# Draft Financial Reporting Guideline for Light Regulation Pipeline Services

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AUSTRALIAN
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Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Tel: 1300 585 165

Email: AERInquiry@aer.gov.au
AER Reference: 62617

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# 1 Nature and authority

## 1.1 Introduction

The *National Gas Amendment (Regulation of covered pipelines) Rule 2019*[1] aims to improve market information, support effective negotiations and improve access to covered pipelines. A key component of the framework is to provide **prospective users** of light regulation pipelines with comprehensive financial information in order to address information asymmetry and to facilitate negotiation with **service providers** on an informed basis.

Under rule 36B (1)(c) and (d) of the National Gas Rules (**NGR**), **service providers** for light regulation services 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** in assessing whether prices being offered by the **service provider** are reasonable.

This Financial Reporting Guideline for light regulation services (**Guideline**) is published by the **AER** in accordance with rule 36F of the **NGR**. Broadly the NGR requires that the **Guideline**:

- provide for the publication of financial information about each light regulation 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 to enable a prospective user or users to negotiate on an informed basis with a service provider for the provision of a pipeline service to them by the service provider;
- specify the basis on which the information is to be provided; and
- specify the form of any statement and / or any supporting documentation required to demonstrate that the information has been arrived at on a reasonable basis and is accurate and complete to the best knowledge of the service provider.

The **Guideline** refers to the **financial reporting template** and sets out the requirements for **service providers** to complete the template. This **Guideline** is to be read in conjunction with the *Financial Reporting Guideline for Light Regulation Services Explanatory Statement (which will be finalised after consultation on this draft)*.

This **Guideline** prescribes:

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

[1] https://www.aemc.gov.au/rule-changes/regulation-covered-pipelines

- 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.

### 1.1.1 Relationship with the *Financial Reporting Guideline for Non-Scheme Pipelines*[2]

In its final determination on the review of Part 8-12 of the NGR, the AEMC[3] stated that its amendments to the NGR apply many of the information provision obligations that already apply to non-scheme pipelines under Part 23 of the NGR to light regulation pipelines, and covered distribution pipelines. The amendments provided for a separate guideline to be prepared for light regulation pipelines, rather than for the adoption, for light regulation pipelines, of the Financial Reporting Guideline for Non-Scheme Pipelines that the AER has previously made under Part 23.

Differences between the regulatory arrangements for light regulation pipelines and non-scheme pipelines is the reason for differences between the two guidelines. For light regulation pipelines:

- Where one exists, the last previously determined asset value from an access arrangement under the NGR, Gas Code or other Commonwealth, State or Territory legislation is to be used to determine the opening asset value, which is then to be rolled forward in accordance with the **RFM Guideline**.
- For any pipeline that does not have a previously determined asset value, two asset values are to be determined:
  (a) an asset value determined in accordance with rule 77 of the NGR and the **RFM Guideline**.
  (b) an asset value determined using the **construction cost** as a starting point (**RCM value**).

Given that light regulation pipelines are regulated assets, a regulatory **WACC** is to be used for reporting and calculating the **RAB value and the RCM value**.

## 1.2 Application of this Guideline

### 1.2.1 Legal framework

The National Gas Law (**NGL**) is set out in the schedule to the *National Gas (South Australia) Act 2008* (SA). The **NGL** applies in each participating jurisdiction (other than Western Australia) under application legislation of each jurisdiction. The **NGR** is made under the **NGL** and has the force of law.

In accordance with the *National Gas Amendment (Regulation of covered pipelines) Rule 2019*, a new Division 2 of Part 7 was inserted into the **NGR**; Provision of Information by Light Regulation Service Providers.

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[2] https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/non-scheme-pipeline-financial-reporting-guidelines

[3] See page ii of https://www.aemc.gov.au/rule-changes/regulation-covered-pipelines

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

- the National Gas (South Australia) Act 2008 (**NGL**);
- the National Gas Rules (**NGR**), in particular Part 36; and
- The **AER**'s Guideline for the resolution of distribution and transmission pipeline access disputes under the National Gas Law and National Gas Rules, November 2008[4].

### 1.2.2 The role of the AER

The **AER** is an independent statutory authority established under Part IIIAA of the *Competition and Consumer Act 2010* (Commonwealth).

As regulator, the **AER** has the monitoring, investigative and enforcement powers conferred on it by the **NGL**. The enforcement options available to the **AER** depend, in part, on whether the provisions in the **NGL** or **NGR** are designated as civil penalty provisions and/or conduct provisions in the **NGL** or the regulations made under the **NGL**.

The **AER** is also the arbitrator for disputes that arise in respect of light regulation pipelines.

### 1.2.3 Commencement

This **Guideline** commences on the date it is published by the **AER**.

### 1.2.4 Application

The information disclosure framework, as set out in Division 2 of Part 7 of the **NGR** (rules 35A to 37)**,** applies to **transmission** and **distribution pipelines** that are **light regulation pipelines**. The term "**light regulation pipeline**" is defined in rule 3 of the NGR as "a pipeline by means of which **light regulation services** are provided". The term "**light regulation services**" is defined in s. 2 of the **NGL** as **pipeline services** to which a light regulation determination applies. The term "**pipeline service**" is defined in s. 2 of the **NGL**.

### 1.2.5 Process for revisions

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

## 1.3 Interpretation

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

- A term in bold type that is expressly defined in Section 1.4 of this **Guideline** has the meaning set out in that Section.
- A term in bold type that is not expressly defined in Section 1.4 of this **Guideline** has the same meaning it has in the **NGR**.
- 'Section" means a section of this **Guideline**.

[4] https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/access-dispute-guideline

- The singular includes the plural, and vice versa.
- A reference to any legislation, legislative instrument or other instrument is a reference to that legislation or instrument as in force from time to time.
- Explanations in this **Guideline** about why certain information is required are provided for guidance only. They do not limit in any way the **AER**'s objectives, functions or powers.

