

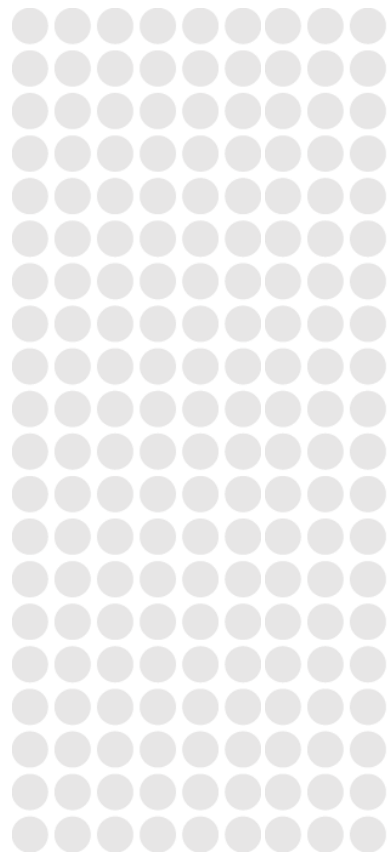


16 September 2019

# draft financial reporting guideline

## for light regulation pipelines

APA Group submission



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## 1 summary

APA welcomes the opportunity to comment on the AER's draft Financial Reporting Guideline for Light Regulation Pipelines. APA thanks the AER for its ongoing engagement in the development of this Guideline.

APA supports the policy initiative that light regulated pipelines should provide information to the marketplace to assist shippers in negotiating tariffs from an informed position. APA is pleased to engage in efforts to enhance information disclosure for light regulation pipelines. To this end, APA suggests that the draft Guideline and templates could benefit from increased clarity surrounding the framework for publishing a regulatory asset valuation.

APA notes that the AER has a long-established methodology for calculating depreciation for Covered pipelines, and supports the certainty associated with the continuation of that approach. A requirement for Covered pipelines to publish a Recovered Capital Method asset valuation could flag a change in the definition of "depreciation" for light regulation pipelines. In light of the current Regulatory Impact Statement process, APA recommends that consideration of such a move should be deferred until the future role of light regulation is better understood.

APA is always conscious to ensure that information is useful and fit for purpose, and to this end does not support the proposal to require Covered pipelines to report a Recovered Capital Method asset valuation. This information is but one piece of information that only has applicability in the context of a commercial arbitration being conducted under Part 23 of the Rules, and therefore has no applicability to Covered pipelines.

## 2 pipeline financial information

The draft Light Regulation Guideline and templates are unclear on the requirements to publish statutory-based asset value information. Discussions with the AER indicate that this is not the intent of the Guideline.

There is scope for additional clarity to be added in this section of the Guideline and the accompanying template.

In early discussions in the development of the Light Regulation Guideline, it was clear that the vision for this Guideline was that it would have a similar “look and feel” as the existing Part 23 Guideline. This vision is reflected in Rule 36(4): “Nothing prevents the AER from publishing the financial reporting guidelines in the same document as the financial reporting guidelines published under Part 23”.

Given the uncertainty surrounding the future of light regulation in the upcoming RIS process, APA supports the decision to develop a stand-alone financial reporting Guideline for light regulation pipelines.

One should expect that there would be differences between the Light Regulation and Part 23 Guidelines, given their differing regulatory frameworks. For example, it makes sense that the Light Regulation Guideline should require publication of regulatory asset values, based on regulatory asset valuation approaches; these would not be applicable to non-scheme (Part 23) pipelines. This difference appears to be causing a lack of cohesion in the draft Light Regulation Guideline.

The Part 23 Guideline clearly requires two different asset valuations to be reported: the statutory accounting value and the Recovered Capital Method value. A parallel Light Regulation Guideline would potentially require *three* different asset values to be reported: the statutory accounting value, the Regulatory Asset Base value, and, in some cases, the Recovered Capital Method value.

Rule 36F does not mandate the content of the Financial Reporting Guideline. However, there are numerous asset value requirements in section 3 of the

draft Guideline<sup>1</sup> which suggest that statutory asset value information was required to be reported. Additional confusion arises in that there is no related template for statutory asset value reporting as was produced with the Part 23 Guideline.

