



# General Accounting Guidelines for Gas Pipeline Service Providers

Keith Lockey, Executive Director  
23 September 2004

POLICY AND REGULATORY ADVISORY SERVICES

# Introduction

---

**Regulatory accounting or reporting requirements should  
in so far as possible follow general purpose financial  
reporting requirements**

# Introduction

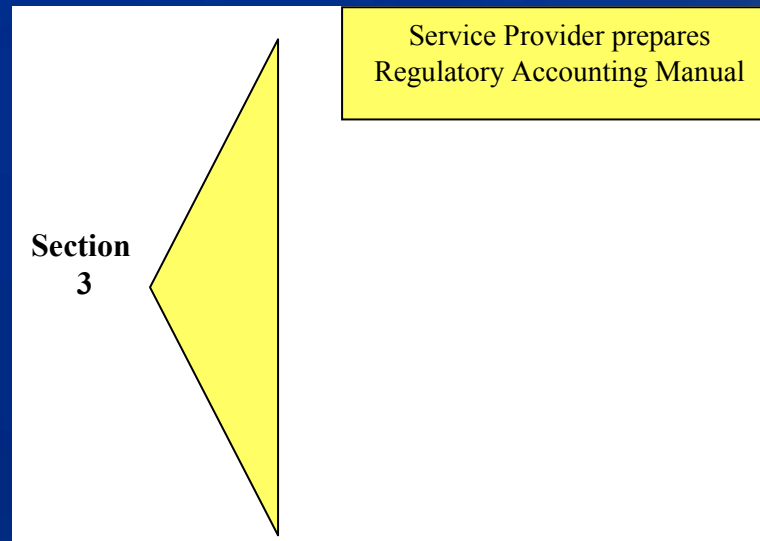
---

- **This presentation discusses:**
  - The guidelines and their reporting requirements;
  - How the guidelines work; and
  - The rationale behind the approach.

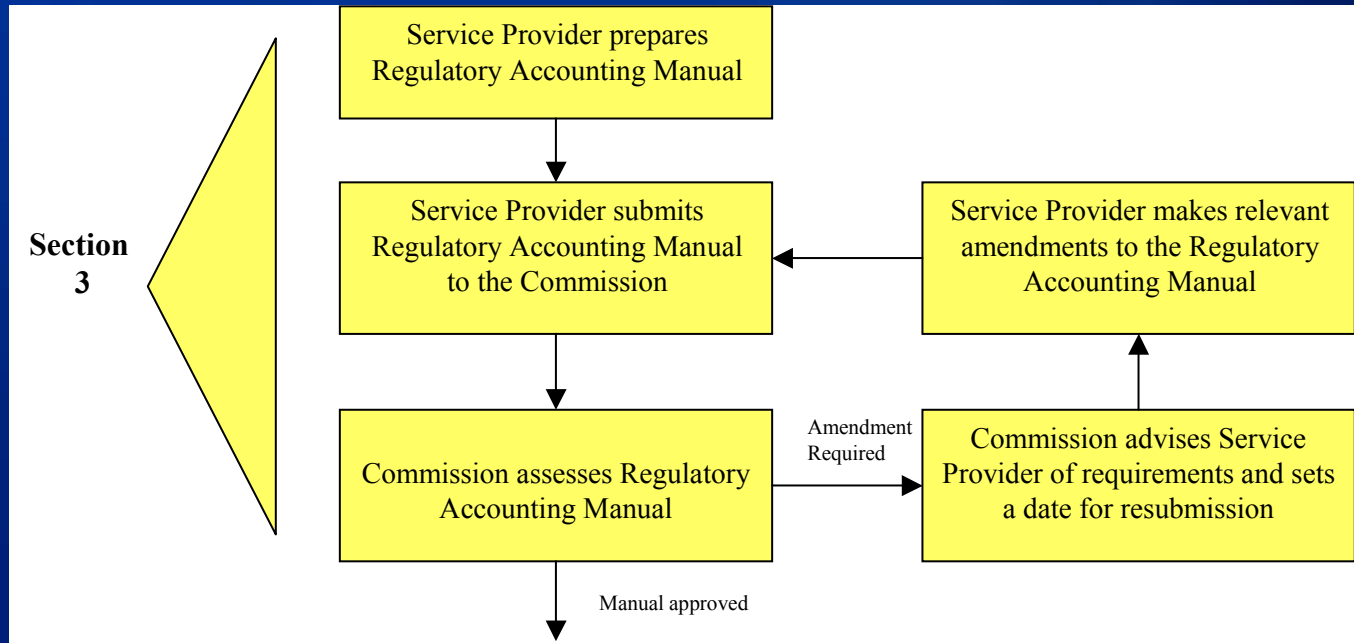
# What are the general accounting guidelines?

