

Non-Scheme Pipeline - Financial Reporting Guideline

Explanatory Statement

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Economic Regulation Authority

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1 Introduction

1.1 Overview

On 23 December 2017, a new information disclosure and arbitration framework was established in Western Australia with the aim of facilitating access on reasonable terms to services provided by non-scheme pipelines. A key component of the framework is to provide prospective users of non-scheme pipelines with increased information in an effort to reduce the imbalance in bargaining power they can face when negotiating with service providers.

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

Rule 557 of the NGR requires the Economic Regulation Authority (ERA) to publish and maintain a financial reporting guideline for non-scheme pipelines (Guideline). The Guideline must:

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

The Guideline prescribes:

- the form and content of financial information required to be published;
- the methodology, principles and inputs used to calculate the financial information;
- the form and content of the weighted average price information to be published;
- the methodology, principles and inputs used to calculate the weighted average price information; and
- the manner in which the above information must be certified by an independent auditor.

The transitional provisions in the NGR require the initial guideline to be published on or before 23 May 2018.

The ERA, in consultation with the Australian Energy Regulator (AER), the Gas Market Reform Group (GMRG)¹ and consultants McGrathNicol, developed a draft financial reporting guideline and financial reporting template for non-scheme pipeline service providers.

On 9 October 2017, a consultation paper accompanied by the draft guideline and financial reporting template was published on the [GMRG website](#). The paper set out the proposed approach to the reporting of financial information and weighted average price information, identified the key issues involved and sought stakeholder feedback on these issues.

Stakeholders were asked to provide feedback on the consultation paper and were also invited to attend industry roundtable discussions held in Melbourne and Perth. Twenty-one organisations with interests in non-scheme pipelines, upstream production, retailing, generation and industrial gas use participated in the roundtable discussions. Twelve organisations provided written submissions.

The AER also conducted bilateral discussions in developing its initial guideline. The AER was required to publish its initial guideline by 1 January 2018. The AER made several amendments from the draft guideline as it took into accounting information provided by stakeholders. The significant amendments included:

- revenue and expenses are to be reported on an earnings before interest and tax (EBIT) basis which is exclusive of interest and tax (section 3.1)
- assets are to be reported but not debt or liabilities (section 3.2)
- entity financial statements are not required (section 3.4.2)
- estimates may be used in certain circumstances where actual historical data is not available (specifically for the recovered capital method asset valuation) (section 4)
- weighted average prices are only required for more commonly used services (section 5).

Each of these changes was discussed in the relevant sections of the AER's explanatory statement.²

The ERA has now published its guideline having had regard to the feedback provided by stakeholders to the consultation paper published by the GMRG and consultation conducted by the AER, the overarching objective of the framework and the National Gas Objective (NGO).

1.2 Legal Framework

The National Gas Law (NGL) applied in Western Australia is set out in Schedule 1 to the *National Gas Access (WA) Act 2009*. It is a modified version of the NGL that applies in other Australian jurisdictions. In addition to the NGL text set out in Schedule 1, a number of amendments have been declared under section 7A of the *National Gas Access (WA)*

¹ The GMRG was established by the Council of Australian Governments Energy Council in August 2016 to lead the design, development and implementation of a new information disclosure and commercial arbitration framework for non-scheme pipelines.

² Australian Energy Regulator, Financial Reporting Guideline for Non-scheme pipelines – Explanatory Statement, December 2017.

Act 2009. These amendments include those contained in the *National Gas (South Australia) (Pipelines Access – Arbitration) Amendment Act 2017*.³

Under the *National Gas Access (WA) Act 2009*, the National Gas Rules (NGR) applying in Western Australia is version 1 of the National Gas Rules, as amended by the Australian Energy Markets Commission in accordance with its rule making power under section 74 of the NGL. The NGR applied in Western Australia also incorporates rule changes made through the application of the *National Gas (Pipelines Access – Arbitration) Amendment Rule 2017*.⁴

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

The initial rules comprised of a new Part 23 in the NGR and a new Schedule 4 to the NGR. Schedule 4 sets out derogations and transitional provisions.

