Pipeline information disclosure guidelines

Issues Paper

April 2023

AUSTRALIAN ENERGY REGULATOR

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Tel: 1300 585 165

Email: AERInquiry@aer.gov.au

AER reference: 14933523

Request for submissions

The Australian Energy Regulator (AER) is undertaking a consultation process to develop the Pipeline Information Disclosure Guidelines. The guidelines are required under the new prescribed transparency information requirements that apply to all gas pipelines under Part 10 of the National Gas Rules.

This issues paper discusses, and sets out our proposed position, on key issues. To encourage stakeholder input, we ask for stakeholders' views throughout the paper. We also summarise these questions in Appendix A.

We invite interested parties to make written submissions to us regarding this paper by the **close of business, 9 May 2023**.

Submissions should be sent electronically to: AERgasreform@aer.gov.au. We prefer all electronic submissions to be in Microsoft Word or another text-readable program.

Alternatively, you can mail submissions to:

General Manager, Network Expenditure
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

We prefer all submissions to be publicly available, to facilitate an informed and transparent consultative process. For this reason, we will treat submissions as public documents unless you request otherwise. If you wish to submit confidential information, please:

- clearly identify the information that is the subject of the confidentiality claim
- provide a non-confidential version of the submission in a form suitable for publication.

If we accept your confidentiality claim, it will be treated in accordance with the terms set out in the ACCC/AER Information Policy. If we reject your confidentiality claim, you will be given the opportunity to withdraw your submission before it is published, or any information is disclosed.

We will place all non-confidential submissions on our website at www.aer.gov.au. For further information about the use and disclosure of information you provide, see the ACCC/AER Information Policy (June 2014) on our website.

For enquiries about this paper, or about lodging a submission, please contact us on 1300 585 165 or AERgasreform@aer.gov.au.

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Shortened forms

Term	Definition
AER	Australian Energy Regulator
Commencement day	2 March 2023
Guidelines	Pipeline Information Disclosure Guidelines
NGR	National Gas Rules
Service provider	Gas pipeline service provider
Users	Gas pipeline users

1 Introduction

1.1 Purpose

We are publishing an issues paper as part of the consultation process on the *Pipeline information disclosure guidelines* (Guidelines). The Guidelines are a requirement under the new Part 10 of the National Gas Rules (NGR)[1] and will help to improve transparency and bargaining power for gas pipeline users (users).

Part 10 of the NGR came into effect in March 2023. These new rules set out information that gas pipeline service providers (service providers) must publish on their websites. This includes details of the pipeline services offered, the historical demand for these services, actual prices payable, and costs and profits associated with each pipeline service.

Information published by service providers under Part 10 will help users assess the reasonableness of offers. This information will reduce information asymmetry, which will facilitate more timely and effective negotiations between service providers and users.

The Guidelines will give guidance and instruction to service providers about what information they must publish, and how the information must be published on their website. This will ensure that all service providers publish usable, accessible, and transparent information that will provide the greatest benefit to users.

Matters the Guidelines must cover include what financial information a service provider must publish, the methods and inputs that a service provider must use to calculate such information, and how information must be published on pipeline service providers' websites.

This issues paper discusses options and our proposed position on a range of matters that will be covered in the Guidelines. We invite stakeholders to provide views and comments, which we will consider as we draft the Guidelines.

1.2 Reforms to the National Gas Rules

The *Statutes Amendment (National Energy Laws) (Gas Pipelines) Bill 2022* and the *National Gas Rules (Gas Pipelines) Amendment Rules 2022* made changes to the National Gas Law and NGR, respectively, to implement a package of reforms agreed by Energy Ministers to improve and simplify the gas pipeline regulatory framework.

The gas pipeline reforms aim to:

- pose a more effective constraint on exercises of market power by service providers
- facilitate better access to pipelines
- provide greater support for commercial negotiations between gas users and service providers
- streamline governance arrangements.

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[1] NGR, r. 103.

The prescribed transparency information requirements contained in Part 10 of the NGR aim to address deficiencies in the current reporting requirements for non-scheme gas pipelines such as:[2]

- information being difficult for users to understand
- inconsistent assumptions and reporting
- lack of transparency around pricing and some financial information.

Importantly, the new framework extends to all gas pipelines to ensure a more consistent set of information is available to better facilitate negotiations between service providers and users for access to services.

1.3 Our approach to the Guidelines

Previously, non-scheme pipelines (other than exempt pipelines) were required under Part 23 of the NGR to publish service and access information, standing terms, financial information, and weighted average price information. Light regulation pipelines were required to publish similar information under Part 7 of the NGR.

Part 10 of the NGR contains many of the same requirements and matters as the previous Part 23 (and also Part 7) of the NGR. Therefore, our starting point for the Guidelines is the existing *Financial reporting guideline for non-scheme pipelines*.[3] However, in addition to some new requirements in Part 10, there are parts of the *Financial reporting guideline* for non-scheme pipelines where we consider changes are necessary. We are considering how the Guidelines will address these new requirements and we discuss these in this issues paper.

There have been several reviews into the operation of Part 23 of the NGR. The reviews considered, among other things, the extent to which it helped users understand the information reported by service providers and the ease at which users can calculate cost-based benchmarks. These reviews include:

- Oakley Greenwood's Part 23 survey
- the Brattle Group's 2019 review of information under Part 23 of the NGR
- the ACCC's review of the operation of Part 23.

The AER also identified issues with the operation of Part 23 of the NGR through discussions with stakeholders and internal reviews. We discuss the issues identified in the relevant sections of this issues paper, to provide additional context for our proposed approach.

Finally, Part 10 of the NGR applies to both scheme (fully regulated) and non-scheme (lightly regulated) pipelines. We consider that the Guidelines should require non-scheme and scheme pipelines service providers to publish the same types of information in the same way. However, there are some differences in the requirements for scheme and non-scheme

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[2] *Options to improve gas pipeline regulation: Regulation Impact Statement for Decisions*, 2021, Appendix B.

[3] AER, *Financial Reporting Guideline for Non-Scheme Pipelines*, December 2017.

pipeline service providers, and areas where different approaches are necessary. We highlight these throughout the issues paper.

1.3.1 Impact of information disclosure requirements on service providers

It will be important to balance the regulatory burden the Guidelines place on service providers with providing users with information that will help them negotiate reasonable terms and conditions of access. As such, we will weigh the benefits of making changes to the current reporting requirements against the costs required for service providers to make changes to their systems. Where practicable, we will also seek to maintain consistency with other reporting obligations like regulatory information notices that we issue to collect information from service providers.

1.4 Related matters

1.4.1 Pricing template consultation

Part 10 of the NGR requires us to publish and maintain a pricing template.[4] The template is intended to be a simple tool that will allow users to transform financial and other data published by service providers into pricing benchmarks. This will allow users to calculate what a reasonable price might be and will assist in price negotiations.

Although the pricing template is not part of the Guidelines, we will publish a draft and final template with the respective draft and final Guidelines. Stakeholders may provide views about the pricing template as part of this issues paper consultation.

1.4.2 Part 18A Price reporting guidelines

Part 18A of the NGR was introduced as part of the gas reforms package. Under Part 18A compression and storage facility operators must publish standing terms and actual prices payable for services. We are also required to publish guidelines that specify the information and/or the level of detail of information that an operator must publish. We intend to publish these Part 18A guidelines together with the *Pipeline information disclosure guidelines*.[5]

Information in this issues paper for compression and storage facilities is in:

- Section 5.1 – standing terms
- Section 5.3 – where and how information is published.