## 1.4 Definitions

In this **Guideline**:

- **AASB** means the accounting standards prescribed by the Australian Accounting Standards Board.
- **ACCC** refers to the Australian Competition and Consumer Commission.
- **AEMC** refers to the Australian Energy Market Commission.
- **AER** refers to the Australian Energy Regulator.
- **capital base** in relation to a pipeline, means a capital amount to be attributed, in accordance with this **Guideline**, to **pipeline assets**.
- **capital expenditure** means pipeline expenditure of a capital nature that complies with the criteria specified in Section 3.2.2.
- **commencement date** means 21 March 2019.
- **construction cost** means the costs of construction of an asset, and is applicable for determining the opening asset base value where one has not been established through an access arrangement in accordance with the NGR, Gas Code or other Commonwealth, State or Territory legislation. The **construction costs** for **pipeline assets** can be capitalised where they meet the requirements for capitalisation according to the **AASB**.
- **depreciation** is to be determined as specified in Section 3.2.5.
- **ERA** refers to the Economic Regulation Authority Western Australia.
- **financial reporting template** means the financial reporting template for light regulation pipelines developed in accordance with this **Guideline** using the format, structure and calculation methodology provided.
- **Guideline** refers to this financial reporting guideline for light regulation pipelines.
- **NGL** refers to the National Gas Law.
- **NGR** refers to the National Gas Rules.
- **operating expenditure** means operating, maintenance and other costs and expenditure of a non-capital nature incurred in providing pipeline services. For the Statement of Pipeline Revenue and Expenditure, operating expenditure includes the cost categories detailed at Section 3.1.1.2, excluding interest and tax. For the purposes of determining the return of capital component of the **RCM value**, depreciation and amortisation expenses, interest and tax are all excluded.
- **pipeline** has the meaning in the **NGL**.

- **pipeline assets** in relation to a pipeline, means capital assets that constitute the pipeline or are otherwise used by the **service provider** to provide services, including **construction costs** capitalised, capitalised maintenance, any other capital improvements.
- **prospective user** has the meaning in section 216B of the **NGL** and is used to refer to existing and prospective shippers (it is used interchangeably with the term shipper).
- **RAB value** means the value of the **capital base** that applies in a particular year, determined in accordance with Section 4, and includes **pipeline assets** and **shared supporting assets**.
- **RCM** refers to the recovered capital method set out in Section 5.
- **RCM value** means the asset value determined in accordance with the **RCM**.
- **RFM Guideline** is the suite of guidance materials, published by the **AER** from time to time, setting out how a service provider is to roll forward the asset base of a covered gas pipeline, such as guidelines, final decisions, handbooks and models.[5]
- **related party** has the meaning given to it in the *Corporations Act 2001*.
- **reporting period** means the annual financial year for which the reporting entity ordinarily prepares financial information.
- **return of capital:**

  (a) in relation to a **RAB value**, has the meaning specified in the **RFM Guideline**;

  (b) in relation to a **RCM value**, has the meaning specified in Section 5, as applicable.
- **service provider** of a pipeline has the meaning given in section 8 of the **NGL**.
- **shared supporting assets** are assets used to support the operation of multiple pipelines and/or other revenue generating activities other than just the pipeline. Where an asset is used to support the operation of multiple pipelines or other revenue generating activities, an apportionment of the asset is required as outlined in Section 3.2.6.
- **weighted average price information** has the meaning defined in rule 36E of the **NGR**.
- **WACC** is the Weighted Average Cost of Capital, which is to be determined consistently with the **AER**'s Rate of Return Guideline and Section 6.[6]

## 1.5 Other issues

### 1.5.1 Establish and maintain accounts

To enable **service providers** to meet the assurance requirements discussed at Section 10, appropriate internal accounting procedures must be established and maintained by the **service provider**. These internal accounting procedures must allow the **service provider** to

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[5] https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/gas-financial-models-roll-forward-and-revenue-2020

[6] https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/rate-of-return-guideline-2018/final-decision

demonstrate the extent and nature of transactions associated with each light regulation pipeline, and the allocation of applicable revenues, costs and assets.

### 1.5.2 Inflation

No values provided in the **financial reporting template** for the current or previous year are to be restated for inflation, except for the **pipeline assets** and **shared supporting assets** comprising a **RAB value** which may be indexed in accordance with Section 4.2.1.

### 1.5.3 Currency and GST

All financial information must be presented in Australian dollars. Where currency is required to be converted to Australian dollars, the requirements in the relevant **AASB** standard are to be followed.

All amounts provided in the **financial reporting template** are required to be provided in Australian Dollars and exclusive of goods and services tax (GST).

## 1.6 Publication

In accordance with rule 36B of the **NGR**, all **service providers** are required to publish the information specified in the **Guideline**. The information must be published in on a page on the **service provider's** website that is easy to find from the service provider's public home page.

Where more than one entity meets the definition of **service provider**, each **service provider** is taken to be a member of a service provider group for that pipeline.

The members of a **service provider** group are required to publish the information specified in the **Guideline** separately. However, by notifying the **AER** in writing, members of a **service provider** group may appoint one of the members to be the responsible **service provider** for the pipeline. The notification must include evidence that all members of the **service provider** group endorse the appointment and that the nominee has access to, and the legal right to publish, the required information.

Where a responsible **service provider** is appointed by the **service provider** group:

(a) the responsible **service provider** is the pipeline reporting entity for the relevant **pipeline**;

(b) the responsible **service provider** must update the information about the **service provider** group if there is any change;

(c) each member of the **service provider** group must procure and where necessary must facilitate, the compliance of the responsible **service provider** with its obligations under this **Guideline**; and

(d) each other member of the **service provider** group is exempt from the requirement to prepare publish and maintain the financial information and **weighted average price** information specified in this **Guideline**.

# 2 Timing of information publication

A light regulation pipeline service provider is required to publish information on its website, in accordance with rule 36B of the **NGR** (Service provider must publish information).

In accordance with rules 36D (financial information) and 36E (weighted average price information) of the **NGR**, the **financial information** and **weighted average price information** must be published each financial year.

In accordance with rule 36B(2) of the **NGR**, **financial information** and **weighted average pricing information** must be published annually no later than four months after the end of the financial year of the service provider for the light regulation pipeline. However, under transitional rule 64(2) in Schedule 1 of the NGR, the service provider is not required to publish this information for a financial year of the service provider that ends on or before 31 December 2019, where the pipeline was a light regulation pipeline on the commencement date or becomes a light regulation pipeline on or before 31 October 2019.

Table 2.1 sets out the first reporting dates for pipelines that were **light regulation pipelines** on the commencement date.

**Table 2.1** First reporting dates for the **financial information** and **average weighted prices**

| Reporting year end | Reporting Dates |
|---|---|
| 30 June 2020 | By 31 October 2020 |
| 31 December 2020 | By 30 April 2021 |

Prior **reporting period** information is not required to be submitted in the first year that the reporting requirements apply.

