



Zoe van der Lee  
Gas Market Reform Group  
c/o Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Jemena Limited  
ABN 95 052 167 405

Level 16, 567 Collins Street  
Melbourne, VIC 3000  
PO Box 16182  
Melbourne, VIC 3000  
T +61 3 9173 7000  
F +61 3 9173 7516  
[www.jemena.com.au](http://www.jemena.com.au)

Via email:  
[zoe.vanderlee@gmrg.coagenergycouncil.gov.au](mailto:zoe.vanderlee@gmrg.coagenergycouncil.gov.au)

3 November 2017

Dear Ms van der Lee

### **Feedback on the draft financial reporting guidelines**

Thank you for the opportunity to comment on the draft financial reporting guidelines and template (**draft guideline**) and the supporting consultation paper. Jemena welcomes the Gas Market Reform Group's (**GMRG's**) commitment to actively, and transparently, consult with stakeholders on their development.

We also appreciate the opportunity to discuss the guideline face-to-face in workshops like that held on 18 October and in one-on-one meetings.

### **Our submission**

This submission provides our feedback on the draft guideline and our understanding of the National Gas Rules (**NGR**) requirements. We recognise that the GMRG is required to finalise the guideline within a short space of time ahead of the Australian Energy Regulator's (**AER's**) consideration of it, and will consider other feedback in addition to Jemena's in doing so.

If after reviewing that feedback the GMRG (or the AER) is considering amending the draft guideline in a way that could have a material adverse effect on our business, our staff, or our customers, then we ask that you provide us with a further opportunity to comment on the guideline before it is finalised.

### **Key points**

Our key feedback on the draft guideline and supporting consultation paper are:

- **Scope of obligations.** We are concerned that the draft guideline requires information that is not useful to shippers when seeking access to our pipelines, or that goes beyond the purpose sitting behind the financial disclosure obligations in division 3 of part 23 to the NGR. The final guideline should avoid this.

In particular:

- **Usefulness** – much of the information requested has not been sought from us by shippers in the past when negotiating access to our pipelines. Our concern is that requiring service providers to publish information that is not useful to shippers adds costs to the provision of pipeline services without a clear benefit. It is important, therefore, to test with shippers how (if at all) this information would assist those negotiations before including it in the final guideline.
- **Purpose** – the requirement to report an estimated recovered capital value (or depreciated actual cost (**DAC**)) appears to go beyond what is needed to support timely and effective commercial negotiations, or the purpose set out in rule 546(2)(a) of the NGR and is likely to impede commercial negotiations encouraging arbitration. The DAC is referred to in the pricing and other principles stated in rule 569 of the NGR, which an arbitrator must consider when making an arbitration decision *if* commercial negotiations fail. They are not relevant until an arbitration is triggered.

To support timely and effective commercial negotiations, this requirement should be removed from the final guideline unless including it will support those negotiations (which is not obvious to us).

These points are developed further by the Australian Pipelines and Gas Association's submission – and so we do not repeat them here.

- **Dealing with estimates.** Given the scope of the draft guideline, estimates will be required to comply with them. Some estimates will be more reliable than others, but each will be subject to limitations that may reduce the usefulness of reported information or mislead users of it if they are not properly understood.

This is particularly so for recovered capital (or DAC) estimates where:

- some service providers may need to estimate historical information if this is not available, and
- different approaches could feasibly be used to estimate a DAC that satisfies the requirements in rule 569(4) of the NGR.

As such, the guideline should note these limitations and provide scope for service providers to qualify the reliability of the information reported. If not, our concern is that shippers or other users of the information may rely on that information when making decisions without understanding its limitations.

- **Other users of the information.** Although the guideline seeks information that could assist shippers in commercial negotiations, it is important to recognise that other people may also use or rely on that information once it is made public. If those people are unaware of the purpose for that information or the rules that govern its presentation, then there is a real risk that they may rely on that information to their detriment, especially where estimates are involved (as noted above).

The guideline and reporting template should, therefore, make clear the limitations of the published information; for instance, by including a disclaimer or a reliance statement, or at least make clear that service providers can include the same when disclosing that information.

- **Entity financial statements.** The obligation to publish entity level financial statements is unclear in places, or appears unworkable. This is largely because different terms are used in different places, such as 'reporting entity', 'service provider', 'direct owner of the pipeline' and the 'entity that owns the pipeline'.

If the obligation to report entity financial statements remains, then the guideline should make clear that where a service provider forms part of a group – as in our case – then group financial statements can be used to satisfy the obligation. This would not undermine the intent of the obligation because the information is still reported. However, it would make it much easier and less costly for service providers to administer.