- To assist the Commission to administer the ring fencing obligations of the Gas Code
- Set out:
  - Annual reporting requirements;
  - General accounting guidelines;
- *“Do as you think best, but tell us how you have done it”*

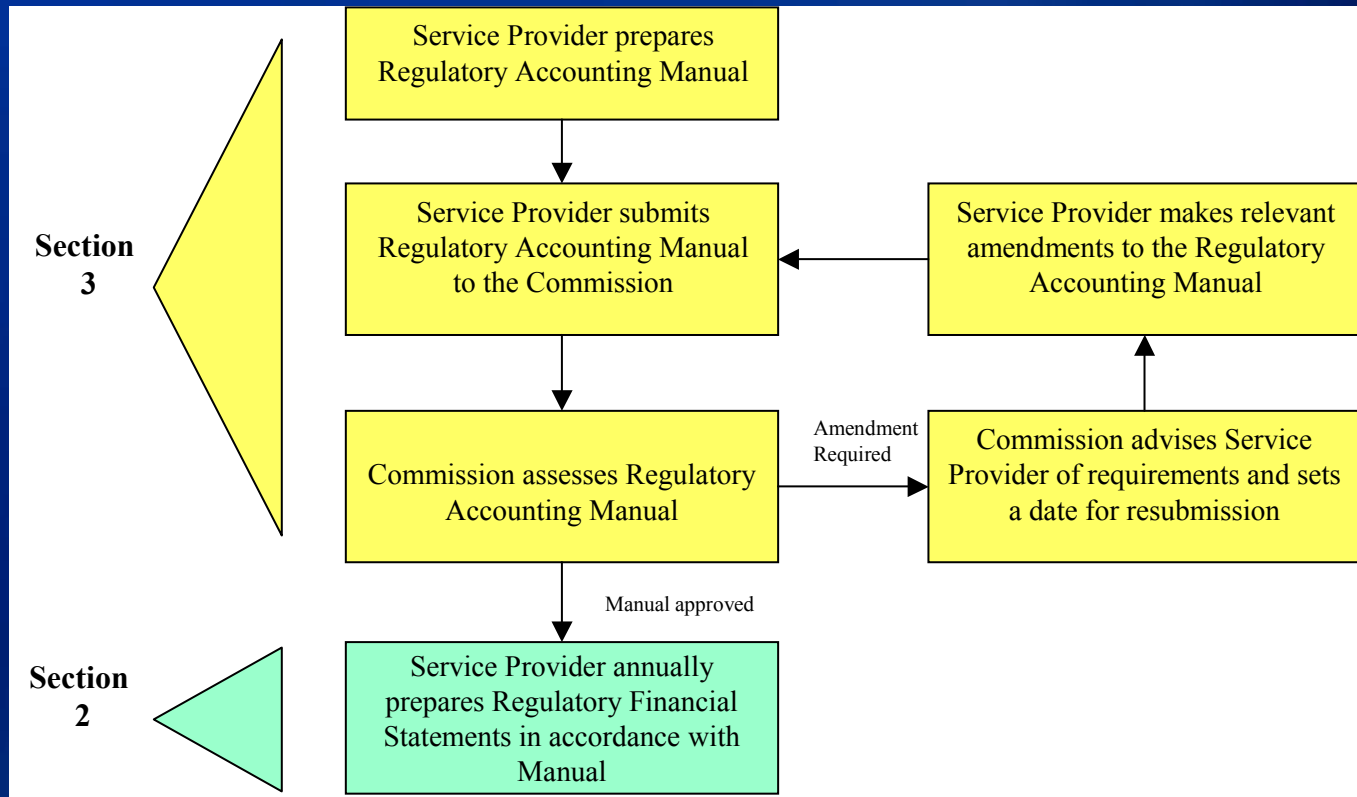
# How do the general accounting guidelines work?