The AER was very helpful in aiding our understanding of the draft Guideline, and have indicated that this was not the intention – the draft Guideline does not propose that statutory accounting asset values be reported, but that the Pipeline Financial Information should only report revenue and expenditure items. The AER was able to clarify that the AASB references in section 3 were intended to provide guidance how capitalisation, depreciation, etc. should be conducted in a regulatory accounting setting for the purposes of calculating the RAB value in section 4.

With this understanding, APA considers that the draft Guideline would be clearer if the asset-related guidance in section 3 of the Guideline were moved to section 4.

## 2.1 historical information

Section 4 of the draft Guideline and worksheet 3 of the draft templates provide for capital expenditure and depreciation information to be published for each year since the regulatory asset base was last established in an approved access arrangement.

However, consistent with the Part 23 Guideline, the draft Light Regulation Guideline appears to require that Pipeline Financial Information is provided only for the current year and the immediately preceding year.

Regarding Pipeline Financial Information, APA seeks confirmation of the requirement in the draft Light Regulation Guideline (p8) that:

The financial reporting template must be prepared for:

- the most recent financial year, and
- the prior financial year

applies only to revenue and operating cost information.

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<sup>1</sup> s3.2.1 Asset valuation principles, s3.2.2 Capitalisation principles, s3.2.3 Asset life principles.

However, Table 1.1.1 Financial Summary requires historical revenue, opex and tax information to be provided for every year since the RAB was last determined. This incongruity could benefit from increased clarity in the Light Regulation Guideline.

APA also notes that the draft Guideline (p7) provides that historical information is not required to be submitted in the first year that the reporting requirements apply. APA supports this as a reasonable transitional provision.

### **3 asset base roll forward**

APA recommends that asset-related accounting standard guidance be moved from section 3 to section 4 of the Guideline.

APA considers that transparency could be enhanced by reporting the regulatory asset base roll forward using the existing regulatory roll forward model rather than a separate template.

Further to the discussion on reporting AASB-based financial information in the previous section, APA considers that the AASB-related guidance on asset accounting could benefit from relocation from section 3 of the draft Guideline to section 4.

In particular APA considers that disclosure and transparency could be enhanced by aligning the asset base roll forward with the previous access arrangement.

#### **3.1 asset classes**

The regulatory asset base is determined through an access arrangement review process and is incorporated in the AER's Post Tax Revenue Model and Roll Forward Model. These models specify the asset classes in which the RAB has been determined, and the standard asset lives and remaining asset lives for these asset classes.

The current reporting template specifies a series of asset categories that appear to align with the requirements for the AASB-based financial reporting, but may not align with the asset classes established and tracked through the access arrangement process. For example, the pipeline financial information requires deferred tax assets and inventories to be reported, whereas these items do not feature in the regulatory framework.

In APA's view, disclosure and transparency could be enhanced by aligning the asset base roll forward with the previous access arrangement, to the extent possible. This would deliver much stronger mapping, and more

relevant classification, than attempts to report the RAB in asset classes designed for financial, rather than regulatory reporting.

To this end, one option may be to copy the “Capital base roll forward”<sup>2</sup> page from the Roll Forward Model, and paste it into the light regulation financial reporting template. This would ensure integrity of the RFM formulas and reduce the administrative burden and scope for clerical errors in preparing these statements in a different format.

### 3.2 indexation

In the interests of transparency, APA considers that it would be useful to subdivide the “regulatory depreciation” amounts into the separate straight line depreciation and indexation components. This information is calculated and disclosed, in total and by asset class, in the “Capital base roll forward” page of the RFM (highlighting in original):<sup>3</sup>

Aus Elec - Asset Roll Forward - TNSP RFM - version 1					
Year	2013-14	2014-15	2015-16	2016-17	
Actual CPI Inflation Rate	2.40%	2.50%	2.93%	1.72%	
Actual CPI (one year lagged)	1.0000	1.0240	1.0496	1.0804	
Nominal Actual Straight-line Depreciation					
	- 332.28	- 157.39	- 188.79	- 208.29	-
Nominal Actual Inflation on Opening Capital Base					
	85.78	90.52	115.23	71.73	

Application of indexation is confirmed in the accompanying Consultation Note to the RFM Model:<sup>4</sup>

The roll forward of the RAB from year-to-year will reflect:

- additions for actual capex, net of customer contributions and the value of asset disposals
- reductions for depreciation (based on approved asset lives and methods)

<sup>2</sup> “RAB roll forward” in the current version of the RFM.

