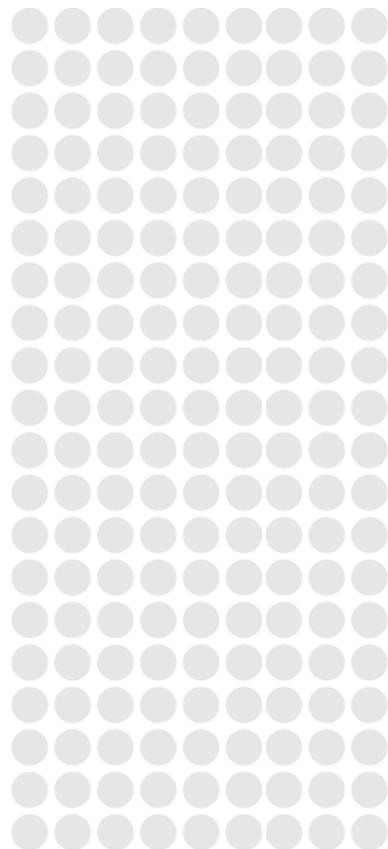




3 November 2017

financial reporting guideline for non-scheme pipelines

apa response to consultation paper



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1 submission summary

APA supports the vision of the reforms giving rise to these Financial Reporting Guidelines – enhanced information disclosure targeted at supporting commercial negotiations, and binding commercial arbitration, where commercial negotiations fail.

APA considers that the Financial Reporting Guideline should be supportive of this vision, and should be fit for purpose to achieving the objectives of these reforms.

In particular, APA considers that the information to be reported at the pipeline level should be provided to a level of granularity relevant to the needs of shippers in making a high level assessment of the reasonableness of the tariff offered by the service provider for access to the pipeline.

APA considers that reporting an asset valuation under the methodology specified in Rule 569(4)(b) could be misleading in terms of assisting users in assessing the reasonableness of pipeliner offers in a workably competitive market, and undermine the effectiveness of the reforms. The costs associated with preparing this financial information, and the costs of providing any level of audit assurance on it, should not be under estimated. As discussed more fully in section 3, APA submits that this reporting requirement should be removed from the Financial Reporting Guideline.

responses to questions posed in the Consultation Paper

The *Consultation Paper* poses questions in respect of the scheme, and the preliminary views put in the paper. Section 4 of the submission addresses these questions.

As always, APA would be pleased to discuss this submission with the GMRG and looks forward to that opportunity.

2 assessment of proposed financial reporting guideline against stated objectives

2.1 objectives of COAG Energy Council agreed information disclosure and arbitration framework

Dr Vertigan's regime has two main parts:

- Enhanced information disclosure targeted at supporting commercial negotiations; and
- Binding commercial arbitration, where commercial negotiations fail.

The vision underpinning this framework was that binding commercial arbitration would provide a credible threat to both parties that would drive them towards successful commercial negotiation. In this vision the commercial arbitration mechanism was to be the backstop, not the main mechanism, for reaching agreement between the parties.

Importantly, Dr Vertigan's approach was intended to achieve these improved negotiation outcomes without the costs and risks seen to arise from regulation. The expected positive outcomes and attributes of Dr Vertigan's scheme, as described in the report, were:

- Avoidance of the costs of regulation
...the effectiveness of commercial negotiations needs to be addressed in a manner which avoids the time delays and high costs usually associated with formal regulatory processes.¹
- Avoid overregulation
[In respect of discussion of option 5] This option would create considerable uncertainty, with little legal principle or precedent available to interpret the test likely to increase the legal and administrative costs associated with coverage determinations. Further, consultation suggests that this option risks over-regulation, discouraging investment and innovation.²

¹ Dr Michael Vertigan AC 2016, Examination of the current test for the regulation of gas pipelines: Report, 14 December, p 91

² Vertigan 2016, Examination of the current test for the regulation of gas pipelines: Report, p 97

- Supportive of continuing investment and innovation

The credibility of the threat needs to be appropriately balanced to avoid deterring pipeline investment and innovation.³

and,

The proposed solution should avoid any 'chilling' effect on investment.⁴

- Speediness

This option has the potential to facilitate efficient commercial outcomes while avoiding the time, cost and uncertainty associated with regulatory processes.⁵

This framework was endorsed by the COAG Energy Council.

APA supports these aims and considers they are achievable.

2.2 Guideline must be responsive to the objectives of the Rules

In contrast to most of the Rules in the National Gas Rules, this particular set of Rules (Part 23) includes its own objectives section in addition to, and distinct from, the NGO.

In APA's view, it is incumbent on the drafters of any Guideline under these Rules to ensure that they directly address the objectives of this Part of the Rules. This is well encapsulated on page 1 of the Consultation Paper:⁶

Financial and weighted average price information is intended to assist prospective users to carry out a high-level assessment of the reasonableness of the service provider's standing price, as well as the terms and conditions associated with the service.

As discussed in greater detail in this submission, there are a number of reporting requirements currently included in the draft Guideline that are not consistent with this Objective, notably:

- the granularity of the income statement;
- the treatment of tax;

³ Vertigan 2016, Examination of the current test for the regulation of gas pipelines: Report, p 79

⁴ Vertigan 2016, Examination of the current test for the regulation of gas pipelines: Report, p 91

⁵ Vertigan 2016, Examination of the current test for the regulation of gas pipelines: Report, p 91

⁶ GMRG, Draft Financial Reporting Guidelines for Non-Scheme Pipelines - Consultation Paper, October 2017, p1.

- requirements to report historical impairments and reasons; and
- requirement to report asset valuation information that is only relevant in the case an arbitration has been launched (see section 3)

There are also a number of circumstances, discussed in more detail in the sections which follow, in which the information can be very costly to produce, and it is not clear that there is a net benefit to the market to require that information to be prepared and published.

2.3 the benefits of the regulatory burden must exceed the costs

APA notes that there appears to have been no regulatory impact statement or other cost benefit analysis undertaken as part of this draft guideline development process.

This is concerning, as the costs associated with reporting against the draft guideline are considerable. These costs are driven by a number of factors:

- the costs of preparing pipeline-level financial information that is not normally prepared in the normal course of business. Considerable analytical work will need to be undertaken to determine the amount of operating expenditure, corporate costs, and financing costs relevant to each individual asset. This is not marginal effort – as this information is not currently reported, it is additional work specifically applicable to compliance with this Guideline; and
- the audit and assurance costs driven by compliance with this Guideline should not be underestimated. APA's consolidated financial statements are currently audited at a level of materiality relevant to the level of revenues, expenses, assets etc reported in the APA Group consolidated financial statements. To require audit or assurance procedures to be undertaken at the pipeline level requires the audit and assurance work to be undertaken to a level of materiality consistent with the level of revenues, expenses, assets etc relevant to that particular pipeline – a much lower level of materiality, driving a considerable amount of additional audit and assurance effort, risk, and ultimately costs.