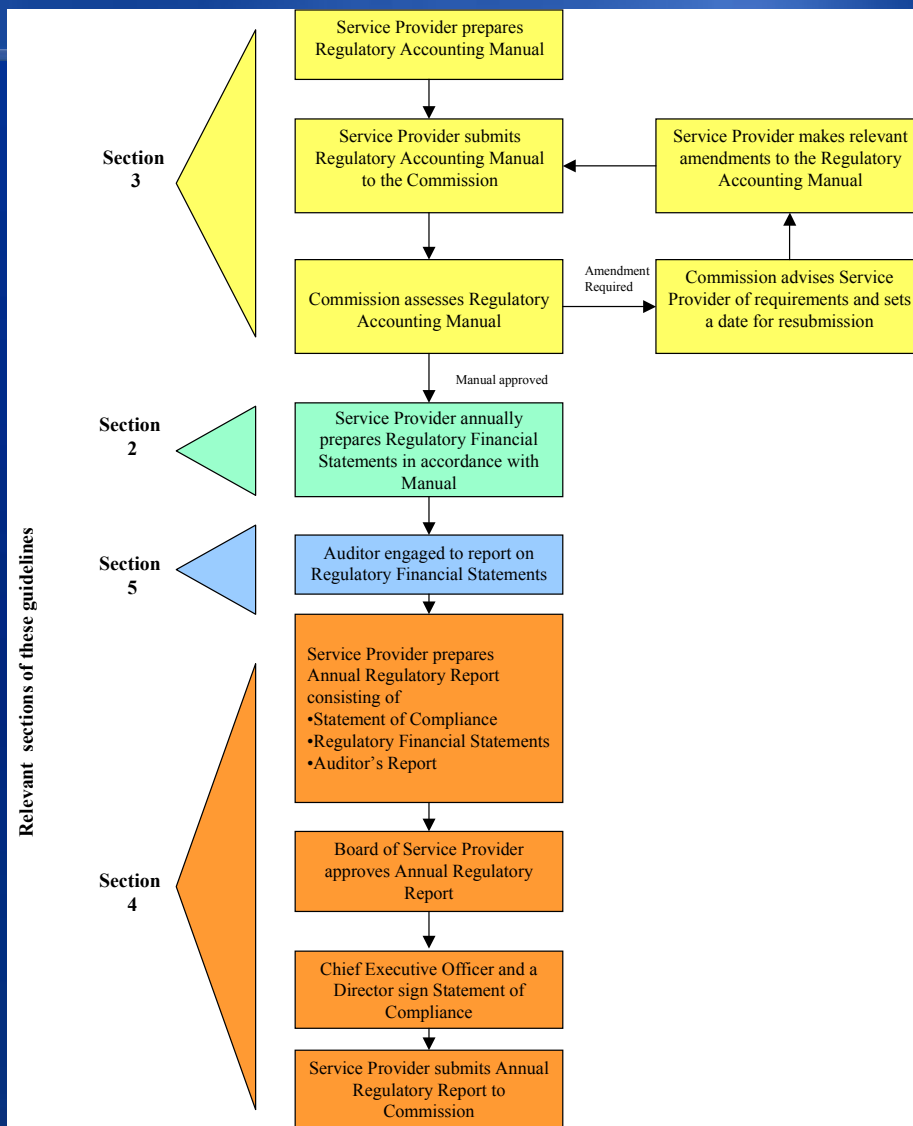
# How do the general accounting guidelines work?



