



**General Accounting Guidelines For
Gas Distribution Network Service
Providers (Version 1.0)**

May 2003

TABLE OF CONTENTS

	PAGE
1. INTRODUCTION	1
1.1 Definitions and Interpretation	1
2. THE NATURE OF THE GUIDELINES	2
2.1 Code Requirements	2
2.2 The Authority's Objectives	3
2.3 Confidentiality	5
2.4 Processes for Revision	5
2.5 Input from Interested Parties	6
2.6 Version History and Effective Date	6
2.7 Explanations	6
3. GENERAL PRINCIPLES OF PREPARATION	7
3.1 Regulatory Accounting Principles and Policies Criteria	7
3.2 Substance to Prevail Over Legal Form	7
3.3 Information Provided Shall be Verifiable	7
3.4 Regulatory Accounting Statements	8
3.5 Regulatory Asset Values	10
3.6 Time Consistent Application of Accounting Policies, Unless Disclosed Otherwise	10
3.7 Materiality	11
3.8 Accounting Records	11
4. INFORMATION REQUIREMENTS	12
4.1 Regulatory Accounting Statements	12
4.2 Timing	13
4.3 Regulatory Accounting Periods	13
4.4 Disaggregation	13
4.5 Non Capital Costs	13
4.6 Capital Expenditure (New Facilities Investment)	14
4.7 Depreciation	14
4.8 Other Revenue and Expenditure	15
4.9 Excluded Services	15
4.10 Individually Significant Items	16
4.11 Income Tax Attributable to Operating Profit	16
4.12 Disaggregation of Fixed Assets	16
4.13 Capital Contributions	17

4.14	Inflation Accounting Adjustments	17
4.15	Movements in Provisions	17
4.16	Associate Transactions	18
4.17	Revenue	18
5.	REGULATORY ACCOUNTING STATEMENTS	19
5.1	Structure and Content	19
	GLOSSARY	20

1. INTRODUCTION

The Authority has prepared these General Accounting Guidelines to provide for the collection, allocation and recording of accounting data by Service Providers. The intention is that the data will be used to assist the Authority in performing its functions under the Law, with particular emphasis on monitoring compliance with the Code, including the ring-fencing provisions. The Authority may amend the Guidelines from time to time to maintain their relevance, but will consult with stakeholders in relation to proposed amendments.

General Accounting Guidelines

These **General Accounting Guidelines** provide for the collection, allocation and recording of accounting data by the Queensland Gas Distribution Network Service Providers (the **Service Providers**). The information collected by the **Authority** pursuant to these Guidelines will provide a comprehensive information base for the **Authority** to undertake its duties and perform its functions under the *Gas Pipelines Access (Queensland) Law* (the **Law**), including the *National Third Party Access Code for Natural Gas Pipeline Systems* (the **Code**).

To ensure that the information obtained pursuant to these **Guidelines** remains relevant, the **Authority** may amend the **Guidelines** from time to time to meet the changing needs of the **Authority** and to reflect evolving best practice and experience.

The **Authority** will consult with **Service Providers** and other interested parties in respect of any such amendments.

The information provided to the **Authority** pursuant to these **Guidelines** will assist the **Authority** and the **Service Providers** to:

- monitor compliance with the **Code**;
- ensure compliance with the ring-fencing provisions of the **Code**;
- ensure the correct allocation of revenue and costs between a **Service Provider's Covered Pipeline** business and **Excluded Services**; and
- generally give effect to the **Authority's** duties and functions and the **Service Providers'** obligations as stated in the **Law**, including the **Code**.

1.1 Definitions and Interpretation

In these **Guidelines**:

- words and phrases presented in bold italic font **such as this** are defined in the glossary to these **Guidelines** and have the meaning given to them in that glossary; and
- the words 'shall' and 'must' indicate mandatory requirements, unless the overall meaning of the phrase in which one of these words appears is otherwise.

2. THE NATURE OF THE GUIDELINES

These General Accounting Guidelines for Service Providers are published in accordance with section 4.2 of the Code, which requires Service Providers to comply with Guidelines published by the Authority. The Guidelines outline the account preparation requirements placed on Service Providers under the Code, including requirements to prepare separate accounts for each Covered Pipeline for which they are a Service Provider, to prepare separate accounts for their entire business, and to allocate costs appropriately between shared activities.

The Guidelines require Service Providers to prepare General Regulatory Accounts and Regulatory Accounting Statements, in respect of the Covered Pipeline for which they are the Service Provider and for which the Authority is the Relevant Regulator, as well as in respect of their entire business. The primary objective of the Authority is to ensure that sufficient information is available to monitor compliance with the Code, including the ring-fencing provisions. This includes ensuring correct cost allocation between Covered and non-Covered businesses.

The Authority may amend the Guidelines from time to time in order to ensure they remain relevant. Consultation with Service Providers and other interested stakeholders will be conducted in relation to any proposed amendments.

2.1 Code Requirements

Section 4.1 of the **Code** requires that a person who is a **Service Provider** in respect of a **Covered Pipeline** must:

- (c) *establish and maintain a separate set of accounts in respect of the Services provided by each Covered Pipeline in respect of which the person is a Service Provider;*
- (d) *establish and maintain a separate consolidated set of accounts in respect of the entire business of the Service Provider; and*
- (e) *allocate any costs that are shared between an activity that is covered by a set of accounts described in section 4.1(c) and any other activity, according to a methodology for allocating costs that is consistent with section 8.1 of the Code and is otherwise fair and reasonable.*

The authority to publish these **Guidelines** is contained in section 4.2 of the **Code**, which provides for the **Authority** to publish **General Accounting Guidelines** for **Service Providers** and requires **Service Providers** to comply with such **Guidelines**.

Section 4.2 also states that such **Guidelines** may, amongst other things, require **Service Providers'** accounts to contain sufficient information, and to be presented in such a manner, as would enable the verification by the **Authority** of the calculation of **Reference Tariffs** for **Covered Pipelines**.

These **Guidelines** outline the accounting requirements that **Service Providers** must meet in order to comply with section 4.2 and sections 4.1(c), (d) and (e) of the **Code**.

The **Authority** requires that **General Regulatory Accounts** and **Regulatory Accounting Statements** be prepared by **Service Providers** for the **Services** provided by the **Covered Pipeline** for which the **Authority** is the **Relevant Regulator**, in accordance with section 4.1(c) of the **Code**, as well as for the entire business of the **Service Provider**, in accordance with section 4.1(d) of the **Code**.

