epic energy

8 May 2023

General Manager, Network Expenditure
Australian Energy Regulator
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By Email: AERgasreform@aer.gov.au
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To Whom it May Concern,

RE: Pipeline Information Disclosure Guidelines – Issues Paper

Epic Energy welcomes the chance to comment on the proposed pipeline information disclosure reforms set out in the Issues Paper on Pipeline Information Disclosure Guidelines, released in April 2023.

Epic Energy own and operate two major gas transmission pipelines in South Australia, the Moomba to Adelaide Pipeline (MAPS) and the South East Pipeline System (SEPS). As such, we have been a participant in the existing disclosure regime since it's inception.

Generally, Epic Energy supports improvements to the current disclosure regime. We are of the view that the AER should utilise and incorporate into its disclosure regime the standards released by the Australian Accounting Standards Board (AASB). This is because the AASB's standards are well known, tested and generally fit for purpose with respect to the matters they contemplate. As a result, utilising these existing standards in the AER's financial disclosure guidelines will, in our view, reduce uncertainty.

We have included our detailed feedback as an attachment to this letter, noting that we have not responded to all questions as posed in the issues paper.

If you have any questions or queries, please do not hesitate to contact Jordan Dodd, Regulatory Advisor by email at

Kind Regards,

Leanne McClurg
General Counsel/Company Secretary

Encl. Epic Energy Feedback on Pipeline Information Disclosure Guidelines – Issues Paper

Attachment 1: Epic Energy Feedback on Pipeline Information Disclosure Guidelines – Issues Paper

AER Question	Epic Response
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.	Epic considers that a requirement to align to AASB standards wherever possible (when providing information) will generally be simpler and more efficient for service providers to disclose and be easier for users to understand. The AASB *Conceptual Framework for Financial Reporting* May 2019 describes the basis of reporting and qualitative characteristics such as comparability, understandability and also cost constraints on reporting. Our view is that AASB 116 contains sufficient guidance for all reporting entities, including non-scheme pipelines, to determine the useful life of assets and calculate depreciation. We see very limited additional benefit and substantial additional costs in requiring a service provider to maintain separate weighted average remaining useful lives for the purpose of regulatory reporting; and in creating additional non-GAAP guidance for service providers to apply, auditors to audit and users to understand. We believe that rather than seeking to create bespoke approaches for the purpose of this reporting, the better approach is to align to the AASB framework and where there is information that is particularly relevant to users, ensure there is adequate explanation and disclosure in the Basis of Preparation (which is analogous to an Accounting Policy note) that explains why particular choices have been made, consistent with the AASB standard. This will aid understandability and comparability. We expect taking that approach will ultimately be beneficial for users of the disclosures because they are able to understand the information in a similar way to other financial statements (rather than needing to understand new non-GAAP measures that are specific to this reporting).

We seek stakeholders' views about which data in the financial statements and asset valuation must reconcile. We seek stakeholders' views about what information would be useful in the summary, and how it might be presented. 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.	Revenue, operating expenditure and net capital expenditure are the only inputs that can directly reconcile with other disclosures within the statements. The National Gas Rules at Rule 103(2)(a)(iii)(C) states that: *"each pipeline – the cost of any extension to, or expansion of the capacity of, the pipeline and information on the inputs used to calculate this value"* The AER has proposed that service providers publish financial information for planned and newly built pipeline capacity expansions. We submit that the publication of financial information for planned capacity builds and expansions goes beyond the requirements of the National Gas Rules. The National Gas Rules under 190F and the Gas Bulletin Board Procedures already requires the publication of facility development project information except for cost (I.e. type, proposed nameplate rating, location and commissioning date). The publication of costs at various stages of the project has the risk of misleading users of this information due to the inherent limitation of forecast information. Users already have protection to ensure the appropriate disclosure of information through a negotiation process should this be required. As the NGR does not specifically require this data and due to inherent limitation of forecasts it is not appropriate that this be disclosed.

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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.	Pipeline assets are broadly capable of delivering two primary services, firm transportation, and firm storage. In addition to the two primary services there are several associated services which are offered in conjunction with the primary such as peaking, non-firm, pressure increase, in pipe trade, imbalance transfer etc. Epic recommends that cost reporting is limited to the two primary services offered by pipeline assets, this limits the complexity of cost allocation and the potential for inconsistencies between pipeline operators. The question of method for allocating direct costs to services is more complicated as there is no clear method, in our view. Pipeline operator costs are incurred to maintain the provision of services on the asset. As mentioned, pipeline assets are built to provide two primary services, storage and transportation, there is limited flexibility to alternate between services. For example, in our experience a reduction in transportation does not generally increase the availability of storage and vice versa (albeit this relationship may vary across pipelines). For this reason, there are no direct costs that can be allocated between storage and transportation and no cost driver that can be utilised that reasonably allocates costs between services. The only viable option we see would be to allocate costs based on a proxy for this allocation such as the revenue associated with both services. It is recommended that no prescribed method be nominated by the AER as each pipeline may have differing drivers. Instead, this allocation should be left to each pipeline operator and acknowledge that as a default option, costs may be allocated on a percentage of revenue basis.