# How do the general accounting guidelines work?

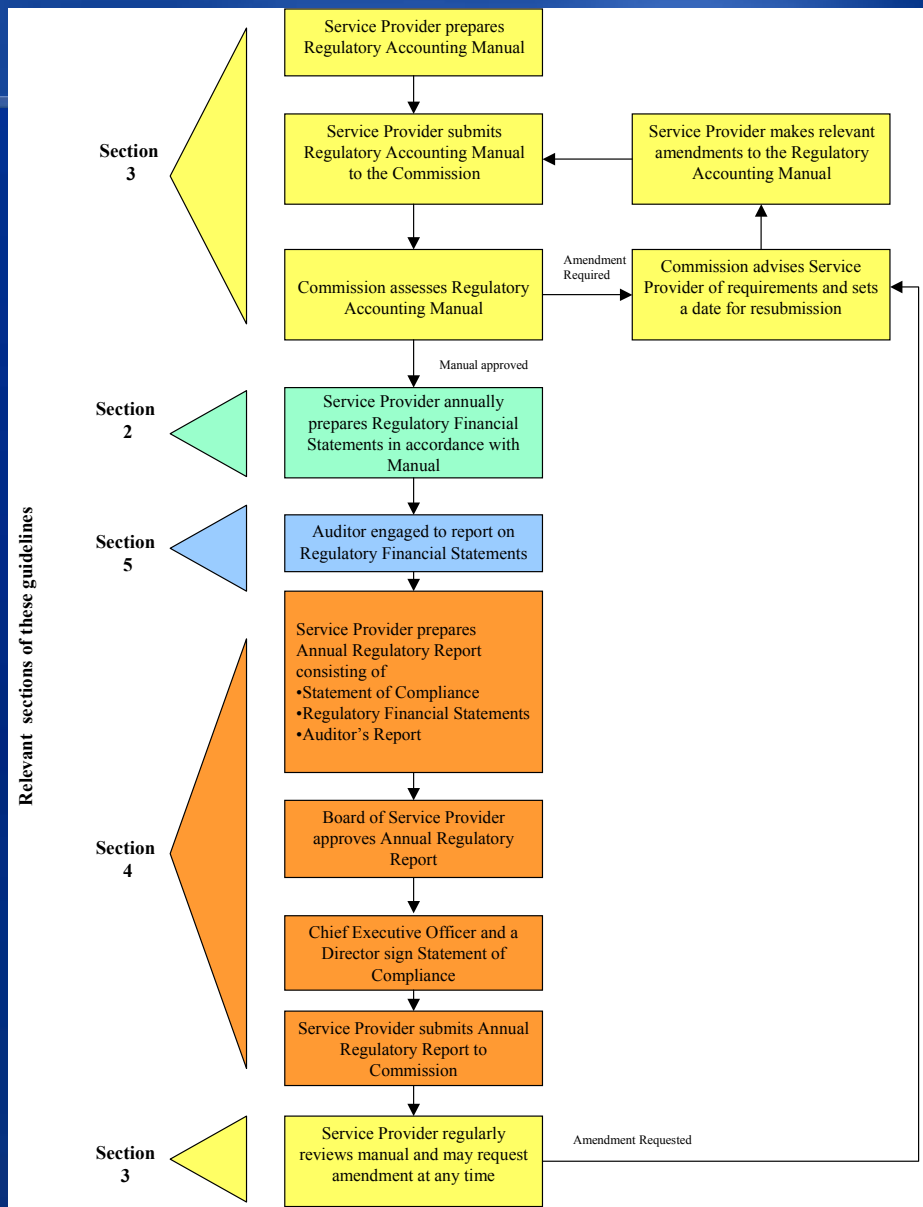


# How do the general accounting guidelines work?





# How do the general accounting guidelines work?



# Regulatory Financial Statements

- **For each Covered Pipeline:**

- A Statement of Financial performance; and
- A Partial Statement of Financial Position.

- **General Purpose Financial Statements may satisfy this requirement if:**

- A Covered Pipeline is owned by a single reporting entity; and
- The reporting entity owns no other material asset or undertakes any other material business.

# Regulatory Financial Statements

---

- **Key principles**

- In so far as possible, use general purpose financial statements
- follow generally accepted accounting principles

