brisbane pipeline.

Alinta is supportive of increasing transparency to provide prospective users of non-scheme pipelines with additional information in an effort to reduce the imbalance in bargaining power they can face when negotiating with service providers, except in the circumstances where this increased transparency puts a company at a commercial disadvantage in another related market.

2. Alinta's key concerns

Alinta is concerned that in certain circumstances the information disclosure framework could undermine the competitive neutrality principles in the electricity and gas markets in Australia

The information disclosure framework contemplated in the Consultation Paper could undermine competitive neutrality principles. Specifically, publication of entity level financial statements for Alinta Energy (as the likely Reporting Entity for the Braemar 1 Gas Pipeline[1]) could enable competitors in the electricity market to gain a commercial insight into its operations thereby impacting our ability to compete with other businesses in the electricity sector. This introduction of information asymmetries between the gas and electricity industries could put Alinta at a competitive disadvantage in the electricity sector.

Alinta is broadly concerned with reforms which are at odds with the principle of competitive neutrality given this principle was key in the original reforms to both the electricity and gas markets in Australia (as a result of the implementation of the National Competition Policy). Competitive neutrality should remain at the forefront of regulators' concerns when considering proposed new and revised market designs.

Alinta does not consider that there would be any value is requiring publication of the annual reports for the entity that owns the Reporting Entity

Alinta understands that the GMRG has questioned whether there would be benefit in also requiring annual reports for the entity that owns the Reporting Entity. Alinta is uncertain at which level of ownership this requirement would stop, noting that many companies have complex ownership arrangements which could cover a multitude of different sub-businesses.

Additionally, it remains unclear what value could be gained from the reporting and storage of numerous large volumes of annual reports with no clear context of its relation to the unregulated pipelines.

[1] Alinta Energy intends to apply to the Australian Energy Regulator for an exemption under Division 6 of Part 23. However, there is no guarantee that an exemption will be granted.

For this reason, Alinta is strongly opposed to this consideration and notes that accounts at this level would provide no meaningful information to an access seeker, particularly in the circumstances like Alinta's where our core business is as a generator and retailer of electricity and gas and not as a pipeline operator.

While there are persuasive arguments for a high level of information disclosure, full information disclosure may not necessarily be the best policy, particularly when confidentiality, the potential for market manipulation, and the direct costs of data provision are accounted for. Given this, and the fact that the guidelines can develop over time to meet additional needs, it would be Alinta's preference in the first instance to minimise the entity reporting obligations (and associated regulatory burden) where possible.

Alinta considers that there will be significant difficulty in allocating revenue, expenses, assets and liabilities to a specific pipeline

Alinta does not currently prepare accounts at the pipeline level. Many costs, such as debt, equity, tax and corporate costs, are incurred at the power station level and are either not allocated to specific assets, or their allocation does not bear a relationship to how those assets drive those costs.

Alinta appreciates that the 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. However, Alinta considers that it may not be possible to develop a meaningful allocation to the pipeline level and that this is likely to involve considerable discretion which may undermine the intent of the measure.

Provision should be made in the guidelines for information disclosure only in response to a legitimate access request for pipelines that meet certain characteristics

Alinta notes that there could be pipelines that do not meet the exemption requirements but are also not pipelines that users would naturally want or need to seek access to[2]. Alinta considers that in these instances provision should be made in the guidelines to outline the information a shipper is able to request but will only need to be prepared in response to a legitimate access query. This information could be made public (but would not necessarily need to be updated following the resolution of a specific access query).

This solution would require a mechanism to ensure that the requests are reasonable and do not contain confidential information. Further, any information requests would need to be responded to in a timely manner to ensure that the intent of the broader information disclosure regime is not diluted.

Alinta considers that a confidentiality regime is required in order to protect the commercial interests of an entity, particularly in other related markets

The draft guideline does not currently include a confidentiality regime. As outlined above, in circumstances where the core business of an entity is as a generator and retailer of electricity and gas and not as a pipeline operator, there is the potential that this information

[2] Or access has already been negotiated successfully in the past.

disclosure regime will disclose confidential information, lead to information asymmetries in related markets and/or produce information which is not meaningful or fit for purpose.

