SUBMISSION

EUAA
Energy Users Association of Australia

PIPELINE INFORMATION DISCLOSURE GUIDELINES – ISSUES PAPER

29 MAY 2023

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade. Our membership covers most of the major gas users in the east coast gas market who all rely on reliable and competitively priced gas for their business sustainability.

SUMMARY

This short submission is to show the EUAA's strong support for the AER's proposed Pipeline Information Disclosure Guidelines.

The EUAA has long highlighted the information asymmetry that exists between pipeline owners and shippers. Our members have experienced it first hand over many years which has led to pipeline owners being able to exercise market power. We were a strong supporter of the Vertigan reforms that set up the information disclosure and arbitration framework for unregulated pipelines. We support these information disclosure guidelines for the same reason. As the Issues Paper comments (p.1):

> "The Guidelines are a requirement under the new Part 10 of the National Gas Rules (NGR) and will help to improve transparency and bargaining power for gas pipeline users (users)… This information will reduce information asymmetry, which will facilitate more timely and effective negotiations between service providers and users."

The major information deficiencies in the gas transportation market have contributed to the east coast gas market being a significant distance away from achieving the National Gas Objective. The inefficiencies are obvious to our members as they seek to negotiate gas transportation agreements with many feeling as though both hands are tied behind their back. Member companies are reporting that poor information transparency has led to gross inefficiency in the market and deadweight losses. These guidelines will make a significant contribution to lifting the veil and giving gas users some negotiation leverage with pipeline operators.

We do not accept the argument that the costs of providing this information will exceed the benefits. As we argued in our submissions on the Part 23 disclosure requirements, we would expect that the service providers would already have all of this information, if not in exactly the same form as the AER proposes, in a form that is easily adapted to the AER's proposals, as part of their normal business practice.

RESPONSES TO SPECIFIC CONSULTATION QUESTIONS

We support the overall approach proposed by the AER. In particular:

IMPROVING FINANCIAL INFORMATION

Information service providers publish in financial statements

We support:

- 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 proposed in Section 3.3
    - 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.

Asset life principles

We support:

- 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
- the Guidelines giving further guidance on accelerated depreciation of assets, where it is probable that the assets will not be utilised for their full useful life.

Reconciliation of financial and asset value information

- The Guidelines should 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.

Summary of financial information

- We support the inclusion of a summary of information in the financial statements to present in brief form the key financial information

- We are happy to follow the AER's advice on whether this is best provided in the financial templates or the new pricing template.

Reporting of pipeline capacity expansions and extensions

We agree that service providers publish in the financial statements the following information relating to planned and newly built 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.

Allocation of costs between pipeline services

We agree 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.

Cost allocation principles

We support the principles outlined in rule 103(4) of the NGR.

ASSET VALUATION

Asset valuation for non-scheme pipelines

We agree with requiring service providers to publish the asset value using both the recovered capital method and the depreciated book method and that:

- 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 if applicable, and value of the user contracts acquired.

Our strong preference is that tariffs are based on the recovered capital method. Monopoly service providers should only be able to recover capital once and should not be able to recover the amount paid in goodwill. This is simply an amount reflecting the expected monopoly rents a new owner is able to extract from consumers in a market that is not workably competitive.

Proposed option for estimating the rate of return

We support non-scheme pipelines being required to use the same return on capital approach as scheme pipelines with the following details:

- 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
- an equity beta estimate that is estimated for the pipeline at the appropriate gearing ratio reflecting the estimated systematic risk of the pipeline's equity given the pipeline's capital structure; pipeline operators should be required to publish the beta they use, and the methodology used to calculate that beta; shippers should be able to challenge that beta in the arbitration process
- 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
- 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 from the rate of return instrument current at the time of calculation.

Whenever a pipeline operator moves away from the WACC calculation that applies to scheme pipelines, the pipeline operator should be required to publish the variable and the methodology used to calculate that variable. Shippers should be able to challenge those variables in arbitration.

Decommissioning costs

We agree that decommissioning costs are real but very hard to estimate. However, there may be an incentive for service providers to overestimate these costs. We would support the AER providing guidance on how service providers account for decommissioning costs in the pipeline's asset valuation calculation. This could involve the use of benchmarking with adjustments based on the terrain of a particular pipeline.

Improving information on tax liability

We agree with the AER's preferred approach of service providers publishing actual taxes paid and use these values when calculating recovered capital values through time. As for how that tax paid to pipelines and pipeline services, we agree with the principles proposed by the AER:

- 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.

Scheme pipelines

We agree with the AER's proposal 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
- to give users an indicative trend of changes to the capital base value, require service providers to include historical asset value data.

OTHER ISSUES

Standing terms

We support the Guidelines requiring service providers to 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.

Basis of preparation

To improve the usefulness of the basis of preparation we support:

- a requirement on 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
- developing 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.

How and where service providers publish information

We support the proposed approach where, at a minimum, the service provider must:

- 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
- publish pipeline information, pipeline service information and actual prices paid in a specified Excel table format.

Assurance requirements

We agree with the proposed 'reasonable assurance' and 'limited assurance' levels and the relevant auditing and assurance standards.

We would encourage the AER and ACCC to exercise their monitoring role and, if required, their enforcement powers in giving shippers confidence that the required data is being provided in the required form. We well remember the experience of implementing greater transparency for Part 23 pipelines.

While the Guidelines require a level of assurance we still see a role for the AER in monitoring and enforcement. The ACCC gas report of July 2019 pointed to the results of initial monitoring of pipeline operator compliance with Part 23 disclosure requirements.[1]

> "While the contracting environment has improved and some shippers have been able to secure lower prices, the ACCC is concerned that some pipeline operators do not appear to be taking the information disclosure obligations under Part 23 seriously and are continuing to exploit information asymmetries to the detriment of shippers.
>
> …
>
> The review also revealed that some shippers are using the threat of arbitration in negotiations. A concern has, however, been raised with the ACCC that pipeline operators may view the threat as less credible when it involves a smaller shipper, which is a possible weakness in the framework.
>
> The issues identified in this review have the potential to undermine the efficacy and intent of Part 23…"

The risk of smaller shippers not being willing/able to pursue arbitration exists in these new Guidelines. That is why information disclosure along the liens proposed by the AER in this Issues Paper is so important.

Historical demand

We agree that service providers be required to publish historical demand information for each pipeline disaggregated in the same way as historical pricing information.

[1] See p.128 https://www.accc.gov.au/system/files/Gas%20inquiry%20July%202019%20interim%20report.pdf

Do not hesitate to get in contact should you have any questions.

Sincerely,

Andrew Richards
Chief Executive Officer