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Mr Sebastian Roberts
General Manager, Transmission and Gas
Australian Energy Regulator

Via email AERInquiry@aer.gov.au

**SUBMISSION: DRAFT FINANCIAL REPORTING GUIDELINE FOR LIGHT REGULATION
PIPELINE SERVICES**

The Australian Pipelines and Gas Association (APGA) welcomes the opportunity to comment on the Australian Energy Regulator's (AER) Draft Financial Reporting Guideline for Light Regulation Pipeline Services.

APGA is the industry body representing the owners, operators, designers, constructors and service providers of Australia's high-pressure gas transmission infrastructure. Australia has around 40,000km of high-pressure pipelines, with an estimated replacement value of over \$50 billion. Gas is a critical part of Australia's energy mix.

In this submission, APGA will limit its substantive comments to the AER's proposed new definition of depreciation as being consistent with the Recovered Capital Methodology (RCM). We are generally comfortable with other sections of the draft guideline such as the requirement to publish pipeline financial information, the requirement to publish weighted average price information and providing for pipelines to use regulated asset bases where these are already established.

APGA has strong concerns about the AER's proposal to use the RCM value in parallel with the rollforward methodology for a covered pipeline that does not have a previously determined asset value, and consequent new definition of depreciation as being consistent with RCM.

Our concerns in respect of the proposed application of RCM for light regulation pipelines are threefold.

First, this is a unique and novel definition of depreciation. The new definition, to be used in parallel with the existing definition, is a departure from the AER's established practice in this area. We note that the existing definition of depreciation has been developed and refined over the previous two decades and is well embedded in the regulatory regime. Such a departure from the established definition risks undermining

confidence in the regulatory regime. This is a cause for concern to APGA because a reliable, stable and internally consistent regulatory framework is vital to maintaining the attractiveness of the Australian energy sector as a destination for investment.

Second, APGA is concerned about the direct impact of the new definition of depreciation on individual businesses. Its impact would be to effectively confiscate any revenue or cost outperformance from pipeline operators and use that outperformance to reduce asset value and drive lower returns in future. This too has implications not only for existing businesses but for the future investment environment and investor confidence. We believe this is also inconsistent with a workably competitive framework where businesses have incentives to increase asset utilisation and lower their costs to maintain their market share and maximise returns.

Third, APGA has concerns about the potential proliferation of asset valuation methodologies in general. We note that regulators are currently considering use of multiple asset valuation methodologies across covered pipelines. Such developments also lead to uncertainty, with implications for energy sector perceptions of regulatory regime stability.

APGA also has concerns with the implications of section 4.3 which could be read to allow alternative methods of asset valuation to be used in dispute settlement for light regulation pipelines. To ensure investor confidence in the regulatory regime for covered pipelines, dispute settlement, particularly where the regulator and dispute settlement body are the same, should maintain a consistent asset valuation methodology with an existing regulator approved methodology for the specific pipeline.

APGA would like to be clear that the issues identified are only intended to apply to the application of RCM to the depreciation definition for covered (in this case light regulation) assets. We are not referring to any aspects of the use of RCM for uncovered assets under Part 23 of the NGR.

If you would like to discuss any of these issues further, please contact APGA's National Policy Manager, Andrew Robertson on 02 6273 0577 or at arobertson@apga.org.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Steve Davies', with a stylized flourish at the end.

STEVE DAVIES
Chief Executive Officer