1.5 Next steps

We invite stakeholder views on our proposed approach to the Guidelines, and specifically on the issues outlined in this issues paper. We will take these submissions into consideration as we develop the draft Guidelines. Submissions close on 9 May 2023.

We have summarised the issues that we are seeking feedback on in Appendix A.

We will also invite submissions on the draft Guidelines which we intend to publish in early August 2023.

[4] NGR, r. 103A.

[5] As is permitted under NGR, r. 198H(1).

The NGR require the AER to publish the (final) Guidelines within five months of the commencement day (that is, by 2 August 2023).[6] However, we expect to publish the final Guidelines by the end of October 2023. We acknowledge the importance of users having access to information as soon as practicable. We are also mindful that service providers should publish information that users can easily access and understand so that they can more effectively negotiate pipeline access. The additional time that we propose will allow for meaningful stakeholder engagement including workshops, targeted stakeholder meetings and consideration of submissions to develop the best guidance for service providers and users.

We explain the implications of the delay for service providers and users in Section 2.2.

Indicative timing for releasing the final Guidelines is shown in Table 1.

Table 1. Key milestones for the development of the pipeline information disclosure guidelines

Indicative date	Project milestone/action
9 May 2023	Submissions on issues paper close
July 2023	AER publishes draft Guidelines, and the second consultation period opens
August 2023	Submissions on draft Guidelines close
October 2023	AER publishes final Guidelines

1.6 Structure of the paper

This issues paper discusses the following:

- Section 2 – The Legislative Framework

  This section outlines the previous and current legislative framework for gas pipeline regulation and obligations. It also encompasses exemptions, timing and transitional arrangements for the legislative changes and the Guidelines.

- Section 3 – Improving financial information

  This section sets out the financial information and cost allocation methodology information that must be published by service providers. It summarises the previous and current legislative frameworks and reporting requirements for these obligations. We describe our proposed approaches to the financial information reporting requirements that we will set out in the Guidelines.

- Section 4 – Asset valuation

  This section discusses the obligations on service providers to publish asset valuation information and the different approaches for non-scheme and scheme pipelines. We

[6] Commencement day means the day on which Part 19 of Schedule 3 of the new National Gas Law came into operation, being 2 March 2023. See NGR, Schedule 6, r. 1.

describe the approaches that we propose to set out in the Guidelines for the reporting of asset valuations.

- Section 5 – Other Issues

  This section outlines other non-financial issues that the Guidelines will address. It includes requirements on service providers for publishing standing terms, the basis of preparation, how and where service providers must publish information, historical demand information, and certification requirements for published information.

2 The Legislative Framework

Prior to the gas reforms coming into effect in March 2023, gas pipelines were under one of three forms of regulation:

1. Scheme pipelines (also referred to as 'covered pipelines') were subject to either:
    - **Full regulation** – the AER approved a service provider's access arrangements and reference tariffs
    - **Light regulation –** service providers were required to publish financial information under Part 7 of the NGR.
2. **Non-scheme pipelines** – service providers were required to publish financial information under Part 23 of the NGR.

The publication of financial information for light regulation pipelines and non-scheme pipelines were governed by the *Non-scheme pipeline financial reporting guidelines*[7] and the *Financial reporting guideline for light regulation pipeline services,*[8] respectively.

The gas pipeline reforms simplify the regulatory framework so that there are now only two forms of regulation that may apply to gas pipelines:

1. **Scheme pipelines –** similar to full regulation pipelines under the previous framework.
2. **Non-scheme pipelines –** similar to non-scheme pipelines under the previous framework but also including pipelines that were previously under light regulation.

Part 10 of the NGR applies to both scheme and non-scheme pipelines. It requires service providers to publish and maintain:[9]

- service and access information
- standing terms
- financial information, historical demand information and a cost allocation methodology
- actual prices payable information.

Under Part 10 of the NGR, the AER is also required to develop and publish pipeline information disclosure guidelines, which must:[10]

- provide for the publication of financial information about each pipeline in respect of the financial year, which must include financial statements
- specify the methods, principles, and inputs for several aspects of financial information such as the value of assets, allocation of costs and return on capital
- specify the level of detail of information required on standing prices and the aspects of financial information

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[7] AER, Non-scheme pipeline financial reporting guidelines, December 2017.

[8] AER, Financial reporting guideline for light regulation pipeline services, October 2019.

[9] NGR, r. 101A(1).

[10] NGR, r. 103.

- specify any accounting or audit standards that apply to the reported information
- specify where and how information is to be published
- provide for the way financial information, historical demand information and cost allocation methodology is to be certified as being true and fair
- specify where and how a user access guide is to be published by a service provider under Part 11
- provide for such other matters the AER considers appropriate.

We encourage stakeholders to examine rules 101A–101E and rule 103 of the NGR to understand what information or methodologies service providers must publish, and the information that is to be prescribed by the Guidelines.

Separate to the Guidelines, the AER must also publish and maintain a pricing template.[11] This will provide a process or mechanism by which users or prospective users of gas pipelines can use to transform the financial and historical demand information into one or more cost-based pricing benchmarks.

2.1 Exemptions

We must, on the application of a non-scheme pipeline service provider, grant an exemption from publishing information where it has met the criteria under rule 102(1) of the NGR. Pipelines that may be granted an exemption include pipelines with no third-party access, single user pipelines, and low-volume pipelines.[12]

Holders of a Category 2 exemption under Part 23 of the NGR will be taken to hold an exemption under Part 10 of the NGR.[13] The AER must be satisfied that holders of a Category 3 exemption under Part 23 are eligible to hold a Category 2 exemption under Part 10.[14] There is no provision for Category 1 exemptions under Part 23 to transfer across to any exemption under Part 10.

In this issues paper, we discuss the requirements on service providers to publish information under Part 10 of the NGR. However, where applicable, those requirements do not apply to service providers for pipelines that hold an exemption under rule 102 of the NGR.

2.2 Timing and transitional arrangements

The legislative changes outlined in the *National Energy Laws Amendment (Gas Pipelines) Bill 2021* commenced on 2 March 2023 (commencement day). The *National Gas Rules (Gas Pipelines) Amendment Rules 2022* came into effect on 16 March 2023.

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[11] NGR, r. 103A.

[12] NGR, r. 102(4).

[13] For a pipeline that is not a third-party access pipeline – a Category 1 exemption under Part 10, For a pipeline that is a single user pipeline – a Category 2 exemption under Part 10,

[14] NGR, Schedule 6, r. 12. For transmission pipelines, the AER must be satisfied that the nameplate rating is less than 10 terajoules per day. For distribution pipelines, the AER must be satisfied that the maximum daily capacity of the pipeline under normal operating conditions is less than 10 terajoules per day.

As discussed in Section 1.5, we propose publishing the Guidelines by the end of October 2023 instead of 2 August 2023.[15]

This delay will not impact the timing of service providers publishing financial and historical demand information. It will, however, delay service providers publishing actual prices payable information, standing terms, an interconnection policy, and a user access guide as required under rule 105C of the NGR. The proposed publication date gives service providers sufficient time to publish actual prices payable information and standing terms by the end of December 2023.

We will publish the pricing template at the same time as the Guidelines.