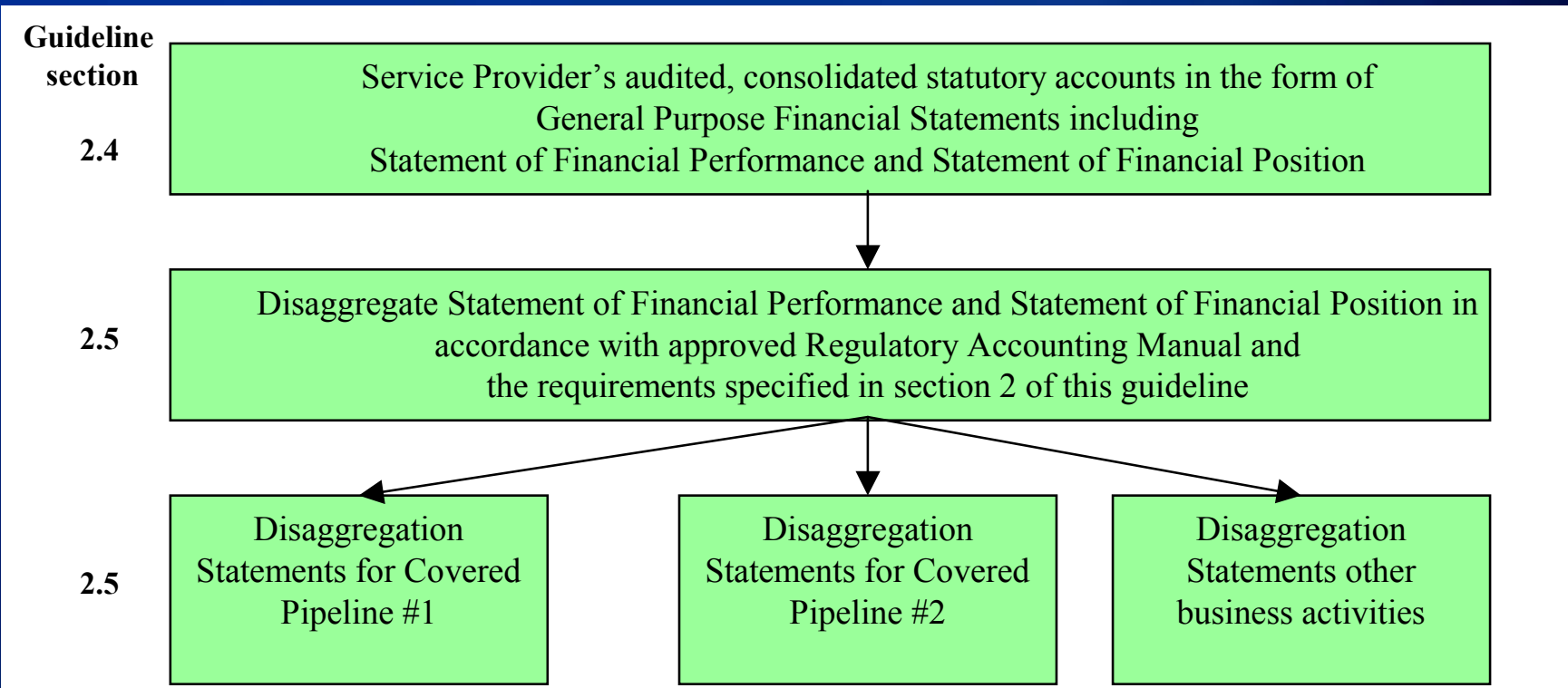
# Regulatory Financial Statements

**Guideline  
section**

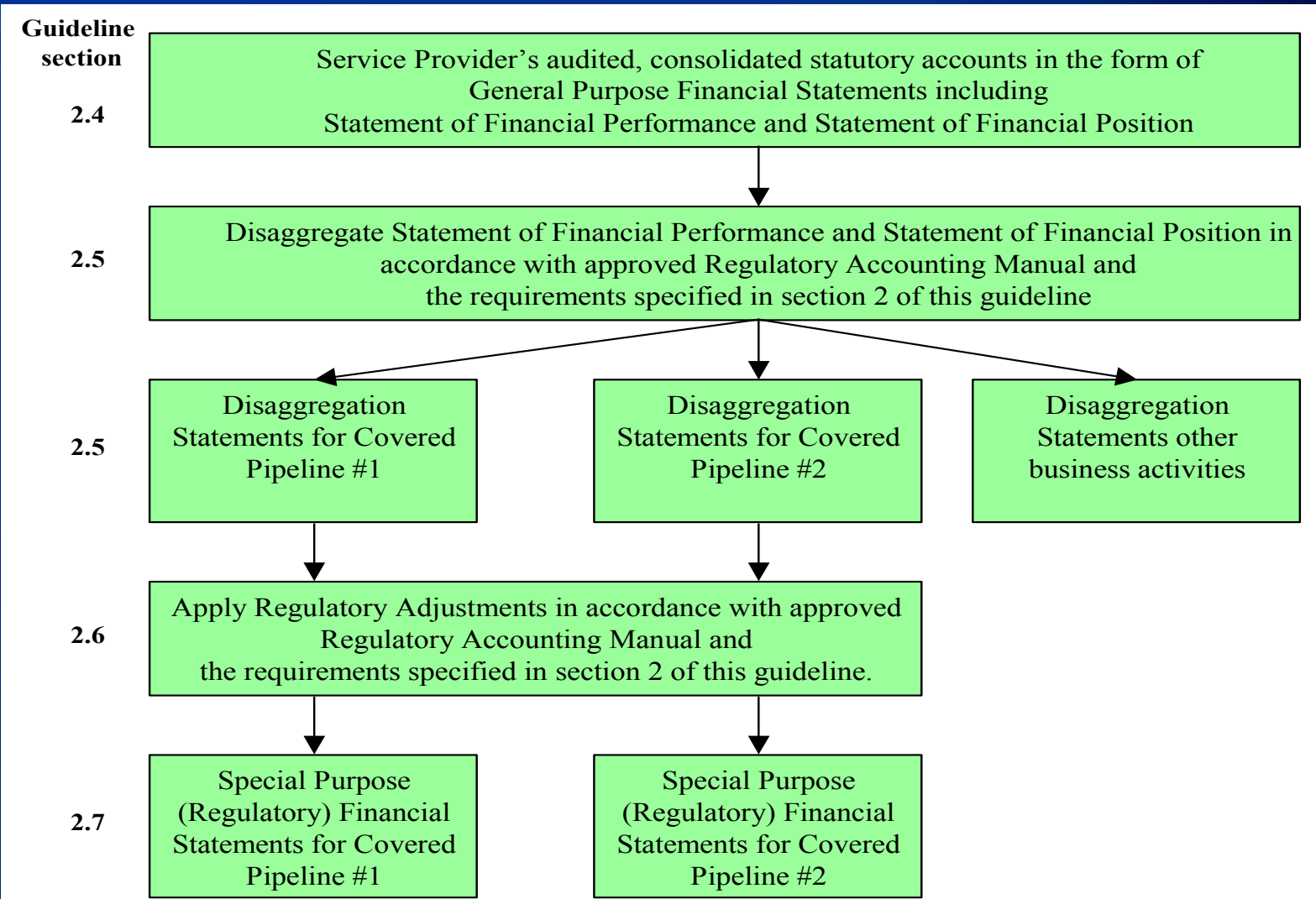
**2.4**

Service Provider's audited, consolidated statutory accounts in the form of  
General Purpose Financial Statements including  
Statement of Financial Performance and Statement of Financial Position

# Regulatory Financial Statements



# Regulatory Financial Statements



# Regulatory Financial Statements

STATEMENT 100

Statement of Financial Performance - Disaggregation Statements  
 Period ended <<period end>>

