

INTRODUCTION

The Energy Users Association of Australia (EUAA) is the peak body representing Australian energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing and materials processing industries. Combined they employ over 1 million Australians, pay billions in energy bills every year and are desperate to see all parts of the energy supply chain making their contribution to the National Electricity Objective. Our members are highly exposed to movements in both gas and electricity prices and have been under increasing stress due to escalating energy costs.

The EUAA has long highlighted the information asymmetry that exists between the owners of the supply chain assets and users. Our members have experienced it first hand over many years. Eventually it was recognised by the ACCC in its seminal report on the East Coast Gas Supply in April 2016. This provided much impetus for the detailed reform programme now underway through the Energy Council Gas Market Vision with detailed analysis of reform options through the ACCC, AEMC and GMRG. We strongly support the vision and the various underlying work streams and look forward to their early implementation.

We were a strong supporter of the Vertigan reforms that set up the information disclosure and arbitration framework for unregulated pipelines. We support this draft financial reporting guideline for light regulation pipelines for the same reasons. As the Draft comments:

“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.”(p.1)

The major information deficiencies in the gas transportation market have contributed to the east coast gas market being a significant distance away from achieving the National Gas Objective. The inefficiencies are obvious to our members as they seek to negotiate gas transportation agreements with both hands tied behind their back. Poor information transparency has led to gross inefficiency in the market and deadweight losses. In particular, EUAA members in southern States who are having difficulty getting offers for local suppliers look to Queensland but are faced with complex, opaque and expensive arrangements to transport their gas.

These financial guidelines will make a significant contribution to lifting the veil and giving gas users some negotiation leverage with pipeline operators.

Our comments are in three areas:

1. Determination of asset value

We strongly support the proposed approach of:

- Use of 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.
- Where this asset value is not available then use two asset valuation methods:
 - Based on the roll forward model
 - Based on the construction cost at the starting point – recovered cost method

With a regulatory WACC is to be used for reporting and calculating the RAB value and the RCM value.

In a monopoly regulatory framework designed to replicate a workably competitive market, we think the correct approach is that asset owners only recover their capital spend once. NPV neutral models like roll forward and RCM achieve this.

We understand that the information provided on the Carpentaria and Moomba-Sydney pipelines will be on the basis of the two asset valuation methods. The other lightly regulated pipelines will be reporting on the roll forward model only.

2. Weighted average prices

The requirement to publish weighted average prices (WAP) reflects the provisions of Part 23. The ACCC recently provided an analysis of the limitations of the WAP prices being provided under Part 23.

“The ACCC also found that the weighted average prices (WAPs) published by pipeline operators may not be achieving the stated objective of this disclosure requirement because they do not provide a good representation of the prices actually paid by shippers and in some cases are not directly comparable to the pipeline operators’ standing prices. Shippers may not therefore be able to rely on this information to assess the reasonableness of an offer by reference to what other shippers are paying.”¹

While we understand the timing constraint the AER is under to quickly produce this guideline, we look forward to the results of the ACCC review and the associated COAG Regulatory Impact Statement being implemented through the required processes. In the interim we look to the pipelines, particularly those who are members of the Energy Charter, showing a sign of their commitment to information transparency by providing more useful comparison prices data reflecting the ACCC recommendations.

3. Arbitration process

Given the strong ACCC evidence that pipeline operators have an incentive to inflate their asset value, we can understand:

“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.” (p. 23)

However, to reduce risk of high values, we would propose that the AER’s calculation of the asset value be derived from their interpretation of the RCM methodology.

4. Assurance

The implementation of the Vertigan reforms under Part 23 were seen as a watershed in information disclosure facilitating informed user negotiations with unregulated pipeline operators.

So, it was with considerable surprise and disappointment that we read the ACCC’s review of the Part 23 information disclosure in the recent ACCC Gas Report Interim Report:

“...the ACCC is concerned that some pipeline operators do not appear to be taking the information disclosure obligations under Part 23 seriously and are continuing to exploit information asymmetries to the detriment of shippers.”

...

“The ACCC also found that the weighted average prices (WAPs) published by pipeline operators may not be achieving the stated objective of this disclosure requirement because they do not provide a good

¹ [ACCC Gas Inquiry 2017-2020 Interim Report July 2019 p. 128](#)

representation of the prices actually paid by shippers and in some cases are not directly comparable to the pipeline operators' standing prices."

...

"The ACCC has found that the RCVs of a sample of seven pipelines have been overstated by up to 45 per cent (with over half of the sample being overstated by more than 20 per cent) as a result of errors and/or the adoption of a range of inflationary measures. The values have been further overstated by the adoption of relatively high rates of return." (p.128)

In particular:

"... the ACCC found that APA, which is an ASX listed company and champion of the Energy Charter, had employed a number of methods and assumptions, which had the effect of inflating the SWQP, MSP SESA RCVs.

APA had, for example, based its operating expenditure on an estimate of the "stand-alone" cost of operating each pipeline, rather than basing it on the actual costs incurred in operating each pipeline.

...

Apart from being inconsistent with the Guideline, the stand-alone approach is at odds with what all the other operators have done, which is to base their expenditure on actual costs incurred.

...

"Together these measures have resulted in the SWQP, MSP and SESA RCVs being overstated by between 9 per cent and 25 per cent. 271 The level of overstatement is significant and highlights an apparent disregard for the objectives of the disclosure requirements and those shippers that may seek to rely on this information.

As noted above, a number of the measures appear inconsistent with the Guideline and potentially the access information standard, which states that information should not be false or misleading in a material particular. The ACCC will therefore refer this matter to the AER."²

We hope that the ACCC comments will provide added impetus to pipeline operators to ensure that their information disclosure reflects the letter and spirit of the Guidelines. This is helped by more prescription around standalone costs and WACC calculations in the draft Guidelines.

We support the ACCC's recommendation that the AER be able to appoint 'independent' auditors to be paid for by the pipeline operator. If this requires a rule change then it should be an expedited rule change.

Please contact me if you would like to discuss this submission further.

Sincerely,



Andrew Richards
Chief Executive Officer

² Ibid pp 149-150