The Guideline should be read in conjunction with:

- the *National Gas Access (WA) Act 2009* – Schedule 1 – NGL
- the NGR and, in particular Part 23
- the Non-scheme Pipeline Arbitration Guide⁵
- the Gas Pipeline Information Disclosure and Arbitration Framework⁶

1.3 Objective of the framework and the National Gas Objective

Rule 557 of the NGR sets out the nature and scope of the financial information and weighted average price information to be reported. It also gives the ERA discretion to determine the type and level of detail of information to be reported, the methods, principles and inputs to be used and the audit assurance requirements.

In exercising this discretion, the ERA has had regard to:

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

³ The *National Gas Access (WA) Adoption of Amendments Order 2017* was published in the Western Australian Government Gazette on 22 December (see page 5984) This Order declared the amendments contained in the *National Gas (South Australia) (Pipelines Access – Arbitration) Act 2017* were relevant to the WA text.

⁴ The changes to the NGR as applied in Western Australia were implemented by the *National Gas Access (WA) (Act Amendment) Regulations 2017*, which was published in the Western Australian Government Gazette on 22 December (see pages 5985-5986).

⁵ When this is published by the Economic Regulation Authority.

⁶ Gas Market Reform Group, Gas Pipeline Information Disclosure and Arbitration Framework Initial Gas Rules Explanatory Note, 2 August 2017.

- the objective of the information disclosure and arbitration framework set out in rule 546 of the NGR, which states that:
 - (1) The objective of this Part is to facilitate access to pipeline services on non-scheme pipelines on reasonable terms, which, for the purposes of this Part, is taken to mean at prices and on other terms and conditions that, so far as practical, reflect the outcomes of a workably competitive market.
 - (2) This Part is intended to contribute to achieving the objective in subrule (1) by means of:
 - (a) requirements for the publication and exchange of information to facilitate timely and effective commercial negotiations in relation to access to non-scheme pipelines;
 - (b) a commercially-orientated arbitration process to resolve access disputes in a cost-effective and efficient manner; and
 - (c) principles that the arbitrator must have regard to when determining access disputes, which are consistent with the outcomes of a workably competitive market.

1.4 Elements of the guideline

Table 1 sets out the categories of information required to be reported by non-scheme gas pipelines. The financial reporting guideline relates to the categories 'financial information' and 'weighted average price information'. The other information requirements are only set out in the NGR.

Table 1: Non-Scheme Gas Pipeline – Information reporting requirements

Category	Sub-Category	Requirements
Service and access information	Pipeline information	Rule 553(2)
	Pipeline service information	Rule 553(3)
	Service Usage Information	Rule 553(4)
	Service Availability information	Rule 553(5)
Standing terms	-	Rule 554
Financial information	-	Rule 555 and as set out in the ERA's Non-Scheme Pipeline – Financial Reporting Guideline
Weighted average price information	-	Rule 556 and as set out in the ERA's Non-Scheme Pipeline – Financial Reporting Guideline

There are exemptions available from providing some or all of the information noted above, where the pipeline satisfies relevant exemption criteria stipulated in rule 585 of the NGR.

2 About the Guideline

2.1 Application

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

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

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

A non-scheme pipeline service provider may apply to the ERA for an exemption from the information disclosure and arbitration framework where the pipeline satisfies the relevant exemption criteria stipulated in rule 585 of the NGR. Exemptions do not apply automatically. To rely on an exemption, the service provider for the non-scheme pipeline must apply to the ERA under Division 6 of Part 23 and be granted the exemption.

Further information on the exemptions available can be found in Section 1.7 of the guideline and on the ERA’s website.

2.2 Reporting requirements

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

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

Table 2: Reporting dates for financial information and weighted average prices

Reporting period	Reporting dates
1 January to 31 December	By 30 April 2019 and every year thereafter
1 April to 31 March	By 31 July 2019 and every year thereafter
1 July to 30 June	By 31 October 2019 and every year thereafter
1 October to 30 September	By 31 January 2020 and every year thereafter

2.2.1 Transitional reporting requirements

Schedule 4 of the NGR contains a number of transitional rules for Part 23 of the NGR, including to address the transitional arrangements in relation to the initial Guideline and the initial financial reporting and weighted average prices.