2.2.1 Delay in publishing Guidelines will impact service providers' obligations

The NGR require that service providers must make the following information publicly available in accordance with the Guidelines:[16]

- for a service provider who is the holder of an exemption granted under Category 2 in Part 23 Division 6 of the NGR (as in force immediately before the commencement day) on account of the pipeline being a single user pipeline – service and access information and standing terms
- for a service provider who is the holder of an exemption granted under Category 3 in Part 23 Division 6 of the NGR (as in force immediately before the commencement day) in relation to a non-scheme pipeline – service and access information under rules 101B(4) and 101B(5), and standing terms
- for a service provider for a full regulation distribution pipeline (as defined by rule 112A of the NGR immediately before the commencement day) – standing terms
- for scheme transmission pipelines – service and access information and standing terms
- for all non-exempt pipelines – actual prices payable information.

These are new requirements for the classes of service providers specified above and must be published no later than six months after the commencement day.[17] The delay in publishing the Guidelines means that these service providers will not have guidance about how the information is to be made publicly available within the six-month deadline. Therefore, we will not enforce compliance with rule 9 and rule 11 of Schedule 6 of the NGR for these service providers to make information publicly available within six months of the commencement day. Rather, we expect that these service providers will have published service and access information, standing terms and actual prices payable information (as the case may be) by the end of December 2023.

2.2.2 Other transitional arrangements

The NGR require that service providers continue to comply with the following obligations that were in effect immediately before the commencement day:

[15] NGR, Schedule 6, r. 13.

[16] NGR, r. 101A(3)(a) and r. 105C(1)(c).

[17] NGR, Schedule 6, rr. 9 and 11.

- For service providers that were non-scheme pipelines immediately before the commencement day:
  - maintain their existing user guide until they develop and publish a new one in accordance with Part 10 of the NGR[18]
  - prepare, publish, and maintain financial information specified in rule 555 of the NGR (as in force immediately before commencement day), for each financial year before the designated financial year.[19]
- For service providers that were light regulation pipelines prior to the commencement day:
  - prepare, publish, and maintain financial information specified in rule 36D of the NGR (as in force immediately before commencement day), for each financial year before the designated financial year.[20]

[18] NGR, Schedule 6, r. 18(2).

[19] NGR, Schedule 6, r. 22. **Designated financial year** is defined in NGR, Schedule 6, r. 10 and means the financial year of the service provider immediately following the year in which we publish the Guidelines.

[20] NGR, Schedule 6, r. 7.

3 Improving financial information

This section discusses the financial information and cost allocation methodology information that service providers must publish. It identifies limitations and potential solutions to improve the financial information that service providers have previously published under Part 23 of the NGR.

We seek stakeholders' views on the information, methodologies and explanation service providers must publish so that the information can better help users in negotiations.

We discuss approaches to asset valuations separately in Section 4.

Reasons for amendments

In response to Oakley Greenwood's Part 23 survey, users noted that they found it unclear how some service providers calculated financial information. They also noted that they had difficulties understanding the financial information and the high degree of data analysis required to make it usable.[21]

Brattle Group noted the lack of transparency in, and variability between, service providers' methodologies. This included differences in how shared revenues were allocated, and data reported in the "other" fields within the financial statements.[22]

3.1 Financial information requirements

3.1.1 Previous framework

There were different reporting requirements under the previous framework for each form of regulation:

- Non-scheme pipelines published financial information as required under Part 23, by completing financial statements, a basis of preparation and providing an auditor's assurance of the financial reports.
- Light regulation pipelines published similar financial information as non-scheme pipelines, required under Part 7.
- Full regulation pipelines were not previously required to publish similar financial information as non-scheme and light regulation pipelines. However, they were, and continue to be, required to provide information to the AER for various regulatory functions.

3.1.2 Part 10 framework

Under the new framework, both scheme and non-scheme pipelines are required to publish similar financial information to that previously required by non-scheme service providers under Part 23 of the NGR. The new framework also requires service providers to publish new types of information, including:

[21] *Options to improve gas pipeline regulation: Regulation Impact Statement for Decisions*, 2021, p. 169.

[22] Brattle Group, *Financial Information Disclosed by Gas Pipelines in Australia under Part 23 of the National Gas Rules*, October 2019, pp. iv & 21.

- the return on capital and the rate of return used in the calculation of the return on capital
- information about pipeline capacity extensions and expansions
- historical demand information
- actual prices payable information, instead of weighted average prices information
- cost allocation methodology.

The Guidelines must provide for the publication of financial statements, financial performance metrics and the methods, principles, and inputs to calculate components of financial information.

The Guidelines must also provide further guidance on:

- the cost allocation principles that service providers must comply with[23]
- the return on capital and rate of return used to calculate the return on capital
- where and how information is to be published
- publishing information about pipeline capacity extensions and expansions.

3.2 Approach to reporting financial information

Under the previous framework, non-scheme and light regulation pipeline service providers published financial information in financial statements. The financial statements included information on revenue and expenses, assets and asset valuation, financial performance, and the rate of return.

Non-scheme and light regulation pipeline service providers were required under their respective financial reporting guidelines to publish the financial statements via templates. For example, non-scheme pipeline service providers were required under the *Financial reporting guideline for non-scheme pipelines* to publish the financial statements in the *Non-scheme pipeline financial reporting template*.[24]

Our starting position for the new Guidelines is to assess whether the guidance in the *Financial reporting guideline for non-scheme pipelines* and the financial statements required in the *Non-scheme pipeline financial reporting template* are fit for purpose. We propose to make changes to improve the clarity and consistency of data information reported by service providers.

3.3 Financial statements

The Guidelines must set out the information that service providers publish in financial statements.[25] This requirement, along with historical demand information, is intended to enable users to estimate a reasonable cost-based tariff using information on the revenue, operating costs, capital expenditure, depreciation, and asset valuation.

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[23] While this was not required under Part 23, we included allocation principles in AER, *Non-scheme pipeline financial reporting guidelines*, section 3.2.4, December 2017.

[24] AER, *Non-scheme pipeline financial reporting template*, May 2021.

[25] NGR, r. 103(2)(a)(i).

Brattle Group noted issues with the previous set of financial statements reported under Part 23. These included issues with how service providers reported information, such as using catch-all categories like 'other direct costs' that were not adequately explained in the basis of preparation. Brattle Group also commented on some issues with the financial statement templates, such as inconsistent labelling that made it more difficult for users to reconcile information.[26]

We propose the following:

- prescribing the following financial statements, presented in a similar way to those included in the *Non-scheme pipeline financial reporting template* but with the improvements that we propose in the remainder of Section 3.3 below.
  - statement of pipeline revenues and expenses
  - statement of pipeline assets
  - pipeline information
- requiring both scheme and non-scheme pipeline service providers to complete these financial statements, with amendments where required, to promote consistency and comparability
- requiring service providers to explain what is included in 'catch-all' categories.

We seek stakeholders' views on our approach and any specific changes that would make the information more useful to users. We are also interested in what information in the *Non-scheme pipeline financial reporting template* is difficult to interpret or is not useful to users and could potentially be removed.

3.3.1 Guidance on methods, principles, and inputs

Part 10 of the NGR require that the Guidelines to provide for the methods, principles and inputs used to calculate a range of information included in the financial statements.