Section 4.1 of the *Code* requires that a person who is a *Service Provider* in respect of a *Covered Pipeline* (regardless of whether they are also a *Service Provider* in respect of a *Pipeline* that is not *Covered*) must:

- be a legal entity registered under the Corporations Law, a foreign company within the meaning of the Corporations Law that has appointed a local agent in accordance with sections 601CF and 601CG of the Corporations Law, a statutory corporation, a government or an entity established by royal charter; and
- not carry on a *Related Business*.

The activities undertaken by a *Service Provider* in respect of a *Covered Pipeline* are not defined according to a legal entity structure. However, the *Authority* requires that any revenue earned or cost incurred in respect of a *Covered Pipeline* must be reported in the *Service Providers' General Regulatory Accounts* and *Regulatory Accounting Statements*. Although a *Covered Pipeline* is not defined by reference to a legal entity, each revenue and cost element that when combined constitute the whole of the business of the *Covered Pipeline* must have its origin in an audited *Statutory Account* or equivalent, although not necessarily all from the same set of *Statutory Accounts*.

2.2 The Authority's Objectives

The *Authority's* objectives in publishing these *Guidelines* stem primarily from its prescribed duty under the *Law* to monitor compliance with the *Code*, including its responsibility to ensure compliance with the ring-fencing provisions of the *Code*. While the information provided in *Regulatory Accounting Statements* will also be used as input for future reviews of *Service Providers' Access Arrangements*, none of the information required by these *Guidelines* is required solely for that purpose.

Key elements considered in any *Access Arrangement* review are *Reference Tariffs* and *Reference Tariff Policies* (the principles underlying the calculation of *Reference Tariffs*). Section 8 of the *Code* sets out the principles with which *Reference Tariffs* and a *Reference Tariff Policy* included in an *Access Arrangement* must comply.

Section 8.1 outlines the objectives for a *Reference Tariff* and *Reference Tariff Policy*. These objectives are:

- (a) *providing the Service Provider with the opportunity to earn a stream of revenue that recovers the efficient costs of delivering the Reference Service over the expected life of the assets used in delivering that Service;*
- (b) *replicating the outcome of a competitive market;*
- (c) *ensuring the safe and reliable operation of the Pipeline;*
- (d) *not distorting investment decisions in Pipeline transportation systems or in upstream and downstream industries;*
- (e) *efficiency in the level and structure of the Reference Tariff; and*
- (f) *providing an incentive to the Service Provider to reduce costs and to develop the market for Reference and other Services.*

The *Code* also states that, to the extent that any of these objectives conflict in their application to a particular *Reference Tariff* determination, the *Authority* may determine the manner in

which they can best be reconciled or which of them should prevail. The factors listed below, and detailed in section 2.24 of the Code, provide a guide to issues that can be taken into account as part of such determinations:

- (a) *the Service Provider's legitimate business interests and investment in the Covered Pipeline;*
- (b) *firm and binding contractual obligations of the Service Provider or other persons (or both) already using the Covered Pipeline;*
- (c) *the operational and technical requirements necessary for the safe and reliable operation of the Covered Pipeline;*
- (d) *the economically efficient operation of the Covered Pipeline;*
- (e) *the public interest, including the public interest in having competition in markets (whether or not in Australia);*
- (f) *the interests of Users and Prospective Users; and*
- (g) *any other matters that the Relevant Regulator considers are relevant.*

The factors about which the **Authority** must be satisfied when approving a **Reference Tariff** and **Reference Tariff Policy** in accordance with section 8.2 of the Code are:

- (a) *the revenue to be generated from the sales (or forecast sales) of all Services over the Access Arrangement Period (the Total Revenue) should be established consistently with the principles and according to one of the methodologies contained in Section 8 of the Code;*
- (b) *to the extent that the Covered Pipeline is used to provide a number of Services, that portion of Total Revenue that a Reference Tariff is designed to recover (which may be based upon forecasts) is calculated consistently with the principles contained in Section 8;*
- (c) *a Reference Tariff (which may be based upon forecasts) is designed so that the portion of Total Revenue to be recovered from a Reference Service (referred to in paragraph (b)) is recovered from the Users of that Reference Service consistently with the principles contained in Section 8;*
- (d) *Incentive Mechanisms are incorporated into the Reference Tariff Policy wherever the Relevant Regulator considers appropriate and such Incentive Mechanisms are consistent with the principles contained in Section 8; and*
- (e) *any forecasts required in setting the Reference Tariffs represent best estimates arrived at on a reasonable basis.*

The **Authority** considers that giving effect to the objectives of sections 8.1 and 8.2, and taking account of the factors in section 2.24, of the **Code**, amongst other things, necessarily involves having access to accounting information to:

- ensure compliance with the ring-fencing provisions of the **Code**;
- ensure correct separation between **Covered Pipeline** costs and non-**Covered** business costs; and

- perform the prescribed duty of ‘monitoring compliance with the *Code*’, which includes ensuring that sufficient information against the categories in Attachment A is being maintained.

While not required solely for this purpose, the Authority also intends that *Regulatory Accounting Statements* will be used by it to:

- inform *Access Arrangement* reviews, including information against the categories outlined in Attachment A of the *Code*, that is collected in accordance with *General Accounting Guidelines*; and
- assist with verification of the calculation of future *Reference Tariff* proposals where appropriate.

The *General Accounting Guidelines* represent minimum requirements for achieving these objectives. The obligation of a *Service Provider* to comply with the *Authority’s Guidelines*:

- is additional to any obligation imposed under any other law applying to the *Service Provider’s* business; and
- does not derogate from such an obligation.

2.3 Confidentiality

The *Authority’s* obligations regarding confidentiality and the disclosure of information provided to it by *Service Providers* are governed by:

- sections 7.11 to 7.14 of the *Code*; and
- section 41 of Schedule 1 of the *Law*.

The *Authority’s* intention is to utilise information provided in accordance with these *Guidelines* to fulfil its functions under the *Law*.

The *Authority* may publish a summary of information contained in *Regulatory Accounting Statements*, to demonstrate its assessment of compliance with the ring-fencing provisions of the *Code*. It will consult with the relevant *Service Provider* to ensure that, as far as possible, the concerns of that *Service Provider* are appropriately considered and weighed against the *Authority’s* objectives.