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

Table 3 sets out the reporting dates for the initial financial reporting and weighted average prices.

Table 3: Reporting dates for initial financial information and average weighted prices

Reporting period	Reporting date
1 January to 31 December	By 31 October 2018 for period 1 January 2018-30 June 2018
1 July to 30 June	By 31 October 2018 for period 1 January 2018-30 June 2018
1 April to 31 March	By 31 January 2019 for period 1 April 2018-30 September 2018
1 October to 30 September	By 31 January 2019 for period 1 April 2018-30 September 2018

2.3 Process for revision

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

2.4 Terminology/definitions

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

2.5 Structure of this Explanatory Statement

The remainder of this explanatory statement is structured as follows and mirrors the AER Guideline to assist service providers familiar with the AER Guideline:

- Section 3 outlines the reporting obligations for pipeline financial statements;
- Section 4 focuses on the reporting obligations for the asset valuation using the methodology specified in r. 569(4) of the NGR;
- Section 5 outlines the reporting obligations for the weighted average price information;
- Section 6 focuses on the assurance requirements; and
- Section 7 outlines the compliance and enforcement arrangements.

3 Pipeline financial statements

Rule 557(2)(a) of the NGR requires the guideline to provide for the publication of annual financial information about each non-scheme pipeline on a pipeline-by-pipeline basis, which may include:

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

The asset valuation in Section 3 of the guideline (statement of pipeline assets) differs from the recovered capital methodology valuation in Section 4 of the guideline.

Service providers are required to provide a basis of preparation separate to the financial reporting template. This must be published on the service provider's website with the financial reporting template. The pipeline financial statements section of the basis of preparation document requires details of the sources of information used in the preparation of the financial reporting template, any amendments to the data from previous years, identification of shared assets and the method for allocating these from the entity to the individual pipeline. The basis of preparation will:

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

The guideline requires the service provider to publish financial statements, in respect of the pipeline, that include:

- A statement of pipeline revenues and expenses;
- A statement of pipeline assets; and
- Pipeline information

Each of these requirements is discussed separately in the remainder of this chapter.

3.1 Statement of pipeline revenues and expenses

The statement of pipeline revenues and expenses provides an overview of the revenue generated from pipeline operations and the costs associated with earning this revenue. Providing a statement of revenue and expenses for the pipeline provides prospective users with an understanding of the returns generated and profitability of a particular pipeline, which will assist them to assess the reasonableness of the standing prices and services offered.

3.1.1 Reporting requirements

The pipeline financial statements, including the statement of revenue and expenses must be based primarily on principles contained in Australian Accounting Standards.⁷ However, unlike a standard income statement, service providers are not required to report interest and tax expenses in the statement of revenue and expenses. Interest and tax are typically reported at the entity level, so there is a risk that allocating these to the pipeline level would be misleading.

The guideline specifies the revenue and expense categories to be reported.⁸ Revenue is classified as either direct revenue or indirect revenue. Further disaggregation of direct revenue is required for specific services. Service providers must also publish details of contributions made by customers or governments that are included in the reported revenues. Indirect revenues may be allocated to the pipeline.⁹ Details on sources of indirect revenues are also required. Where an allocation of indirect revenues is made, the basis of the allocation must be disclosed and the methodology included in the basis of preparation. The service provider must also disclose related party transactions impacting both direct and indirect revenues.¹⁰

Expense categories are classified as either direct costs or shared costs. Shared costs may be allocated to the pipeline, but costs relating to interest and taxes are not required to be reported. Details on sources of shared costs are also required. Where an allocation of shared costs is made, the basis of the allocation must be disclosed and the methodology included in the basis of preparation. The service provider must also disclose related party transactions impacting both direct and shared costs.

The guideline includes a principle that shared costs paid to related parties cannot include any component of profit to the related party.