Given the inconsistency in how the entity reporting will apply between service providers and the fact that such information is already available to potential users, Jemena considers that there is little additional value provided by requiring reporting entities to republish entity level financial statements in addition to pipeline specific financial information.

- **Certification requirements.** We are concerned that the draft guideline includes certification requirements – such as agreed upon procedures or the direct exclusion of some accounting standards – that are unworkable.

We explain our concern further in response to questions in **Attachment A** and as mark ups on the draft guideline in **Attachment C**. We have also drawn on feedback from our auditor, KPMG, when preparing those responses, although the drafting is our own.

**Attachment A** provides our responses to each of the questions set out in the consultation paper. **Attachment B** is a confidential diagram summarising the structure of our pipeline entities, which we use to highlight some of the challenges we see with the current definitions in the draft guideline. **Attachment C** is a marked-up version of the draft guideline that contains targeted feedback and suggested amendments, and includes some comments provided to us by KPMG on the certification requirements in section 7 and appendix A (as marked).

### ***Feedback from our auditors***

We have sought initial feedback from our auditors when preparing our response. The level of assurance required depends on the information being certified. There is inconsistency in the level of assurance being sought as pointed out in Section 7 of **Attachment C**.

### ***Confidentiality***

The information provided in **Attachment B** is provided on the basis that it is not to be disclosed publicly and is provided to GMRG (and the AER) on a strictly confidential basis. This is because it contains commercially sensitive information. We ask that no public disclosure of the confidential material is made without our prior written consent.

If you have any questions regarding our feedback in this letter or provided during the previous two service provider workshops, please do not hesitate to contact Ana Dijanosic at [ana.dijanosic@jemen.com.au](mailto:ana.dijanosic@jemen.com.au) or on +61 2 9867 7103.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Usman', with a horizontal line underneath.

**USMAN SAADAT**

**General Manager Regulation**

**Attach.**

## Attachment A | Responses to consultation questions

	Questions	Feedback
3	<b>Entity financial statements</b>	
1.	<p>What existing entity level financial statements are prepared by service providers?</p> <ul style="list-style-type: none"> <li>• Are these existing statements prepared in accordance with Australian accounting standards or international financial reporting standards?</li> <li>• Where the pipeline is operated by a joint venture, does the joint venture prepare financial information?</li> </ul>	<p>Jemena’s entity structure is complex, with some entities preparing statements and some not. Jemena publishes its group annual report on its website already, which is available to shippers. We prepare, in the ordinary course of business, other annual reports as required to comply with the Corporations Act and filed with ASIC (and also available to shippers).</p> <p><b>Attachment B</b> explains at a high level the complex nature of Jemena’s pipeline entity structure and identifies what statements are prepared by each entity. Some entities prepare special purpose financial reports (<b>SPFRs</b>) while others complete solvency declarations. Sitting above these entities, SGSP (Australia) Assets Pty Ltd is the ultimate parent company and prepares the group financial statements, referred to as a General Purpose Financial Report (<b>GPFR</b>). All statements are prepared in accordance with Australian accounting standards; however, not all statements are included – for instance, some SPFRs do not include cash flow statements.</p> <p>This complexity highlights the point raised in the cover letter – that some of the terms or definitions used in the draft guideline make it unclear what entity has the relevant financial information disclosure obligation and that the inconsistent information which will result is unlikely to be of material value to prospective pipeline users.</p>
2.	<p>Do you think service providers should be required to provide annual reports for the entity that owns or operates the pipeline?</p> <ul style="list-style-type: none"> <li>• 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.</li> </ul>	<p>No, for three reasons:</p> <ol style="list-style-type: none"> <li>1. The proposed pipeline financial statements and certification requirements in sections 4 and 7 of the draft guideline already provide the relevant financial information for the pipeline (including the return on assets) – it is not clear what further benefit shippers would gain from requiring the entity that owns or operates the pipeline to prepare and publish an annual</li> </ol>