# 3 Requirement to publish financial information – pipeline statements

## 3.1 Pipeline statements

A **light regulation pipeline service provider** is required to publish information on its website, in accordance with rule 36B of the **NGR**. In accordance with rule 36D of the **NGR**, the **financial information** must be published each financial year according to the requirements of rule 36F.

This part of the **Guideline** sets out the financial information required to be completed in the **financial reporting template**. The methodology and principles to be followed are set out at Section 3.2.

In the **financial reporting template**, **service providers** are required to set out the:

- Statement of Pipeline Revenue and Expenses (Section 3.1.1);
- Statement of Pipeline Assets (Section 3.1.2);
- where applicable, the **RAB value** of the pipeline (Section 4);
- where applicable, the **RCM value** of the pipeline (Section 5).
- the basis upon which WACC is determined (Section 6)

The financial reporting template must be prepared for:

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

There is no requirement for prior financial year information to be included in the **financial reporting template** until the year following the first full year for which information is reported.

A single **financial reporting template** is to be reported for each light regulation pipeline service even if there is more than one **service provider**.

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

Terms in the **financial reporting template** have the same meaning as those set out in the **AASB** unless specified otherwise in this **Guideline**.

### 3.1.1 Statement of Pipeline Revenue and Expenses

The Statement of Pipeline Revenue and Expenses at worksheet 2 of the **financial reporting template** provides an overview of the revenue generated from pipeline operations and the costs associated with the pipeline.

#### *3.1.1.1 Revenue*

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

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

The **service provider** is required to comply with revenue recognition principles in the **AASB**.

The **service provider** is required to provide notes regarding the preparation of the Statement of Pipeline Revenue and Expenses, as detailed in Section 3.1.1, in the basis of preparation.

The **service provider** is required to separately identify items in the Statement of Pipeline Revenue and Expenses which relate to transactions with related parties as these may not be based on normal commercial terms, except where including the item would disclose weighted average price information that it is not required to be published by reason of rule 36E(3) of the **NGR**. Further information regarding **related party** transactions is provided in Section 3.2.8.

Where revenue is allocated to the pipeline which is not 100% attributable to the pipeline the basis for allocation must be provided, as discussed in Section 3.2.7.

Where the **AER** has required the aggregation of revenue categories in the **weighted average price information**, these categories must also be aggregated in the Statement of Pipeline Revenue and Expenses.

#### *3.1.1.2 Costs*

In reporting costs incurred in the operation of the pipeline in the Statement of Pipeline Revenue and Expenses, **service providers** are to categorise costs in accordance with the following categories, as provided in the **financial reporting template**:

**Direct costs**

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

**Shared costs**

- Employee costs
- Information technology and communication costs
- Indirect operating expenses

- Shared asset **depreciation**
- Rental and leasing costs
- Borrowing costs
- Impairment Losses (nature of the impairment loss)
- Other shared costs
- Total shared costs allocated

**Service providers** are required to allocate only a fair proportion of shared costs such as corporate overheads to each pipeline. Further detail regarding cost allocation principles is provided in Section 3.2.7.

Shared costs which are paid to related parties cannot include any component of profit to the **related party**.

Guidance regarding the reporting of **depreciation** is provided in Section 3.2.5.

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

### 3.1.2 Statement of Pipeline Assets

**Service providers** are required to provide a Statement of Pipeline Assets for the pipeline at worksheet 3 of the **financial reporting template**. The Statement of Pipeline Assets provides an overview of the assets utilised in the pipeline operations.

#### *3.1.2.1 Assets*

For reporting purposes (for both the **RAB Value** and the **RCM Value**), **service providers** are required to classify assets into the following categories:

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

Guidance on capitalisation principles for assets in each of these categories is provided in Section 3.2.2.

Details of the calculation of **depreciation** and the carrying value of each category of assets is provided in Section 3.2.5.

### 3.1.3 Disaggregation of the pipeline statements

The Statement of Pipeline Revenue and Expenses is required to be disaggregated as follows:

- A breakdown of revenue by service type (worksheet 2.1 of the **financial reporting template**).
- A list of capital contributions received (including both customer and government contributions) (worksheet 2.2 of the **financial reporting template**).

- A list of the indirect revenue allocated to the pipeline and an explanation of the basis for allocation (worksheet 2.3 of the **financial reporting template**).
- A list of the shared costs allocated to the pipeline and an explanation of the basis for allocation (worksheet 2.4 of the **financial reporting template**). Each category of shared costs that is greater than 5% of the total shared costs allocated must be separately disclosed.

The Statement of Pipeline Assets (worksheet 3 of the **financial reporting template**) is required to be disaggregated as follows:

- The asset useful life schedule, which provides the basis for calculating **depreciation** for different classes of assets and the reason for choosing this basis (worksheet 3.1 of the **financial reporting template**).
- The **shared supporting** asset schedule, which provides the basis for allocating shared assets to the pipeline (worksheet 3.2 of the **financial reporting template**).

**Service providers** are required to disclose in worksheet 4.1 of the **financial reporting template** capital expenditure amounts which are more than 5% of the construction cost.

In addition, **service providers** may set out any other notes they wish to provide in the basis of preparation:

## 3.2 Methods, principles and inputs used

### 3.2.1 Asset valuation principles

Asset valuation principles apply to the following categories of assets:

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

For the purposes of this Guideline, revaluation of assets is not allowed for any category of assets disclosed.

**Pipeline assets**

**Pipeline assets** include the following classes of assets:

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

- Other non-depreciable **pipeline assets**

**Service providers** are required to report **pipeline assets** by asset class for the purposes of competing the Statement of Pipeline assets (worksheet 3 of the **financial reporting template**). For completion of the **RCM value** in worksheet 4 of the **financial reporting template,** the above asset classes may be consolidated and reported in accordance with the categories in the worksheet.

***Shared supporting assets***

**Shared supporting assets** are required to be apportioned between the light regulation pipeline and other operations of the **service provider**. **Service providers** must disclose the basis for this allocation and provide an explanation in the basis of preparation. Guidance regarding the allocation of **shared supporting assets** is provided in Section 3.2.6.

**Land and easements**

Where land or easements are owned by the **service provider**, these assets are required to be recorded at historical cost and not depreciated, unless otherwise allowed in accordance with the **RFM Guideline.**

### 3.2.2 Capitalisation principles

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

Additional guidance material is set out below.