The greatest costs are likely to be incurred in searching for, sourcing, validating, analysing and reporting on information required to comply with the Rule 569(4) asset valuation as required under Chapter 5 of the Guideline. The costs associated with providing any level of meaningful audit assurance on those reports is unimaginable.

APA is most concerned about the GMRG's views regarding audit and assurance costs. APA understands that the GMRG expressed views at the 1 November Advisory



Council meeting that the various business' auditors had expressed a high degree of comfort reporting on the draft Guideline's "certification" requirements. This contrasts sharply with APA's recollection of the Deloitte and KPMG views at the 18 October consultation workshop, and with the advice provided by Deloitte to APA, as reflected in the commentary below.

3 asset valuation under Rule 569(4)

For the reasons outlined in this section APA considers that a Guideline requirement to report a pipeline asset valuation under Rule 569(4) is not consistent with the vision, objectives, or structure of these reforms and Part 23 of the National Gas Rules.

While APA acknowledges that Rule 557(2)(a)(ii)(A) could be read to allow the guideline to require the 569(4) asset valuation to be reported, APA considers that this does not mean that it should.

3.1 policy

As discussed, the policy foundation of these reforms is very clear – information provision to support commercial negotiation, with commercial arbitration as a backstop measure in the event negotiations are not successful.

This policy is reflected in the structure of the Rules – Part 23 of the National Gas Rules contains clearly delineated sections on information (Division 2), negotiation (Division 3) and arbitration (Division 4). This is evidenced in Rule 548:

548 Structure of this Part

- (1) Division 1 sets out the objectives of this Part and deals with preliminary matters.
- (2) Division 2 sets out information that must be published by the service provider for a non-scheme pipeline.
- (3) Division 3 provides for access requests and negotiations.
- (4) Division 4 provides for the arbitration of access disputes.
- (5) Division 5 contains provisions about the role of the scheme administrator.

This structure, reflecting the policy vision, is important in that it reflects the intention as to how the Rules were meant to operate to achieve the policy outcomes. The 569(4) asset valuation is included in the “arbitration” section, indeed among the pricing principles to which the arbitrator must have regard in reaching a determination.

In particular, APA submits that, if the policy vision were to require the Rule 569(4) asset valuation to be reported publicly as a source of information to assist commercial negotiation, then this requirement would have been included in the “information” section (Division 2) of the Rules rather than the “arbitration” section (Division 4).

3.2 rules

Noting that the Rule 569(4) asset valuation is clearly in the arbitration section, it is important to understand how the 569(4) asset valuation fits into the information and arbitration regime, and under what circumstances it is relevant to the process.

Importantly, the 569(4) asset valuation is not required prior to notification of an access dispute – it is in the pricing principles to be considered by the arbitrator.

APA submits that an asset valuation under the recovered capital methodology is not relevant until such time as an arbitration has been triggered, and is therefore not appropriate for routine financial reporting.

3.2.1 **Rule 569(4) is not enlivened until an arbitration has been launched**

The 569(4) asset valuation has only one purpose in the Rules – to provide some information to the arbitrator in the context of the pricing principles to which the arbitrator must have regard.

These pricing principles are not articulated in the “Information” (Division 2) or “Negotiation” (Division 3) sections of the Rules – they are only relevant to the “Arbitration” section (Division 4), and are therefore not enlivened until the “arbitration” section of the Rules comes into play.

Requiring the 569(4) asset valuation to be routinely reported is nonsensical within the structure of the Rules. Requiring an arbitrator to disclose the asset value under Rule 581(g) means that there is something there to arbitrate on in this respect (otherwise there would be no need for the arbitrator to be involved). If this is true, then the 569(4) asset value does not exist until it becomes one of the findings of the arbitration. Publishing it in advance of arbitration suggests that it must be known and therefore doesn't require arbitration.

3.2.2 **the arbitrator is not bound by the 569(4) asset valuation**

Rule 555(2) (in the “information” section of the Rules) states:

(2) To avoid doubt, an arbitrator is not bound by financial information published under this rule or by any methods, principles or inputs that have been used to calculate financial information published under this rule.

The provision that any information (including the 569(4) asset valuation) is not binding is important. Consistent with the pricing principles, the 569(4) asset valuation is but one of a number of matters to which the arbitrator must have regard.

APA is concerned that publication of the 569(4) asset valuation may lend it more credibility than the structure of the Rules affords.

3.2.3 *the 569(4) asset valuation may not be relevant to an arbitration*

The Rules clearly envision that circumstances will arise in which the 569(4) asset valuation (or indeed any asset valuation) will not be relevant to the arbitration determination. For example Rule 581(1)(g) provides:

581 Information to be published about access determinations

(1) Within a reasonable time of a final access determination being made, the scheme administrator must publish on its website the following information: ...

(g) **if the final access determination includes a determination with respect to asset valuation**, the valuation method adopted, the assets to which the valuation applied and the determination of the asset value.

[emphasis added]

This provision clearly envisions that an access determination may not include a determination on asset valuation and moreover, if it does include an asset valuation determination, it is clearly envisioned that it may not be the 569(4) asset valuation.

In either of these circumstance the 569(4) asset valuation would not be published as part of the access determination. APA submits that publishing the 569(4) asset valuation as a matter of routine reporting has scope to create confusion when compared against any asset valuation that may be published by an arbitrator under Rule 581(1)(g).

3.2.4 *the 569(4) asset valuation is “confidential information”*

The Definitions and Interpretation section (Rule 549) defines “confidential information” as:

confidential information, in relation to an arbitration under this Part, means information that relates to the access dispute or the arbitration or to an access determination made in that arbitration and includes the following:

(a) statements under rule 567 and other statements in the nature of pleadings or submissions, and other information supplied to the arbitrator by a party to the access dispute; ...

To the extent that the 569(4) asset valuation would be provided to the arbitrator in the context of an access dispute, it would be “confidential information” in the construct of the Rules.

APA acknowledges that the 569(4) asset valuation could be requested by the shipper in negotiation under Rule 562. This could be relevant insofar as any subsequent arbitration would be carried out “on the papers” (Rule 568, in the “arbitration” section (Division 4)).

Acknowledging that the information could later be provided to an arbitrator as part of an arbitration (and would thus become “confidential information”), it seems reasonable to expect that the service provider would provide this information to the shipper confidentially, in which case the confidentiality provisions of Rule 561(8) would apply. The requested 569(4) asset valuation would therefore not be published through this avenue.

Should negotiations be unsuccessful and should the matter proceed to arbitration, the arbitration is conducted in private. This is clear from the definition of Confidential Information (referring to statements under Rule 567, pleadings, etc) and the clear provisions of Rules 576 (Confidentiality), and the restrictions on the information to be published under Rule 581.