	Questions	Feedback
	<ul style="list-style-type: none"> <li>If not, please explain why not.</li> </ul>	<p>report; it is highly unusual for shippers to seek such information from us as this</p> <ol style="list-style-type: none"> <li>Adding this requirement would, however, create an extra cost for those entities – if new reports are required beyond what is prepared in the ordinary course of business, then this could be a material cost to the relevant entities</li> <li>In many cases, requiring such statements at a lower level may be misleading because they are incomplete – for instance, debt, other financial instruments or tax might be raised, entered or paid at a group level and not allocated down to the pipeline owning entities, they may not have any employees, or they may not manage cash (and so not have any cash flows).</li> </ol> <p>If the obligation were to remain, then it should not go beyond what is already prepared in the ordinary course of business and should ignore statements that may mislead shippers or other users of the information. Alternatively, service providers should have the flexibility to nominate a reporting entity from within its group to prepare and publishes the annual report.</p>
3.	<p>Are service providers likely to face any challenges publishing entity level financial statements?</p>	<p>Yes, some service providers will likely face challenges publishing entity level financial statements.</p> <p>In our case, our group structure means that financial statements prepared by entities that may be captured by the ‘reporting entity’ definition (as currently drafted) will contain information that may mislead shippers or other users of our information (such as our debt holders).</p> <p>Group accounting means that statements of financial position, cash flows and changes in equity for our pipeline owning entities are less meaningful and may mislead users, including shippers.</p> <p>Key drivers of this are:</p>

	Questions	Feedback
		<ul style="list-style-type: none"> <li>• <b>Debt:</b> Jemena does not allocate debt to its subsidiary entities in the ordinary course of business. Debt and related financial instruments are held by its group holding company, SGSP (Australia) Assets Pty Ltd.</li> <li>• <b>Hedge reserves:</b> Similarly, Jemena does not allocate hedge reserves to its subsidiary entities in the ordinary course of business. This means that any return on equity calculations applied at a subsidiary level are likely to be misleading unless the limitations are fully understood by the users of that information.</li> <li>• <b>Employees:</b> Jemena’s pipeline operating entities do not have any personnel who are directly employed by its pipeline owner entities. Jemena’s employee entitlement provisions are held at its employing entities and not transferred to its pipeline owner entities (and so are not reflected in the accounts for those entities).</li> <li>• <b>Tax:</b> The same issue applies regarding tax provisions, which are held at a Jemena consolidated entity level.</li> <li>• <b>Cash flow:</b> Jemena’s pipeline owner entities also do not hold bank accounts. Instead, Jemena’s bank accounts are held a consolidated entity level and so Jemena’s current SPFRs exclude statements of cash flows.</li> </ul> <p>Pipeline level financial statements which reflect the inputs and outputs relevant to that pipeline – and are independently certified as being correct – provide a much more reliable and useful indication of the costs of operating the relevant pipeline. Given this, it unnecessary and intrusive to require pipeline owners to publish details of how their group structures are managed in order to justify the prices charged by each individual pipeline.</p>
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?	<p>This depends on whether the information is meaningful or not. If not, then it does not appear appropriate to provide the return on assets and return on equity metrics.</p> <p>As noted in response to question 3, many of our subsidiary financial statements are likely to mislead as not all cost, debt or equity information is</p>

	Questions	Feedback
		<p>allocated within the group – and so return on asset or return on equity metrics calculated using these statements are likely to mislead.</p> <p>This concern is likely to affect other service providers that operate within a group structure like we do.</p>
4	<b>Pipeline financial statements</b>	
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?	<p>No, the categories include appear sufficiently broad to capture the revenue earned by Jemena’s pipelines.</p> <p>We suggest that ‘shared revenue’ is defined to only include revenue that is allocated to the relevant pipeline. This will avoid picking up revenue that is shared within the group that owns the pipeline, but is not allocated to that pipeline.</p>
6.	Are there any categories of revenue that be particularly difficult to find a basis for allocation to a pipeline?	No, not that we are aware of based on the revenue streams currently generated by our pipeline assets.
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?	<p>Yes, some pipelines incur costs of goods sold. For instance, Queensland Gas Pipeline must pay for some system use gas (i.e. unaccounted for gas). Other pipelines may incur other such costs.</p> <p>Given that costs of goods sold is a standard item in an income statement and a reasonable cost incurred when providing pipeline services, it would be appropriate to include it in the pipeline statements.</p>
8.	Should interest expense and tax expense be required to be included in the pipeline income statement?	<p>Where the information is meaningful, then it may be appropriate to include it, <i>provided there is a clear benefit to shippers and shippers clearly understand its limitations.</i></p> <p>This is particularly important given that interest and tax expenses:</p> <ul style="list-style-type: none"> <li>are often not allocated down to pipeline entities when these operate as part of a group structure (as in our case) – and so estimates will likely be</li> </ul>