Service providers are required to provide a basis of preparation separate to the financial reporting template. This is to be published on the service provider's website with the financial reporting template.¹¹ The statement of pipeline revenues and expenses section of the basis of preparation requires:

- details of the sources of information used in the preparation of the financial reporting template;
- any amendments to the data from previous years; and
- identification of shared revenues and expenses and the method for allocating

3.2 Statement of pipeline assets

The 'statement of pipeline assets' provides prospective users with an overview of the assets used in the pipeline's operations and/or attributable to a pipeline. The statement of pipeline

⁷ ERA, Non-Scheme Pipelines - Financial Reporting Guideline, 23 May 2018, section 3.1.

⁸ ERA, Non-Scheme Pipelines - Financial Reporting Guideline, 23 May 2018, section 3.1.1.

⁹ This is required in worksheet 2.2 of the financial reporting template.

¹⁰ ERA, Non-Scheme Pipelines - Financial Reporting Guideline, 23 May 2018, section 3.1.1.1.

¹¹ ERA, Non-Scheme Pipelines - Financial Reporting Guideline, 23 May 2018, section 7.

assets provides shippers with an understanding of the asset base, for use when considering the financial performance of a pipeline.

3.2.1 Reporting requirements

Asset values are to be reported at book value in accordance with accounting standards.¹² This allows the asset values to be reported based on acquisition (in specific circumstances) or construction cost plus capitalised expenditure (noting that upward revaluations are not allowed), less depreciation and impairment. The guideline provides further detail regarding the determination of an asset's opening value, capitalised expenditure, depreciation and impairment.¹³

Unlike a balance sheet, service providers are not required to report debt and liabilities in the statement of pipeline assets. Debt and liabilities are typically managed at the entity level, so there is a risk that allocating these to the pipeline level would be misleading.

These financial statements are to be prepared in accordance with accounting standards and the methods, principles and inputs specified when reporting:

- asset values (including capitalisation principles);
- depreciation allowances; and
- related party transactions.

The guideline requires assets disclosed in the statement of pipeline assets sheet of the financial reporting template (worksheet 3) to be valued as:

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

Where a pipeline is acquired following the commencement of the guideline, the opening asset value for the reporting period should be reported in accordance with the closing balance from the financial reporting template prepared by the previous service provider. Where an asset has been acquired from a related entity prior to the commencement of the guideline (i.e. 23 May 2018), this asset value must be reported at construction cost or the cost at which the related entity previously acquired the asset from an unrelated third party. This recognises the potential for related party transactions to not reflect an arm's length market value.

In order to minimise the potential for asset values and rate of return measures to be inflated through revaluation, the guideline does not permit assets to be revalued.¹⁴ Service providers can choose to disclose revalued amounts in the basis of preparation document.

¹² ERA, Non-Scheme Pipelines - Financial Reporting Guideline, 23 May 2018, section 3.2.1.

¹³ ERA, Non-Scheme Pipelines - Financial Reporting Guideline, 23 May 2018, section 3.2.

¹⁴ ERA, Non-Scheme Pipelines - Financial Reporting Guideline, 23 May 2018, section 3.2.1.

However, these values cannot be used in determining asset value (worksheet 3 - Statement of Pipeline Assets).

Pipeline assets are likely to be impairment tested regularly as part of the service provider's group audit procedures. Asset impairments are able to be included in the statement of pipeline assets, but the reasons and amounts must be disclosed in the basis of preparation. Similarly, impairments can be reversed, but the reasons and amounts must be disclosed in the basis of preparation.

The guideline does not provide for the indexation of pipeline assets. This approach is consistent with Australian Accounting Standards, which do not allow asset values to be indexed for inflation. Including indexation would also add further complexity to the preparation of the statement of pipeline assets. However, service providers can detail pipeline asset values adjusted for inflation in the accompanying basis of preparation. Users should be cautious in the rate of return it applies to an inflated asset base. If a nominal rate of return is applied to an indexed capital base, then there would be a double count of inflation which should be removed.