The *Financial reporting guideline for non-scheme pipelines* set out the principles that service providers were required to follow when completing the financial statements. These included:[27]

- asset valuation principles
- capitalisation principles
- asset life principles
- allocation principles
- depreciation principles
- related party transactions.

[26] Brattle Group, *Financial Information Disclosed by Gas Pipelines in Australia under Part 23 of the National Gas Rules*, October 2019, pp. 114–115.

[27] AER, *Non-scheme pipeline financial reporting guidelines*, December 2017, pp. 11–17.

We seek stakeholders' views about how useful this guidance is, and if there are any areas that require clarification, changes, or additional areas to cover.

Asset life principles

The *Financial reporting guideline for non-scheme pipelines* required service providers to disclose asset lives based on a range of standard lives for asset classes set out in the guideline. Asset lives are used to determine depreciation expense and the carrying value of assets in the financial statements.[28]

We have identified issues with the reporting of asset useful lives in the *Non-scheme pipeline financial reporting template*, including:

- whether the standard lives set out in the *Non-scheme pipeline financial reporting guidelines* are appropriate, as they reflect an asset's technical life rather than its economic life[29]
- requiring only a single acquisition date for each asset category, which ignores future acquisitions within that asset class
- potential duplication of information requirements for scheme pipelines, such as the existing requirement to report depreciation information under the access arrangement process.

We seek stakeholders' views on options, including:

- adopting the weighted average remaining useful life used in regulatory asset base calculations for scheme pipelines, as this approach considers the depreciation profiles of assets acquired at different times
- requiring scheme pipelines to provide depreciation information annually, as the information reported under the access arrangement process is insufficient for the purposes of the gas pipeline reforms
- whether the Guidelines will need to give further guidance on accelerated depreciation of assets, where it is probable that the assets will not be utilised for their full useful life
- any other considerations that we should consider so that this information is useful for users.

3.3.2 Reconciliation of financial and asset valuation information

Under the old financial reporting framework under Part 23 of the NGR, there were some differences between what service providers reported in the statement of pipeline assets and the valuation of assets using the recovered capital method.[30] For example:

- the statement of pipeline assets and the recovered capital method approach depreciation in different ways

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[28] AER, *Non-scheme pipeline financial reporting guidelines*, December 2017, p. 14.

[29] AER, *Non-scheme pipeline financial reporting guidelines*, December 2017, Appendix A.

[30] The recovered capital method is discussed in Section 4.

- acquisition costs of assets were allowed in the statement of pipeline assets but disallowed in certain asset classes under the recovered capital method.

The *Financial reporting guideline for non-scheme pipelines* did not require these two information sources to reconcile; however, we would expect some information fields (such as capitalised maintenance or improvements) to reconcile.

We propose that the Guidelines require that fields in the statement of financial assets and the recovered capital method that have the same definition must have the same values. Where they do not, service providers must provide an explanation in their basis of preparation that allows reconciliation of the values between the worksheets.

We seek stakeholders' views about which data in the financial statements and asset valuation must reconcile.

3.3.3 Summary of financial information

We propose to include a summary of information in the financial statements. The summary is intended to be easy to understand and present in brief form the key financial information. This will make the information in the financial statements more accessible to users, supported by more detailed financial information necessary to achieve the aims of the gas pipeline reforms.

We are considering whether this information is to be provided in the financial templates or the new pricing template.

We seek stakeholders' views about what information would be useful in the summary, and how it might be presented.

3.3.4 Reporting of pipeline capacity expansions and extensions

The Guidelines must provide for the publication of the cost of any extension to, or expansion of the capacity of, the pipeline and information on the inputs used to calculate this value.[31] This is a new requirement under Part 10.

We propose that service providers publish in the financial statements, for planned and newly built pipeline capacity expansions:

- a description of the capacity extension or expansion, the pipeline to which the capacity extension or expansion relates, and its location on the existing pipeline
- the type of capacity extension or expansion, nameplate rating of the capacity extension or expansion (in gigajoules per day) and date (or expected date) of commission
- actual or forecast direct capital expenditure, incremental operating costs, and details about changes in shared costs, including how they are allocated to the pipeline services on the capacity extension or expansion
- expected useful life of the capacity extension or expansion and its component assets.

[31] NGR, r. 103(2)(a)(iii)(C).

We consider that this level of information is needed so that users can identify the expenditure relevant to the service they are seeking access to, when assessing the service provider's offer.

We seek stakeholders' views on how useful this information will be, what additional information users may need to assist them in negotiating contracts for pipeline services using this incremental capacity, and what difficulties service providers may have in reporting such information.

3.4 Allocation of costs between pipeline services

The Guidelines must set out how service providers publish information on the methods, principles and inputs used to calculate the allocation of costs between different categories of pipeline services.[32]

This new requirement will help users understand the indicative costs incurred by the service provider for each pipeline service. For scheme pipelines, information about the allocation of costs between reference and non-references services[33] is already provided in regulatory information notices.

Our position on cost allocation between pipeline services is that service providers must:

- publish the allocation of total direct costs and total indirect costs to each service, as we do not consider that direct costs need to be further disaggregated for this purpose
- allocate costs to each service using allocators that are consistent with their cost allocation methodology, where practicable
- allocate costs to each service consistent with the cost allocation principles set out in the Guidelines
- where a service provider operates more than one pipeline, a consistent approach is used across pipelines.

We seek stakeholders' views about how we approach this requirement, including:

- the level of detail that is necessary to assist users in negotiating prices for different pipeline services
- whether for consistency we prescribe a cost allocation method for allocating direct costs to each service, and if so which allocator/s should the Guidelines prescribe.

[32] NGR, r. 103(2)(a)(ii)(C).

[33] Reference services are those services on a full regulation pipeline that are subject to a reference tariff under a full access arrangement. Non-reference services are all other services carried by that pipeline. Rule 47A of the NGR sets out how reference services are set.

3.5 Cost allocation principles

The Guidelines must set out the cost allocation principles that service providers are to comply with, which must give effect to and be consistent with relevant principles outlined in rule 103(4) of the NGR.[34] The relevant principles set out, broadly:[35]

- that service providers publish enough detail to enable us to replicate reported outcomes
- that only the following costs may be allocated to a pipeline:
  - costs which are directly attributable to the pipeline
  - costs which are not directly attributable to the pipeline, but which are incurred in providing services by means of the pipeline, which must be allocated using an appropriate allocator
- the basis of allocating indirect costs to each pipeline
- prohibiting costs being allocated more than once
- other matters to ensure consistency with ring-fencing and access arrangement requirements.

We seek stakeholders' views about any other principles that the Guidelines should specify so that service providers' cost allocation approaches are appropriate and transparent.

[34] NGR, r. 103(3).

[35] NGR, r. 103(4).

4 Asset valuation

This section outlines requirements on service providers to publish asset valuation information and discusses the recovered capital method and depreciated book value method for non-scheme pipelines, and the capital base roll-forward model for scheme pipelines. We are seeking views on the approach we take in the Guidelines for setting out how service providers report asset valuations.

The total value of pipeline assets at a given time is an important determinant of how much revenue a service provider must recover from users to cover its costs and earn a reasonable return.