Description	Audited financial statements \$'000's	Covered Pipeline 1			Covered Pipeline 2			Unregulated Activities			Not Attributed \$'000's	Work refer
		Attributed Amount \$'000's	Disaggregation Adjustment \$'000's	Disaggregated Amount \$'000's	Attributed Amount \$'000's	Disaggregation Adjustment \$'000's	Disaggregated Amount \$'000's	Attributed Amount \$'000's	Disaggregation Adjustment \$'000's	Disaggregated Amount \$'000's		
Operating revenue	99,536	55,664		55,664	41,995		41,995	1,877	5,000	6,877		
Non operating revenue (eg interest/dividends)	7,002										7,002	
Proceeds from sale of assets	5,804	2,458		2,458	3,346		3,346					
<b>Revenue from ordinary activities</b>	<b>112,342</b>	<b>58,122</b>		<b>58,122</b>	<b>45,341</b>		<b>45,341</b>	<b>1,877</b>	<b>5,000</b>	<b>6,877</b>	<b>7,002</b>	
Non capital costs												
<i>Discretionary heading - eg Materials and consumables</i>	(22,058)	(10,360)		(10,360)	(11,646)		(11,646)	(52)		(52)		
<i>Discretionary heading - eg Service contract operating costs</i>	(52,568)	(30,256)	(5,000)	(35,256)	(21,050)		(21,050)	(1,262)		(1,262)		
<i>Discretionary heading - eg Administration costs</i>	(1,354)	(521)		(521)	(624)		(624)	(209)		(209)		
Depreciation and amortisation expenses	(12,125)	(4,915)		(4,915)	(7,153)		(7,153)	(57)		(57)		
<b>Operating expenses from ordinary activities</b>	<b>(88,105)</b>	<b>(46,052)</b>	<b>(5,000)</b>	<b>(51,052)</b>	<b>(40,473)</b>		<b>(40,473)</b>	<b>(1,580)</b>		<b>(1,580)</b>		
<b>Profit from ordinary activities before interest and tax</b>	<b>24,237</b>	<b>12,070</b>	<b>(5,000)</b>	<b>7,070</b>	<b>4,868</b>		<b>4,868</b>	<b>297</b>	<b>5,000</b>	<b>5,297</b>	<b>7,002</b>	
Interest Payable	(4,526)											
<b>Profit/loss from ordinary activities before income tax</b>	<b>19,711</b>											
Income Tax	(8,812)											
<b>Profit/loss from ordinary activities after income tax</b>	<b>10,899</b>											

Refer to - See Statement 102 for disaggregation adjustments

# Regulatory Financial Statements

## STATEMENT 102

### Disaggregation Adjustment Journals

Period ended <<period end>>

Journal number	Account Debited Account Credited	Amount Debit \$'000's	Amount Credit \$'000's	Supporting Statement Number
1	<b>Stmt Financial Performance - Operating revenue (Unregulated activities)</b> <b>Stmt Financial Performance - Admin costs (Covered pipeline 1)</b> <i>Intracompany recharge of costs</i>	5000	5,000	
2	<b>Stmt Financial Position - Receivables (Covered pipeline 1)</b> <b>Stmt Financial Position - Payables (Unregulated activities)</b> <i>Intracompany balances</i>	1000	1,000	

This statement must contain for each disaggregation adjustment made on any statements prepared in accordance with these guidelines

- a journal entry showing accounts debited and credited
- an explanation of why the adjustment has been made
- if applicable, a reference to the appropriate section of the Regulatory Accounting Manual



# Regulatory Financial Statements

## STATEMENT 101

### Statement of Financial Performance - Special Purpose (Regulatory) Financial Statement Covered Pipeline 1

Period ended <<period end>>

Description	Covered Pipeline 1 \$'000's	Journal number	Regulatory Adjustments \$'000's	Regulatory Accounting Statements \$'000's	Support reference
Operating revenue	55,664			55,664	
Non operating revenue (eg interest/dividends)					
Proceeds from sale of assets	2,458			2,458	
<b>Revenue from ordinary activities</b>	<b>58,122</b>			<b>58,122</b>	
Non capital costs					
<i>Discretionary heading - eg Materials and consumables</i>	(10,360)			(10,360)	
<i>Discretionary heading - eg Service contract operating costs</i>	(35,256)			(35,256)	
<i>Discretionary heading - eg Administration costs</i>	(521)			(521)	
Depreciation and amortisation expenses	(4,915)	3,4	(2,685)	(7,600)	103
<b>Operating expenses from ordinary activities</b>	<b>(51,052)</b>			<b>(53,737)</b>	
<b>Profit from ordinary activities before interest and tax</b>	<b>7,070</b>			<b>4,385</b>	

# Regulatory Financial Statements

STATEMENT 200

Statement of Financial Position - Disaggregation Statements  
 Period ended <<period end>>