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

The guideline requires related party transactions in the reporting period to be separately disclosed.¹⁵ This information is required to be reported because, as noted above, there is the potential for related party transactions to not reflect arm's length market rates and the process required to confirm an arm's length market rate may significantly increase the costs of auditing the financial reporting template.

The guideline does not permit assets to be revalued upward, to minimise the potential for asset values and rate of return measures to be inflated through revaluation.¹⁶ The guideline allows impairment reversals, with a requirement to disclose the reasons for any impairment reversals in the basis of preparation.¹⁷ Impairment reversals cannot exceed prior impairment amounts.

To maintain consistency with accounting standards, acquisition values have been allowed except in certain circumstances. The asset value provided in the statement of pipeline assets section should not be determinative of the asset base for assessing the appropriateness of returns. The asset valuation approach in the statement of pipeline assets is separate and not to be reflected in the rule 569(4) calculation which uses the recovered capital methodology (see section 4 below).

3.2.1.1 *Capitalisation principles*

Assets are to be capitalised at either construction cost or acquisition cost in accordance with the guideline. The conditions for an amount to be capitalised are specified in the guideline, and are broadly consistent with the approach adopted in the Australian Accounting Standards.¹⁸

¹⁵ ERA, Non-Scheme Pipelines - Financial Reporting Guideline, 23 May 2018, section 3.2.6.

¹⁶ ERA, Non-Scheme Pipelines - Financial Reporting Guideline, 23 May 2018, section 3.2.5.

¹⁷ ERA, Non-Scheme Pipelines - Financial Reporting Guideline, 23 May 2018, section 3.2.5.

¹⁸ ERA, Non-Scheme Pipelines - Financial Reporting Guideline, 23 May 2018, section 3.2.2.

3.2.1.2 *Asset life principles*

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

The inclusion of a range of useful lives is intended to reduce the burden on service providers, because if their asset lives fall within the range they will not be required to provide an explanation of the basis for the asset's useful life. If a range of asset lives were not prescribed, service providers would be required to explain the basis of the useful life for each asset (or class of assets) disclosed.¹⁹

3.2.1.3 *Allocation principles*

Service providers are given some flexibility to develop their own policies to allocate revenue, expenses and assets to a pipeline consistent with the broad principles set out in the guideline.

The basis used to allocate assets must be provided in the basis of preparation document.²⁰

3.2.1.4 *Depreciation principles*

For simplicity, the guideline requires assets to be depreciated in accordance with methods provided in the Australian Accounting Standards. In order for the depreciation method to be changed, the requirements provided in the Australian Accounting Standards must be met.

The guideline does not currently provide for land or easements to be depreciated.

Where there are costs associated with decommissioning an asset (for example legally required environmental rehabilitation costs) these are to be disclosed in the basis of preparation.²¹

3.3 Pipeline performance information

The pipeline performance information required to be published is basic information on the size and location of the pipeline, and the services offered to related parties and other users, as well as a pipeline performance measure.²² The pipeline performance measure is a measure of profitability of the pipeline derived from the financial information reported in accordance with the guideline.²³ The profitability measure is the return on assets, derived as EBIT as a proportion of total pipeline assets.

¹⁹ ERA, Non-Scheme Pipelines - Financial Reporting Guideline, 23 May 2018, section 3.2.3.

²⁰ ERA, Non-Scheme Pipelines - Financial Reporting Guideline, 23 May 2018, section 3.2.4.

²¹ ERA, Non-Scheme Pipelines - Financial Reporting Guideline, 23 May 2018, section 3.2.5.

²² See worksheet 1 of the financial reporting template.

²³ See worksheet 1.1 of the financial reporting template.

The pipeline performance information is included in the guideline to provide clarity about the pipeline and its services to all users of the published information. We note that prospective users may calculate other performance measures using information provided in the financial reporting template.

3.4 Other considerations

3.4.1 *Multiple service providers*

The rules require service providers to publish the information specified in the guideline. In circumstances where more than one service provider is responsible for, and/or utilising, specific pipeline assets there is potential for greater complexity to arise in the collecting, and compilation of the required information.