As such, Alinta recommends that a confidentiality regime be explicitly recognised in the guidelines.

3. Conclusion

Alinta supports increasing transparency but cautions that care needs to be taken to ensure that:

- The principles of competitive neutrality are upheld and companies are not put at a commercial disadvantage in other, related markets;
- Regulatory burden is balanced with the increased information disclosure requirements; The information required to be disclosed is meaningful, useable and fit for purpose; and
- Information is required to be routinely disclosed for only those pipelines where users are seeking access, and pipelines which may not fall into this category are required to only disclose information when there is a legitimate access request.

Alinta's responses to the GMRG's specific questions are contained in Appendix 1.

Appendix 1: Feedback Template – Alinta Energy response

	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?	The Braemar 1 Gas Pipeline, is owned by Braemar Power Project Property Limited (Service Provider). The service provider is part of a consolidated group (Reporting Entity), who prepares general purpose consolidated financial statements. The consolidated financial statements are prepared in accordance with the requirements of the Australian Accounting Standards. The Service Provider does not prepare standalone financial statements and as a result would place additional burden on the Service Provider as well as additional cost. Further to this, in circumstances where the core business of an entity is as a generator and retailer of electricity and gas and not as a pipeline operator, there is the potential that this information disclosure regime will require publication of information which is not meaningful or fit for purpose.
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.	The Consultation Paper notes that some service providers of non-scheme pipelines currently publish audited entity financial statements, often at a consolidated level and that 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 shippers with comfort regarding the veracity of pipeline information provided as it can be compared to the service provider's information. Alinta notes that this would be true for operations where the core business is as a pipeline operator or owner. As noted above, in circumstances where the core business of an entity is as a generator and retailer of electricity and gas and not as a pipeline operator, there is the potential that this information disclosure regime will require publication of information which is not meaningful

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		or fit for purpose. Further, Alinta understands that the GMRG has questioned whether there would be benefit in also requiring annual reports for the entity that owns the Reporting Entity. Alinta is uncertain at which level of ownership this requirement would stop, noting that many companies have complex ownership arrangements which could cover a multitude of different sub-businesses. Additionally, it remains unclear what value could be gained from the reporting and storage of numerous large volumes of annual reports with no clear context of its relation to an unregulated pipelines. For this reason, Alinta is strongly opposed to this consideration and notes that accounts at this level would provide no meaningful information to an access seeker (i.e. wouldn't provide any transparency as to the cost structure of the operations of the pipeline), particularly in the circumstances like Alinta's where our core business is as a generator and retailer of electricity and gas and not as a pipeline operator.
3.	Are service providers likely to face any challenges publishing entity level financial statements?	Subject to our comments in question 2 above, there could be some challenges, but these would not be insurmountable.
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?	Alinta does not think that there would be value in requiring the service provider to report the entity level return on assets and return on equity. Alinta is concerned that as this is not governed by Australian Accounting Standards compilation and provision of this information could be open to interpretation (and potentially open to manipulation).
4	**Pipeline financial statements**	

	Questions	Feedback
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?	No. Noting this, Alinta has a fundamental issue with the requirements for individual “Pipeline financial statements”. As per the draft guidelines the pipeline financial statements are required for all non-scheme pipelines and this information is to be provided in accordance with Australian Accounting Standards. The challenge with this is that, in certain circumstances, the allocation to individual pipelines will be an arbitrary process and one that is then very hard to comply with Australian Accounting Standards.
6.	Are there any categories of revenue that be particularly difficult to find a basis for allocation to a pipeline?	No. Noting this, some pipelines may have only one customer, which then leads to confidentiality concerns. Alinta understands that there is the ability for a service provider to 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. Alinta notes that consideration needs to be given to the requirement for pipeline financial statements where there is only one customer on that 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?	No.

