Australian Gas Infrastructure Group

Australian Gas Infrastructure Group
L6, 400 King William Street
Adelaide, SA 5000 Australia
PO Box 6468, Halifax Street,
SA 5000 Australia
+61 8 8227 1500
info@agig.com.au
agig.com.au

9 May 2023

Sebastian Roberts

General Manager, Network Expenditure

Australian Energy Regulator

GPO Box 3131

Canberra ACT 2601

Dear Sebastian

**Pipeline Information Disclosure Guidelines – Issues Paper**

Australian Gas Infrastructure Group (AGIG) welcomes the opportunity to respond to the issues paper as part of the drafting of the Pipeline Information Disclosure Guidelines (hereon in the Guidelines).

AGIG is the largest gas distribution business in Australia, serving more than two million customers through our networks in Victoria, Queensland, South Australia, and several regional networks in New South Wales and the Northern Territory. Our storage facility and transmission pipelines including the significant Dampier to Bunbury Pipeline in Western Australia serve a range of industrial, mining and power generation customers.

The drafting of the Guidelines represent an important opportunity to address several issues:

- improve the financial reporting methodologies for non-scheme pipelines;
- clarify the financial reporting methodologies for non-scheme pipelines that have prior asset value determinations; and
- clarify the recently amended provisions relating to information disclosure in the *National Gas Rules* (NGR) and minimise duplication of reporting requirements.

This letter introduces the issues with more detail in Attachment A.

*Improving financial reporting methodologies for non-scheme pipelines*

Regarding the proposed requirement to publish asset valuations using both a recovered capital methodology (RCM) and a depreciated book value method, we maintain significant concerns. We agree with the principle that users, using the information disclosed, should be able to estimate a reasonable cost-based tariff using information on the revenue, operating costs, capital expenditure, depreciation, and asset value of a non-scheme pipeline. However, we remain unconvinced that the RCM is an appropriate method for achieving this outcome.

As detailed in Attachment A, we have practical concerns about the ability of any service provider to implement the method for pipelines that are more than a decade old.

Furthermore, we have concerns that for most (if not all) pipelines the RCM cannot reflect the price and non-price outcomes of a workably competitive market as required by the NGR (rule 113Z(5)(a) and (b)). We believe several other methods are better able to reflect the prices and other non-price terms of a workably competitive market.

In Attachment A we outline four options for determining asset values:

- Using a regulatory asset base (RAB) from a prior determination and then update that RAB following the same kind of roll-forward process that is followed for scheme pipelines;
- Developing a depreciated optimised replacement cost (DORC) for the relevant asset in, say, April 2023, similar to those developed for regulated assets when regulation commenced, having this independently verified, and then rolling that asset value forward from this date using the same kind of roll-forward process used for scheme pipelines;
- Using the acquisition cost for an asset, at the time it was purchased, and the rolling it forward in the same kind of process as is used for scheme pipelines; or
- Using the RCM for a one-time asset valuation, say at April 2023, and then rolling the same asset forward using the roll-forward mechanism used for scheme pipelines from that date.

In each of these approaches, an asset value is set just once, and from that point forward, the asset value is rolled forward using standard regulatory approaches. This means that customers can rely upon trusted AER approaches to rolling forward asset values, thus lowering the information burden required to understand unfamiliar approaches. Under this approach, the RCM is available as a last resort option and one-off option to set an opening asset value, but is not required for pipelines where a better alternative is available.

*Financial reporting requirements for non-scheme pipelines with prior asset value determinations*

A key part of the approach outlined above is to allow pipelines with prior opening asset value determinations to use these over other methods (and not in addition to other methods). The financial reporting guidelines for both Part 23 and light regulation pipelines, both of which will be superseded by the Guidelines currently being developed, allow for opening asset values from prior determinations to be used for financial reporting purposes. These guidelines were also consistent with what is now rule 113Z(5) (this specific rule was also included in Part 23 under the former rules).

However, in the proposed Guidelines the proposed approach to opening asset values does not continue this approach.

Even if not available to all pipelines, we urge the AER at a minimum to continue the approach adopted in the Part 23 and light regulation financial reporting guidelines, that allows opening asset values from prior regulatory determinations to be used and rolled forward.

This would maintain an approach to asset valuation that is consistent with the inputs for calculating tariffs on several pipelines and with stakeholder engagement and financial reporting on these assets. Specifically, this would allow for both previous light regulation pipelines (e.g. AGN Brisbane) and other pipelines (e.g. AGN Wagga Wagga) to continue to use opening asset values from prior regulatory determinations. The opening asset values of

both of these pipelines were subject to a determination by the AER and form the basis for calculating tariffs to this date.

*Clarifying information disclosure requirements under the amended rules*

Overall, we believe there is significant duplication (even triplication) of effort in parts of the proposed reporting requirements – this is particularly the case for scheme pipelines. Many financial reporting requirements duplicate the Access Arrangement Information requirements of each five-yearly access arrangement review (AA), and in some cases information provided in Reference Service Proposals. More detailed annual financial information is included in complying with regulatory information notices (RIN), both annually and concurrently with the AA review.

This particularly applies to all components of asset valuation for scheme pipelines.

For scheme pipelines, some information, for example the cost allocation methodology used to determine tariffs in each AA review, will not change from year-to-year within an AA period. Where information does not change from year-to-year the Guidelines should not require republication (other than where amendments are made), instead service providers should be able to maintain links to documents and sections thereof.

The Issues Paper proposes that the asset valuation template for reporting under Part 10 for scheme pipelines will be 'in a similar format' to the reporting table for RINs. However, a more streamlined approach would include a single template covering both the RIN and Part 10 requirements.

*Other issues*

Attachment A also details other issues which we believe should be considered in developing the Guidelines. These include depreciation, expenditure on extensions and expansions, cost allocation, tax, and decommissioning costs. We also note that statutory financial statements are not prepared for individual assets, and are instead prepared at a consolidated group level. Clarification of what the AER means by "Financial Statements" is therefore required.

We also note the guidelines have little to say about other elements of the disclosure requirements in Part 10 several of which (particularly rule 101B(5)) are not easily interpreted for distribution networks. We would welcome clarification in the guidelines as to how distribution networks should approach these requirements.

AGIG would like to continue to engage with the AER as the drafting of the Guidelines progresses. We welcome your questions and further engagement as you develop the guidelines and would encourage you to contact us if you would like to further discuss our submission. Our Head of Regulation, Peter Bucki can be contacted on

Yours sincerely,

Peter Bucki