<sup>3</sup> Source: models circulated by ModelReviews@aer.gov.au by email dated 15 August 2019.

<sup>4</sup> AER, Consultation note - Electricity transmission and distribution network service providers - Roll forward models (Distribution – version 3) (Transmission – version 4) August 2019, p4.



- indexation for actual inflation
- adjustment for the difference between estimated and actual capex for a previous regulatory control period

APA considers that transparency would be enhanced by demonstrating that the RAB reported in the Light Regulation Financial Reporting Guideline is in accordance with the Roll Forward Model.

### 3.3 capitalisation principles

The capitalisation principles in s3.2.3 of the draft Guideline (p13) provides that:

#### **New capital expenditure criteria**

Expenditure can only be classified as capital expenditure if it is conforming capital expenditure as defined in rule 79 of the **NGR**.

“Conforming” capital expenditure is capital expenditure that has been assessed by the AER as meeting the criteria specified in Rule 79(1).

This assessment is undertaken in the context of an access arrangement review process – where no access arrangement review process has been undertaken to allow the AER to conduct that assessment, there is no opportunity for the AER to assess whether capital expenditure is “conforming” under Rule 79(1).

One of the features of light regulation is that it relies on the commercial discipline and governance of the business to undertake capital expenditure without the need for regulatory oversight and approval.

This is evident in contrasting the wording in Rules 77(2)(b) and 77(3)(b). In the case where an access arrangement falls immediately after an existing access arrangement, the capital base it to be rolled forward by:

77(2)(b) conforming capital expenditure made, or to be made, during the earlier *access arrangement period*;

If a period intervenes between access arrangement periods during which the pipeline is not subject to a full access arrangement (in this case, where the pipeline was previously subject to an access arrangement and subsequently becomes subject to light regulation), then there is no avenue

for the AER to assess whether any capital base is “conforming”, and the capital base is to be rolled forward by:

77(3)(b) the amount of capital expenditure since the relevant date;

Of course Rule 77(3) is only directly applicable in the context of a future access arrangement assessment, but its structure is instructive to our current purposes. That is, where there is no occasion for the AER to assess whether capital expenditure is “conforming”, then the capital base, for the purposes of reporting under the Guideline, should be rolled forward by “capital expenditure”.

APA recommends that the draft Guideline requirement that the roll forward should include only expenditure that has been classified as “conforming capital expenditure as defined in rule 79” should be deleted.

### **3.4 non-binding nature of RAB roll forward**

APA acknowledges, consistent with s4.3 of the draft Guideline, that the capital base reported in accordance with the draft Guideline would not be binding on the AER in either an access dispute or future access arrangement review. However this comment may serve to introduce ambiguity where none is intended.

APA recommends that clarity could be enhanced by outlining the circumstances in which the AER would be required to exercise its judgement in the case of an arbitration or future access arrangement review, notably its requirement to assess whether capital expenditure meets the requirements for “conforming” capital expenditure under Rule 79. Where there are other areas in which the AER may need to depart from the values reported in accordance with the RFM Guideline, this should also be stated.

## 4 recovered capital method

APA supports the AER's long-established methodology for calculating depreciation for Covered pipelines, and supports the certainty associated with the continuation of that approach. A requirement for Covered pipelines to publish a Recovered Capital Method asset valuation could flag a change in the definition of “depreciation” for light regulation pipelines. APA is concerned that this sends dangerous signals regarding the stability and predictability of the regulatory regime.

APA is always conscious to ensure that information is useful and fit for purpose, and to this end does not support the proposal to require Covered pipelines to report a Recovered Capital Method asset valuation. This information is but one piece of information that only has applicability in the context of a commercial arbitration being conducted under Part 23 of the Rules, and therefore has no applicability to Covered pipelines.

In this draft Guideline, the AER has introduced a new way to estimate asset values for Covered pipelines, the “Recovered Capital Method” (RCM), which it proposes to apply retrospectively.

The proposed RCM reduces the value of the assets by the amount of any revenue remaining after allowing for the recovery of operating costs, a post-determined return on assets at a regulatory rate of return, and any tax thereon.<sup>5</sup>

The RCM approach thus defines “depreciation” in ex-post net revenue terms.

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<sup>5</sup> APA addressed the inappropriateness of the RCM methodology in both the GMRG and AEMC reviews.