While all non-scheme pipeline service providers are required to publish the information specified in the guideline, in situations where there is more than one service provider, the guideline allows members of a service provider group to appoint one of the members to be the responsible service provider for the pipeline. This requires members of the service provider group to notify the ERA in writing of the appointment of a responsible service provider. The notification must include evidence that all members of a service provider group endorse the appointment and that the nominee has the access to, and the legal right to publish, the required information.²⁴

3.4.2 *Confidentiality*

The intent of the rules is to require the self-reporting of financial and weighted average prices information. As such additional confidentiality mechanisms have not been included in the guideline.

We acknowledge that the guideline will require publication of information that would otherwise be kept confidential and that this imposes a cost to the service provider. However, the ERA considers this cost is justified in light of the benefits of the regime.

The NGR allows service providers to apply for an exemption from the reporting requirements in certain situations. Further, to maintain the confidentiality of the pipeline users, in accordance with rule 556(3) of the NGR, the service provider is not required to publish the weighted average price of a service if:

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

²⁴ ERA, Non-Scheme Pipelines - Financial Reporting Guideline, 23 May 2018, section 1.6.

4 Asset value using the recovered capital method

There is little publicly available information on the costs incurred by service providers in providing services and the relationship between these costs and the prices charged for services. The purpose of financial reporting is not to allow prospective users to carry out a detailed bottom-up cost of service analysis, but rather to provide prospective users with an indication of the costs associated with providing services, the revenue earned and return on assets generated by the pipeline. It is intended prospective users will use this information to assess whether a service provider's standing offer is reasonable. It will facilitate more timely and effective negotiations, by reducing the information asymmetries faced by prospective users. Publication of this information is expected to impose greater discipline on service providers when setting prices, because it will be clearer to users and policy makers if the pipeline is setting prices and earning returns in excess of what would prevail in a workably competitive market.

This is consistent with the overarching objective of Part 23 of the NGR, as set out in rule 546(1) of the NGR, to:

“...facilitate access to pipeline services on non-scheme pipelines on reasonable terms, which for the purposes of this Part, is taken to mean at prices and on other terms and conditions that, so far as practical, reflect the outcomes of a workably competitive market.”

The value of the assets used in the provision of services is an important input into a prospective user's assessment of the reasonableness of an offer, as reflected in rule 557(2)(a)(ii)(A) and the *Explanatory note to the initial rules*. In general, a large proportion of the tariffs levied by service providers are associated with the recovery of their investment in assets. While there are a number of different ways in which an asset can be valued, the pricing principles in Part 23 of the NGR state that the value of any assets used in the provision of the pipeline service must be determined using asset valuation techniques consistent with the objective set out in rule 546(1) of the NGR and, unless inconsistent with this, the value is to be calculated using the following methodology (the ‘recovered capital method’):

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

plus:

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

less:

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

4.1 Requirement to report the recovered capital value

Rule 557(2)(a)(ii)(A) of the NGR allows the ERA to require the service providers of non-scheme pipelines to publish information on the methods, principles and inputs used to

calculate the value of any assets used in the provision of pipeline services. The guideline requires that service providers publish the asset value using the recovered capital value.²⁵

The pricing principles in Part 23 of the NGR do not mandate the use of the recovered capital methodology.²⁶ Rather, rule 569(4) of the NGR states that, unless inconsistent with the principle that the value of assets must be determined using an asset valuation technique that is consistent with the objective of Part 23, the value is to be calculated using the recovered capital methodology. It remains open to service providers and/or shippers to argue in a negotiation or arbitration that the recovered capital methodology is, in their particular circumstances, inconsistent with what would prevail in a workably competitive market. However, the construction of this rule establishes the recovered capital methodology as the default method that complies with the objective of Part 23 of the NGR. The recovered capital methodology can therefore be expected to be an important input into a prospective user's assessment of the reasonableness of an offer.