Reasons for amendments

In response to Oakley Greenwood's Part 23 survey, users expressed concerns about a lack of transparency about how the rate of return was calculated for the recovered capital method. They highlighted that there was insufficient explanation for how the rate of return was derived.[36]

Brattle Group noted that service providers differed in their approach to valuing assets using the recovered capital method and highlighted differences between service providers in calculating the rate of return and net tax liabilities.[37]

In our review of service providers' compliance with Part 23 we found instances where the recovered capital value[38] was likely to be overstated, particularly where service providers used the depreciated optimised replacement cost methodology to calculate the opening capital base.

4.1 Asset valuation information requirements

The *Financial reporting guideline for non-scheme pipelines* required non-scheme service providers to publish asset values using the recovered capital method in worksheet 4 of the *Non-scheme pipeline financial reporting template*.[39]

Part 10 of the NGR require that the Guidelines provide for the publication of:

- For scheme pipelines – the value of the capital base in accordance with Part 9 of the NGR[40]
- For non-scheme pipelines – the asset value using the recovered capital method,[41] including information on the inputs used to calculate this value.[42]

[36] *Options to improve gas pipeline regulation: Regulation Impact Statement for Decisions*, 2021, p. 169.

[37] Brattle Group, *Financial Information Disclosed by Gas Pipelines in Australia under Part 23 of the National Gas Rules*, October 2019, pp. 28–33.

[38] Recovered capital value means the asset value determined in accordance with the recovered capital method.

[39] AER, *Non-scheme pipeline financial reporting guidelines*, December 2017, p. 18.

[40] NGR, r. 103(2)(a)(iii)(A).

[41] Except where inconsistent with NGR, r. 113Z(5)(a).

[42] NGR, r. 103(2)(a)(iii)(B).

This information is intended to assist users assess whether the service provider's offer is reasonable.

4.2 Non-scheme pipelines

4.2.1 Asset valuation approach for non-scheme pipelines

The Guidelines must set out how non-scheme pipeline service providers value assets.[43] Specifically, it must require service providers to adopt the recovered capital method to calculate asset value, unless it is inconsistent with the following objective:[44]

> "…facilitating access to pipeline services provided by means of non-scheme pipelines on reasonable terms, which is taken to mean at prices and on other terms and conditions that, so far as practicable, reflect the outcomes of a workably competitive market."

The *Financial reporting guideline for non-scheme pipelines* required service providers to publish both the recovered capital value and the depreciated book value.

Recovered capital method

The recovered capital method calculates the depreciated cost of constructing the pipeline, with the depreciation component reflecting the return of capital generated since the pipeline was constructed (i.e. revenue less operating expenditure less the return on capital less net tax liabilities).

While the recovered capital method may provide some insights into historical profitability of the pipeline, further information is often needed for users to assess the reasonableness of a service provider's offer. For example, the recovered capital method does not account for changes in asset value resulting from the purchase price paid by a new pipeline owner. The purchase price can reflect the recent or the expected future financial performance of the pipeline and can vary substantially from the prevailing recovered capital value.

Depreciated book value method

Valuing assets using the depreciated book value method is a way that service providers can take into account acquisition costs, including goodwill or other intangible costs, when valuing assets. This gives users additional information to understand the investments made by service providers and how much revenue they expect to recover in the future.

Differences between the asset valuation methods

Brattle Group noted that asset valuations using the recovered capital method and the depreciated book value method are likely to be different. This is because:[45]

- depreciation under the recovered capital method is the residual after subtracting operating expenses, net tax liabilities and allowed return on capital from revenue, whereas the depreciated book value method uses straight-line depreciation

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[43] NGR, r. 103(2)(a)(iii)(A).

[44] NGR, r. 113Z(5).

[45] Brattle Group, *Financial Information Disclosed by Gas Pipelines in Australia under Part 23 of the National Gas Rules*, October 2019, pp. 52 & 54.

- depreciation under the recovered capital method may be positive in loss-making years, resulting in an increase in asset value
- the initial asset value for the recovered capital method is the construction cost of the pipeline, whereas for the depreciated book value method it may be the construction cost or the acquisition cost.

However, Brattle Group also found that service providers reported different timings and/or were inconsistent in reporting capital expenditure between the two methods.[46]

How service providers should publish information

To better account for acquisition costs and changes in asset value, we propose to require non-scheme pipeline service providers to publish the asset value using both the recovered capital method and the depreciated book value method. This is the same as the requirement under the *Financial reporting guideline for non-scheme pipelines*. We also propose to require service providers to:

- reconcile the inputs for the two methods, including explaining and quantifying differences in value for each asset class
- provide additional information, including:
  - whether it acquired or constructed the pipeline and when
  - for acquisitions, information on the acquisition costs, the value and details of goodwill[47] if applicable, and value of the user contracts acquired.

We seek stakeholders' views about whether they support our proposed approach to require non-scheme pipeline service providers to publish the asset value using both the recovered capital method and the depreciated book value method. If not, what alternative asset valuation methods should the Guidelines require service providers to provide?

We are also interested in stakeholders' views on whether the Guidelines should require any additional information to help users interpret and understand asset values.

Lastly, should the Guidelines limit which valuation methods service providers can use for calculating asset values or opening balances?

4.2.2 Approach to estimating the rate of return

The Guidelines must specify the methods, principles, and inputs that service providers use to calculate their return on capital and the rate of return used in its calculation.[48] These are inputs into the recovered capital value.

For scheme pipelines, we set out the approach we use to estimate the rate of return in the rate of return instrument.[49] We use the methodology set out in the instrument to determine the rate of return scheme pipeline service providers can recover for their capital investments.

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[46] Brattle Group, *Financial Information Disclosed by Gas Pipelines in Australia under Part 23 of the National Gas Rules*, October 2019, pp. 27–28.

[47] The value of goodwill means the value paid above the fair value of the assets acquired.

[48] NGR, r. 103(2)(a)(ii)(E).

[49] AER, *Rate of return instrument*.

We adopt the Sharpe-Lintner capital asset pricing model for estimating the return on equity and a trailing average approach for return on debt.

The *Financial reporting guideline for non-scheme pipelines* did not specify the required rate of return methodology for non-scheme pipelines; however, most service providers adopt the Sharpe-Lintner capital asset pricing model for estimating their return on equity.

Proposed option for estimating the rate of return

Because gas pipelines have a very high capital value, even small changes in the estimated rate of return can have a large impact on the revenue that service providers expect is needed to earn reasonable returns on their investments. Therefore, we propose that service providers take a consistent approach to calculating the rate of return, while appropriately accounting for their unique circumstances.

We propose that the Guidelines require non-scheme pipelines to use the same return on capital approach as scheme pipelines (i.e. the Sharpe-Lintner capital asset pricing model). This will improve consistency and comparability of rates of return between different pipelines and over time.

We also recognise that the systematic risks faced by non-scheme pipelines can be different than for scheme pipelines (or to other non-scheme pipelines). These risks may also vary over time and impact a given firm's capital structure. For these reasons we consider that it is appropriate for service providers to use a pipeline-specific equity beta, which quantifies its level of systematic risk relative to the overall market, gearing ratio and cost of debt.