**Expenditure on pipeline assets**

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

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

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

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

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

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

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

**Research and development**

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

**New capital expenditure criteria**

Expenditure can only be classified as capital expenditure if it is conforming capital expenditure as defined in rule. 79 of the **NGR**.

### 3.2.3 Asset life principles

Asset lives are relevant for the purposes of determining:

- **depreciation** expense in the Statement of Pipeline Revenue and Expenses; and
- the carrying value of assets reported in the Statement of Pipeline Assets.

**Service providers** are required to disclose in worksheet 3.1 of the **financial reporting template** the asset life based on a range of standard lives for asset classes set out at Appendix A or, if a different asset life is considered appropriate, provide an explanation for the use of an alternative asset life in the basis of preparation.

### 3.2.4 WACC calculation

WACC is to be determined using the principles set out in Section 6.

The information and calculation used to determine the value of the **WACC** is to be documented in the basis of preparation.

### 3.2.5 Depreciation principles

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

Assets are required to be depreciated based on asset lives set out in worksheet 3.1.

For the purposes of preparing the Statement of Pipeline Revenues and Expenses, the depreciation expense is to be determined in accordance with the **RFM Guideline**. Unless otherwise allowed in the **RFM Guideline**, depreciation is considered to mean straight line deprecation consistent with the method prescribed under the **AASB**. The depreciation calculated is to be the regulatory depreciation (based on the Regulatory Asset Base). Actual depreciation must be used, not forecast depreciation.

The asset value for each year is to be reduced by the depreciation expense as determined above (noting that the asset value will also be adjusted for indexation, capex, capital contributions and disposals).Tax depreciation is not required to be calculated for the purposes of determining depreciation expense for the Statement of Revenues and Expenses or for the purposes of determining operating expenditure in the return of capital component of the **RCM value**. Tax depreciation may need to be calculated as part of an input in determining net tax liabilities for the purposes of determining the return of capital component of the **RCM value.**

Revaluations of any individual asset or the total asset base is not permitted in the Statement of Pipeline Assets. Asset values must be determined in accordance with the **RFM Guideline** and this **Guideline**.

The useful life of the asset and the reason for choosing this useful life is required to be disclosed in worksheet 3.1 of the **financial reporting template** and the basis of preparation. These are to be consistent with asset life principles in Section 3.2.3.

### 3.2.6 Net tax liabilities

The method, assumptions and calculations used to determine net tax liabilities is to be documented in the basis of preparation with the total reported in worksheet 1.1. In addition, the inputs used to determine net tax liabilities must be internally consistent with the inputs used to complete other parts of the **financial reporting template**.

### 3.2.7 Allocation principles

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

- the allocation of costs to the pipeline, including direct costs and shared costs for the purpose of completing the Statement of Pipeline Revenue and Expenses;
- the allocation of revenues to the pipeline, and the allocation of revenue between the categories of service for the purpose of completing the Statement of Pipeline Revenue and Expenses; and
- the allocation of assets to the pipeline for the purpose of completing the pipeline Statement of Pipeline Assets.

If the **AER** has previously approved an allocation method used by the **service provider** for a covered pipeline operated by the **service provider** the same allocation methodology is to be used. If the **service provider** owns more than one light regulation pipeline the same allocation methodology is to be used for each light regulation pipeline.

**General principles for allocation of costs**

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

Consistent with the requirements of rule 93 of the **NGR** in relation to **full access arrangements**, a **service provider's** detailed principles and policies for attributing costs directly or indirectly to a pipeline must meet the following requirements:

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

The allocation of costs is not to be determined by estimating what the costs of a benchmark standalone entity would be. Allocations are to be determined by a fair attribution of actual costs.

**Information on methodology to be disclosed**

The **service provider** must disclose in the basis of preparation:

- How the direct costs have been identified, and how they are recorded and tracked in the financial management information systems.
- For shared costs:
    - the nature of the allocator, or allocators, to be used for allocating each cost item, the reasons for selecting the allocator, or allocators, for each cost item;
    - an explanation of why the allocator or allocators used is the most appropriate available allocator, or set of allocators, for the cost item; and
    - the numeric quantity or percentage of the allocator to be applied for each cost item, including an explanation of how the numeric quantity or percentage has been calculated, including where the data for determining this numeric quantity or percentage have been sourced.

The **financial reporting template's** compliance with the allocation principles will need to be independently audited, as outlined in Section 10.

**General principles for allocation of revenue to a pipeline**

Each **service provider** is responsible for developing the detailed principles and policies for attributing revenue to a pipeline. Consistent with rule 93 of the **NGR**, a **service provider's** detailed principles and policies for attributing revenue directly or indirectly to a pipeline, and between categories of services, must meet the following requirements:

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

**General principles for allocation of assets to the Statement of Pipeline Assets**

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

- All assets directly used by a specific pipeline must be allocated to that pipeline.
- Any assets that are shared between pipelines must be allocated to each pipeline using an appropriate allocator or allocators.
- Allocation of assets between pipelines must be based on a causal or well accepted allocation methodology.
- For assets that are shared assets the **service provider** must disclose in the basis of preparation:
    - the nature of the allocator, or allocators, to be used, the reasons for selecting the allocator, or allocators for each asset or liability;

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

### 3.2.8 Related party transactions

**Related party** transactions where a pipeline transacts with a **related party** are required to be separately reported in the Statement of Pipeline Revenue and Expenses, Statement of Pipeline Assets and the basis of preparation.

## 3.3 Pipeline information and financial performance

**Service providers** are required to report the details of the pipeline, pipeline services provided and whether these services are provided to related parties and non-related parties in worksheet 1 of the **financial reporting template.**

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

- Return on assets (Earnings Before Interest and Tax (EBIT) on total assets) in worksheet 1.1; both where:
    - Assets are based on the **RAB value**; and
    - Assets are based on the **RCM value**.

Return on assets is to be provided on a standalone pipeline basis.

## 3.4 Assurance

The financial statements for individual **light regulation pipelines** must be assured by an independent auditor in the manner specified in Section 10 and prepared in accordance with the access information standard discussed in Section 10.1.

# 4 Asset valuation based on the regulatory asset base approach

In preparing the statement of pipeline assets, **service providers** are to report asset values based on the **RAB value** as specified in Table 4.1.

The **RAB value** that is to be reported in the statement of pipeline assets is the opening **RAB value** rolled forward to the relevant reporting year.