	Questions	Feedback
		<p>required, which may reduce the reliability of the pipeline income statement or any metrics calculated using it</p> <ul style="list-style-type: none"> <li>• can vary substantially between entities even if they were to own and operate the same assets due to differences in capital structure and tax planning – presenting this information may mislead shippers if this is not properly understood.</li> </ul>
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, we are not aware of any other categories that should be added.
10.	Should liabilities and equity be disclosed in the pipeline balance sheet?	<p>No, as this information is unlikely to be meaningful to shippers and will depend on the capital structure adopted by the service provider or its parent entities.</p> <p>As noted in response to question 2, Jemena group liabilities are not generally allocated down to subsidiary entities, including those that directly own Jemena’s pipeline assets. This means that the balance sheet may mislead shippers unless this limitation is understood by shippers.</p>
11.	Do you think any additional notes should be provided to the financial statements?	<p>No, as it is unclear how shippers would benefit from any further notes to the pipeline statements.</p> <p>However, shippers and other users may benefit from explanation of how the pipeline statements and any notes to them were prepared. This could be in the form of a basis of preparation document that can also be used by the auditors to undertake their certification in accordance with section 7 of the draft guideline.</p>
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	No, as it is unclear how shippers would benefit from further financial statements, or whether they would provide any meaningful information.

	Questions	Feedback
	prospective users when assessing the reasonableness of an offer.	As noted in response to question 2, cash flow statements for Jemena's pipelines would be meaningless because cash is managed at a group level. Our pipelines do not have bank accounts.
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?	<p>Yes, in some cases it will be feasible to report pipeline financial information where the pipeline is owned by multiple service providers.</p> <p>This is particularly true where those service providers are wholly owned by a common parent entity, as is the case for Jemena's Eastern Gas Pipeline, Queensland Gas Pipeline and Darling Downs Pipeline. In this case, the financial reporting guideline should provide flexibility for the wholly-owned entities within a group to determine who prepares and publishes the pipeline financial information, provided that the other requirements of the guideline are satisfied. No further process is required as the service providers are jointly responsible for publishing the information – indeed, adding a process may create unnecessary administrative burden.</p> <p>However, this may not always be the case as some pipelines are owned by different entities with different owners – and so a process will likely be required. Further work may be needed to determine a process that works effectively.</p>
14.	Should asset value impairments be allowed? If so, in what circumstances?	<p>Yes, provided that these comply with the relevant accounting standards in that upward asset revaluations are also allowed to ensure that the balance sheet is not downwardly biased. This bias may arise because asset impairments can be reversed if the reasons leading to impairment no longer apply. Asset values may also increase over time for other reasons, such as changes in market dynamics (e.g. land prices).</p> <p>Both asset impairments and upward revaluations may arise in the normal course of business and be reflected in audited statutory accounts. If the intent is for the pipeline statements to be akin to such accounts, but at the pipeline level, then it is logical for the balance sheet to follow the same or similar rules as those used to develop statutory accounts.</p>

	Questions	Feedback
		<p>If that is not the intent, then an alternative term to 'balance sheet' should be used to avoid misleading users of the published information who may otherwise associate that term with its ordinary meaning. This is important because once the information is published anyone can access it, even those that are unaware of its purpose or the rules – set out in the guideline – that govern it.</p>
15.	<p>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.</p>	<p>No, we do not have any concerns. Acquisition cost is readily available at a group level for our pipelines and can be allocated down to the pipeline level, if required.</p> <p>We would, however, have concerns if we were required to use construction cost as we did not construct the pipelines in our group to which the financial disclosure obligations in Part 23 apply.</p> <p>We are still investigating what, if any, construction cost data we have or can find using public sources for the acquired pipelines. There is no guarantee that we could get that data at sufficient detail to achieve a reasonable assurance audit opinion without qualification, as we would likely need to estimate data. This would reduce the usefulness of the balance sheet.</p> <p>To make this clear, the reporting template should refer to 'initial construction or acquisition cost' rather than just 'initial construction cost'.</p>
16.	<p>Do you agree with the proposed capitalisation principles?</p>	<p>Yes, we are comfortable with the proposed principles.</p>
17.	<p>Are there any categories of revenue, costs, assets or liabilities which will be particularly difficult to find a basis for allocation to a pipeline?</p>	<p>No, some basis could generally be determined to allocate revenue, costs, assets or liabilities to pipelines.</p> <p>However, it is important to recognise that:</p> <ul style="list-style-type: none"> <li>• these allocations may be estimates if they are not undertaken in the ordinary course of business (as in our case), and</li> <li>• there is some risk that shippers (or other users of the information) may be misled by us reporting total revenue, costs, assets or liabilities before</li> </ul>