This contrasts sharply with the AER's long-standing established methodology, which applies straight line depreciation to a capital base that has been indexed for inflation.

As discussed in more detail below, APA is most concerned with:

- the fundamental change to the long established regulatory framework, with no supporting consultation;
- the retrospective application of that change in framework; and
- the retrospective application of regulated rates of return to periods in which the AER did not have a role in determining the applicable rate of return.

#### 4.1 definition of “depreciation”

A key feature of Rule 569(4)(b) is that it does not apply “depreciation” in the calculation of the RCM asset value – Rule 569(4)(b)(iii) requires the asset value to be reduced by “the return of capital recovered since the commissioning of the pipeline”.

This distinction is important. In APA's view, in order to apply the RCM to a Covered pipeline, it would be necessary for the AER to equate the term “return of capital” in Part 23 with the term “depreciation” in Part 9. It is clear, from a comparison of the calculation of “return of capital” in the AER's Financial Reporting Guideline for Non-scheme Pipelines and the AER's long-established practice on “depreciation” (discussed below) that these are sharply different concepts.<sup>6</sup>

The proposed change in the approach to calculating depreciation would represent a fundamental change to a critical aspect of the regulatory framework, on which the AER has not consulted.

In APA's view, it would be incumbent on the AER to consult on and justify a change in approach from its long-established methodology.

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<sup>6</sup> APA notes that the light regulation Guideline financial summary template 1.1, cell B21 reads “Return of Capital (regulatory depreciation)” further conflating these concepts. Moreover, s5 of the draft Guideline (p22) requires a depreciation schedule to be provided, which would be conceptually inconsistent with the Recovered Capital Method.

#### 4.1.1 *the established regulatory framework*

The indexed straight line depreciation methodology is part of the fabric of the Australian regulatory framework – it features in virtually all regulatory determinations, is the prescribed approach in the AER's long-standing PTRM and RFM, and is also a key element of the AER's current consultation on its Roll Forward Model (as discussed in this draft Guideline as the "RFM Guideline").

The AER has long maintained the indexed straight line method as the "standard approach". For example in the APA GasNet case, in which APA GasNet proposed to cease indexation of the capital base, the AER argued:<sup>7</sup>

Regulatory depreciation typically has two components:

1. a straight-line depreciation allowance (calculated by dividing the asset value by its standard economic life (for new assets) or remaining economic life (for existing assets)); and
2. an offsetting inflation adjustment for indexation of the assets values. This adjustment is necessary where a nominal rate of return, rather than real rate of return, is used and the asset values are indexed.<sup>380</sup>

This is the standard approach that the AER has applied for all other gas transmission and distribution access arrangement decisions to date.<sup>381</sup>

<sup>380</sup> This approach was illustrated in the AER's draft decision, section 5.4.1.

<sup>381</sup> It is also the approach required for electricity transmission under the National Electricity Rules.

In the APA GasNet Decision, the AER frequently refers to the indexed straight line methodology as the "standard depreciation approach".

The AER's commitment to this methodology extended to its vigorous defence of this approach before the Australian Competition Tribunal.<sup>8</sup>

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<sup>7</sup> AER, Access arrangement final decision, APA GasNet Australia (Operations) Pty Ltd 2013–17, March 2013; Part 2: Attachments p102.

<sup>8</sup> Australian Competition Tribunal, Application by APA GasNet Australia (Operations) Pty Limited (No 2) [2013] ACompT 8, 18 September 2013.

The WA Economic Regulation Authority has also insisted that the indexed straight line approach is the only acceptable approach under the NGL, requiring the Goldfields Gas Pipeline to commence indexing the capital base, notwithstanding that it had approved two previous access arrangements based on a nominal capital base:

1190. GGT has proposed to continue using the straight-line depreciation method with historical cost accounting to depreciate the GGP Regulatory Asset Base (**RAB**). Under Schedule 1 of the *Gas Pipelines Access (Western Australia) Act 1998 - National Third Party Access Code for Natural Gas Pipeline Systems (Code)*, GGT has applied straight-line HCA [historical cost accounting] depreciation on the historical cost of its RAB since its first access arrangement. ...

1197. Australian regulators generally adopt CCA [current cost accounting] indexed straight-line depreciation of the regulatory asset base, which is equivalent to straight line depreciation in *real* terms.

1198. In line with the NGO, this 'standard' regulatory approach can be considered to be in the long term interests of consumers. ...