## 4.1 Establishing the opening RAB value

The process for determining the opening asset value will depend on the pipeline's individual circumstances, including whether or not a **RAB value** has previously been established for a pipeline either through an access arrangement in accordance with the **NGR**, **Gas Code** or other Commonwealth, State or Territory legislation.

The table below outlines the approach to establishing the opening asset value depending on the circumstances of the pipeline.

**Table 4.1 – Approach to establishing the opening asset value**

| Circumstances of the pipeline | Approach to establishing the asset value |
|---|---|
| Pipeline commissioned before the commencement of the **NGR**, and had a **RAB value** established via a mechanism such as the **Gas Code**.<br>No **RAB value** subsequently established through a full access arrangement in accordance with the **NGR**. | Initial **RAB value** as per **Gas Code** or other relevant legislation / decision |
| **RAB value** previously established as a result of the pipeline being covered and subject to a full access arrangement in accordance with the **NGR**. | Opening **RAB value** based on the value established at the commencement of the most recent full access arrangement.<br>The **RAB value** established at the commencement of the most recent full access arrangement will take precedence of any **RAB values** established under earlier access arrangements or other mechanisms in force prior to the commencement of the **NGR**. |
| No **RAB value** previously established | An opening **RAB value** to be determined in accordance with the methodology set out in rule 77(1) of the **NGR**, based on the costs of construction incurred before commissioning of the pipeline. |

## 4.2 Rolling forward the RAB value

The **NGR** sets out rules for the roll forward of the **RAB value** for a covered pipeline. In order to provide interpretation and further guidance the **AER** has published the **RFM Guideline** on how service providers of full and light regulation pipelines are to roll forward the pipeline's **RAB value**.

The **RFM Guideline** is applicable to service providers of light regulation pipelines for the purposes of determining the **RAB value** in accordance with this **Guideline.**

The Roll forward of the **RAB value** is to be based on the principles set out in the **NGR**, in particular rule 77(2). Each year from the year for which the RAB was first established, the **RAB value** is to be rolled forward as follows:

- Opening **RAB value** (as determined in accordance with Section 4.1 for the first year, then being equal to the closing **RAB value** for the previous year thereafter);
- Plus **capital expenditure**;
- Plus any amounts added to the **capital base** as a result of:
    - Capital contributions as described in rule 82 of the NGR;
    - Speculative capital expenditure as described in rule 84 of the NGR;
    - Re use of redundant assets as described in rule 86 of the NGR;
- Plus any amounts determined in accordance with rule 77(2)(ca.) in respect of extensions;
- Less **depreciation** calculated in accordance Section 3.2.5;
- Less redundant assets as described in rule 85 of the **NGR**;
- Less the value of pipeline assets disposed of during the year, noting that net disposals are to be recorded, meaning that the costs of realisation are to be subtracted from the proceeds from disposals.

The **RFM Guideline** provides further guidance on the method in which above elements are to be determined.

The models and calculations used in determining the **RAB value** are to be published along with the **financial reporting template.**

### 4.2.1 Indexation

In accordance with rule 89 of the **NGR**, the **AER** permits indexation to be applied to the **RAB value** at the **AER**'s discretion. The **RFM Guideline** details how indexation is to be applied to the **RAB value**.

## 4.3 RAB values not binding

The **RAB value** as determined in accordance with Section 4 is but one source of information that may be considered in arbitration, and is not binding on the arbitrator nor is the **RAB value** binding on the **AER** for any other regulatory purpose.

# 5 Asset valuation using the recovered capital method

Where a **RAB value** has not been established through an access arrangement[7] **service providers** are required to determine a pipeline asset value based on a recovered capital methodology (**RCM value**) and disclose their calculation of this value in worksheet 4 of the **financial reporting template.**

This requirement is not to impact the asset values reported in the Statement of Pipeline Assets or **depreciation** in the Statement of Pipeline Revenue and Expenses.

In determining the **RCM value**, the value of any assets used in the provision of the pipeline service is to be calculated as:

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

plus:

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

less:

(iii) the **return of capital** recovered since the commissioning of the pipeline; and

(iv) the value of **pipeline assets** disposed of since the commissioning of the pipeline.

Revaluation of assets is not permitted in determining the **RCM value**.

To determine the reported value of **pipeline assets** under the **RCM**, **service providers** are to complete the schedule at worksheet 4 of the **financial reporting template**.

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

- The construction date of the **pipeline assets**.
- The **construction cost** of the **pipeline assets**, by year. Where an asset has a required decommissioning cost (i.e. negative residual value), this is to be included in the cost base.
- For shared assets:
  - the **construction cost**, by year, if the asset is of a type constructed by **service providers**; or

[7] For the purposes of this section, a RAB established though an access arrangement includes a RAB established through a determination made by the AER, by a determination under the Gas Code, or otherwise in accordance with any Commonwealth, State or Territory legislation. The following pipelines that were light regulation pipelines at July 2019 are considered to have a RAB established under an access arrangement: Moomba to Sydney, Central West Pipeline, Allgas Gas Distribution Network and Envestra Gas Distribution Network (Queensland). For these pipelines, service providers are not required to provide the RCM value.

- the acquisition costs, by year, if the asset is not of a type constructed by **service providers** (for example, motor vehicles and information technology equipment). For clarity, if a **service provider** does not build **pipeline assets** but acquires them, they are not able to use the acquisition cost of the asset but must use historical construction cost.
- shared assets are assets that support multiple pipeline operations rather than assets that are used for the operation of a single pipeline and / or for other business operations.

- Any **capital expenditure** that has been incurred, by year, and at cost.
- Any disposals of **pipeline assets**, by year, and at cost.
- The **return of capital** calculated using the methodology provided below.

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

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

Where

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

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

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

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

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

- the net tax liabilities incurred by the **service provider** in each year following the construction of the asset, where tax paid is determined based on the legislated corporate tax rate applying in each relevant year; and
- the return on capital required by the **service provider** in each year, which will require information on:
    i. the closing value of the **capital base** in each year; and
    ii. the rate of return to be applied to the closing value of the **capital base** from the immediately preceding year, which is to be determined for each year and is to be commensurate with the prevailing conditions in the market for funds and reflect the risks the **service provider** faces in providing pipeline services.

Where relevant, the inputs used in this calculation are to be subject to the allocation principles as referred to in Section 3.2.6.