	Questions	Feedback
		<p>allocation (as currently required by draft templates 2.1, 2.3, 2.4, 3.6 and 3.7), unless they are aware of how those items are allocated across our group assets (including our pipelines).</p> <p>Given that the allocations to each pipeline will be subject to audit anyway (as required by section 7 of the guideline), we suggest that the requirement to report total shared revenues, costs, assets or liabilities is removed to avoid unnecessary confusion.</p>
18.	What difficulties arise in allocating interest and tax expenses to an individual pipeline?	Generally, a basis for allocating interest and tax expenses to entities within a group can be found. However, as noted above, it is important to recognise that such allocations will be estimates where tax is paid and interest incurred at a group level.
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”?	Shared costs should be reported on a single line. The items listed do not correlate with cost categories typically used by us in the ordinary course of business. Although shared costs <i>could</i> be categorised in this way, it is not clear to us what benefit this will provide shippers – to our knowledge shippers have not asked us for this information previously.
20.	If liabilities and equity are disclosed in the pipeline balance sheet, how should shared debt / equity be allocated?	<p>For the reasons set out in response to questions 2 and 10, there are real difficulties reporting liabilities and equity where these are not allocated in the ordinary course of business to pipelines that form part of a group structure.</p> <p>However, if they must be reported, then we consider that some flexibility is needed to determine an appropriate causal allocator, provided it is consistent with accounting standards. Any allocation would also be subject to audit under the certification requirements of the guideline, and would need to reconcile back to group level information. This should provide comfort that the allocator or allocators used are both fit for purpose and appropriate in the circumstances.</p>

	Questions	Feedback
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?	<p>No, for three reasons:</p> <ul style="list-style-type: none"> <li>• it is not clear how an arbitrator's final determination is relevant to the pipeline financial statements or information – an arbitrator's determination must comply with the pricing and other principles set out in rule 569 of the NGR while the statements and information must comply with accounting standards and the guideline (an arbitral determination represents a definitive resolution of the relevant dispute, but is not a definitive statement of the service provider's finances)</li> <li>• there is also a material risk that a shipper (or other user of information) may be misled by a note – or the absence of a note – that the allocation principles form part of such a determination without fully understanding the reasons for that determination and its relevance</li> <li>• the allocation principles may be confidential to the service provider – requiring disclosure of information related to an arbitrator's final determination where this is not ordinarily required or allowed by rules 576 or 581 would appear to undermine the confidentiality of the arbitration process in Division 4 of Part 23 to the NGR.</li> </ul>
22.	Are there any methods, principles or inputs that you think should be specified in the guideline?	<p>No, provided the guideline refers to appropriate accounting standards that govern the methods, principles or inputs that can be used.</p> <p>If the intent is to replicate audited financial statements at a pipeline level, then it should be sufficient to reference the accounting standards that govern the development of such statements in the ordinary course of business. Auditors are routinely required to assess financial information against those standards, and the methods, principles and inputs used to generate it. Unless there is a specific requirement identified – which we are not aware of – it is appropriate to rely on those standards.</p>
23.	Should the pipeline statements (performance metrics) show the return on equity for the pipeline, or is it sufficient to show the return on	We consider that the return on equity is not required to be shown, as it is not clear what benefit shippers would gain.

	Questions	Feedback
	assets only? What benefit could shippers derive from understanding a pipeline's return on equity?	<p>As noted in response to questions 2 and 10, group liabilities are not allocated to pipelines within the Jemena group. This means that measures such as return on equity that are affected by the level of debt may mislead shippers or not be meaningful.</p> <p>Even if group liabilities were allocated appropriate in the ordinary course of business, then the resulting return on equity would be affected by group capital structure and other decisions, which may change over time or be different from what another pipeline owner would adopt. It is unclear how this information could then be used to support access requests or negotiations under part 23 of the NGR.</p>
24.	What other financial performance metrics would be useful to shippers and why?	We are not aware of any.
<b>5</b>	<b>Recovered capital</b>	
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?	<p>If a service provider is required to provide an estimated recovered capital value for its pipelines, then it should use best endeavours to obtain the historical information needed to estimate it while recognising the costs involved in doing so. However, the exact steps taken may vary depending on what information is required.</p> <p>Steps <i>could</i> include:</p> <ul style="list-style-type: none"> <li>• searching public records – such as ASIC or newspaper articles – for the required information or engaging an external party to</li> <li>• requesting the information from a party that is understood to have the information, such as a prior owner of the relevant pipeline</li> <li>• relying on a previously published recovered capital estimate (if the pipeline is acquired after the first financial information disclosure was made for it and it were appropriate to rely on that information).</li> </ul> <p>Importantly, even if successful in finding historical information from a third party, a service provider or its auditor may not be able to attest to its accuracy</p>