We propose that the Guidelines require the following parameters be used by non-scheme pipelines when calculating their rate of return:

- the use of a nominal vanilla weighted-average cost of capital
- the market risk premium from the rate of return instrument current at the time of calculation. This is currently set at 6.2 per cent[50]
    - given that this is our current estimate of the unconditional market risk premium, we propose that service providers use this value is for all years for which a return on equity estimate is required, except where they have published recovered capital values previously[51]
- an equity beta estimate that is estimated for the pipeline at the appropriate gearing ratio—rather than the equity beta set in the rate of return instrument—reflecting the estimated systematic risk of the pipeline's equity given the pipeline's capital structure
- an estimate of the pipeline's gearing ratio that reflects the pipeline's historical gearing through time
- the risk-free rate (for use in the Sharpe-Lintner capital asset pricing model and cost of equity) estimated shortly prior to the commencement of the year for which the weighted-average cost of capital is being set

[50] AER, Rate of return instrument, February 2023, p. 3.

[51] Where a scheme pipeline has published prior recovered capital values for certain years, they should use these values in future reporting for these years unless they identify errors that require correction.

- a cost of debt for each year that reflects the service provider's actual portfolio cost of debt for that year
- the value of gamma (imputation credits) from the rate of return instrument current at the time of calculation. This is currently set at 0.57.[52]

Service providers will be required to demonstrate how they arrived at these values, including providing all models, parameters, calculations, and allocation methods in their basis of preparation.

We seek stakeholders' views as to whether:

- it is appropriate to require that service providers use the market risk premium and value of gamma from the rate of return instrument
- there are any particularly problematic issues with requiring non-scheme pipelines to adopt the proposed approach
- we should consider alternative options to estimating the rate of return, and reasons for this.

4.2.3 Decommissioning costs

The *Financial reporting guideline for non-scheme pipelines* allowed service providers to include decommissioning costs in a pipeline's recovered capital method cost base. This was intended to reflect the realistic costs of decommissioning a pipeline in the future. However, this has practical issues because of the high degree of uncertainty around the scope, costs, and timing of decommissioning. As a result, service providers have previously reported negative residual costs inconsistently under the Part 23 framework.

We are considering how we will approach decommissioning costs in the Guidelines. Options could include:

- disallowing this component of the recovered capital value calculation
  - this option maximises consistency, but asset values may not fully reflect the costs that service providers seek to recover
- disallowing this component where the estimated costs do not meet a materiality threshold (in relation to total costs)
  - this option allows service providers to account for any decommissioning costs in circumstances where those costs are expected to be material (such as works required to comply with government regulations), but there will continue to be a high degree of uncertainty in the estimates
- providing further guidance about how service providers account for decommissioning costs in a pipeline's asset valuation calculation.
  - this option allows service providers to account for all expected decommissioning costs. There will continue to be a high degree of uncertainty in the estimates, so the Guidelines will need to provide guidance to minimise the risk of service providers overestimating costs.

[52] AER, Rate of return instrument, February 2023, p. 19.

We seek stakeholders' views about:

- the implications of disallowing the inclusion of decommissioning costs, including the expected impact on a service provider's ability to recover costs
- any current requirements on service providers to decommission assets, and how substantial these costs are relative to total capital and operating costs over the asset's lifetime
- what approaches or requirements we can include in the Guidelines to improve the accuracy and consistency of estimating decommissioning costs.

4.2.4 Improving information on tax liability

The *Financial reporting guideline for non-scheme pipelines explanatory statement* provided guidance to service providers on the calculation of net tax liabilities in the recovered capital method. It gave service providers the option to account for tax using either a pre-tax commercial rate of return, or the post-tax approach with net tax liabilities modelled explicitly.[53] Brattle Group noted that all service providers in its review used the post-tax approach with net tax liabilities modelled explicitly but varied in the detail provided in the basis of preparation.[54]

Our preferred approach is for service providers to publish actual taxes paid and use these values when calculating recovered capital values through time. This should provide users with more meaningful information compared with using benchmark tax liabilities. It is also consistent with our proposed approach of requiring service providers to publish pipeline-specific cost of capital and gearing values when calculating the rate of return.

The *Financial reporting guideline for non-scheme pipelines explanatory statement* noted that service providers have raised concerns about the difficulties in allocating tax liabilities to pipelines, stating that such allocation may be misleading and arbitrary.[55] Despite these difficulties, we consider that it is necessary for service providers to allocate tax to pipelines and pipeline services for users to assess price offers. We have not yet formed a position as to whether we prescribe the approach that service providers must use to allocate tax. However, we consider that:

- it is appropriate that service providers take an approach that broadly reflects their approach to allocating other costs to pipeline services
- where a service provider operates more than one pipeline, a consistent approach is used across pipelines
- service providers fully explain their chosen allocation approach in the basis of preparation.

[53] AER, *Financial Reporting Guideline for Non-Scheme Pipelines: Explanatory Statement*, December 2017, p. 25.

[54] Brattle Group, *Financial Information Disclosed by Gas Pipelines in Australia under Part 23 of the National Gas Rules*, October 2019, p. 31.

[55] AER, *Financial Reporting Guideline for Non-Scheme Pipelines: Explanatory Statement*, December 2017, pp. 14 & 17.

We seek stakeholders' views about:

- whether we should require service providers to publish actual taxes paid, or allow different approaches to determine net tax liabilities (for example, a benchmark-based approach)
- how service providers should allocate taxes to pipeline services, and what allocator/s are most appropriate
- what further information may be useful for users to understand how service providers account for tax liabilities when setting prices.

4.3 Scheme pipelines

Part 10 of the NGR requires all scheme pipeline service providers to adopt the capital base approach in accordance with Part 9 of the NGR.[56] This is the approach that is used in scheme pipelines' access arrangements.

Scheme pipeline service providers complete the capital base roll forward models, which we publish on our website,[57] as part of their access arrangement proposal. The roll forward of the capital base takes account of capital investments, customer contributions, disposals, depreciation, inflation, and other adjustments such as changes in the speculative capital expenditure account or capital redundancy.

Once the AER approves the roll forward model, service providers report indicative capital base values yearly in response to our Regulatory Information Notices. These values are not confirmed until the next reset (typically every 5 years).

We propose that:

- to minimise burden, service providers publish capital base information in the financial statements data template in a similar format to Table F.10 in the AER's regulatory information notice.[58]
- to give users an indicative trend of changes to the capital base value, require service providers to include historical asset value data.

[56] NGR, r. 103(2)(a)(iii)(A).

[57] AER, *Gas transmission and distribution network service providers – Roll forward models – Final decision*, April 2020.

[58] As an example, see Table F10.1 of APA GasNet Australia (Operations) Pty Ltd's *Annual Reporting Regulatory Information Notice*.

5 Other issues

This section deals with other issues that the Guidelines must address, including:

- requirements on service providers to publish standing terms methodologies
- requirements of service providers' basis of preparations
- requirements relating to how and where service providers must publish information
- the accounting and audit standards, and certification requirements that should apply to the information published by service providers
- how service providers must prepare information where there are issues with the availability of historic information.

5.1 Standing terms

This section outlines the new obligations on service providers to publish information relating to the methodology used to calculate standing prices and seeks stakeholder views on the requirements that we should include in the Guidelines relating to standing price methodology.

5.1.1 Standing terms methodology requirements

The previous Part 23 of the NGR required non-scheme pipeline service providers to publish the methodology used to calculate the standing price, and sufficient information to enable prospective users to understand how the standing price reflected the application of the methodology.[59] It did not provide for the *Financial reporting guideline for non-scheme pipelines* to specify what information this must include.

Part 10 of the NGR require that the Guidelines provide a higher level of guidance on how service providers publish standing terms. They require that the Guidelines must specify:[60]

- the information that a service provider must report on as to the methodology used to calculate standing prices
- the inputs used in the calculation of standing prices
- any related information as determined by the AER.