1227. The Authority considers that the proposed HCA approach is not compliant with the requirements of the National Gas Law, whereas the CCA approach is. ...

1247. The Authority considers that CCA is consistent with NGO ...

1263. Therefore, the Authority requires that GGT amend its proposed approach, to adopt the CCA method of depreciation forthwith. In a nominal model, that method would be consistent with the method set out in Australian Energy Regulator's Post Tax Revenue Model.

In neither case did the AER or ERA contemplate the use of a net revenue based approach to estimating depreciation.

#### **4.1.2 AER confirmation of established approach**

The draft Financial Reporting Guideline refers to an "RFM Guideline", which we have been advised is a suite of documents and models comprising the current updates to the AER's PTRM and RFM.

The AER notes, on the relevant web page,<sup>9</sup> that:

The gas final model templates will be developed in accordance with the recent [changes to the NGR regarding the regulation of covered pipelines](#) [specifically, new Rules 75A and 75B]. This rule change allows the regulator to prepare and publish consistent **financial models that service providers must use** as part of the access arrangement review process to construct the capital base, and the total revenue calculated using the building block approach.

The [current electricity models](#) are intended to be used as the base template from which any gas specific amendments will be made. The consultation process for development of the gas financial models will be made in tandem with the [amendments to the electricity RFMs](#) to ensure efficient stakeholder engagement. It is expected that any amendments required for the electricity RFMs will also be reflected in the new gas models. [emphasis added; weblinks in original]

The Roll Forward Models, both existing and in this update consultation, are all clearly based on an indexed straight line form of depreciation (highlighting in original):<sup>10</sup>

Aus Elec - Asset Roll Forward - TNSP RFM - version 1				
Year	2013-14	2014-15	2015-16	2016-17
Actual CPI Inflation Rate	2.40%	2.50%	2.93%	1.72%
Actual CPI (one year lagged)	1.0000	1.0240	1.0496	1.0804
Nominal Actual Straight-line Depreciation	- 332.28	- 157.39	- 188.79	- 208.29
Nominal Actual Inflation on Opening Capital Base	85.78	90.52	115.23	71.73

This is confirmed in the accompanying Consultation Note:<sup>11</sup>

The roll forward of the RAB from year-to-year will reflect:

<sup>9</sup> <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/gas-financial-models-roll-forward-and-revenue-2020>

<sup>10</sup> Source: models circulated by ModelReviews@ aer.gov.au by email dated 15 August 2019.

<sup>11</sup> AER, Consultation note - Electricity transmission and distribution network service providers - Roll forward models (Distribution – version 3) (Transmission – version 4) August 2019, p4.

- additions for actual capex, net of customer contributions and the value of asset disposals
- reductions for depreciation (based on approved asset lives and methods)
- indexation for actual inflation
- adjustment for the difference between estimated and actual capex for a previous regulatory control period

There is no indication in this current RFM Guideline consultation that the AER is considering moving to a net revenue based depreciation approach that would be required to enable the Recovered Capital Method asset valuation.

APA is most concerned that the draft Financial Reporting Guideline for Light Regulation Pipelines proposes to apply the RCM to some Covered pipelines, when the AER's long-held "standard approach" is clearly based on straight line depreciation of an indexed capital base, and the AER has not signalled any intention to depart from this approach.

APA submits that applying this novel approach to depreciation to existing Covered assets undermines the credibility and stability of the Australian regulatory regime, and reduces certainty for investors.

#### **4.2 the RCM value and Part 23 of the Rules**

The "Recovered Capital Method" (RCM) appears in Part 23 of the National Gas Rules (Rule 569(4)(b)), in a Part dedicated to information provision, negotiation and arbitration for non-scheme pipelines. None of Part 23 has any applicability to Covered pipelines.

In particular, this asset value is only potentially relevant, as but one piece of information, in the context of a *commercial* arbitration conducted under Part 23 for non-scheme pipelines.

Under Part 23, applicable to non-scheme pipelines, the dispute resolution body is a commercial arbitrator. In contrast, the dispute resolution body for a Covered pipeline is specified as the AER.<sup>12</sup>

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<sup>12</sup> As defined in s2 of the National Gas Law.



In order to provide information to a shipper as to the possible outcomes of an arbitration, the shipper would have to believe that the AER would apply the RCM asset value in an arbitration. In order for this to occur, the AER would need to consciously depart from its long-standing approach to calculating depreciation in a regulatory context. This is discussed more fully below.