The source of information used in the calculation of the value of the **capital base** is to be documented in the basis of preparation. The basis of preparation is to also set out how the return on capital has been determined in each year. The return on capital is to be based on the **WACC**.

Capital expenditure amounts which are more than 5% of the construction cost is to be disclosed in worksheet 4.1 of the **financial reporting template**.

Note that under the recovered capital method, if a **service provider** has not generated sufficient revenue to recover the operating expenditure, return on capital and net tax liabilities in a year, then the **return of capital** value will be negative, which will increase the value of the **capital base**.

Note that if the application of this approach produces a negative value for the **capital base**, then the value of the **capital base** will be zero.

A depreciation schedule showing the **depreciation** calculation for **pipeline assets** under **RCM** is to be documented in the basis of preparation.

## 5.1 Estimates

**Service providers** must take all reasonable steps to obtain historical information. While appropriate potential sources of information may differ for different pipelines, the following potential sources of information may be considered:

- Where a pipeline has been acquired, requesting information from previous owners
- Searches of historical media information
- Where a pipeline was previously regulated, information requests to the **AER** or **ERA**
- Freedom of Information requests to the Australian Taxation Office
- Australian Stock Exchange announcements
- Australian Securities and Investment Commission register searches
- Information requests to other parties involved in pipeline construction such as building contractors and materials suppliers.

If having taken all reasonable steps to obtain the historic information, **service providers** are unable to locate the historical information, **service providers** may estimate the relevant information must document in a basis of preparation:

- the steps taken to locate the historical information; and
- how the estimate was arrived at including any methods, principles, inputs and assumptions that have been used to develop the estimate.

The following process must be followed and documented in the basis of preparation:

- where source documents are available, they have been considered
- if source documents are not used, the reasons why
- if source documents are unavailable, the process undertaken to attempt to locate them
- where estimates are used, the estimates applied and the rationale for determining a particular estimate
- the methodology applied to obtain the amount used in the **financial reporting template,** consistent with this Section 5.

While it may be necessary to utilise estimates initially in relation to unavailable historic information, **service providers** must utilise actual information on **capital expenditure**, asset disposals and the **return of capital** to update the asset value in future years.

If a pipeline was previously regulated and a determination made on the asset value, the **service provider** may use this as the opening balance for the calculation under this method from the date the determination was made and to roll it forward using the method set out in the **Guideline**.

We note that **service providers** are required to use *best estimates* in accordance with the access information standard outlined in Section 10.1.

## 5.2 Assurance

The information prepared in accordance with the recovered capital method must be reviewed in the manner specified in Section 10.2 and prepared in accordance with the access information standard outlined in Section 10.1.

## 5.3 RCM values not binding

The **RCM value** as determined in accordance with Section 5 is but one source of information that may be considered in arbitration, and is not binding on the arbitrator nor is the **RCM value** binding on the **AER** for any other regulatory purpose.

# 6 WACC principles

The Weighted Average Cost of Capital (**WACC**) for a given year must either be the regulated **WACC** set by the **ACCC/AER** (if the pipeline was subject to full regulation by the **ACCC/AER**), or an estimate of the **WACC** that would have been set by the **ACCC/AER** (if the pipeline had been subject to full regulation by the **ACCC/AER)**.

The estimated WACC for a given year must follow the hierarchy set out in Box 6.1 below.

**Box 6.1: WACC hierarchy**

The estimated **WACC** for a given year must follow the following option hierarchy, using the lowest numbered option applicable.

1. Where the light regulation pipeline was under full regulation in part of a given year for which an estimated **WACC** is required, the **WACC** from the pipeline's **ACCC/AER** final decision applicable to that given year is to be used.

   The relevant **WACC** (for the given year) is to apply to the full pipeline even where only part of the pipeline was under full regulation for that year, or where the WACC applied only for part of the year.

   In the event two regulatory determinations applied in a given year for which an estimated **WACC** is required, the estimated **WACC** is to be a weighted average of the two determination WACCs based on the number of business days each regulatory WACC applied during the given year.
2. Where there was an **ACCC** or **AER WACC** instrument, guideline, or statement of regulatory intent ("WACC Instrument") in place that would have been applied at the time (i.e. in force at the start of a given year for which an estimated **WACC** is required) this **WACC** Instrument is to be applied, to the extent possible, as it would have been applied at the time.[8]
3. The estimated **WACC** is to be taken from the most recent previous **ACCC/AER** final decision that covers the same year and the same type of gas pipeline (i.e. transmission or distribution).
4. The estimated **WACC** is to be taken from the most recent previous **ACCC/AER** final decision that covers the same year and different type of gas pipeline.
5. The estimated **WACC** is to be based on the first available **ACCC/AER** final gas transmission of distribution decision from a later year.

In addition, as the form of **WACC** calculated has changed through time (e.g. from pre-tax to post corporate 'Vanilla' formulation), financial market conditions change over time, and financial market data availability for historical periods has changed (relative to what was available for setting the **WACC** in the past), the relevant estimated **WACC** for a given year is to be calculated/adjusted in the following ways as required:

**In relation to all hierarchy options 1 to 5:**

- Regulated or estimated WACCs, if not already in this form, is to be calculated in (or converted to) a post corporate tax "Vanilla" formulation. Where applicable, it is to be done using the relevant input parameters set out in the determination.

[8] Note, a trailing average return on debt is not to be used for estimating the WACC.

- Regulated or estimated WACCs, converted to a Vanilla formulation if required, is to be consistent with any Australian Competition Tribunal or Federal Court judgements that would have altered the application of an ACCC/AER determination or application of a WACC Instrument being followed.