The benefits of publishing the information will contribute to the achievement of the objective of Part 23 of the NGR, in the following ways:

- The publication of this information will reduce the degree of information asymmetry between service providers and prospective users. It will facilitate more timely and effective negotiations and encourage the resolution of disputes without the need to resort to arbitration.
- Prescribing the approach that service providers are to use when calculating the recovered capital methodology asset value in the guideline will provide prospective users with greater clarity about what the asset value represents and how it has been calculated. It will also reduce the risk of service providers employing different methods when calculating the recovered capital methodology and/or providing different estimates of the recovered capital value to different shippers. The publication of this information will ensure that all prospective users, regardless of their size and bargaining power, will have access to the same information about the recovered capital methodology asset value to assess the reasonableness of the offer.
- The recovered capital methodology asset value, in conjunction with other information from the pipeline statements and the weighted average prices, will enable prospective users to assess whether the price offered is consistent with what would be expected in a workably competitive market. In the absence of this information, prospective users would only be able to have recourse to the accounting based book value, which could, depending on how this value has been determined, result in either:
 - prospective users paying more for services than would be expected to prevail in a workably competitive market, or
 - more protracted negotiations between prospective users and service providers and a greater number of arbitrations.

Greater transparency can be expected to impose more discipline on service providers when determining the price of services and discourage exercises of market power that would otherwise operate to the detriment of consumers and economic efficiency. When coupled with the other benefits outlined above, the benefits of requiring the recovered capital

²⁵ ERA, Non-Scheme Pipelines - Financial Reporting Guideline, 23 May 2018, section 4.

²⁶ Stakeholder feedback: APA, APGA.

methodology to be published in the financial statements will exceed the costs and promote the NGO.

4.2 Calculation of the recovered capital value

The guideline requires service providers to disclose the value arising from the application of the recovered capital methodology set out in rule 569(4)(b) of the NGR at worksheet 4 of the financial reporting template.

The recovered capital methodology formula in the guideline is as follows:²⁷

$$\begin{aligned} \text{Value of Capital Base}_t &= \text{Construction Cost}_0 + \sum_{i=1}^t \text{Capex}_i - \sum_{i=1}^t \text{Return of Capital}_i \\ &\quad - \sum_{i=1}^t \text{Asset Disposals}_i \end{aligned}$$

Where

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

The term return of capital in this formula is used to refer to the change in the economic value of the asset and is equal to the difference between:²⁸

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

To calculate the recovered capital methodology asset value, service providers will require historic information on:

- the cost of constructing the pipeline (including shared assets)
- any capital expenditure that has occurred since the pipeline was constructed
- asset disposals that have occurred since the pipeline was constructed
- the return of capital that has occurred since the pipeline was constructed, which requires historic information on:

²⁷ ERA, Non-Scheme Pipelines - Financial Reporting Guideline, 23 May 2018, section 4.

²⁸ It is worth noting in this context that under the recovered capital methodology, if a service provider has not generated sufficient revenue to recover the operating expenditure, return on capital and net tax liabilities in a year, then the return of capital value will be negative, which will increase the value of the capital base. Note also that if the application of this approach produces a negative value for the capital base, the value of the capital base will be zero. This is consistent with the principle that an asset should be depreciated only once.

- revenue that has been generated since the pipeline was constructed from the provision of all pipeline services;
- the operating expenditure that has been incurred since the pipeline was constructed
- the net tax liabilities that have been incurred since the pipeline was constructed
- the return on capital required by the service provider in each year, which will require information on:
 - the closing value of the capital base in each year
 - the rate of return to be applied to the closing value of the capital base from the immediately preceding year, which should be determined for each year and based on a commercial rate of return that is commensurate with the prevailing conditions in the market for funds and reflect the risks the service provider faces in providing services.

5 Weighted average price

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

Rule 556 requires a service provider for a non-scheme pipeline to prepare and publish on its website weighted average price information for each of its non-scheme pipelines. Weighted average price information must:²⁹

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

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

5.1 Reporting requirements

The guideline requires service providers to publish weighted average prices for each service type and charging method. Service providers are required to publish this information for the most recent financial year.³⁰

²⁹ NGR, rule 556(1).