2.4 Processes for Revision

The *Authority* may amend and expand the *Guidelines* from time to time to meet the needs of *Service Providers* and/or the *Authority*, including in the context of:

- changing circumstances, including changes in the regulatory framework;
- developments at the national level and State level;
- the creation of new services and products by *Service Providers*; and
- changes to organisational structures by *Service Providers*.

In revising these *Guidelines*, the *Authority* will generally:

- state its intention;
- call for input from industry participants and other interested parties;
- having regard to that input, develop a draft and publish it for comment by industry participants and other interested parties; and
- having regard to the comments received on the draft, develop and publish revised *Guidelines*.

2.5 Input from Interested Parties

The *Authority* welcomes comments, discussion or suggestions for amendment to these *Guidelines*. Any contribution in this regard should be addressed to:

The Queensland Competition Authority
Level 19
12 Creek Street
Brisbane 4000
Facsimile: (07) 3222 0599

2.6 Version History and Effective Date

Every version of the *Guidelines* will be identified by a version number and date of issue.

This is Version No.1 (May 2003) of these *Guidelines*.

2.7 Explanations

Explanations in these *Guidelines* as to why certain information is required are a guide only and should not be taken to limit in any way the *Authority's* objectives, functions or powers.

3. GENERAL PRINCIPLES OF PREPARATION

The Guidelines require that Service Providers select and apply Regulatory Accounting Principles and Policies and disclose these, and any changes to them, to the Authority. These should include requirements for Regulatory Accounting Statements to report the economic substance of transactions and to be verifiable.

Regulatory Accounting Statements must be prepared by Service Providers for the Covered Pipeline for which they are the Service Provider, as well as for their entire business. They shall be derived from Statutory Accounts, or their equivalent, by eliminating non-related business costs and by making adjustments and consolidations according to the Guidelines. Costs shall be assigned on the basis that items that are Directly Attributable are directly assigned, and items that are not Directly Attributable are indirectly assigned (or allocated) on a Causation Basis, in accordance with the Guidelines.

3.1 Regulatory Accounting Principles and Policies Criteria

Regulatory Accounting Principles and Policies must be selected and applied by a *Service Provider*:

- such that there is a recognisable and rational economic basis that underlies their utilisation; and
- in a manner which ensures that the resultant accounting information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions is reported.

A Service Provider's Regulatory Accounting Principles and Policies must be disclosed to the *Authority* in a manner which ensures that the *Authority* may understand the resultant *Regulatory Accounting Statements* and can make comparisons between them over time.

Regulatory Accounting Principles and Policies shall conform to the principles set out in these *Guidelines*.

3.2 Substance to Prevail Over Legal Form

Regulatory Accounting Statements shall report the economic substance of transactions.

Where substance and form differ, the substance rather than the legal form of a transaction or event shall be reported.

For the purposes of determining the substance of a transaction:

- all its aspects and implications shall be considered, including the expectations of, and motivations for, the transaction; and
- a group or series of transactions that achieves, or is designed to achieve, an overall commercial effect shall be viewed in aggregate.

3.3 Information Provided Shall be Verifiable

A Service Provider must maintain accounting information which:

- enables *Regulatory Accounting Statements* to be prepared; and

- provides information in the *Regulatory Accounting Statements* that can be verified by reference to *Statutory Accounts*.

Information shall be presented in *Regulatory Accounting Statements* in the most understandable manner, without sacrificing relevance or reliability.

3.4 Regulatory Accounting Statements

Regulatory Accounting Statements shall be prepared by a *Service Provider* for the *Covered Pipeline* for which they are a *Service Provider*, and for which the *Authority* is the *Relevant Regulator*, as well as for the entire business of the *Service Provider*. They shall be derived from *Statutory Accounts* or their equivalent that contain the entirety of the business of the *Covered Pipeline*, as well as the entire business of the *Service Provider*.

Derivation of *Regulatory Accounting Statements* shall be achieved by:

- eliminating business costs not related to the *Covered Pipeline* or to the entire business of the *Service Provider*;
- eliminating adjustments not permitted by these *Guidelines*;
- including adjustments that are required by these *Guidelines*; and
- consolidating or disaggregating *Statutory Accounts* amounts within an *Entity* in order to conform to the prescribed form of *Regulatory Accounting Statements*.

Where a *Statutory Accounts* amount has been consolidated or disaggregated in the *Regulatory Accounting Statements*, a work paper must accompany the *Regulatory Accounting Statements* reconciling the *Statutory Accounts* amount shown in the *Regulatory Accounting Statement* to the *Statutory Accounts* amount in the *Statutory Accounts* of the *Entity*.

The movement from *Statutory Accounts* to *General Regulatory Accounts* must be clearly reported in the *Regulatory Accounting Statements*.

Cost allocation

Service Providers will be required to provide *Cost Allocation Manuals* to the *Authority*, and have those *Manuals* approved by the *Authority*.

The allocation of *Statutory Accounts* amounts between the *Service Provider's* entire business and other businesses of the *Entity*, and between the *Covered Pipeline* and non-*Covered* business activities, shall be based on the principle that:

- items which are *Directly Attributable* to the entire business, and to the *Covered Pipeline*, are directly assigned accordingly; and
- items not *Directly Attributable*, shall be indirectly assigned (or allocated) to the entire business, and the *Covered Pipeline*, using an appropriate *Cost Allocation Base*, as indicated in the following paragraphs.

An item may be *Directly Attributable* to the entire business but not *Directly Attributable* to the *Covered Pipeline*. In this circumstance, the allocation between the *Covered Pipeline* and other business segments will be made using an appropriate *Cost Allocation Base*, as indicated below.

Items that are not *Directly Attributed* are to be allocated on a *Causation Basis*. *Causation Bases* of allocation must be *Economically Efficient*.

Explanation

Section 8.38 of the Code outlines the method for allocating revenue and costs between services. The section states that, to the maximum extent that is commercially and technically reasonable, the portion of the Total Revenue of a *Covered Pipeline* that a *Reference Tariff* should be designed to recover should include:

- all of the Total Revenue that reflects costs incurred (including capital costs) that are *Directly Attributable* to the *Reference Service*; and
- a share of the Total Revenue that reflects costs incurred (including capital costs) that are attributable to providing the *Reference Service* jointly with other *Services*, with this share to be determined in accordance with a methodology that meets the objectives in section 8.1 and is otherwise fair and reasonable.