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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?	As a non-scheme pipeline Epic currently publishes asset values following both the recovered capital method and depreciated book value method. We support continuing to do this. We note that some inputs / fields should reconcile in given periods, but the valuations cannot be generally reconciled because the cost of assets and depreciation profiles are different. We do not understand the benefit to requiring additional information such as "... acquisition costs, the value and details of goodwill if applicable, and value of the user contracts acquired." The feedback from the Part 23 survey was that users already find some information complex. Adding more, different valuation information, is very unlikely to make the financial information more useful and relevant to users. If these or similar matters are relevant to a particular non-scheme pipeline, a service provider can always choose to disclose or explain them rather than it being a blanket requirement applied in all circumstances. Epic has relied on a valuation that was determined when it was previously regulated in December 2003 and has applied this as the opening balance for it's recovered capital method valuation. This was expressly permitted by the *Non scheme pipeline financing reporting guideline – December 2017* which states "If a pipeline was previously regulated and a determination made on the asset value, the **service provider** may use this as the opening balance for the calculation under this method from the date the determination was made and to roll it forward using the method set out in the **Guideline**." This method should continue to be permitted. As disclosed in our published Basis of Preparation document, we consider that in the case of MAPS (Moomba to Adelaide Pipeline System) this results in a more reliable estimate of the recovered capital value than using the original construction cost.

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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	Whilst we are supportive of providing a detailed basis of preparation document to help users to understand and interpret financial information, we do think this document needs to be as succinct and clear as possible. The issues paper suggests "...including providing all models, parameters, calculations, and allocation methods..." which may not result in either the most relevant disclosures for users or could also create significant cost imposts for service providers. Any information that is disclosed must meet the access information standard, and may be subject to 3rd party assurance so consequently our view is that information should be succinct and directly relevant to users to reduce compliance costs and aid understandability for users.

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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.	Our view has been and continues to be that wherever possible the Financial Reporting Guidelines should apply AASB standards. The current guidelines state "In preparing the **financial reporting template**, **service providers** are required to comply with the **AASB**, except where the **Guideline** provides a methodology that is not consistent with that disclosed under the **AASB**." Where a service provider has determined that decommissioning costs exist, this cost is included in the cost of an asset (AASB 116) and separately a provision for decommissioning costs is recognised (AASB 137). This may be complex and include matters of judgement and estimates depending on the particular circumstances. However, if decommissioning is material, a reporting entity must consider it in order for its financial statements to represent a true and fair view of its financial position at a point in time. Epic reflects decommissioning costs in its annual audited financial statements and also in the pipeline financial statements (which are subject to reasonable assurance as required by the guidelines and must meet the Access Information Standard). Objectively, disallowing decommissioning costs will make financial information less consistent with GAAP and therefore less meaningful for users. We are uncertain whether additional guidance is necessary or helpful given any decommissioning costs will depend on the particular circumstances of an asset, there are already relevant AASB standards and the overarching obligation of a Service Provider to meet the Access Information Standard. Decommissioning costs may be substantial depending on the circumstances of a particular asset, and estimates of these costs will change based on changes to forecast costs, timing of decommissioning activities and market-based discount rates (AASB Interpretation 1). Our view is it is better that these costs are recovered over the life of an asset to reduce the possible impact on tariffs and ensure costs are recovered from all users rather than creating higher tariffs / intergenerational issues for users at the end of the life of the asset.

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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.	The approach that Epic has taken in calculating tax is explained in our Basis of Preparation document and we believe this approach is reasonable. In reporting taxation there are AASB standards, tax laws and ATO rulings; and there may also be tax funding and sharing agreements that entities are party to. In the case of Epic Energy South Australia, because it is part of an income tax consolidated group (ITCG) the actual taxes it pays are zero because all tax is paid by the head company of the ITCG. We do not think this is meaningful. We have used a methodology to calculate tax based on income, expenses, debt costs etc that are internally consistent with the other inputs into the recovered capital template (and would automatically pick up the proposed changes to cost of capital and gearing). Our view is that this is a reasonable approximation in our circumstance. We note that two areas that this simplified methodology may diverge from actual taxation are: • Asset depreciation – here, we apply depreciation consistent with the asset values included in the recovered capital asset base. Asset values may change as assets exit and enter new tax groups (i.e., a change of ownership, for example). • Timing differences – in relation to the timing of income recognised for tax versus accounting, asset depreciation and other differences. Ultimately, it may be possible for the AER to prescribe a tax calculation for the purpose of completing the recovered capital template. This will require estimates and judgement to be applied. If the AER is seeking to align this to actual taxes paid by an ITCG it needs to balance the additional complexity for users and service providers; and that inconsistencies may arise within recovered capital valuation or other disclosures depending on the particular circumstances of any service provider. Any change to methodology for calculating tax liabilities should grandfather or preserve the approach service providers have previously adopted in creating their initial RCV disclosures to avoid additional costs and also noting that in our experience very limited historic information was available for some periods.

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