Description	Audited financial statements \$'000's	Covered Pipeline 1			Covered Pipeline 2			Unregulated Activities			Not Attributed \$'000's	Workpaper reference
		Attributed Amount \$'000's	Disaggregation Adjustment \$'000's	Disaggregated Amount \$'000's	Attributed Amount \$'000's	Disaggregation Adjustment \$'000's	Disaggregated Amount \$'000's	Attributed Amount \$'000's	Disaggregation Adjustment \$'000's	Disaggregated Amount \$'000's		
<b>Current assets</b>												
Cash	7,895										7,895	
Receivables	9,865	5,514		5,514	3,535		3,535	816	1,000	1,816		10
Inventories	5,426	3,426		3,426	2,000		2,000					
Other	856	629		629	227		227					
<b>Total current assets</b>	<b>24,042</b>											
<b>Non-current assets</b>												
Receivables	56							56		56		
Investments	136,000										136,000	
Other	35										35	
Property, plant and equipment	277,938	150,875		150,875	60,850		60,850	66,213		66,213		
<b>Total non-current assets</b>	<b>414,029</b>											
<b>Total assets</b>	<b>438,071</b>											
<b>Current liabilities</b>												
Payables	25,601	12,490	1,000	13,490	13,086		13,086	25		25		10
Guarantees/overdrafts												
Other liabilities	316										316	
Other												
Provisions	215	135		135	71		71	9		9		20
<b>Total current liabilities</b>	<b>26,132</b>											
<b>Non-current liabilities</b>												
Payables	121	67		67	46		46	8		8		
Guarantees												
Other												
Provisions	98	34		34	60		60	4		4		20
<b>Total non-current liabilities</b>	<b>219</b>											
<b>Total liabilities</b>	<b>26,351</b>											
<b>Total Assets</b>	<b>411,720</b>											

# Regulatory Financial Statements

## STATEMENT 201

Statement of Financial Position - Special Purpose (Regulatory) Financial Statement Covered Pipeline 1  
 Period ended <<period end>>

Description	Covered Pipeline 1 \$'000's	Journal number	Regulatory Adjustments \$'000's	Regulatory Accounting Statements \$'000's	Support reference
<b>Current assets</b>					
Cash					
Receivables	5,514			5,514	
Inventories	3,426			3,426	
Other	629			629	
<b>Total current assets</b>					
<b>Non-current assets</b>					
Receivables					
Investments					
Other					
Property, plant and equipment	150,875	1,2,3,4,5,6,7	(47,665)	103,210	103
<b>Total non-current assets</b>					
<b>Total assets</b>					
<b>Current liabilities</b>					
Payables	13,490			13,490	
Loans					
Tax liabilities					
Other					
Provisions	135			135	
<b>Total current liabilities</b>					
<b>Non-current liabilities</b>					
Payables	67			67	
Loans					
Other					
Provisions	34			34	
<b>Total non-current liabilities</b>					
<b>Total liabilities</b>					
<b>Net Assets</b>					

Note: The net regulatory adjustment to property, plant and equipment comprises the following

Journal reference (See stmt 103)	Net Debits/ (Credits)
1	(57,675)
2	10,785
3	4,915
4	(7,600)
5	(90)
6	(2,000)
7	4,000
<b>Total</b>	<b>(47,665)</b>

# Regulatory Financial Statements

## STATEMENT 103

### Regulatory Adjustment Journals - Covered Pipeline 1

Period ended <<period end>>

Journal number	Account Debited Account Credited	Amount Debit \$'000's	Amount Credit \$'000's	Supporting Statement Number
1	<b>Stmt Financial Position - Property, plant &amp; equipment</b> <b>Stmt Financial Position - Property, plant &amp; equipment</b>  <i>Replacement of financial gross asset value brought forward with regulatory gross asset value brought forward</i>	156,200	213,875	200A
2	<b>Stmt Financial Position - PPE accumulated depreciation</b> <b>Stmt Financial Position - PPE accumulated depreciation</b>  <i>Replacement of financial accumulated depreciation brought forward with regulatory accumulated depreciation brought forward</i>	65,785	55,000	200A
3	<b>Stmt Financial Performance - Depreciation charges</b> <b>Stmt Financial Position - Accumulated depreciation</b>  <i>Reversal of financial depreciation charges</i>	4,915	4,915	
4	<b>Stmt Financial Performance - Depreciation charges</b> <b>Stmt Financial Position - Accumulated depreciation</b>  <i>Regulatory depreciation charges</i>	7,600	7,600	200A 200A
5	<b>Stmt Financial Position - Net book value of retired assets</b> <b>Stmt Financial Position - Net book value of retired assets</b>  <i>Replacement of financial accounting value of retired assets with regulatory net book value</i>	300	390	200A
6	<b>Stmt Financial Position - Property, Plant and Equipment</b> <b>Stmt Financial Position - Property, Plant and Equipment</b>  <i>In this example, it is assumed that only \$6 million of the \$8 million capital expenditure would be allowed in the Capital Base.</i>	6,000	8,000	200A
7	<b>Stmt Financial Position - Property, Plant and Equipment</b> <b>Stmt Financial Position - Capital WIP (non regulated)</b>  <i>Transfer of amount from capital work in progress to current years property, plant and equipment due to completion of work</i>	4,000	4,000	200A

This statement must contain for each regulatory adjustment made on any statements prepared in accordance with these guidelines

- a journal entry showing accounts debited and credited
- an explanation of why the adjustment has been made
- if applicable, a reference to the appropriate section of the Regulatory Accounting Manual