3.2.5 *the 569(4) asset valuation may not be published as part of an arbitration*

While an asset valuation determined in the arbitration determination must be published (Rule 581(g)), it is not necessarily the case that the asset valuation published will be the 569(4) asset valuation. While the arbitrator is required to have regard to the 569(4) asset valuation as part of the pricing principles, it remains at large in its determination of an asset value, should it determine one.

The Rules also envision that negotiation could continue during the arbitration, and that those negotiations could be fruitful, in which case the shipper and pipeliner could agree that the shipper would terminate the arbitration under Rule 578(1)(c). In this case no arbitration determination would be published, and no asset valuation (whether the 569(4) asset valuation or some other asset valuation) would be reported under Rule 581(g).

3.2.6 *summary*

APA considers that it would be inconsistent for the Guideline to require the 569(4) asset valuation to be publicly reported when:

- the requirement to prepare the 569(4) asset valuation is not enlivened until an arbitration is triggered;
- the arbitrator is not bound by the 569(4) asset valuation in any case (Rule 555(2));
- the Rules envision that the 569(4) asset valuation may not be relevant to, or form part of, the arbitration (Rule 581(g));
- the 569(4) asset valuation provided to the arbitrator would form part of the “confidential information”; and

- the 569(4) asset valuation may not be published as a result of an arbitration, either through the arbitrator determining a different asset value, or as a consequence of the parties terminating the arbitration as a result of successful ongoing negotiations.

APA submits that, considering the stated objectives of the regime and on the correct and reasonable interpretation of the National Gas Rules (NGR), it is not reasonable for the financial reporting Guideline to require the asset valuation determined in accordance with Rule 569(4), relevant to a private arbitration conducted under Division 4 of these Rules, to be reported publicly as a matter of the routine annual financial reporting requirements.

APA submits that Chapter 5 of the draft Guideline, and similarly tab 3.1 of the Guideline reporting template, should be removed.

3.3 availability of information

Notwithstanding the comments above, it needs to be recognised that where the Guideline requires the current service provider to report historical information relevant to a period in which the asset may have been owned by a different entity, this information may not be available. This problem is exacerbated where the pipeline has changed ownership a number of times over the course of its service life.



4 responses to consultation paper questions

In responding to these questions, APA notes the following defined terms in the Guideline:

- **service provider** of a pipeline has the meaning given in section 8 of the NGL (in summary, a person who owns, controls or operates a pipeline or scheme pipeline.)
- **reporting entity** means the body that prepares financial statements, which may be the service provider or a direct parent entity where the service provider does not prepare financial statements.

There are occasions when the Consultation Paper applies these terms ambiguously. Where this confusion is present, this submission seeks to provide a clear response in the context of these definitions.

GMRG question	APA response
Entity financial statements	
1. What existing entity level financial statements are prepared by service providers? <ul style="list-style-type: none"> • Are these existing statements prepared in accordance with Australian accounting standards or international financial reporting standards? • Where the pipeline is operated by a joint 	<p>In APA's case no financial statements are prepared at the service provider level. Audited consolidated financial statements prepared in accordance with Australian Accounting Standards are provided by APA Group, and are available on the APA Group website.</p> <p>Joint ventures (APA presumes the question relates to unincorporated joint ventures) are not financial reporting entities. Each venturer contributes capital to the venture and receives a share of the revenue of the venture. The value of assets contributed by each participant to the venture, any revenue derived from the venture, and any financing or other costs are reported in the hands of the individual JV participants - the JV does not hold or report assets or financing. While the JV operator may prepare statements of JV operating expenditure for the JV participants, this statement would not include information relating to the value of any assets, revenues, corporate costs, financing costs, or tax.</p>



GMRG question	APA response
<p>venture, does the joint venture prepare financial information?</p>	<p>In the case of incorporated joint ventures or associates which are equity accounted, financial information is prepared in accordance with the requirements of the shareholders' agreement and are not necessarily general purpose financial statements prepared in accordance with Australian Accounting Standards.</p>
<p>2. Do you think service providers should be required to provide annual reports for the entity that owns or operates the pipeline?</p> <ul style="list-style-type: none"> • If so, please explain what benefits you think this information will provide users that are seeking access to the services provided by non-scheme pipelines. • If not, please explain why not. 	<p>While questioning the usefulness of this information to the successful operation of the regime, APA notes that a requirement to provide a reference to existing publicly reported entity-level audited financial statements (in APA's case, this would be the APA Group Annual Report) is not an onerous requirement.</p> <p>APA does not address this question in the context of a pipeline owned by a private equity firm or other non-public entity that does not otherwise produce audited entity-level financial statements.</p>
<p>3. Are service providers likely to face any challenges publishing entity level financial statements?</p>	<p>To the extent that these reporting requirements are satisfied by a reference to the APA Group audited consolidated financial statements in its Annual Report, service providers in the APA Group will be able to provide this information.</p>



GMRG question	APA response
<p>4. If entity level financial statements are not required, do you think there would be value in requiring the service provider to report the entity level return on assets and return on equity?</p>	<p>APA submits that entity-level returns on assets or equity are not relevant to the purpose of these reforms, and could very well be misleading in achieving the objectives of these reforms.</p> <p>APA Group's consolidated financial statements include the operations of a number of businesses, including a range of regulated and unregulated gas pipelines, but also wind and solar farms, power generation, midstream activities, and other investments.</p> <p>APA submits that any measure of returns on assets or equity at the corporate consolidated level is not useful to shippers in deciding whether to seek access to a pipeline, or making a high-level assessment of the reasonableness of the tariff offered by the pipeliner for access to the pipeline.</p>
Pipeline financial statements	
<p>5. Are there any categories of revenue missing from the income statement that you think should be reported? If so, please what information is missing is and why it is required?</p>	<p>APA considers that the draft Guideline currently requires reporting of financial information at a level of granularity beyond that necessary to promote the objectives of the Rules. It is not necessary, for example, to separately report salaries and wages expenditure in order for prospective shippers to make a high level assessment as to whether the tariff offered by the pipeliner is reasonable.</p> <p>There are no categories of revenue or opex that are missing.</p>
<p>6. Are there any categories of revenue that be particularly difficult to find a basis for allocation to a pipeline?</p>	<p>The basis of allocation will be particularly difficult in a bespoke contracting environment. Modern pipeline contracts invariably provide for a suite of services, and as the pricing of individual components of that service package (say, between transport and storage) is not relevant to either the shipper or the service provider, the contract does not delineate them separately.</p> <p>Therefore it will be difficult to meaningfully allocate total revenue across all categories of revenue.</p>