A *Service Provider* shall produce, for each item that has not been *Directly Attributed* to the *Covered Pipeline*, a supporting work paper that includes:

- the amounts that have been allocated on a *Causation Basis* to the *Covered Pipeline*, and amounts that have not been so allocated; and
- the numeric quantity of each *Cost Allocation Base*.

If an item is *Immaterial* and a *Causal Relationship* cannot be established without undue cost and effort, the *Service Provider* shall provide the *Authority* with a separate list of these items indicating a description and amount. The *Service Provider* may effect an allocation of these items on a *Non-causal Basis*, provided it is accompanied by a supporting note documenting for each such item:

- a defensible basis of allocation;
- the reason for choosing that basis; and
- an explanation why no *Causal Relationship* could be established.

Unless otherwise approved by the Authority, *Non-causal Bases* of allocation shall only be applied to the extent that the aggregate of all items subject to all *Non-causal Bases* of allocation is not *Material* to the *Regulatory Accounting Statements*. Section 3.7 of these *Guidelines* sets out the *Authority's* standard of materiality.

Non-causal Bases of allocation will be subject to the specific approval of the *Authority*. The *Authority* expects to only accept a *Non-causal Basis* if a *Service Provider* can demonstrate that there is likely to be a strong positive correlation between the *Non-causal Basis* and the actual cause of resource or service consumption or utilisation that those costs represent.

Where it has been necessary for the *Service Provider* to use estimates in the preparation of the *Regulatory Accounting Statements*, this will be clearly indicated by the *Service Provider*. An explanation of the estimation process should also be provided in an accompanying note.

3.5 Regulatory Asset Values

The Regulatory Statement of Financial Position for a *Covered Pipeline* shall disclose movements in book values of fixed assets and accumulated depreciation, including incorporation of actual *New Facilities Investment*.

New Facilities Investment projects that are in-progress may be shown under a work-in-progress heading.

Fixed asset values contained in the Regulatory Statement of Financial Position for a *Covered Pipeline* may not be immediately reflective of movement in the *Capital Base* for that *Covered Pipeline*, which is based on the *Initial Capital Base* (ICB) (as at 1 July 2001) contained in the *Access Arrangement* for the *Covered Pipeline*, adjusted in accordance with the forecasts of *New Facilities Investment, Depreciation* and inflation contained in the *Access Arrangements*.

Explanation

Adjustments to *Capital Base* values for *Covered Pipelines* are not permitted unless they are in accordance with the relevant provisions of the *Code*. Adjustments may only occur at the time an *Access Arrangement* is reviewed and may only be in relation to:

- *New Facilities Investment* (in line with sections 8.15-8.19 of the *Code*);
- *Depreciation* (in line with sections 8.32 and 8.33 of the *Code*);
- *Redundant Capital* (in line with sections 8.27-8.29 of the *Code*); and
- inflation, as provided for in section 8.9 of the *Code*.

The *Authority* will consider adjustments to capital base values for *Covered Pipelines* in cases where forecast *New Facilities Investment*, forecast *Depreciation*, or forecast inflation differs from actual *New Facilities Investment*, actual *Depreciation*, or actual inflation, or where capital has been made redundant, at the time when an *Access Arrangement* is reviewed.

3.6 Time Consistent Application of Accounting Policies, Unless Disclosed Otherwise

A *Service Provider* shall present, on a fair and consistent basis, from the accounting records that underlie its *General Regulatory Accounts*, the costs, revenues, assets employed and liabilities that may be reasonably attributed to its entire business and to the *Covered Pipeline*.

Regulatory Accounting Statements must, in so far as is reasonably practicable, be prepared with the general rules and format and, subject to the disclosure provisions outlined in this Section 3.6, use the accounting principles and policies applicable to the *Statutory Accounts*.

A *Service Provider* shall provide to the *Authority* full and detailed documentation of:

- any *Regulatory Accounting Principles and Policies* that may be additional to or in place of the accounting principles and policies outlined in these *Guidelines*; and
- any changes since the preceding *Regulatory Accounting Statements* were prepared, in either the accounting principles and policies used to prepare its *General Regulatory Accounts*, or its *Regulatory Accounting Principles and Policies*. Where there is such a change, a *Service Provider* shall disclose to the *Authority*:
 - the nature of the change;

- the reasons for the change; and
- the effect of the change on the *Regulatory Accounting Statements*.

3.7 Materiality

An item is *Material* if its omission, misstatement or non-disclosure has the potential to prejudice the understanding of the entire business of the *Service Provider*, or of the business of the *Covered Pipeline*, gained by reading the *Regulatory Accounting Statements*. *Materiality*, as applied to the *General Regulatory Accounts*, is unrelated to acceptable tolerance limits, but rather to the implications for the appropriate ring-fencing of the *Service Provider's* entire business and of the *Covered Pipeline*. This definition of *Materiality* is particularly relevant to the allocation of Fixed Assets and *Non Capital Costs*.

These *Guidelines* shall apply to all *Material* items in the *General Regulatory Accounts* and *Regulatory Accounting Statements* of a *Service Provider*.

3.8 Accounting Records

Service Provider shall keep accounting records that:

- correctly record and explain the transactions and financial position of the entire business and the *Covered Pipeline*; and
- enable *General Regulatory Accounts* and *Regulatory Accounting Statements* for the entire business and for the *Covered Pipeline* to be prepared in accordance with these *Guidelines*.

4. INFORMATION REQUIREMENTS

Regulatory Accounting Statements must be prepared in accordance with the Guidelines and delivered to the Authority within four months of the end of a Regulatory Accounting Period.

Statutory account amounts must be allocated between a Service Provider's entire business and other businesses of the Entity, and between the Covered Pipeline and a Service Provider's other businesses, according to the allocation principles contained in the Guidelines.

Regulatory Accounting Statements must include data in relation to at least:

- *Non Capital Costs;*
- *Capital Expenditure (New Facilities Investment);*
- *Depreciation;*
- *Other costs;*
- *Excluded Services;*
- *Individually significant items;*
- *Income tax;*
- *Fixed assets;*
- *Capital contributions;*
- *Other items;*
- *Provisions;*
- *Associate transactions; and*
- *Revenue.*

In addition, where applicable, Regulatory Accounting Statements must apply the cost allocation principles contained in the Guidelines to the relevant data.