Requirements for compressor and storage facility operators

The same standing terms obligations now apply also to compressor and storage facility operators under the new Part 18A of the NGR.[61] We consider that the proposed approach in Section 5.1.3 below is appropriate for compressor and storage facility operators also.

5.1.2 Reasons for amendments

The ACCC reviewed the pricing methodology information published by service providers under Part 23. It found that methodologies published by service providers tended to be too

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[59] NGR, r. 554(1)(b).

[60] NGR, r. 103(2)(b).

[61] NGR, r. 198F, r. 198H.

high level, and it was not clear that users could utilise this information to assess the reasonableness of the standing price.[62]

Similarly, the Oakley Greenwood Gas Shippers Survey found that a significant proportion of users surveyed 'indicated that the information that non-scheme pipelines publish does not allow them to understand how the relevant pipeline's published methodology has been used to generate its standing price.'[63]

In our review of compliance with Part 23 we found instances where it would be difficult for a user to understand how standing prices were calculated or to assess their reasonableness. We published a compliance bulletin in September 2022, outlining our findings and expectations as to how service providers should meet their obligations.[64]

5.1.3 Proposed approach

To address the issues that users have raised about the difficulties in understanding how service providers have calculated their standing prices, we propose that the Guidelines require that service providers publish:

- a detailed description of the methodology it has used to calculate each standing price in the basis of preparation
    - this description must include all relevant information to allow users to replicate the calculations
- an explanation of the inputs used to calculate each standing price
- where a provider has changed the methodology used to calculate standing prices, a description of the previous and current methodology used and reasons for the change
    - this description must be sufficient for users to understand and quantify the differences between the previous and current methodology.

These requirements are largely the same as the expectations that we outlined in our compliance bulletin.[65]

The Guidelines might require different information depending on the specific approach that the service provider uses to calculate its standing price. For example:

- *benchmarking approach* – details about the types of prices and contracts used to calculate the benchmark; number of contracts considered; how the price was calculated from the reference contracts, including adjustments made; and the range of prices used to derive the benchmarked price
- *cost-based approach* – a description of the model and inputs used to derive asset values, costs, prices and forecast demand

[62] ACCC, *Gas inquiry 2017-2020: July 2019 Interim Report, July 2019,* pp. 136-137.

[63] Oakley Greenwood, *Gas Shippers Survey: prepared for Department of Environment and Energy,* September 2019.

[64] AER, *Non-scheme Pipeline Information Disclosure Compliance Bulletin,* September 2022.

[65] AER, *Non-scheme Pipeline Information Disclosure Compliance Bulletin,* September 2022, pp. 7–8.

- *adjustment to foundation prices or regulated tariffs* – detailed explanation of the method used to make each adjustment to the original price, the reason for adjustment and the adjustment value.

We seek stakeholders' views on our proposed approach, and any specific information that users may require to help them assess the reasonableness of the standing price. We are also interested in stakeholders' views about whether the Guidelines should specify the requirements for different pricing methodologies. If so, which methodologies should be covered and what input information should be published for each methodology?

5.2 Basis of preparation

Service providers publish a basis of preparation to explain how they have prepared the financial statement and other information.

5.2.1 Basis of preparation requirements

The *Financial reporting guideline for non-scheme pipelines* specified when and how supporting information was to be provided in the basis of preparation, including:

- the sources of financial information published
- the methodologies used by the service provider
- how the service provider derived any estimates.

Part 10 of the NGR does not explicitly require service providers to publish a basis of preparation. However, it does require the Guidelines to provide for information on the methods, principles and inputs used to calculate financial information published in financial statements.[66] Part 10 of the NGR also requires the Guidelines to specify the level of detail required for financial information, which must be the level of detail reasonably required to enable users to negotiate with service providers on an informed basis.[67] We therefore consider it appropriate that the Guidelines require service providers to publish a basis of preparation to help users assess the financial data published by service providers.

5.2.2 Reasons for amendments

The ACCC identified errors in service providers' basis of preparation documents, including calculations being open to potential manipulation by service providers.[68] It recommended that the AER provide further guidance to the objectives and standard that is expected in these documents.

Brattle Group recommended that the AER create a template structure for the basis of preparation to:[69]

- enable more consistent reporting between service providers

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[66] NGR, r. 103(2)(ii).

[67] NGR, r. 103(2)(c).

[68] ACCC, *Gas inquiry July 2019 interim report*, July 2019, p. 141.

[69] Brattle Group, *Financial Information Disclosed by Gas Pipelines in Australia under Part 23 of the National Gas Rules*, October 2019, p. 114.

- identify where service providers have provided information different to that provided for in the guidelines
- ensure that service providers give an explanation where they deviate from the guidelines.

We also identified service providers publishing different levels of information in our Part 23 compliance activities.

5.2.3 Proposed approach

To improve the usefulness of the basis of preparation, we propose to:

- require service providers to publish a basis of preparation:
  - that is similar to that required under the *Financial reporting guideline for non-scheme pipelines*
  - amended to cover new information requirements and address issues raised in previous reviews
- develop a basis of preparation template to:
  - minimise errors, and improve consistency in the type and level of detail between service providers
  - ensure that the information clearly maps to the financial statements
  - provide users with information about data sources and methodologies to help them understand the information published by service providers.

We seek stakeholders' views on what improvements, requirements, or guidance would make the basis of preparation a more useful document.

5.3 How and where service providers publish information

This section outlines our approach to setting the requirements about how and where service providers publish Part 10 information on their website and how they provide this information to us. These are new requirements, and they aim to:

- bring all the information that users need to assess a service provider's offer to one place
- allow the AER to check that the information service providers publish is of sufficient quality and compliant with Part 10 of the NGR.

5.3.1 Publishing requirements

The previous Part 23 of the NGR required non-scheme pipeline service providers to publish information. However, there was no requirement to specify how and where service providers were to publish this information.

Part 10 of the NGR require that the Guidelines specify how and where a range of information is to be reported on a service provider's website.[70] This includes:

- service and access information
- standing terms

[70] NGR r 103.

- financial, historic demand and cost allocation methodology
- actual prices payable information.

A service provider must, in accordance with the Guidelines, give to the AER a copy of the following information after it is published on the service provider's website:

- financial and historic demand information
- actual prices payable information.

Requirements for compressor and storage facility operators

The NGR requires the Price reporting guidelines to specify where and how compressor and storage facility operators must publish standing terms and actual prices payable information.[71] We consider that the approach in Section 5.3.3 is appropriate for compressor and storage facility operators also.

5.3.2 Reasons for the amendments

Energy Ministers noted that the accessibility of information published by service providers needed to be improved.[72] This follows the ACCC's findings that the information published by service providers is not always easy to locate or understand.[73]

In our review of Part 23 compliance we found examples where non-financial information was difficult to find because it was:

- not clearly labelled or identified on the service providers' websites
- located in unrelated documents without references
- found in several locations and not presented in a structured, reader-friendly format
- unable to be accessed because of broken or outdated hyperlinks.