GMRG question	APA response
<p>7. Are there any categories of expenses missing from the income statement that you think should be reported? If so, what information is missing is and why is it required?</p>	<p>Rule 557(c) provides for the Guideline to specify the level of detail to be reported:</p> <p style="padding-left: 40px;">(2) The financial reporting guidelines must: ...</p> <p style="padding-left: 40px;">(c) specify the level of detail of information required, which must be the level of detail reasonably required given the objectives of this Part and to provide a true and fair statement of the financial performance of the non-scheme pipeline and weighted average prices for pipeline services on the non-scheme pipeline;</p> <p>However, the level of granularity “must be the level of detail reasonably required given the objectives of this Part”.</p> <p>As discussed above, the stated objective of these Rules is to allow shippers “to assist prospective users to carry out a high-level assessment of the reasonableness of the service provider’s standing price.”</p> <p>While APA accepts that some financial information regarding revenues and costs may be relevant to this high level assessment, it does not accept that granular financial information is necessary to making a high level assessment.</p> <p>APA considers that some items could be reasonably required, notably depreciation, so that the shipper can see that depreciation has been calculated in accordance with the Guideline’s recommendations on asset lives.</p> <p>But it is not necessary, in APA’s view, for operating costs to be disaggregated into component parts, such as separately identifying salary and wages information.</p> <p>APA considers that the current pipeline income statement template requires the pipeline to report expenses at a far more granular level than is required for the access seeker to make a high level</p>



GMRG question	APA response
	<p>assessment of the reasonableness of the tariff offered for access to the pipeline.</p> <p>APA submits that the reporting of operating costs should be restricted to two categories: opex and depreciation.</p>
<p>8. Should interest expense and tax expense be required to be included in the pipeline income statement?</p>	<p>Further to the discussion on reporting liabilities and equity above, interest expense is problematic for businesses, such as APA, which raise capital at the corporate level. In order for reported interest expense to be meaningful, assessments would need to be made regarding the appropriate capital structure and cost of debt that would be applicable to the service provider, having regard to the prevailing conditions in the market for funds and reflecting the risks the service provider faces in providing services.</p> <p>Tax is a complex area, and the draft Guideline does not assist, by painting a confused picture. In various sections of the draft Guideline, “tax” is referred to as “tax payments”⁷ “tax expense”,⁸“tax expenses”⁹, “tax”,¹⁰ and “net tax liabilities”.¹¹ Some of these terms have distinct meanings in financial circles (notably a key difference between “tax expense” and “tax payable”) while others remain undefined. Confusion abounds.</p> <p>Tax is problematic at the service provider level. Tax is an “entity” concept, not an “asset” concept</p>

⁷ s4.1.1

⁸ Box 4.1 Q8

⁹ Box 4.2 Q18

¹⁰ s4.1.3 “(NPAT after tax on total equity)”

¹¹ s5.1



GMRG question	APA response
	<p>(AASB 1052). Businesses holding a number of operating assets will lodge consolidated tax returns across the entity, in which the trail of revenues, expenses and assets related to particular entities is not relevant and therefore not maintained. The result is a complex web that is simply not possible to be picked apart.</p> <p>Moreover, it would be impossible to track which pipeline capital or operating expenditure in any particular year may be subject to particular investment incentives in order to allocate those benefits to particular pipeline assets. Such an allocation would be arbitrary at best, and would distort any financial performance analysis that the shipper sought to undertake.</p> <p>APA recommends that, particularly considering the complexity associated with attributing financing costs across an organisation, any calculation of tax is more likely to add confusion than clarity. Any amounts should therefore be reported on a pre-tax basis to provide a foundation for comparison across businesses.</p> <p>Should the AER conclude that tax should be reported, it will be critical to employ a consistent measure of “tax” that is not subject to the vagaries of tax consolidations and short term investment tax incentives. Should “tax” be included in the reporting framework, it should be consistently reported as “tax expense” being book taxable income (revenue less opex, book depreciation, and interest expense) multiplied by the relevant corporate tax rate.</p> <p>It should be noted that this measure of tax expense will be “derived” for the purpose of these financial reporting guidelines (particularly where assumptions have been made regarding capital structure and interest costs, as discussed above). Accordingly, it will never be able to be agreed to the business’ (or the consolidated entity’s) audited financial statements, and the impact on the level of audit assurance on the individual pipeline financial information should be considered accordingly.</p> <p>APA considers that, if tax is to be reported, it should be reported on a notional “tax expense” basis, being net (book) income (reflecting book depreciation) multiplied by the statutory tax rate.</p>



GMRG question	APA response
<p>9. Are there any categories of assets and liabilities missing from the balance sheet that you think should be reported? If so, please what information is missing is and why it is required?</p>	<p>To the extent the pipeline financial information is provided to allow the shipper to make a high level assessment of the reasonableness of the tariff proposed by the service provider for access to the pipeline, the balance sheet can be reported at a very summarised level and meet the objectives of the reforms.</p> <p>APA considers that the pipeline balance sheet should be further summarised rather than further disaggregated.</p>
<p>10. Should liabilities and equity be disclosed in the pipeline balance sheet?</p>	<p>A basic tenet of corporate finance is the distinction between the investing and financing decisions. In APA's view, a high level assessment of the reasonableness of the service provider's standing price need not consider how the asset has been financed.</p> <p>Moreover, for a business that raises capital at the corporate level (as does APA), the allocation of debt and equity to a particular pipeline asset is problematic. In order to undertake such an allocation, the service provider would need to make assumptions regarding:</p> <ul style="list-style-type: none"> • the capital structure of each operating pipeline – different capital structures may be relevant for different pipelines, depending on the particular risk characteristics of their market, shippers, etc; • the cost of debt of each operating pipeline – as with any enterprise, the cost of debt for a particular pipeline will depend on its risk exposure, certainty of revenue stream, etc. <p>APA considers that this would undermine the usefulness of the financial reports, and significantly distort any performance metrics derived from the information reported through the Guideline.</p>



GMRG question	APA response
	<p>As with interest, liabilities and equity present cost allocation issues, in which an assessment would need to be made of the appropriate capital structure and cost of debt applicable to the service provider, having regard to the prevailing conditions in the market for funds and reflecting the risks the service provider faces in providing services.</p> <p>Within this context, an allocation methodology could be developed to report liabilities, with equity making up the residual amount to equate to net assets. APA remains concerned about the relevance of any financial metrics that could be derived from such information.</p> <p>It would appear to be neither necessary nor meaningful to disaggregate the equity section into any sub-categories, such as invested capital, retained earnings, etc.</p>
<p>11. Do you think any additional notes should be provided to the financial statements?</p>	<p>APA considers that the Guideline should not mandate any particular format or content for the notes to the pipeline financial information.</p> <p>On the basis that the reporting obligations under the Guideline requires the use of methods, principles and inputs specified in the Guideline, there should be no need for additional notes to the pipeline level financial information.</p> <p>Notes to the financial information outlining (among other things) the basis of preparation and the impact of differences between the required pipeline financial information and financial statements prepared under the relevant accounting standards, will vary widely depending on the particular circumstances of the pipeline and service provider.</p> <p>An attempt to codify requirements for notes to the financial information will invariably be so broad as to provide no meaningful guidance, or will need to be so precise as to deal with every conceivable circumstance in the market as to be unwieldy.</p>