4.1 Regulatory Accounting Statements

*Regulatory Accounting Statements shall be prepared in accordance with these **General Accounting Guidelines**.*

*A **Service Provider** shall also deliver to the **Authority**:*

- *the section(s) of the **Statutory Accounts** of the **Entity** that have been aggregated or disaggregated to provide the **Regulatory Accounting Statements**; and*
- *details of any accounting principles and policies that may be additional to or in place of the accounting principles and policies outlined in these **Guidelines**.*

*Section 5 to these Guidelines sets out a mandatory schedule of **Regulatory Accounting Statements**.*

Section 5 to the Guidelines also broadly defines how **Regulatory Accounting Statements**, and certain supporting notes and work papers, shall be set out. More specific guidance will be provided by the **Authority** through the development and release of template reporting schedules.

4.2 Timing

A **Service Provider** shall deliver to the **Authority** the information specified in these **Guidelines** within four calendar months of the end of the **Regulatory Accounting Period** to which the **Regulatory Accounting Statements** relate.

Regulatory Accounting Statements must be delivered to the Authority within four calendar months of the end of the **Regulatory Accounting Period** to which they relate.

4.3 Regulatory Accounting Periods

A **Regulatory Accounting Period** shall be a financial year unless the Authority should specify otherwise.

A **Regulatory Accounting Period** shall cover a continuous period.

4.4 Disaggregation

Entire business and other businesses of the entity allocation

Any allocation of **Statutory Accounts** amounts between the entire business of a **Service Provider** and other businesses of the **Entity** must be made in accordance with the allocation principles detailed in Section 3.4 of these Guidelines.

Covered Pipeline and other business allocation

Any allocation of **Statutory Accounts** amounts between the **Covered Pipeline** and a **Service Provider's** other businesses must be made in accordance with the allocation principles detailed in Section 3.4 of these Guidelines.

Inter-segmental transactions

Transactions between business segments of the **Service Provider** must not be netted off. They shall be recorded in the profit and loss accounts in relation to the business segments to which they arise and be separately disclosed.

4.5 Non Capital Costs

Disclosure

The **Regulatory Accounting Statements** shall:

- disclose **Non Capital Costs**, as defined by section 8.36 of the **Code**;
- separately disclose **Operating and Maintenance Costs, Administration Costs, Marketing Costs** and **UAG Costs**;
- disclose **Operating and Maintenance Costs, Administration Costs, Marketing Costs** and **UAG Costs** in a manner defined in section 5 of these **Guidelines**; and

- provide or explain the link to the *Statutory Accounts* that is the source for amounts allocated to *Operating and Maintenance Costs*, *Administration Costs*, *Marketing Costs* and *UAG Costs*.

Cost attribution or allocation

Operating and Maintenance Costs, *Administration Costs*, *Marketing Costs* and *UAG Costs* shall be either *Directly Attributed* to the entire business of the *Service Provider*, and the *Covered Pipeline*, or allocated on a *Causation Basis* in accordance with the principles set out in section 3.4 of these *Guidelines*. Costs may be allocated between the entire business of the *Service Provider* and other businesses of the *Entity* (where applicable), and between the *Covered Pipeline* business and other businesses of the *Service Provider* (where applicable). For other businesses of the *Entity*, only costs which are common or shared between the *Service Provider* and other businesses of the *Entity* are required to be reported.

The allocation of a cost should reflect the consumption, or utilisation, of a resource or service as referred to in Section 3.4 of these *Guidelines*.

Disclosure of bases of cost allocation

In disaggregating *Operating and Maintenance Costs*, *Administration Costs*, *Marketing Costs* and *UAG Costs* between the *Service Provider's* entire business and other businesses of the *Entity*, and between the *Covered Pipeline* and a *Service Provider's* other businesses, a cost may be considered either:

- a cost that can be *Directly Attributed* wholly and exclusively; or
- an indirect cost that needs to be allocated in accordance with the principles set out in section 3.4 of these *Guidelines*.

The total of the costs for which this information is disclosed shall agree with the total *Non Capital Costs* disclosed under Section 5.5.

The *Non Capital Costs* reported in *Regulatory Accounting Statements* shall be *Non Capital Costs* actually incurred, which may not necessarily equate to forecast *Non Capital Costs* contained in approved *Access Arrangements*.

4.6 Capital Expenditure (New Facilities Investment)

New Facilities Investment shall be attributed to the entire business of the *Service Provider*, and to the *Covered Pipeline*, in accordance with the allocation principles set out in section 3.4 of these *Guidelines*.

Actual *New Facilities Investment* amounts recorded in the *General Regulatory Accounts* and *Regulatory Accounting Statements* may differ from forecast amounts included in approved *Access Arrangements*.

4.7 Depreciation

A *Depreciation* charge shall be attributed to the entire business of the *Service Provider*, and to the *Covered Pipeline*, in accordance with the principles set out in Section 3.4 of these *Guidelines*.

Depreciation charges for a **Covered Pipeline** contained in **Regulatory Accounting Statements** may not necessarily correspond with forecast **Depreciation** contained in approved **Access Arrangements**.

Accounting policy

Depreciation charges on assets accounted for within the **Covered Pipeline** business shall:

- be accounted for on a straight line basis; and
- be consistent with the relevant principles contained in the **Code**.

4.8 Other Revenue and Expenditure

Restatement of principle

Other revenue and expenditure arising in the **Regulatory Accounting Statements**, that are not specifically addressed elsewhere in Section 5 of the **Guidelines**, shall be disaggregated between the entire business of the **Service Provider** and other businesses of the **Entity**, and between the Covered Pipeline and **Service Providers'** other businesses, in accordance with:

- the general principles set out in Section 3 of these **Guidelines**; and
- the disclosure requirements set out in Section 6 of the **Guidelines**.

4.9 Excluded Services

Excluded Services are those services provided via extensions or expansions that have been excluded from the **Covered Pipeline**, in accordance with the extensions and expansions policies contained in approved **Access Arrangements**.

Costs shall be allocated between the **Covered Pipeline** and **Excluded Services** in accordance with the allocation principles contained in Section 3.4 of these **Guidelines**, as well as in accordance with the **Service Providers'** extensions and expansions policies.

Revenue figures in relation to the provision of **Excluded Services** shall be reported separately in the **Regulatory Accounting Statements** for the entire business of the **Service Provider**.