5.3.3 Proposed approach

We propose that the expectations outlined in our Part 23 compliance bulletin shall be requirements under the Guidelines. That is, at a minimum a service provider must:[74]

- publish all information (or hyperlinks where necessary) on a single webpage that is accessible from the service provider's home page
- clearly identify Part 10 information by using clear labels or headings
- state clearly where any Part 10 information is not relevant or applicable in the pipeline's circumstances, rather than simply omitting it
- ensure the hyperlinks provided on the website are up-to-date and link to the exact location of the relevant Part 10 information.

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[71] NGR, r. 198H(2)(c).

[72] See Energy Ministers, *Improving gas pipeline regulation: Proposed legal package to give effect to the Decision Regulation Impact Statement: Consultation Paper*, September 2021, p. 7.

[73] ACCC, *Gas inquiry 2017-2020: July 2019 Interim Report, July 2019,* pp. 156–157.

[74] AER, *Non-scheme pipeline information disclosure compliance bulletin*, p. 6.

We also propose that the Guidelines require service providers to publish the following information in a specified Excel table format:

- pipeline information and pipeline service information
- actual prices payable information.

These requirements seek to ensure that all relevant information is easily accessible to users. It will also allow users to better understand and use the information to help them assess service providers' price offers.

We are considering options for how information is to be provided to the AER. We aim to find a balance that minimises the burden on service providers to provide information, and the AER to analyse that information.

We seek stakeholders' views about how service providers set out the information that they are required to publish, and how that information is accessed, to allow users to readily identify and locate information that is useful for them ahead of price negotiations.

5.4 Assurance Requirements

This section outlines the obligations that the Guidelines must specify for service providers to certify information published under Part 10 of the NGR. Assurance relates to carrying out specified procedures to check that the information published by a service provider is true and fair.

5.4.1 Assurance requirements

Part 23 of the NGR required that the *Financial reporting guideline for non-scheme pipelines* set out how service providers were to certify financial information and weighted average prices information.

Part 10 of the NGR require that the Guidelines specify how financial and historical demand information, and the cost allocation methodology are to be certified as being true and fair.[75] There is no requirement in Part 10 that information on actual prices payable be subject to assurance.

5.4.2 Proposed approach

We aim to ensure that the information published by service providers is consistent, reliable, true and fair. However, we also aim to ensure that the standards are not unnecessarily onerous.

We propose that the certification required under the Guidelines of financial information, including asset valuations, remains consistent with the *Financial reporting guideline for non-scheme pipelines*. The requirement to publish non-financial historical demand information is new and we propose that the certification provided be in accordance with *ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.[76]

[75] NGR, r. 103(2)(f).

[76] See: Auditing and Assurance Standards Board, ASAE 3000, June 2014.

Our proposed level of assurance, and the relevant auditing and assurance standards, are as follows:

- Reasonable assurance: an audit report that includes an opinion as to whether the financial information provided is a true and fair representation of the service provider's financial position.[77]
  - for financial information related to statement of pipeline revenue and expenses, statement of pipeline assets and relevant sections of the basis of preparation, consistent with the *Financial reporting guideline for non-scheme pipelines.*
  - relevant standards are ASA 805 and ASA 800.
- Limited assurance: an assurance report (review) as to whether anything has come to the reviewer's attention that causes it to suggest that the information does not, in all material respects, present fairly the service provider's asset valuation, historical demand or cost allocation method.
  - for recovered capital method, historical demand information, the cost allocation methodology and relevant sections of the associated basis of preparation.
  - relevant standards are ASRE 2405 and ASAE 3000.

We seek stakeholders' views on whether the proposed levels of assurance are appropriate, or whether we should consider other certification requirements to uphold the standard of the published information.

5.5 Historical demand information

This section outlines new obligations on service providers to publish historical demand information. The new requirements are intended to give users more context to service providers' financial and pricing information when they are assessing a service provider's price offer.

5.5.1 Historical demand requirements

Part 10 of the NGR requires service providers to publish historical demand information:

- in accordance with the Guidelines, or
- for information required to be published on the Gas Bulletin Board, by providing a publicly available link on their website to the relevant part of the Gas Bulletin Board.[78]

Non-scheme service providers were not previously required to publish historical demand information under Part 23 of the NGR.

5.5.2 Reasons for amendments

Brattle Group noted that the Part 23 financial information did not provide for a full understanding of the circumstances of a pipeline. For example, a pipeline experiencing long-term high demand will be more profitable leading to a lower recovered capital value, which in turn suggests a relatively low cost-based pricing benchmark. This benchmark may not be

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[77] CPA Australia, *A guide to understanding auditing and assurance*, November 2019, p. 6 and AER, *Preliminary Annual Order – electricity distributors*, January 2023, pp. 22–23.

[78] NGR, r. 101A(3).

informative to users when assessing a price offer that is reflective of the high demand; that is, the price offer may include a willingness to pay component that is not necessarily inconsistent with the outcome of a workably competitive market.[79]

5.5.3 Proposed approach

We propose that service providers must publish historical demand information for each pipeline disaggregated in the same way as historical financial information. This will enable users to take account of pipeline demand over time when they assess pricing offers.

We seek stakeholders' views on alternative approaches to publishing historical demand information, and whether service providers must publish their methodology and inputs used to calculate historical demand information. We are also interested in users' views about what length time series is needed to make meaningful assessments of demand trends.

5.6 Pricing template

Under Part 10 of the NGR, the AER must publish and maintain a pricing template. This is a new requirement. The pricing template is a related but separate process to the Guidelines and the information disclosure requirements on service providers. It must provide a process or mechanism by which users can transform the financial and historical demand information published by service providers into one or more cost-based pricing benchmarks.[80]

The AER may make changes to the template from time to time and must consult with stakeholders before publishing an updated template.[81]

We will publish a draft template concurrently with the draft Guidelines. Stakeholders may provide comment on the template through the consultation process following publication of the draft Guidelines.

Our aims for the pricing template are that it will:

- be simple to use
- rely on information from the service providers that is readily accessible
- be comparable across service providers and over time
- provide an indication of a reasonable price and explain what the cost-based pricing benchmarks mean.

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[79] Brattle Group, *Financial Information Disclosed by Gas Pipelines in Australia under Part 23 of the National Gas Rules*, October 2019, pp. 105–106.

[80] NGR, r. 103A(2).

[81] NGR, r. 103A(3).

Appendix A What do we want to know from stakeholders?

We seek stakeholder views on the topics raised in this issues paper. To encourage stakeholder input, we have included questions throughout the paper, which are listed by topic with the page reference in the table below:

Table 2. Summary of consultation questions

Page	Topic
8	Financial information – General improvements to assist users
10	Financial information – Prescribing financial statements
10	Financial information – Guidance on methods, principles, and inputs
11	Financial information – Guidance on asset lives
12	Financial information – Guidance in financial statements and asset valuation data, summary of financial information and reporting of pipeline capacity expansions and extensions
13	Financial information – Guidance on other cost allocation methodology principles
13	Financial information – Approach on allocation of direct costs between pipeline services
16	Asset valuation – Guidance on service providers' publication of information
17	Asset valuation – Proposed approach on estimating the rate of return
18	Asset valuation – Approach on decommissioning costs
19	Asset valuation – Improvements on tax liability
23	Other issues – Approach in calculating standing prices and reasonableness
24	Other issues – General improvements to the basis of preparation
26	Other issues – Requirements on service providers for publishing and accessing information
27	Other issues – Approach to assurance and auditing standards
27	Other issues – Alternative approaches to publishing historical demand information and service providers' publication of methodologies and inputs for historical demand information