GMRG question	APA response
	<p>In APA's view, the notes should be required to be fit for purpose relative to the financial information provided, and this should be the extent of the Guideline requirement.</p>
<p>12. Do you think any other financial statements (e.g. cash flow statements) should be published? If so, please explain what value this would provide prospective users when assessing the reasonableness of an offer.</p>	<p>No financial statements beyond the summary income statement and balance sheet should be required.</p>
<p>13. Is it feasible to report pipeline financial information in the event the pipeline is owned by multiple service providers (e.g. through a joint venture)? If so, what process do you suggest is used to identify the service provider responsible for publishing pipeline financial information?</p>	<p>The provision of any pipeline financial information should be done through the normal governance structures of the relevant pipeline and should not require one service provider to be responsible for the pipeline financial information.</p>
<p>14. Should asset value impairments be allowed? If so, in what circumstances?</p>	<p>To the extent that the Guideline requires the financial information to be prepared in accordance with the Australian Accounting Standards, then it follows that asset impairments recorded by the current owner should be reflected in the pipeline financial information.</p> <p>However, the draft Guideline appears to be of the view that recoveries of any previous asset</p>



GMRG question	APA response
	<p>writedown should be barred (s4.2.1).</p> <p>APA submits that, if the Guideline is to rely on the Australian Accounting Standards to ensure consistency of reporting, then they must equally allow asset impairment reversals to be recorded where the Australian Accounting Standards so allow.</p>
<p>15. Do you have any concerns with the use of acquisition values for the purposes of calculating the book value used in the Balance Sheet? If so, please explain why.</p>	<p>Reporting acquired assets at acquisition value is in accordance with the Accounting Standards and therefore it is appropriate for it to be used. This is the only information captured by the pipeline owner when the pipeline is acquired.</p> <p>But here APA notes a sharp dichotomy between the treatment afforded a non-scheme pipeline and that applicable to a heavy-regulated pipelines in regard to the treatment of inflation.</p> <p>Even where acquisition cost has been used to value a heavy-regulated pipeline (s8.10(j) of the National Gas Code), that asset valuation is subject to annual indexation from that point onwards.</p> <p>The Guideline Consultation Paper has not engaged with the question of indexation, stating only that indexation would not be consistent with the Australian Accounting Standards. However, in the very next point (see Q16), the Guideline explicitly requires the service provider to depart from the Australian Accounting Standards to report the previous owner's capital base instead of acquisition value.</p> <p>APA considers that this inconsistent application and exemption of Australian Accounting Standards will have two key effects:</p> <ul style="list-style-type: none"> • first, it will make it very difficult for shippers to compare prices between heavy-regulated scheme and non-scheme pipelines, as the underlying asset valuation will differ markedly over time;



GMRG question	APA response
	<ul style="list-style-type: none"> it will encourage non-scheme pipeline owners to apply for heavy-regulated status as a mechanism to preserve the value of the capital base - an outcome clearly at odds with the Vertigan vision. <p>It is noteworthy that on a number of occasions (specifically, in the context of the Victorian Transmission System, the Goldfields Gas Pipeline and the ATCO Gas distribution network), service providers have sought to express the capital base in nominal terms (ie to not index for inflation), and on all these occasions, the regulator has denied that application and insisted that the capital base be indexed (even, in the case of the Goldfields Gas Pipeline, to require the service provider to commence indexation when the capital base had previously been maintained in nominal terms).</p> <p>It is incongruous, then, that the GMRG Guideline should reject indexation, in direct contrast to the mandated indexation applicable to heavy-regulated pipelines, on the grounds of consistency with the Australian Accounting Standards, which are then blithely disregarded in the application of the very next reporting requirement (see Q16).</p>
<p>16. Do you agree with the proposed capitalisation principles?</p>	<p>The capitalisation principles in the Guideline are acceptable to the extent they are largely in accordance with the Australian Accounting Standards.</p> <p>However, the requirement to use the closing asset value from the previous owner's financial reporting template is contrary to Australian Accounting Standards, and inconsistent with the proposal to apply acquisition value.</p> <p>The treatment of "capital contributions" is also inconsistent with the accounting and tax reporting requirements.</p>



GMRG question	APA response
<p>17. Are there any categories of revenue, costs, assets or liabilities which will be particularly difficult to find a basis for allocation to a pipeline?</p>	<p>APA considers that there are no <i>particular</i> classes of assets, liabilities, revenues or expenses for which it will be <i>particularly</i> difficult to determine a reasonable basis of attribution or allocation. The process of determination / allocation for all costs, revenue, assets or liabilities is onerous. This will be an resource-intensive, expensive and time consuming exercise.</p> <p>APA's auditors advise that auditing any cost allocation is likely to prove challenging. Under the proposed auditing standards (ASA 800 – Audits of financial reports prepared in accordance with special purpose frameworks and ASA 805 – Audits of single financial statements and specific elements, accounts or items) the auditor will be required to form a view that those financial statements “present fairly in accordance” or “have been prepared in all material respects” (see response to Question 34 regarding form of audit report) with the regulatory accounting principles and policies (see responses to Question 11); inter alia, this will require the auditor to form a view on the reasonableness of the basis of allocation and conclude that it is fair and reasonable and does not result in the pipeline financial information being materially misstated.</p> <p>As each set of pipeline financial information has its own materiality, any cost allocation will need to be audited to the lowest level of materiality for the group to which the pipeline belongs. This may not be practically possible as it will require a level of precision that is not possible.</p> <p>It was suggested at the round table in Melbourne that the auditor could provide a statement that the pipeline financial information was prepared in accordance with the basis of preparation disclosed, however such a statement is not an assurance opinion in accordance with the requirement to sign off under ASA 800 and ASA 805.</p> <p>We strongly suggest that further consultation with the audit firms is undertaken on the proposed audit related requirements of the Guideline in relation to the pipeline financial information before the Guideline is finalised.</p>