# Regulatory Financial Statements

## STATEMENT 200A

Workpaper supporting Special Purpose (Regulatory) Financial Statements - Property, Plant and Equipment  
 Period ended <<period end>>

Description	REGULATORY VALUES				Financial Accounting Capital WIP \$'000's
	Covered pipeline 1			Total \$'000's	
	<i>Discretionary headings to go here</i>				
	\$'000's	\$'000's	\$'000's	\$'000's	
<b>Gross regulatory assets at prior accounting date</b>	41,000	51,200	64,000	156,200	23,600
Additions/capex		6,000		6,000	
Transfers from WIP		4,000		4,000	(4,000)
Retirements/disposals during period	(900)		(1,500)	(2,400)	
<b>Gross regulatory assets at end of period</b>	40,100	61,200	62,500	163,800	19,600
<b>Accumulated depreciation at start of period</b>	13,000	10,000	32,000	55,000	
Current period depreciation charge	2,500	1,600	3,500	7,600	
Depreciation released on disposals	(810)		(1,200)	(2,010)	
<b>Accumulated depreciation at end of period</b>	14,690	11,600	34,300	60,590	
<b>Net values (capital base) at start of period</b>	28,000	41,200	32,000	101,200	23,600
<b>Net values (capital base) at end of period</b>	25,410	49,600	28,200	103,210	19,600

# Statement of Compliance

---

- **Director's Responsibility Statement**

- **Objectives**

- Record Service Provider's assertion of compliance;
- Formally report compliance; and
- Taking formal responsibility for Regulatory Financial Statements

# Auditor's report

---

- **Seeks to provide assurance that the Regulatory Financial Statements are fairly stated and have been prepared in accordance with:**
  - A Regulatory Accounting Manual; and
  - The guidelines.

# Auditor's report

---

- **Scope of the audit usually constrained to:**
  - The adjustments made to audited statements; and
  - The fairness of how information is presented



# Auditor's report

---

- **Audit scope could be reduced to an “Independent Review” where the Commission believes there is a low risk of misstatement**
- **Alternatively, the Commission may require factual findings to assess compliance through the use of an “Agreed Upon Procedures Report”**

# Regulatory Accounting Manual

---

- **Asks Service Providers to document:**
  - The key ways in which it practically adheres to the ring fencing requirements; and
  - How it will prepare its Regulatory Financial Statements

# Regulatory Accounting Manual

---

- **Objectives:**

- Minimise the need for prescriptive inputs by the Commission;
- Provide assurance that the Gas Code's ring fencing minimum obligations have been fulfilled; and
- Reduce the need to submit supporting detail with Regulatory Financial Statements

# Regulatory Accounting Manual

- **Approval required by the Commission to ensure that the RAM provides sufficient explanation and guidance to:**
  - Enable an Auditor to independently replicate processes following to produce the Regulatory Financial Statements;
  - Help verify calculation of reference tariffs; and
  - Explain how the Regulatory Financial Statements meet the requirements of the guideline.

# RAM – Roles and Responsibilities

---

- Provides assurance that:

- Someone within the Service Provider has responsibility for meeting ring fencing requirements in practical terms;
- People who prepare Regulatory Financial Statements understand their significance and purpose; and
- Procedures are kept up to date.

# RAM – Discretionary Headings

---

- **Sets out and explains discretionary headings**
- **Promotes consistent disclosure of information**
- **Assists the reader to understand the Regulatory Financial Statements**

# RAM – Disclosure and Presentation

---

- Provides guidance on:

- Meeting the relevant principles of the Code
- Providing sufficient information to allow the Commission to verify the Reference Tariff; and
- Ensuring statements are otherwise fair and reasonable.

# RAM – Product/Service Definitions

---

- Explains how Covered Pipeline services are recorded in General Purpose Financial Statements
- Provides basis for disaggregation



# RAM – Disaggregation Adjustments

---

**Provides an explanation of:**

- Disaggregation adjustments; and
- Pro forma journal entries

**necessary to disaggregate costs, revenue, assets or liabilities of each Covered Pipeline.**

# RAM – Allocation Principles and Methods

---

- Provides an explanation that enables an auditor to:
  - Replicate calculation of allocated costs; and
  - For directly attributed costs, verify the relationship between costs, revenue, assets or liabilities that associate it uniquely with the Covered Pipeline.

# RAM – Regulatory Accounting Policies

---

- Describes unusual policies
- Outlines required Regulatory Adjustments

# RAM – Related Party Transactions

---

- **Outlines how related party transactions are identified.**

# RAM – Attribution of Asset Values

---

- How movements are attributed to asset categories, where they may exist.

# RAM – Depreciation Schedule

---

- **Attributes depreciation to asset categories, where they might exist.**

# RAM – Audit and Quality Control

---

- Key arrangements to ensure this is done.

# RAM – Glossary

---

- If required to aid understanding





# KPMG Policy and Regulatory Advisory Services

[www.kpmg.com.au](http://www.kpmg.com.au)

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.