In APA's view, the RCM asset value has no role in a *regulatory* arbitration conducted by the AER. Its publication therefore provides no useful information to market participants to inform their negotiations for access to light regulation pipelines.

#### **4.3 retrospective application of change in approach**

From a policy perspective, APA acknowledges that a living regulatory regime requires adjustment from time to time to better deliver on its objectives. But in the context of good legislative practice and long-lived assets, it is critical that any changes be made prospectively rather than retrospectively.

In the process of developing the Financial Reporting Guideline for Non-scheme Pipelines under Part 23 of the National Gas Rules, APA submitted that an asset valuation using the RCM approach retrospectively confiscated all volume, revenue and opex efficiencies since the pipeline first went in to service. Retrospective application of the RCM approach to Covered pipelines would similarly confiscate all historical efficiency gains. This contradicts the incentives for load and revenue growth that are built into the National Gas Access Regime.

APA believes that the proposed retrospective application of the RCM approach to Covered pipelines is inconsistent with best practice regulation and will undermine stability and predictability of Australia's regulatory regime.

#### **4.4 retrospective application of regulated rates of return**

A key feature of light regulation is that the pipeline and shippers negotiate tariffs bilaterally, with the backstop of regulatory arbitration in the event that commercial negotiations fail. This is the core of the negotiate-arbitrate model.

During a period of light regulation, the AER does not determine reference tariffs in an access arrangement setting. It therefore has no opportunity to turn its attention to the appropriate cost of capital to be reflected in the negotiated tariffs.

The requirements for the rate of return to be applied in the RCM approach, as outlined on page 21 of the draft Guideline, requires that “The return on capital is to be based on the WACC”. The draft Guideline then defines the WACC as being the regulatory rates of return as defined in chapter 6 of the draft Guideline.

APA is concerned that the draft Guideline proposes to require the light regulation pipeline to apply regulated rates of return to historical periods in which the AER did not have occasion to determine rates of return applicable to these pipelines.

APA considers that a light regulation pipeline service provider faces different risks relative to a full regulation pipeline service provider. A full regulation pipeline service provider has some confidence that tariffs will be set in accordance with the National Gas Law pricing principles:

24(2) A service provider should be provided with a reasonable opportunity to recover at least the efficient costs the service provider incurs in (a) providing reference services; ...

The light regulation service provider has no such confidence that it will be able to recover at least its efficient costs in providing the light regulation services.

APA thus submits that it is inappropriate to apply full regulation rates of return to light regulation pipelines.

APA considers that the existing text, which parallels that of the Part 23 Guideline, is more appropriate to light regulation pipelines:

the rate of return ... is to be determined for each year and is to be commensurate with the prevailing conditions in the market for funds and reflect the risks the service provider faces in providing pipeline services.



#### 4.4.1 WACC reported in financial summary

Following the same argument, APA is concerned that the light regulation Guideline template, specifically the Financial Summary in worksheet 1.1, requires the WACC to be reported in each year (row 10). This WACC is then used to calculate an “allowed revenue” figure (referred to as “Estimated Regulatory Revenue” in row 24).

10	Nominal WACC	Section 6	
17			
18	<b>Building Block Revenue (\$m, Nominal)</b>	Source	
19			
20	Return on Capital	Formula	-
21	Return of Capital (regulatory depreciation)	RFM output	-
22	Operating Expenditure	As above	-
23	Net Tax Liabilities	As above	-
24	Estimated Regulatory Revenue		-
25			
26			
27	Actual Revenue		

APA is comfortable reporting the ex ante revenue allowance from the most recent access arrangement for the years in which that access arrangement was in effect. In this regard, the “Building Block Revenue” information in rows 20-23 of the Financial Summary tab should be input values, rather than calculated values. This would then allow the actual revenue (row 27) to be compared to the ex ante allowed revenue to disclose any revenue over- or under-performance.

However, during the period of light regulation, the AER did not have opportunity to determine a WACC rate for the light regulation pipeline, and did not have an opportunity to determine any amount of “Building Block Revenue”. APA is concerned that providing this information in this format could incorrectly suggest to users that the AER had established a level of regulatory revenue against which actual revenue could be compared; this, of course, is not the case.