GMRG question	APA response
<p>18. What difficulties arise in allocating interest and tax expenses to an individual pipeline?</p>	<p>Interest expense is problematic for businesses, such as APA, which raise capital at the corporate level. In order for reported interest expense to be meaningful, assessments would need to be made regarding the appropriate capital structure and cost of debt that would be applicable to the service provider, having regard to the prevailing conditions in the market for funds and reflecting the risks the service provider faces in providing services.</p> <p>Tax is problematic at the service provider level. Tax is an “entity” concept, not an “asset” concept (AASB 1052). Businesses holding a number of operating assets will lodge consolidated tax returns across the entity, in which the trail of revenues, expenses and assets related to particular entities is not relevant and therefore not maintained.</p> <p>See the discussion of tax in the response to Q8 above.</p>
<p>19. Do you think shared costs should be separated into the various categories in Section 4.1.1 of the draft guideline, or is it sufficient for these to be reporting as one line “shared costs”?</p>	<p>APA considers that the proposed Guideline requires information to be reported to a more granular level than is required to support the decision-making under the regime. This applies equally for shared costs, which should be included in a single “opex” line rather than subject to disaggregation.</p>
<p>20. If liabilities and equity are disclosed in the pipeline balance sheet, how should shared debt / equity be allocated?</p>	<p>As discussed in the response to question 10, interest, liabilities and equity present cost allocation issues, in which an assessment would need to be made of the appropriate capital structure and cost of debt applicable to the service provider, having regard to the prevailing conditions in the market for funds and reflecting the risks the service provider faces in providing services.</p>



GMRG question	APA response
	<p>Within this context, a methodology could be developed to report liabilities, with equity making up the residual amount to equate to net assets. It would appear to be neither necessary nor meaningful to disaggregate the equity section into any sub-categories, such as invested capital, retained earnings, etc.</p>
<p>21. If allocation principles form part of an arbitrator's final determination under Part 23 of the NGR, should the service provider be required to note this in the pipeline financial information?</p>	<p>The arbitration rules are clear that the arbitrator's decision relates to the specific circumstances surrounds the subject arbitration. Rule 581(1) is clear regarding the items that must be published about access determinations. It is noteworthy that Rule 581 is expressed as an exhaustive list – it does not contain a clause along the lines of “any other information the arbitrator considers appropriate under the circumstances”, or the like.</p> <p>APA considers that a requirement for the Guideline to publish additional information arising from an access dispute extends beyond the scope of the Rules.</p>
<p>22. Are there any methods, principles or inputs that you think should be specified in the guideline?</p>	<p>As discussed above, the requirement on the financial information should be that it is “fit for purpose”, rather than the Guideline attempting to specify methods, principles and inputs that may not be relevant to all circumstances.</p>
<p>23. Should the pipeline statements (performance metrics) show the return on equity for the pipeline, or is it sufficient to show the return on assets only?</p>	<p>It is a basic principle of corporate finance that the investing and financing decisions are separate decisions. Requiring a return on equity to be reported requires assumptions regarding capital structure and the cost of debt. These assumptions will differ across pipelines, making comparisons difficult.</p>



GMRG question	APA response
What benefit could shippers derive from understanding a pipeline's return on equity?	
24. What other financial performance metrics would be useful to shippers and why?	APA considers that shippers are sufficiently sophisticated as to be able to calculate financial metrics relevant to their decision-making from the information provided.
Recovered capital	
Foundation issue	<p>As discussed in section 3, APA considers that it would be inconsistent for the Guideline to require the 569(4) asset valuation to be publicly reported when:</p> <ul style="list-style-type: none"> • the requirement to prepare the 569(4) asset valuation is not enlivened until an arbitration is triggered; • the arbitrator is not bound by the 569(4) asset valuation in any case (Rule 555(2)); • the Rules envision that the 569(4) asset valuation may not be relevant to, or form part of, the arbitration (Rule 581 (g)); • the 569(4) asset valuation provided to the arbitrator would form part of the "confidential information"; • the 569(4) asset valuation may not be published as a result of an arbitration, either through the arbitrator determining a different asset value, or as a consequence of the parties terminating the arbitration as a result of successful ongoing negotiations. <p>APA submits that, considering the stated objectives of the regime and on the correct and reasonable interpretation of the National Gas Rules (NGR), it is not reasonable for the financial</p>



GMRG question	APA response
	<p>reporting Guideline to require the asset valuation determined in accordance with Rule 569(4), relevant to a private arbitration conducted under Division 4 of these Rules, to be reported publicly as a matter of the routine annual financial reporting requirements.</p> <p>The greatest costs are likely to be incurred in searching for, sourcing, validating, analysing and reporting on information required to comply with the Rule 569(4) asset valuation as required under Chapter 5 of the Guideline. The costs associated with providing any level of meaningful audit assurance on those reports is unimaginable. APA notes that there has been no regulatory impact statement or other cost/benefit analysis associated with this reporting requirement.</p> <p>APA submits that the entirety of Chapter 5 of the draft Guideline, and similarly tab 3.1 of the Guideline reporting template, should be removed.</p>
<p>25. If a service provider does not have records of all the historic information required to apply the recovered capital method (either due to the age of the pipeline or because the pipeline has changed hands), what steps do you think the service provider should be required to demonstrate they have taken to obtain this information?</p>	<p>APA considers that it is not the role of a Guideline to specify the internal procedures to be undertaken by a pipeliner to comply with the Guideline. This would represent a significant case of regulatory over-reach.</p> <p>It is also not practical for a Guideline to specify what procedures should be undertaken, as these procedures will vary depending on whether the pipeline was constructed by the existing owner, acquired as an asset, or through an acquisition of shares.</p>
<p>26. If the service provider has exhausted all avenues for</p>	<p>As above, APA considers that the procedures to be undertaken will vary by pipeline and its particular circumstances. It is therefore not appropriate for the Guideline to specify any particular procedures</p>



GMRG question	APA response
<p>obtaining this information, do you think it should be required to develop an estimate of the missing information?</p> <ul style="list-style-type: none"> If not, please explain why not? If so, what guidance should be provided in the guideline on how these estimates are to be generated? 	<p>that must be undertaken.</p> <p>Rather, APA considers that the service provider should disclose the procedures it has undertaken.</p>
<p>27. If estimates are permitted:</p> <ul style="list-style-type: none"> how reliable do you think the estimates are likely be and is there a risk that this information could be misleading to shippers? how could estimates be tested or reviewed to ensure they have been arrived at on a reasonable basis and reflect the best estimate in the circumstances? 	<p>APA considers that, where estimates are required, the approach to developing those estimates will likely use a wide range of approaches and techniques, depending on the nature of the information to be estimated.</p> <p>It would be very difficult indeed for a Guideline to anticipate all the various types of information that may need to be estimated and all the various analytical techniques that may be applied to the estimation task.</p> <p>A requirement to provide any sort of "audit certification" (recognising the ambiguity of that term) is problematic indeed. In the absence of source-recorded information (which is why an estimate would be required) it would be virtually impossible for an auditor to provide any assurance beyond agreed upon procedures related to clerical accuracy.</p> <p>APA proposes that the financial information containing the estimates could be accompanied by a statement from a responsible officer of the organisation to the effect the estimates have been arrived at on a reasonable basis and reflect the best estimate in the circumstances.</p>