**In relation to hierarchy options 2 to 5:**

- All estimated WACCs calculated is to be updated using the last 20 business days' financial market data immediately preceding the commencement of the year for which the estimated WACC is needed. This means the risk free rate (for calculating the return on equity) and the yield on debt (or base risk free rate to which a set debt risk premium is added) is to be calculated using the last 20 business days' financial market data immediately preceding the commencement of the year for which the estimated WACC is needed.
- Any estimated required returns on debt and equity and the overall estimated WACC calculated for years commencing post 17 Dec 2018, is to be calculated in accordance with the 2018 **AER** Rate of Return Instrument including using the data sources and contingencies set out in this Instrument, subject to the caveat that a trailing average must not be used to estimate the return on debt.[9]
- Where the 2018 Rate of Return Instrument does not apply (i.e. for years for which a WACC is required commencing prior to 18 Dec 2018) when calculating either the return on debt, or the debt risk premium, for a given year:
    - Daily debt yields of a given maturity required between 4 Dec 2001 and Jan 31 2005 is to be calculated solely using Bloomberg yield data extrapolated to a given maturity as required.
    - Daily debt yields, calculated using data from 31 January 2005 to 16 Dec 2018 (i.e. running from the availability of RBA F3 Measures of Australian corporate bond spreads and yields until the commencement of the 2018 Rate of return instrument), is to be based on a simple average of the yields of the appropriate credit rating and maturity calculated from the RBA and Bloomberg data, or where data from one service provider is not available it is to be based on the data from the sole provider available. The calculation methodology (including any required extrapolation, interpolation, or other contingencies) is to be based on the 2013 **AER** Rate of Return Guideline as it was applied in **AER** final determinations over the period from 17 Dec 2013 to 16 Dec 2018.
    - Where a debt risk premium is set in a past determination to be followed, but the past decision first determined the return on debt and calculated the debt risk premium as the difference between this return on debt and the return on the risk free asset, the entire return on debt is to be updated using the last 20 business days' financial market data immediately preceding the commencement of the year for which the estimated WACC is needed. An example of a decision where this approach to estimating the debt risk

[9] Note, the AER propose the use of 'on-the-day' rate instead of a trailing average as on the day rate reflects the cost of debt capital in the economy at that point in time whereas a trailing average (of historical rates) does not. Please refer to the explanatory statement for further explanation on this subject.

premium was taken is the **ACCC**'s 2003 final decision for the Moomba to Sydney Pipeline.[10]

- Where the approach directly above to estimating the debt risk premium was taken, but return on debt yield data is not available to update the entire return on debt, the debt premium set in the determination is to be added to an updated measure of the return on the risk free asset used in the determination. The updated measure of the return on the risk free asset is to be be calculated using the last 20 business days' financial market data immediately preceding the commencement of the year for which the estimated **WACC** is needed.
- Where a debt risk premium is set out in a past determination that is being followed and updated, and it is unclear if the debt risk premium was calculated as the difference between the estimated yield on debt and the return on the risk free asset, the debt premium set in the determination is to be added to an updated measure of the return on the risk free asset used in the determination. The updated measure of the return on the risk free asset is to be calculated using the last 20 business days' financial market data immediately preceding the commencement of the year for which the estimated **WACC** is needed.
- For days where both Bloomberg Fair Value (BFV) yields and Bloomberg's evaluated pricing service (BVAL) yields are available, BVAL yields is to be used.[11]
- Up to date debt yield information is to be used from all data providers when calculating the estimated **WACC** (e.g. when using RBA Statistical Table F3 'Aggregate Measures of Australian Corporate Bond Spreads and yields' data the most recent release of the RBA Statistical Table F3 data set is to be used)
- In all circumstances a trailing average is not to be used (i.e. only on-the-day yields on debt is to be used to calculate estimated **WACC**s). Please refer to the explanatory statement for further explanation on this subject.
- Where the credit rating in a past decision that is being updated is anywhere in an A credit band (i.e. from A- to A+) the estimated yield on A rated debt is to be used where debt yields are required.
- Where the credit rating in a past decision that is being updated is anywhere in a BBB credit band (i.e. from BBB- to BBB+) the estimated yield on BBB rated debt is to be used where debt yields are required.

The information and calculations used to determine the value of the **WACC** is to be documented in the basis of preparation.

An example of an annual **WACC** evaluation process for a given pipeline will be outlined in the explanatory statement.

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[10] ACCC, *Final Decision East Australian Pipeline Limited Access arrangement for the Moomba to Sydney Pipeline system*, 2 Oct 2003, pp 122-123.

[11] ACCC, *Final Decision East Australian Pipeline Limited Access Arrangement for the Moomba to Sydney Pipeline System,* 2003, pp 122-123.

# 7 Requirement to publish weighted average price information

**Service providers** are required to publish **weighted average price information** for a light regulation pipeline (see rule 36E of the **NGR**), including the weighted average prices paid by users for pipeline services and a description of the methodology used by the **service provider** to calculate the weighted average prices.

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

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

Worksheet 5 of the **financial reporting template** provides a template for **service providers** to input information to calculate **weighted average price information**.

**Service providers** are required to classify pipeline revenue for the **reporting period** (the most recent financial year) into the following service categories in order to calculate separate **weighted average price information** for each service:

- 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 with the prices shippers are paying or are being offered, the weighted average prices charged to customers for transportation services must be further classified based on the method of calculating the charges, which may include:

i. The postage stamp charging method

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

ii. The zonal based charging method

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

iii. Distance based charging method

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

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

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

## 7.1 Methods, principles and inputs used

### 7.1.1 Estimates

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

Where the **financial reporting template** requires the use of an estimate, information on the nature of an estimate must be supported by a statement of the basis of the estimate. Where actual information is available, an estimate should not be used.

Estimates are to be consistent with rule 36A(2)(c.) of the **NGR** which requires that a forecast or estimate is supported by a statement of the basis of the forecast or estimate and:

- is arrived at on a reasonable basis; and
- represents the best forecast or estimate possible in the circumstances.

Where estimates are applied because agreements and/or invoices 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 basis of preparation.

### 7.1.2 Weighted average price calculations

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

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

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

The maximum daily quantity is to be measured in GJ.

Revenue is required to be reported on an accrual basis, consistent with the revenue recognition requirements in Section 3.1.1.1.

## 7.2 Assurance

The **weighted average price information** must be certified by an independent auditor in the manner provided for in Section 10.2 and prepared in accordance with the access information standard discussed in Section 10.1.

## 7.3 Exemptions

To maintain the confidentiality of shippers, in accordance with rule 36E(3) of the **NGR**, the **service provider** is not required to publish the **weighted average price information** for a pipeline service if:

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

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

Where services are combined in response to a notice by the **AER**, the **weighted average price information** for combined services are to be disclosed in row 19 of worksheet 5 and a list of the combined services must be disclosed in the exempt weighted average price worksheet 5.1.

## 7.4 Requirement not to engage in price discrimination

It is highlighted that in accordance with section 136 of the **NGL**, a covered pipeline service provider must not engage in price discrimination when providing light regulation services, unless it is conducive to efficient service provision. Through the publishing of **weighted average pricing information** it may become apparent to **shippers** that there has been price discrimination by **service providers**.