Explanation

Approved **Access Arrangements** include a requirement for some portion of the revenue generated by an **Excluded Extension** to be offset against the **Service Provider's** total revenue calculation in recognition of the role of common or joint assets that form part of the **Covered Pipeline**. The **Authority's** Final Decision outlined an approach to be used to calculate this offset amount. This approach can be summarised as follows:

- the value of the facilities shared by the **Excluded Extension** and the **Covered Pipeline** is established;
- a rate of return and **Depreciation** for these assets is then calculated (consistent with the approach adopted in the approved **Access Arrangements**);
- the rate of return and **Depreciation** is then pro-rated between the **Excluded Extension** and the **Covered Pipeline** on the basis of anticipated gas throughput; and

- the portion of the pro-rated rate of return and *Depreciation* in respect of the *Excluded Extension* is then subtracted from the total revenue calculations in respect of the *Covered Pipeline*.

The Authority calculated offset amounts using this approach for existing *Excluded Extensions* and the subtraction of these amounts was reflected in the target revenues for the *Access Arrangement Period* that are contained in approved *Access Arrangements*. The Authority intends to follow a similar approach in relation to new extensions that it approves as *Excluded Extensions* during the *Access Arrangement Period*, in accordance with the extensions and expansions policies contained in the *Access Arrangements*.

In order to inform the Authority's consideration of *Excluded Services*, *Regulatory Accounting Statements* shall include cost and revenue details in relation to the provision of *Excluded Services*.

4.10 Individually Significant Items

Where they arise, *Individually Significant Items* shall be disclosed in the *General Regulatory Accounts* and attributed or allocated in accordance with section 3.4 of these *Guidelines*.

Disaggregation

An *Individually Significant Item* shall be attributed to the entire business of the *Service Provider*, and the *Covered Pipeline*, as follows:

- if the item can be *Directly Attributed* to the *Covered Pipeline*, or if it has discrete components that can each be so attributed, then the item, or the components so identified, shall be *Directly Attributed* to the *Covered Pipeline*;
- to the extent that an item cannot be *Directly Attributed*, then it shall be allocated in accordance with the requirements of section 3.4 of the *Guidelines*;
- where it is necessary to separate an item into components to effect *Direct Attribution* or allocation, a work paper shall be appended to the *Regulatory Accounting Statements* describing:
 - the monetary amount of each component; and
 - its characteristics that either allow it to be *Directly Attributed* to the Covered Pipeline or require it to be allocated across business segments.

Explanation

Individually Significant Items shall be attributed to the *Covered Pipeline* by following attribution principles consistent with those applied to other account items.

4.11 Income Tax Attributable to Operating Profit

The Authority requires information about income tax paid by the entire business of the *Service Provider* and the *Covered Pipeline*.

4.12 Disaggregation of Fixed Assets

Fixed assets shall be either *Directly Attributed* to the entire business of the *Service Provider*, and to the *Covered Pipeline*, or allocated on a *Causation Basis* in accordance with the

principles set out in Section 3.4 of these *Guidelines*. Where assets are used in both the *Service Provider's* entire business and other businesses of the *Consolidated Entity*, and/or the *Covered Pipeline* business and a *Service Provider's* other business segments, the asset will need to be appropriately apportioned. For other businesses of the *Consolidated Entity*, only fixed assets which are common or shared between the *Service Provider* and other businesses of the *Entity* are required to be reported.

Additions and decrements shall be disclosed separately and not netted off.

Transfers between asset categories shall be disclosed separately and not netted off.

Opening Fixed Asset Values in the *Regulatory Accounting Statements* must equal closing Fixed Asset Values from the preceding *Regulatory Accounting Period*.

4.13 Capital Contributions

Where a *Service Provider* credits *Capital Contributions* to asset values, the *Regulatory Accounting Statements* shall disclose the amount of customer contributions credited to asset balances in accordance with the allocation principles contained in section 5 of these *Guidelines*.

The *Authority* requires an understanding of customer contributions received and their relationship to movements in asset balances. Such contributions are governed by sections 8.23 and 8.24 of the *Code*.

4.14 Inflation Accounting Adjustments

No adjustments for inflation will be made to *General Regulatory Accounts*, except those reflecting changes in book values of fixed assets.

4.15 Movements in Provisions

Work papers shall be added to the *Regulatory Accounting Statements* sufficient to provide a reconciliation and explanation of all provisions disclosed by the *Regulatory Accounting Statements*.

The disaggregation of provisions must follow the principles set out in Section 3.4.

Disclosure

The following information shall be provided for each *Material Provision* and in total for all other provisions in the *Regulatory Accounts* of the *Service Provider*:

- the balance at the beginning of the *Regulatory Accounting Period*;
- amounts set aside to provisions;
- expenditure charged to provisions;
- amounts written back from provisions;
- the net movement charged or credited to the Regulatory Statement of Financial Returns; and
- the balance at the end of the *Regulatory Accounting Period*.

Explanation

The Authority needs to understand the effect of provisions on costs disclosed by the **Regulatory Accounting Statements**.

4.16 Associate Transactions

The entire business of the **Service Provider** and the business of the **Covered Pipeline** are defined by their activities not by their legal status. Transactions with **Associates** of the **Service Provider** are considered part of the **Service Provider's** accounts. The value of goods and services originating in those **Associates** must be recorded at cost in the **Regulatory Accounting Statements**. Dealings with **Associates** may be subject to the **Associate Contract** provisions contained in section 7 of the **Code**.

4.17 Revenue

In addition to cost information, **Regulatory Accounting Statements** shall also incorporate revenue information.

Revenue information shall include Total Revenue received in respect of **Services** provided by the **Covered Pipeline**, and shall also be disaggregated to the particular **Reference Service** to which it is **Directly Attributable**.

5. REGULATORY ACCOUNTING STATEMENTS

Regulatory Accounting Statements must be prepared in accordance with the allocation principles contained in these Guidelines. The Authority's approval on format and structure must be sought prior to their submission.

5.1 Structure and Content

The *Regulatory Accounting Statements* incorporate the:

- Regulatory Statement of Financial Returns (Income Statement);
- Regulatory Statement of Financial Position (Balance Sheet);
- Regulatory Cash Flow Statement; and
- associated supporting Schedules and work papers as requested in these *Guidelines*.

The *Regulatory Accounting Statements* should be prepared in accordance with the allocation principles detailed in Section 3.4 of these *Guidelines*.