GMRG question	APA response
<ul style="list-style-type: none"> what level of certification is relevant / possible if the information is based on estimates? 	
<p>28. Are there likely to be any challenges including shared assets in this valuation approach?</p>	<p>This could be a challenging requirement, particular relating to historical business structures. It would be reasonable to envision a variety of historical shared asset treatments, including whether shared assets would have been tracked at the service provider level, versus being recorded at the corporate head office level.</p>
<p>29. Are there likely to be any challenges in determining a commercial rate of return for each year (including the rate of return for a previous owner of the pipeline)?</p>	<p>APA considers that it may be possible to derive a benchmark commercial rate of return from available market data. This estimate will need to be tempered by an assessment of the market in which the pipeline operated in the relevant year, and the appropriate capital structure for the pipeline.</p> <p>This would necessarily be an estimate, and may be subject to a number of analytical approaches. As with other estimates, the basis of deriving the estimate could be disclosed, but it would be difficult for an auditor to provide any level of assurance on this estimate.</p> <p>The estimate could be accompanied by a statement by a responsible office of the organisation that the organisation to the effect the estimates have been arrived at on a reasonable basis and reflect the best estimate in the circumstances.</p>
<p>30. Is any further prescription required regarding what net tax</p>	<p>As discussed above (see Q8), tax is problematic at the service provider level. Tax is an “entity” concept, not an “asset” concept (AASB 1052). Businesses holding a number of operating assets will</p>



GMRG question	APA response
liability amounts consist of?	<p>lodge consolidated tax returns across the entity, in which the trail of revenues, expenses and assets related to particular entities is not relevant and therefore not maintained.</p> <p>It will be impossible to pick apart the corporate tax return for historical periods, including unravelling the impact of historical temporary tax investment incentives.</p> <p>APA considers that, if tax is to be reported, it should be reported on a "tax expense" basis, being net income (reflecting book depreciation) multiplied by the statutory tax rate.</p>
Weighted average price	
<p>31. Do you agree with the proposed approach to calculating weighted average prices by service type and charging method? If not, please explain why not and set out the alternative methodology you think should be employed.</p>	<p>At the highest level, the Guideline's proposed methodology is deceptively straightforward. However, the Guideline hides the underlying complexity associated with estimating the amount of revenue recovered from each contract through the provision of such a granular definition of services – contracts are virtually never written with this level of granular pricing specified. It will be very difficult indeed to disaggregate contract revenues by service and charging mechanism to produce some sort of meaningful outcome.</p> <p>APA considers that the Guideline should allow the service provider to aggregate demand where required to mask the tariffs of individual shippers, in order to protect their commercially sensitive information.</p> <p>APA considers that the current requirement to apply to the AER for an exemption for this aggregation is unduly prescriptive relative to the vision of the Rules.</p>
<p>32. Should estimates be allowed where agreements do not</p>	<p>APA considers that some form of estimate will be required to report revenues by service. Many contracts provide for a number of services, where those services are not individually priced.</p>



GMRG question	APA response
<p>separate revenue? If not, how should these revenues be allocated?</p>	<p>The approach applied to allocate revenues across services will vary, not only by pipeline, but potentially across different contracts as well. There will also inevitably be different views between pipeliners and shippers as to how much of a particular contract's revenue is attributable to a particular component of the total service package.</p> <p>It will therefore be impractical for the Guideline to attempt to codify any particular attribution methodology.</p>
<p>33. Is the proposed level of disaggregation of services appropriate, or could some service categories be aggregated and still provide a meaningful benchmark against which prices and offers can be compared?</p>	<p>APA considers that the multi-faceted disaggregation process runs the risk of reporting tariffs to such a level of granularity that it will regularly be possible for shippers to estimate the tariffs applicable to their competitors. This runs the risk of disclosing information that could result in shippers' confidential information being released to the marketplace.</p>
Certification	
<p>34. What level of assurance is appropriate for the pipeline financial statements? Would this change if there is information in the pipeline statement that is required to be estimated?</p>	<p>APA thanks Deloitte for its insights and commentary in preparing this section of this submission.</p> <p>It was clear from the consultation at the round table session with service provider auditors that this aspect of the Guideline requires considerable further consultation. The current draft of the Guideline includes flawed assumptions regarding the matters on which an auditor can and cannot opine, and the levels of assurance that are able to be given.</p> <p>Auditing any cost allocation is likely to prove challenging. Under the proposed auditing standards</p>



GMRG question	APA response
	<p>(ASA 800 – Audits of financial reports prepared in accordance with special purpose frameworks and ASA 805 – Audits of single financial statements and specific elements, accounts or items) the auditor will be required to form a view that those financial statements “present fairly in accordance ” or “have been prepared in all material respects” (see response to Question 34 regarding form of audit report) with the regulatory accounting principles and policies (see responses to Question 11); inter alia, this will require the auditor to form a view on the reasonableness of the basis of allocation and conclude that it is fair and reasonable and does not result in the pipeline financial information being materially misstated.</p> <p>As each set of pipeline financial information has its own materiality, any cost allocation will need to be audited to the lowest level of materiality for the subsidiary business to which the pipeline belongs. This may not be practically possible as it will require a level of precision that is not possible.</p> <p>It was suggested at the round table in Melbourne that the auditor could provide a statement that the pipeline financial information was prepared in accordance with the basis of preparation disclosed, however such a statement is not an assurance opinion in accordance with the requirement to sign off under ASA 800 and ASA 805.</p> <p>We [Deloitte] strongly suggest that further consultation with the audit firms is undertaken on the proposed audit related requirements of the Guideline in relation to the pipeline financial information before the Guideline is finalised.</p> <p>At the 18 October consultation, Deloitte (APA's auditor) suggested that the GMRG should consult with the Australian Auditing and Assurance Standards Board to get a clear picture of the possible assurance options available.</p> <p>Deloitte, APA's auditors, also provided us with the following high level comments (consistent with the comments made at the 18Th October consultation meeting):</p> <ul style="list-style-type: none"> • Auditors do not “certify” anything. The terminology and references to audit, review and agreed



GMRG question	APA response
	<p>upon procedures (AUPs) in the draft Guideline should be referred to the Australian Auditing and Assurance Standards Board (AuASB) and reviewed by their technical specialists to ensure they are appropriately used, and that the requirements to meet the referenced standard of assurance can be met.</p> <ul style="list-style-type: none"> • The form of audit report may need to refer to “<i>has been prepared in all material respects</i>” not “<i>presents fairly in all material respects</i>”). • Consideration should be given to the title of the subject matter – the Guideline should refer to <i>pipeline financial information</i> not <i>pipeline financial statements</i>. • The framework needs to be clarified as to the basis of preparation (as per comments made by participants at the consultation meeting). • The statement on page 10 of the Consultation Paper “Where the total amounts to be allocated have been audited previously ...this may reduce certification costs” should be deleted, as the basis of preparation and other factors will determine the cost. Importantly, as raised at the 18 October consultation, the level of materiality applied to single-pipeline financial information would be expected to be much lower than that applied to consolidated financial statements. • The Access Information Standard should apply to management and not to the assurance process. • The deadline for performing assurance / review is unreasonable and unlikely to be practically achievable given the onerous nature of current requirements. Deloitte’s view is that they should be at least 6 months after the end of the annual reporting period. <p>APA also notes the comments of KPMG (Jemena’s auditors) from the 18 October consultation that a “specified procedures” (that is, agreed upon procedures) report is not allowed to be made public, to avoid incorrectly implying to users that any form of assurance is provided through an agreed upon</p>