Where **service providers** consider that there is a risk of perception of price discrimination, they are to provide a general explanation in their **basis of preparation** of why any price discrimination is conductive to efficient service provision.

# 8 Compliance and enforcement

## 8.1 Maintaining compliance

Section 27 of the **NGL** requires the **AER** to monitor, investigate and enforce compliance with the **NGL**, **NGR** and Procedures. The **AER** has these roles in relation to the information disclosure requirements in rule 36 of the **NGR**, including with regard to the financial information reporting in accordance with the **Guideline**.

## 8.2 Reporting by the AER

The **AER** may publish reports from time to time about **service providers'** compliance with this **Guideline**.

## 8.3 Complaints and investigations

The **AER** may, at any time, require a **service provider** to provide a written response to a complaint or concern the **AER** raises with the **service provider** about its compliance with this **Guideline**, including where the **AER** has previously required the **service provider** to provide one or more written responses to the relevant complaint or concern.

## 8.4 Enforcement

**Service providers** must comply with the **Guideline**. Under the **NGL**, if a **service provider** fails to comply with the disclosure requirements, the **AER** can:

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

# 9 Basis of preparation

**Service providers** are required to provide a basis of preparation separate to the **financial reporting template**. This is required to be published on the **service provider's** website with the **financial reporting template**.

The basis of preparation must be a separate document providing information in relation to the:

- pipeline financial statements;
- pipeline information;
- RAB values;
- RCM values; and
- the weighted average prices calculated;

that the **service provider** publishes with its completed **financial reporting template**.

The basis of preparation must:

- explain the source/s from which the **service provider** obtained the information provided, including where information is obtained from external sources;
- explain the methodology the **service provider** applied to provide the required information, including any assumptions the **service provider** made and inputs used; and
- explain, in circumstances where the **service provider** cannot provide actual information and only estimates are available:
    - why it was not possible for the **service provider** to provide actual information;
    - what steps the **service provider** took to locate actual information;
    - if an estimate has been provided, the basis for the estimate, including the methods, assumptions and inputs used; and
    - why the estimate represents the best estimate possible in the circumstances and has been arrived at on a reasonable basis.

The basis of preparation must follow a logical structure that enables auditors, prospective users, arbitrators and the **AER** to clearly understand how the **service provider** has complied with the requirements of the **Guideline**.

When carrying out an assurance engagement as specified in Section 10, an auditor shall have regard to the **service provider's** basis of preparation.

# 10 Assurance

## 10.1 Access information standard

Rule 36A of the **NGR** requires the information published under Division 2 of Part 7 of the **NGR** to be prepared and maintained in accordance with the access information standard. The access information standard means that the information:

- is not false or misleading in a material particular;
- where of a technical nature, is prepared in accordance with the practices, methods and acts that would reasonably be expected from an experienced and competent person engaged in the ownership, operation or control of a pipeline in Australia acting with all due skill, diligence, prudence and foresight; and
- in relation to a forecast or estimate, is supported by a statement of the basis of the forecast or estimate and:
    - is arrived at on a reasonable basis; and
    - represents the best forecast or estimate possible in the circumstances.

Where a **service provider** becomes aware that information required to be published does not comply with the access information standard, Rule 36A(3) of the **NGR** requires the **service provider** to publish information that does comply as soon as practicable after the **service provider** becomes aware of the non-compliance.

Rule 36A(4) of the **NGR** requires information published under Part 7 to include the date of publication, the date to which the information is current and, if the information replaces an earlier version as provided for by subrule (3), notice of that fact.

## 10.2 Assurance obligations

The information provided in the **financial reporting template** and the accompanying basis of preparation is required to be audited, or otherwise reviewed, in accordance with this clause 9.

Assurance must be conducted in compliance with the **Guideline** and Australian Auditing and Assurance Standards, as developed by the Auditing and Assurance Standards Board.

If the **service provider** has had information provided in the **financial reporting template** for the previous **reporting period** audited in accordance with this **Guideline** and current accounting standards, it is not necessary for this data to be audited again.

However, if this previously audited information has changed from the previous reporting period, the information for the previous **reporting period** must be audited again to the standard required by the **Guideline**.

## 10.3 Persons to provide assurance

Assurance of the **financial reporting template** must be undertaken by a person who:

- is a registered company auditor who is a member of the Institute of Chartered Accountants Australia (CA or FCA) or of CPA Australia (CPA or FCPA) that holds a Certificate of Public Practice;
- is independent from the **service provider** and all of its related bodies corporate – that is, not a principal, member, shareholder, officer, or employee of the **service provider** or its related entities;
- is appointed for the purposes of expressing an opinion or conclusion on the audit or review requirements outlined in the **Guideline;**
- has experience in conducting financial, performance, operation or quality assurance audits or reviews of the gas pipeline industry, and
- understands the procedures and methodologies underlying the information provided.

## 10.4 Level of assurance required

### 10.4.1 Statement of pipeline revenues and expenses and Statement of pipeline assets

An audit is required to be provided for the information contained in the Statement of Pipeline Revenue and Expenses and Pipeline Statement of Assets in accordance with *ASA 805 Special Considerations—Audits of Single Financial Statements and Specific Elements* and *ASA 800 Special Considerations—Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks, Accounts or Items of a Financial Statement*. The information reported in the **financial reporting template**, in accordance with the requirements of this **Guideline** must be accompanied by a basis of preparation.

Auditors are not only required to audit the **financial reporting template** against the basis of preparation. They must also audit against the requirements of this **Guideline**.

### 10.4.2 Recovered capital method

Limited assurance review is required for the recovered capital method information in the **financial reporting template** in accordance with the requirements of this **Guideline** and the accompanying basis of preparation. This review is to be provided in accordance with *ASRE 2405 Review of Historical Financial Information Other than a Financial Report*.

Auditors are not only required to audit the financial reporting template against the basis of preparation. They must also audit against the requirements of this **Guideline**.

### 10.4.3 Weighted average price information

Limited assurance review is required of the **weighted average price** information in the **financial reporting template** and the accompanying basis of preparation. This review is to be provided in accordance with *ASRE 2405 Review of Historical Financial Information Other than a Financial Report.*

For clarity, auditors are not only required to audit the **financial reporting template** against the basis of preparation, they must also audit against the requirements of this **Guideline**.

# Appendix A – Pipeline asset lives

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