	Questions	Feedback
		<p>or completeness. A service provider may also be unable to secure complete information, and so may need to use estimates to fill in any gaps.</p> <p>Both limitations may affect the ability to secure an unqualified audit opinion on the recovered capital estimate.</p>
26.	<p>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?</p> <ul style="list-style-type: none"> <li>• If not, please explain why not?</li> <li>• If so, what guidance should be provided in the guideline on how these estimates are to be generated?</li> </ul>	<p>As noted in the cover letter, we consider that the guideline should not require service providers to publish recovered capital estimates – and so our immediate response to this question is ‘no’ for the reasons noted in that letter. However, <i>assuming that such an estimate is required</i>, then yes, if a service provider is unable to obtain historical information using its best endeavours, then it should be able to use estimates to fill in any gaps. We do not consider that any further guidance is needed, as the guideline and rules already govern how a recovered capital value should be estimated and the access information standard applies.</p>
27.	<p>If estimates are permitted:</p> <ul style="list-style-type: none"> <li>• how reliable do you think the estimates are likely be and is there a risk that this information could be misleading to shippers?</li> <li>• 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?</li> <li>• what level of certification is relevant / possible if the information is based on estimates?</li> </ul>	<p>This question is hard to answer because the reliability of estimates depends on how they were determined. In our case, we are unclear on what estimates will be required to estimate the recovered capital value for each of our pipelines as we are still searching through our internal and other records. Given that most of our pipelines were acquired by the Jemena group after they were constructed, we have acquisition values and access to some information obtain during the acquisition process.</p> <p>Estimates – like any information provided in response to the guideline – <i>could</i> be misleading if not well understood by the users of that information, including shippers. We have highlighted this risk in response to earlier questions.</p> <p>To minimise that risk service providers should have an opportunity to explain the inputs, methods, and assumptions used to derive them, such as in a basis of preparation document. This approach has been used successfully when responding to regulatory information notices issued by the AER, and can be used in any certification process.</p>

	Questions	Feedback
		<p>A limited assurance review using an appropriate auditing standard for estimates of historical information would appear to be the most appropriate certification requirement as:</p> <ul style="list-style-type: none"> <li>• a reasonable assurance standard would not be appropriate given that estimates are required (e.g. to estimate a commercial rate of return) and that those estimates may have varying levels of reliability, and</li> <li>• an agreed upon procedures standard would also not appear appropriate given the shippers are not the ones agreeing those procedures with the auditor (which would be inconsistent with auditing standards).</li> </ul>
28.	Are there likely to be any challenges including shared assets in this valuation approach?	There may be some challenges – however, service providers should be able to work around these challenges by adopting an appropriate cost or asset allocation method. As shared assets contribute to the provision of pipeline services they should be recognised in a pipeline’s asset value.
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)?	Historical commercial rates of return can be estimated using generally available information. However, there will always be assumptions required and limitations on the resulting estimate – and so it will be important that these are made clear in the information disclosures to ensure that the recovered capital estimates do not mislead shippers or other users of the information.
30.	Is any further prescription required regarding what net tax liability amounts consist of?	No, the requirements are sufficiently clear.
<b>6</b>	<b>Weighted average price</b>	
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.	Yes, we are comfortable with the proposed approach to estimate weighted average prices.

	Questions	Feedback
32.	Should estimates be allowed where agreements do not separate revenue? If not, how should these revenues be allocated?	<p>Yes, provided the basis for the allocation is made clear, as allocations will be necessary for some agreements.</p> <p>If agreements do not clearly separate prices between services or components of services, then estimates will likely be required to allocate revenue between them. In this case, it is unclear how revenue could be allocated without using estimates.</p>
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?	Yes, the proposed level of disaggregation appears appropriate.
<b>7</b>	<b>Certification</b>	
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?	<p>The level of assurance that is appropriate depends on the information being certified.</p> <p>As discussed at the service providers' workshop on 18 October 2017, the best approach is to determine the level of assurance after the scope of the pipeline financial statements is settled. If estimates are required to complete those statements, then a limited assurance review would be most appropriate.</p> <p>Any assurance required should be in line with Auditing and Assurance Standards.</p>
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?	<p>The asset valuation carried out using the method set out in rule 569(4) is necessarily an estimate because it relies on estimates (e.g. a commercial rate of return). As such, a limited assurance review would appear most appropriate <i>if</i> certification of that valuation is required.</p> <p>An agreed upon procedures certification does not appear appropriate because – as currently envisaged by the guideline – those procedures are not agreed between the users of the information (e.g. the shippers) and the auditor that must apply them. This creates a material risk that a certification</p>