Thus the calculation or disclosure of the information in rows 20 through 24 of worksheet 1.1 should not be reported for the period during which the pipeline provided light regulation services.

#### 4.4.2 unique definition of regulatory WACC

Notwithstanding the comments above regarding the applicability of the RCM asset value for Covered pipelines, or the use of a regulated WACC, APA is concerned by the apparent contradiction in section 6 that the

regulated WACC as promulgated in an AER Rate of Return Guideline or binding Instrument is to be used, except that the AER's required trailing average rate of return on debt is not to be applied.

APA considers that developing this unusual WACC value will require considerable manual back-calculation and adjustments to excise the effect of the rolling average cost of debt to deliver the WACC value required by this draft Guideline. APA considers that this is a backwards step for transparency.

In APA's view, if a regulated WACC is to be used, the Service provider should simply be required to identify and disclose the regulatory decisions from which the regulated WACC values have been drawn. Users are then able to make their own decisions as to whether they consider other regulatory decisions to be more appropriate, without having to unscramble the convoluted WACC and cost of debt process specified in the draft Light Regulation Guideline.

## **5 weighted average price information**

APA supports the requirement to publish Weighted Average Prices, subject to the specified exemption regime.

APA notes that section 7 of the draft Light Regulation Guideline largely mirrors the Part 23 Guideline as it relates to the publication of weighted average prices.

APA considers that, given the prohibitions on price discrimination in s136 of the National Gas Law, the publication of Weighted Average Prices should be relatively non-controversial.

Always protective of our customers' commercial confidential information, APA supports the application of the exemption regime paralleling the Part 23 provision.

### **5.1 interpreting the weighted average price information**

As with the Part 23 provisions, caution will be required in interpreting the results where two-part (fixed plus variable) tariffs apply. For example, gas distribution tariffs often feature a fixed (capacity or connection) charge plus a volumetric usage charge. The draft Light Regulation Guideline will require separate reporting of these components.

The Weighted Average Price template also does not appear to contemplate that light regulation distribution networks will serve customers in different customer classes (for example a Volumetric class for residential customers and a Demand class for industrials). APA considers that transparency would be enhanced by allowing the Weighted Average prices to be provided by tariff class to enable comparison against posted tariffs. APA would be pleased to work with the AER to design a suitable reporting template.

### **5.2 price discrimination and confidentiality**

As noted in s7.4 of the draft Guideline, s136 of the National Gas Law includes a prohibition on price discrimination when providing light regulation services, unless it is conducive to efficient service provision. As outlined in the draft Guideline, a Weighted Average Price that differs from the posted tariff may indicate that some form of price discrimination has occurred.



The draft Guideline requires the light regulation pipeline to provide a general explanation in the basis of preparation as to why any price discrimination is conducive to efficient service provision.

APA is concerned that, considering the small number of Users on a particular pipeline, any such explanation will disclose commercial information relevant to the shipper's commercial operations, and is therefore reluctant to report this information, even in general terms, publicly.

APA would be pleased to work with the AER to develop some alternate arrangements to give the AER confidence in the integrity of the Weighted Average Price reporting without disclosing the commercial information of its shippers.

## 6 assurance requirements

APA would be pleased to work with the AER to develop a cost-effective assurance scope for the purposes of this Guideline.

### 6.1 scope

Section 10.4, on the level of assurance required, indicates that "Auditors are not only required to audit the financial reporting template against the basis of preparation. They must also audit against the requirements of this Guideline."

It is not clear how an auditor could be expected to report against two standards. Moreover, in APA's view, it is in the auditor's area of expertise to report as to whether the financial information is reported correctly against the Basis of Preparation, but compliance with the Guideline not – it is the business' responsibility.

### 6.2 costs

The assurance requirements in s10 of the draft Light Regulation Guideline requires the Pipeline Financial Information to be audited to a "reasonable assurance" standard under ASA 805.

APA, as a consolidated entity, audits its statutory information at the consolidated level – it does not prepare audited financial information at the service provider level.

APA's experience with the Part 23 Guideline has been that this level of assurance at the Service Provider level requires extensive detailed audit procedures to be undertaken at a much lower level of materiality, at considerable cost. This is a substantial cost imposed by this draft Guideline which will ultimately need to be recovered from customers.

APA would welcome an opportunity to work with the AER to develop a lower cost way to provide an acceptable level of assurance on the reported values.