As a minimum disaggregation requirement, the *Authority* requires that the *Regulatory Accounting Statements* be separated to demonstrate reporting on:

- the entire business of the *Service Provider*;
- the *Covered Pipeline*; and
- *Excluded Services*.

The *Authority* will develop template reporting schedules to provide specific guidance to the *Service Providers* on the structure and content of the *Regulatory Accounting Statements*. To the extent that a *Service Provider* seeks to deviate from the templates, the *Service Provider* must obtain the *Authority's* approval on the format and structure of the *Regulatory Accounting Statements* prior to their submission.

In addition, in preparing the *Regulatory Accounting Statements*, it is mandatory to provide for each cost or revenue item that has been allocated to the *Covered Pipeline* a supporting work paper that includes the following:

- the amounts that have been directly attributed to the *Covered Pipeline*; and
- where amounts have been allocated to the *Covered Pipeline*, the associated amounts that have been allocated to other business segments of the *Service Provider*, a description of the *Cost Allocation Base* and the numeric quantity of each *Cost Allocation Base*.

GLOSSARY

Access Arrangement	an arrangement for access to a Covered Pipeline that has been approved by the Authority
Access Arrangement Period	the period from when an Access Arrangement or revisions to an Access Arrangement take effect (by virtue of a decision pursuant to section 2 of the Code) until the next Revisions Commencement Date
Account Headings	either an account heading used in an accounting record such as a general ledger or a higher level summarisation of such headings
Accounts	a system of financial records and recording that enable revenue earned and costs incurred in operating a Covered Pipeline to be separately identified from any other business the Service Provider or its Associates might be carrying on
Administration Costs	finance, administration, human resources, information technology and related support cost areas
Associate	in relation to a person, has the meaning it would have under Division 2 of Part 1.2 of the Corporations Law if sections 13, 14, 16(2) and 17 of that Law were repealed, except that a person will not be considered to be an Associate of a Service Provider solely because that person proposes to enter, or has entered, into a contract, arrangement or understanding with the Service Provider for the provision of a Service
Associate Contract	a contract, arrangement or understanding between: <ul style="list-style-type: none"> (a) the Service Provider and an Associate in connection with the provision of a Service; or (b) the Service Provider and any person in connection with the provision of a Service which provides a direct or indirect benefit to an Associate and which is not an arm's length transaction
Authority	the Queensland Competition Authority
Capital Base	has the meaning given in section 8.4 of the Code (that is, the value, for regulatory purposes, of the capital assets that form the Covered Pipeline)
Capital Contribution	has the meaning given in section 8.23 of the Code (that is, a Charge which exceeds the Charge that would apply under a Reference Tariff for a Reference Service (or, in relation to another Service, under the Equivalent Tariff) in respect of the funding of a new facility)
Capital Expenditure	New Facilities Investment, as defined by section 8.16 of the Code
Causal/ Causation Basis	means, in relation to a basis of allocation, that the allocation base is the most significant trigger of consumption or utilisation of the resources or services represented by the costs or other account item that is being allocated
Code	<i>National Third Party Access Code for Natural Gas Pipeline Systems</i> as changed from time to time in accordance with the <i>Gas Pipelines Access Law</i>
Consolidated Entity	has the meaning given in section 9 of the <i>Corporations Act 2001</i> , that is, 'a company, registered managed investment scheme or disclosing entity together with all the entities it is required by the accounting standards to include in consolidated financial statements'
Cost Allocation Base	allocator used to indirectly assign items that are not Directly Attributable

Cost Allocation Manual	a manual developed by a Service Provider, and approved by the Authority, which outlines the methods for allocating costs that will be used in the General Regulatory Accounts
Coverage/ Covered	in relation to a Pipeline or part of a Pipeline, that that Pipeline or part of a Pipeline is subject to the provisions of the Code pursuant to sections 1.1, 1.13, 1.20 or 1.21 of the Code
Covered Pipeline	subject to sections 2.3 and 2.4 of the Code, the whole or a particular part of a Pipeline which is Covered and any extension to, or expansion of the Capacity of, that Covered Pipeline which is to be treated as part of the Covered Pipeline in accordance with the Extensions/Expansions Policy contained in the Access Arrangement for that Covered Pipeline and any expansion of that Covered Pipeline required to be installed under section 6.22 of the Code
Depreciated Optimised Replacement Cost (DORC)	the minimum cost of replacing or replicating the service potential embodied in a pipeline with modern equipment and in the most efficient way practicable, from an engineering perspective, given service requirements, and the age and condition of existing assets
Depreciation	in any year and on any asset or group of assets, the amount calculated according to the Depreciation Schedule for that year and for that asset or group of assets
Depreciation Schedule	has the meaning given in section 8.32 of the Code (that is, the set of depreciation schedules (one of which may correspond to each asset or group of assets that form part of the Covered Pipeline) that is the basis upon which the assets that form part of the Capital Base are to be depreciated for the purposes of determining a Reference Tariff)
Directly Attributable or Directly Attributed	an item is Directly Attributable or Directly Attributed to an object such as the Covered Pipeline, if it is wholly and exclusively associated with that object
Distribution	the transportation of gas over a combination of high pressure and low pressure pipelines from a City Gate to various customers' usage points
Economically Efficient	when used to describe a Cost Allocation Base, means a Cost Allocation Base which allocates costs somewhere between the incremental costs incurred in providing that service and the stand alone cost of its supply
Entity	a business unit, whether or not a legal entity
Excluded Extension/ Expansion	an extension or expansion to a Covered Pipeline that is not Covered under the approved Access Arrangement for that Covered Pipeline
Excluded Services	services provided via an Excluded Extension or Expansion to a Covered Pipeline
General Accounting Guidelines (the Guidelines)	means these General Accounting Guidelines, as published under section 4.2 of the Code
Gas Pipelines Access Law (the Law)	in relation to Queensland, means: <ul style="list-style-type: none"> (a) the provisions referred to in paragraph (a) of the definition of "Gas Pipelines Access Law" in section 3(1) of the South Australian Act, as applying as a law of that Scheme Participant; and (b) Regulations in force under Part 3 of the South Australian Act, as applying as a law of that Scheme Participant