³⁰ ERA, Non-Scheme Pipelines - Financial Reporting Guideline, 23 May 2018, section 5.

The guideline requires service providers to classify pipeline revenue for the most recent financial year into the following service categories in order to calculate separate weighted average price information for each service:³¹

- Transportation services:
 - Firm forward haul transportation services (includes bi-directional services, if a pipeline operates in a bi-directional manner).
 - Interruptible or as available transportation service.
 - Backhaul services.
- Stand-alone firm compression services.
- Firm storage (combined park, and park and loan) services.

To enable weighted average prices to be compared in a meaningful manner with the prices shippers are paying or are being offered, the weighted average prices charged to customers for transportation services must be further classified based on the charging method, either distance, zonal or postage stamp.

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

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

A service provider can seek an exemption from publishing weighted average prices for a pipeline service for a financial year if:

- the service was provided, directly or indirectly, to no more than two users of the non-scheme pipeline; and
- the service provider gives a notice to the AER at least 20 business days before the date required for publication certifying this.³²

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

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

6 Assurance requirements

Rule 557(2)(d) and (e) of the NGR requires the guideline to specify any accounting or audit standards that are to apply to the reported information and to provide for the manner in

³¹ ERA, Non-Scheme Pipelines - Financial Reporting Guideline, 23 May 2018, section 5.

³² ERA, Non-Scheme Pipelines - Financial Reporting Guideline, 23 May 2018, section 5.3.

which the financial information and weighted average price information is to be certified as being true and fair.

Providing assurance over information disclosed provides prospective users with greater confidence that they can rely on the information presented to inform negotiations on standing offer prices and services. Audit processes will increase the cost of compliance with the guideline, as they impose a greater discipline on the service providers who must compile the information, as well as the direct cost of paying for an audit or review to be undertaken.

There is a need to balance the cost of assurance against the value of obtaining information that can be relied upon by prospective users and having a robust reporting process that minimises the opportunity to manipulate information.

The guideline provides for two levels of audit assurance:

- Reasonable assurance - requiring the audit to comply with Auditing Standard *ASA 805 Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* and *ASA 800 Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks, Accounts or Items of a Financial Statement*. The audit report must include an opinion as to whether the financial information provided has been prepared in all material respects in accordance with the guideline.
- Limited assurance - involving a review in accordance with *ASRE 2405 Review of Historical Financial Information Other than a Financial Report*. This provides a limited assurance review report expressing a conclusion whether, on the basis of the review, anything has come to the assurance practitioner's attention that causes the assurance practitioner to believe that the historical financial information, other than a financial report, is not prepared, or presented fairly, in all material respects, in accordance with the applicable criteria but no opinion is provided regarding whether the information is true and fair.

6.1 Reporting requirements

The following assurance is required under the guideline:

- Pipeline financial statements - reasonable assurance
- Interim pipeline financial statements - limited assurance
- Pipeline information (worksheets 1 and 1.1) - no assurance required
- Recovered capital method asset valuation - limited assurance
- Weighted average price information - limited assurance

7 Compliance and enforcement

A service provider for a non-scheme pipeline must publish the financial information and weighted average price information by making the information publicly available on the service provider's website (rule 552(3)(a)). Service providers are required to notify the ERA in writing without delay that the financial information and weighted average price information

has been published (rule 552(4)) and must attach the completed financial reporting template and associated review/audit reports.

A service provider for a non-scheme pipeline must ensure that historical financial and weighted average price information for its non-scheme pipeline continues to be publicly available for a period of five years after the date the information is first published (rule 552(6)).

Section 27 of the NGL requires the ERA to monitor, investigate and enforce compliance with the NGL and NGR. These roles also apply to the financial information reporting in accordance with the guideline.

The ERA wants to see service providers complying with the NGL and NGR and will exercise its functions and powers to monitor, investigate and enforce compliance with the financial reporting guideline.

Under the NGL, if a service provider fails to comply with the guideline, the ERA can:

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