	Questions	Feedback
		based on agreed upon procedures would mislead those users and would be inconsistent with auditing standards.
36.	What level of assurance is required for the weighted average pricing information? If agreed upon procedures are appropriate, what should these procedures be?	<p>The weighted average price is an estimate and may be calculated using estimated allocations of revenue, capacity or volumes, and so a limited assurance would appear most appropriate <i>if</i> certification of the weighted average prices is required.</p> <p>As noted in response to question 35, an agreed upon procedures certification does not appear appropriate.</p>
37.	What mechanism should be used in the guideline to ensure any revisions to accounting standards are reflected?	<p>The guideline should automatically pick up any changes to accounting standards that apply to the relevant reporting period, as this will avoid the need to reopen the guideline every time there is a change to those standards.</p> <p>This is best achieved by not calling out specific accounting standards in the guideline itself (as is currently done in appendix A to the draft guideline), but instead require the statements to be prepared in accordance with the prevailing accounting standards unless otherwise required by the guideline.</p>
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?	<p>Yes, service providers should outline the impact of changes in accounting standards to ensure that users of the information understand the reasons for those changes and how they have affected the financial information.</p> <p>Some flexibility will be needed in how this is presented in the pipeline statements as changes to different standards will have different impacts – and is consistent with how such impacts are outlined in statutory accounts prepared in the ordinary course of business.</p>
39.	What level of assurance is appropriate for initial reporting requirements? Why?	<p>A lower level of assurance is appropriate for initial reporting requirements where the six months of information published will be subject to certification under a subsequent full year information disclosure.</p> <p>This may mean, for instance, that only limited assurance or officer-level certification is required over the pipeline financial statements if that information is subject to a reasonable assurance audit as part of a</p>

	Questions	Feedback
		<p>subsequent financial information disclosure. Requiring the same information to be audited in two separate audits to the same standard would add cost – in terms of extra audit and internal resourcing – without a clear benefit to shippers. This is particular so given that audit of the first six months will not be aligned to the full year audit that is undertaken in the normal course of business.</p>
8	<b>Confidentiality</b>	
40.	<p>Do you think that any of the information required by the draft guideline is confidential? If so:</p> <ul style="list-style-type: none"> <li>• What information do you believe is confidential and why?</li> <li>• What impact would the disclosure of this information have on service providers?</li> </ul>	<p>We consider that the following information – currently required by the draft guideline – is confidential:</p> <ul style="list-style-type: none"> <li>• Shared costs by description required in the <i>2.4 Shared costs</i> sheet</li> <li>• Shared liabilities by item required in the <i>3.7 Shared liabilities</i> sheet</li> <li>• Revenue and quantities by service required in the <i>5. Weighted average price</i> sheet.</li> </ul> <p>These are explained below.</p> <p><i>Shared costs by description are market sensitive (2.4 Shared costs)</i></p> <p>This information is market sensitive because the quantum of expenditure and associated allocations can be used to calculate the apportionment of overheads to different service groups. Shared costs allocated to service groups is commercially confidential as it could jeopardise Jemena’s commercial position in future negotiations with its prospective service providers.</p> <p>Jemena’s customers would be disadvantaged by facing higher long-term costs where Jemena’s negotiating position with its prospective service providers deteriorates.</p>

		<p><i>Shared liabilities by item are market sensitive (3.7 Shared liabilities)</i></p> <p>The information is market sensitive because Jemena's actual debt portfolio (i.e. the list of debt or bonds on issue, or other financial instruments, such as interest rate swaps and cross currency swaps) could reveal Jemena's future debt financing requirements.</p> <p>If made public in too much detail, this may adversely affect our commercial position in the pursuit of competitive growth opportunities (as they arise), or our ability to access capital markets (both domestic and foreign). Competitors in either market could use this information to undercut our bids or otherwise harm our interests.</p> <p>Jemena's customers would be disadvantaged by facing higher long-term financing costs where Jemena's negotiating position with prospective debt providers deteriorates.</p> <p><i>Revenue and quantities by service may reveal confidential customer information (5. Weighted average price)</i></p> <p>The information on revenue and quantities by service relates to individual customer consumption and costs. Publishing this information could reveal confidential customer information publicly unless there are sufficient safeguards in place (such as the exemption framework reflected in the rules).</p> <p>Although the immediate effect is to customers whose confidential information is revealed, longer term sustained publication could adversely affect demand for Jemena's pipeline services as potential publication would be an added 'cost' to customers.</p> <p>We note, of course, that the exemption provided in the draft guideline may address much of this concern. However, there remains a risk that disclosure <i>could</i> compromise confidentiality in some cases (e.g. where two of three shippers on a particular service are related – and share information – but a third is not).</p>
--	--	--