General Regulatory Accounts	financial records derived from the Statutory Accounts of the Service Provider and the Statutory Accounts of Associates of the Service Provider that are involved in the activities of a Covered Pipeline
Immaterial Item	an item that is not Material
Individually Significant Item(s)	Individually Significant Items are items arising from ordinary activities that are abnormal because of their size, nature or incidence. Such items must be separately disclosed in Regulatory Accounting Statements.
Initial Capital Base (ICB)	the Capital Base at the commencement of the first Access Arrangement Period
Marketing Costs	costs associated with advertising to promote the safe use of gas and gas appliances, to satisfy environmental concerns and to develop additional gas usage through public awareness
Material	has the meaning set out in section 3.7 of these Guidelines
Material Provision	a provision, other than a provision for income tax, deferred taxation, dividends payable or receivable, or interest payable or receivable, that is included in the Regulatory Accounting Statements either at the beginning or end of a Regulatory Accounting Period and has a balance of either: <ul style="list-style-type: none"> • \$0.5 million or more; or • 10 per cent or more of the total provision in the balance sheet for a Covered Pipeline
New Facilities Investment	has the meaning given in section 8.16 of the Code (that is, the amount by which the Capital Base may be increased is the amount of the actual capital cost incurred (New Facilities Investment), provided that this does not exceed the amount that would be invested by a prudent Service Provider acting efficiently)
Non Capital Costs	has the meaning given in section 8.4 of the Code (that is, the operating, maintenance and other non-capital costs incurred in providing all Services provided by the Covered Pipeline)
Non-Causal or Non-Causation Basis	in relation to a basis of allocation, is one that is other than a Causal or Causation Basis
Not Allocated	the content of those Account Headings that are not required by these Guidelines to be allocated or attributed to specific Reference Services
Operating and Maintenance Costs	those costs which relate to the day to day operations of the business and are not Administration Costs, Marketing Costs or UAG Costs
Pipeline	has the meaning given in the <i>Gas Pipelines Access Law</i> (that is, in summary, a pipe, system of pipes, or part of a pipe, for transporting natural gas, and any tanks, reservoirs, machinery or equipment directly attached to the pipe or system of pipes, but does not include anything upstream of an exit flange, a gathering system, any equipment used to remove or add components to or change natural gas, or anything downstream of a connection point to a customer – Schedule 1 of the South Australian Act, Part 1, clause 2)
Recoverable Portion	has the meaning given in section 8.18 of the Code (that is, that part of New Facilities Investment which satisfies the criteria contained in section 8.16 of the Code)

Redundant Capital	has the meaning given in section 8.27 of the Code (that is, a Reference Tariff Policy may be required to have included a mechanism that will, with effect from the commencement of the next Access Arrangement Period, remove an amount from the Capital Base to ensure that assets which cease to contribute in any way to the delivery of Services are not reflected in the Capital Base, and to share costs associated with a decline in sales volume between the Service Provider and Users)
Reference Service	a Service which is specified in an Access Arrangement and in respect of which a Reference Tariff has been specified in that Access Arrangement
Reference Tariff	a Tariff specified in an Access Arrangement as corresponding to a Reference Service and which has the operation that is described in sections 6.13 and 6.18 of the Code
Reference Tariff Policy	has the meaning given in section 3.5 of the Code (that is, a policy describing the principles that are to be used to determine a Reference Tariff)
Regulatory Accounting Date	the date on which a Regulatory Accounting Period ends
Regulatory Accounting Period	a period spanned by Regulatory Accounting Statements
Regulatory Accounting Principles and Policies	accounting principles and policies that have been used to prepare Regulatory Accounting Statements, that may be additional to, or in place of, the accounting principles and policies used to prepare Statutory Accounts
Regulatory Accounting Statements	financial reports revealing the performance and financial situation of the Service Provider. They show the originating Statutory Account amount, its translation into a General Regulatory Account amount, and its disaggregation to the Covered Pipeline level. A schedule of Regulatory Accounting Statement information is included in section 5 of these Guidelines
Related Business	means the business of producing, purchasing or selling Natural Gas, but does not include purchasing or selling of Natural Gas to the extent necessary: <ul style="list-style-type: none">(a) for the safe and reliable operation of a Covered Pipeline; or(b) to enable a Service Provider to provide balancing services in connection with a Covered Pipeline
Relevant Regulator	has the meaning given in the <i>Gas Pipelines Access Law</i> (that is, in relation to a transmission pipeline, the ACCC, and in relation to a distribution pipeline, the local Regulator – Schedule 1 of the South Australian Act, Part 1, clause 2. In the case of Queensland distribution pipelines, the Authority is the Relevant Regulator)

Remuneration	<p>any money, consideration or benefit received or due and receivable in connection with the management of the affairs of the Service Provider, but does not include:</p> <ul style="list-style-type: none"> • amounts in payment or reimbursement of out-of-pocket expenses incurred for the benefit of the Service Provider or an Associate; or • in relation to a person not resident in Australia who is an Executive, emoluments received or due and receivable by the person from a holding company: <ul style="list-style-type: none"> - of which he or she is a Director or employee; and - that is a corporation formed or incorporated outside Australia; and - being emoluments received, or due and receivable, by the person as such a Director or employee
Revisions Commencement Date	has the meaning given in section 3.17 of the Code (that is, the date upon which the next revisions to the Access Arrangement are intended to commence, to be approved by the Relevant Regulator)
Revisions Submission Date	has the meaning given in section 3.17 of the Code (that is, the date upon which the Service Provider must submit revisions to the Access Arrangement, to be approved by the Relevant Regulator)
Ring-fencing	the requirement under section 4 of the Code for a Service Provider to establish arrangements to segregate its business of providing Services using a Covered Pipeline from other business activities
Service	<p>a service provided by means of a Covered Pipeline including (without limitation):</p> <ol style="list-style-type: none"> (a) haulage services (such as firm haulage, interruptible haulage, spot haulage and backhaul); (b) the right to interconnect with the Covered Pipeline; and (c) services ancillary to the provisions of such services, <p>but does not include the production, sale or purchasing of Natural Gas</p>
Service Provider	has the meaning given in the <i>Gas Pipelines Access Law</i> (that is, the person who is, or is to be, the owner or operator or the whole or any part of the pipeline or proposed pipeline– Schedule 1 of the South Australian Act, Part 1, clause 2)
Statutory Accounts	the audited set of accounts, prepared in accordance with the Australian Securities and Investments Commission (ASIC) requirements, submitted to ASIC by statutory entities
UAG Costs	costs associated with unaccounted for gas (UAG)