GMRG question	APA response
	procedures engagement.
<p>35. What level of assurance is required for the asset valuation carried out using the method set out in rule 569(4)? If agreed upon procedures are appropriate, what should these procedures be?</p>	<p>As discussed at the consultation session on 18 October it is not clear that any level of assurance could be provided in regard to the 569(4) asset valuation. This is primarily resulting from the reliance of such a valuation on estimated information and on historical information that may not have been subject to any form of assurance.</p> <p>The ability of an auditor to provide assurance in respect of the determination of the asset valuation is dependent on whether there are inherent scope limitations related to the engagement, including management's ability to obtain or determine all of the information inputs required to calculate the value of the assets and, in relation to assurance procedures, the availability of <u>supporting objective evidence</u> and the ability to test that evidence.</p> <p>This may require access to information sources which are not available to management or the auditor, including for example, ex-employees and redundant information systems that supports those inputs. It also needs to be recognised that, the ability to perform assurance procedures in respect of that information may be impacted by factors including lack of availability of, and restrictions on, access to information retained by previous asset owners (incorporating all relevant information that relates to the attribution of revenue and costs to be allocated to the asset).</p> <p>Where the assurance practitioner is not able to obtain sufficient appropriate evidence there is a limitation of scope, the outcome of which materially impacts the information to which the assurance report relates. If this occurs then the assurance practitioner is required to issue a modified opinion / conclusion. Further, while not a form of assurance report, an agreed upon procedures report will be problematic, as:</p> <ul style="list-style-type: none"> • it may incorrectly imply that some level of assurance is provided on the information, when



GMRG question	APA response
	<p>indeed any such assurance is expressly denied.</p> <ul style="list-style-type: none"> it is unlikely that the use of the factual findings report will be able to be restricted to the engaging party (i.e.: pipeliner) and intended users as the information will be public and will be used by third parties for purposes other than what it was prepared for (for example, arbitration) given the problematic nature of sourcing the information required for the asset valuation calculation in accordance with the method set out in rule 569(4), it is possible that the procedures will be unlikely to meet the needs of the intended users. <p>Consistent with the comments made at the 18 October meeting, APA's auditors have advised that it is too early to determine what the likely agreed upon procedures should be.</p> <p>We stress that consultation with auditors is fundamental to ensuring that any assurance framework is appropriately determined.</p>
<p>36. What level of assurance is required for the weighted average pricing information? If agreed upon procedures are appropriate, what should these procedures be?</p>	<p>As outlines above in Q34,, it is not clear than any level of assurance or agreed upon procedures could be provided in regard to weighted average pricing information.</p>
<p>37. What mechanism should be used in the guideline to ensure any revisions to accounting standards are reflected?</p>	<p>APA considers that it is not necessary for the Guideline to list all of the various AASB requirements. Rather, the Guideline could simply provide that AASBs apply except where alternate requirements are set out in the guidelines.</p> <p>As a matter of principle, APA cautions against departing from specific sections of the AASBs on an ad</p>



GMRG question	APA response
	<p>hoc basis. This, in APA's view, will limit the reliance that shippers can confidently place on the financial information provided.</p>
<p>38. Where there are changes in accounting standards, should the service provider be required to outline the impact of changes in accounting standards, or is it sufficient for the guideline to state the information prepared for prior periods should not need to be amended for changes in accounting standards?</p>	<p>APA considers that the Guideline should make a clear decision to abide by the accounting standards or to develop some other reporting framework. A Guideline which requires a user of financial information to understand which AASBs apply in which circumstance, and which to not, is a recipe for confusion.</p> <p>APA questions whether there is any value in restating each pipeline's financial information and therefore agrees that it is sufficient for the Guideline to state that the information prepared in prior periods should not need to be amended for changes in accounting standards.</p>
<p>39. What level of assurance is appropriate for initial reporting requirements? Why?</p>	<p>The draft Guideline currently provides that the initial reporting period should cover the second six months of an annual reporting period. This does not align with the financial statement reporting periods, which apply for the first six months of a fiscal year, or the entirety of the fiscal year. The draft Guideline creates stub periods and hence assurance requirements around beginning and end of period.</p> <p>APA suggests that this half-year period be used as a trial, and not be subject to any assurance procedures on the financial information.</p> <p>A note will be required in the October 2018 and in particular the 2019 accounts, to note that the financial information published for 2018 is for a half year, to avoid any unreasonable comparisons between full year and half year results.</p>



GMRG question	APA response
Confidentiality	
<p>40. Do you think that any of the information required by the draft guideline is confidential? If so:</p> <ul style="list-style-type: none"> • What information do you believe is confidential and why? • What impact would the disclosure of this information have on service providers? 	<p>APA has consistently commented that its concerns over confidentiality relate to the disclosure of commercially sensitive information relating to shippers. Given the condensed time from for development of these draft Guidelines, it is not possible to ascertain in advance just what confidential information is at risk of disclosure as a result of compliance with the draft Guideline.</p> <p>The scope for disclosure of confidential information may not be known until the late stages of the analysis process. It should be noted that there may not be sufficient time for APA to prepare, and for the AER to assess, an application for exemption.</p> <p>Disclosure of this information would place APA in breach of the confidentiality requirements included in its current gas transportation agreements, and expose it to liability under those contracts.</p>
<p>41. How could this information be presented to avoid confidentiality concerns but still meet the objectives of the NGR? For example, could this information be aggregated in a manner that was still meaningful?</p>	<p>As with many aspects of this draft Guideline, it will not be possible to ascertain what information should be aggregated to avoid disclosure of confidential information until the analysis is well progressed.</p> <p>The circumstances surrounding the potential disclosure, and the actions necessary to avoid disclosure of confidential information, will vary by pipeline and by contract. It would be very difficult indeed for a Guideline to anticipate all the circumstances in which the reporting requirements have had to be modified in order to prevent the disclosure of confidential information.</p> <p>APA considers that the draft Guideline should rely on a statement by a responsible officer of the service provider that the financial and/or weighted average tariff information has been modified in order to avoid disclosure of confidential information.</p>



GMRG question	APA response
42. Is a confidentiality regime required? If so, how do you suggest this should operate?	APA considers that the draft Guideline should rely on a statement by a responsible officer of the service provider that the financial and/or weighted average tariff information has been modified in order to avoid disclosure of confidential information.