	Questions	Feedback
41.	<p>How could this information be presented to avoid confidentiality concerns but still meet the objectives of the NGR? For example, could this information be aggregated in a manner that was still meaningful?</p>	<p>The information identified in response to question 40 could be aggregated to address confidentiality concerns.</p> <p>For instance:</p> <ul style="list-style-type: none"> <li>• shared costs could be aggregated in to general categories (e.g. corporate, asset management, service delivery, and customer and markets) that do not undermine negotiations over specific service contracts</li> <li>• individual debt obligations could be aggregated by type and without revealing when they mature or who the counterparties are.</li> </ul> <p>Alternatively, the concerns could also be addressed by removing or reducing the requirements to publish the shared cost and liability information, as explained in response to questions 2, 10 and 19. We do not consider that this would undermine the objectives of the NGR because it is unclear how shippers would benefit from having that information published in the first place.</p> <p>If the requirements remain, then the guideline should provide service providers with flexibility to aggregate shared cost and liability information in a way that addresses the confidentiality concerns.</p>
42.	<p>Is a confidentiality regime required? If so, how do you suggest this should operate?</p>	<p>If there is a risk that confidential information is covered by the financial reporting guidelines, then we consider that a confidentiality regime is required to avoid any unnecessary harm to service providers or other stakeholders. As noted in response to question 41, we consider that the draft guideline does pose that risk – which may affect our (and other service providers’) legitimate commercial interests.</p> <p>We consider that a confidentiality regime could operate similar to that applied by the AER, as set out in its <i>Confidentiality Guideline</i>, published in August 2017. Given that the AER will ultimate publish and maintain the financial reporting guidelines, it makes sense that it should apply the same confidentiality regime across all aspects of regulation that it administers.</p>

	Questions	Feedback
		<p>The AER describes the purpose of its Confidentiality Guideline (p. 4) as follows:</p> <p><i>We seek to balance protecting confidential information with disclosing information for an open and transparent regulatory decision-making process. We consider the balance involves Stakeholders having access to sufficient information to understand and assess the substance of all issues affecting their interests. This is not equivalent to public disclosure of every piece of information NSPs provide, especially where public disclosure is likely to harm the long term interests of consumers.<sup>2</sup> However, the complexity of economic regulation means understanding and assessing the substance of all issues requires access to detailed information.</i></p> <p><i>Footnote 2: For example, where it is likely that disclosure would compromise commercial negotiations between NSPs and their suppliers.</i></p> <p>See: <a href="https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/confidentiality-guideline-2017">https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/confidentiality-guideline-2017</a>.</p> <p>Although the information disclosure requirements introduced by Part 23 of the rules may not strictly be a ‘regulatory decision-making process’, the development of the financial reporting guidelines is. We consider it appropriate, therefore, that a similar balance is struck when deciding what information service providers are required to publish.</p> <p>The AER’s confidentiality scheme (or guideline) could be operationalised using a process similar to that set out in the draft guideline for dealing with weighted average price information. Under this process:</p> <ul style="list-style-type: none"> <li>• a service provider would need to lodge a claim (or application) for confidentiality to the AER in form similar to that set out in the confidentiality guideline sufficiently in advance of when publication would otherwise be require</li> </ul>

	Questions	Feedback
		<ul style="list-style-type: none"><li>• the AER would then assess that application against the criteria set out in the confidentiality guideline and decide within a specified period, say 40 days, whether to allow the claim in full or part, or not</li><li>• the service provider would then comply with that decision when completing its annual filing.</li></ul> <p>Under this process the onus would be on the service provider to demonstrate the legitimacy of its claim (i.e. that the information is genuinely confidential).</p>

Attachment B | Simplified example of Jemena pipeline entity structure [CONFIDENTIAL]



REDACTED

**Attachment C | Marked version of draft guideline**