	Questions	Feedback
8.	Should interest expense and tax expense be required to be included in the pipeline income statement?	No, as it would be a theoretical arbitrary allocation to a pipeline.
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?	No.
10.	Should liabilities and equity be disclosed in the pipeline balance sheet?	To allow for a complete picture, if there is a requirement to disclose assets then it follows that liabilities and equity should also be disclosed.
11.	Do you think any additional notes should be provided to the financial statements?	Alinta cannot identify any additional notes that should be provided to the financial statements at this stage. Noting this, perhaps the guidelines should allow for some flexibility for including any "additional/other notes" that could be identified during the first reporting period.
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, Alinta considers that there should be sufficient information about the pipeline without requiring cash flow statements. Alinta notes that this is where potential regulatory burden needs to be finely balanced against the provision of potentially useful information.
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?	Alinta suggests that in the event the pipeline is owned by multiple service providers (e.g. through a joint venture), then the joint venture partners should be required to identify the service provider responsible for publishing pipeline financial information.

	Questions	Feedback
14.	Should asset value impairments be allowed? If so, in what circumstances?	Yes, given this is in accordance with Australian Accounting Standards. Noting this, in many instances impairments wouldn't generally be carried out at pipeline level, which could lead to inconsistencies with how this information is compiled and reported.
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.	No.
16.	Do you agree with the proposed capitalisation principles?	Yes.
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?	There would be a fair bit of difficulty. In certain circumstances, these elements form a very minor part of the overall "service provider's" operations and as such an allocation methodology could become misleading and of little to no relevance to the users of the information.
18.	What difficulties arise in allocating interest and tax expenses to an individual pipeline?	As 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"?	Alinta considers that it is sufficient for these shared costs to be reported as one line - "shared costs".
20.	If liabilities and equity are disclosed in the pipeline balance sheet, how should shared debt / equity be allocated?	The question is unclear on what is referred to as "shared debt / equity" so unable to provide comment.

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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?	Yes, subject to any commercial, confidentiality concerns.
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?	The return on equity metric is important in determining the pipeline operator's profitability. However, this doesn't necessarily need to be separately reported as the return on equity can be derived from the other information disclosed.
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	Alinta is concerned that requiring a service provider to develop estimates of

	Questions	Feedback
	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?	missing information could lead to publication of arbitrary information which is neither fit for purpose nor would provide any value in access negotiations.
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?	See above.
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	In circumstances like Alinta's where the pipeline is only a small part of an overall entity it would be difficult to distinguish a return that is directly attributable to that asset.

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	owner of the pipeline)?	
30.	Is any further prescription required regarding what net tax liability amounts consist of?	Alinta considers that this should be consistent with AASB.
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.	Alinta is concerned that a weighted average approach could provide Shippers with misleading and inaccurate information for making commercial decisions. Weighted averages won't necessarily provide an accurate representation of distance based tariffs. Likewise the weighted averages prices could be significantly distorted for commercial tariffs which include a large capital expansion.
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?	Alinta would prefer the following categories: • Fixed Charges; • Variable Charges; and • Other charges.
7	**Certification**	
34.	What level of assurance is appropriate for the pipeline financial statements? Would this	Alinta is concerned that, in certain circumstances, allocations to individual pipelines will be an arbitrary process and one that is then very hard to comply

	Questions	Feedback
	change if there is information in the pipeline statement that is required to be estimated?	with Australian Accounting Standards.
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.	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?	Alinta notes that the guidelines require financial statements by pipeline. Some pipelines may have only one customer, which then leads to confidentiality concerns. Alinta understands that there is the ability for a service provider to 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. Alinta notes that consideration needs to be given to the requirement for pipeline financial statements where there is only one customer on that pipeline.
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?	Alinta considers that a confidentiality regime is required. Given there is a raft of different circumstances which could give rise to confidentiality concerns, a confidentiality regime should be able to be configurable to certain circumstances via application to the AER (similar to the exemption from publishing weighted average prices for a pipeline service for a financial year).