



PAA NATURAL GAS STORAGE

December 12, 2011

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 2006

Re: Rulemaking Docket Matter No.37

As chairman of the audit committee and members of management of a publicly traded partnership, we are writing to comment on the concept release on Auditor Independence and Audit Firm Rotation, dated August 16, 2011. After our review and consideration of the matters highlighted in your concept release, it is our opinion that the consideration of any new standard which would result in at least some form of mandatory audit firm rotation is one that will require very thorough deliberation and analysis given that the potential benefits from mandatory audit firm rotation are difficult to definitively measure and there are likely many adverse consequences which have not yet been fully identified or assessed. As a result, we urge the Board to ensure that appropriate time and resources are devoted to this matter to ensure a thorough cost-benefit analysis is performed and it is clear, before any new standard is adopted, that the benefits of such standard outweigh the costs. Additionally, we believe that it is very important that a balanced approach is taken to assess the impact on all involved parties, including the impact on audit committees and members of management, and not just focusing on a seemingly “quick-fix” to address frequently occurring issues arising from your inspections process.

We do completely agree with the Board that auditor independence, objectivity and professional skepticism are essential matters integral to ensuring the quality, integrity and transparency of the public company financial reporting process and any perceived or actual systematic deficiencies in these areas cannot be tolerated.

Below are our views and observations in response to selected elements of the concept release.

Based on the results of your inspections process presented in the concept release, there do appear to be certain instances of concern in the areas of independence, objectivity and professional skepticism along with the fact that it does not appear that audit quality has been improving over time. While we agree that such matters, if they exist in the manner in which you allude, must be subject to corrective action in a timely manner, we question whether mandatory audit firm rotation is the most effective or efficient means to address these issues in the most timely manner. We encourage the Board to ensure that a full “root-cause” analysis is done on these issues to ensure that auditor rotation, if adopted, would serve as an effective corrective action. From our viewpoint, it would appear that additional auditor training requirements, enhanced firm internal review requirements, increased Board inspections and/or potential penalties for non-compliance in the inspections process are potential options which we believe

warrant consideration as alternatives which may adequately address the issues noted in your inspections process in a more effective and efficient manner than auditor rotation.

As clearly stated in the concept release, the subject of mandatory audit rotation has been a topic of numerous studies and debate over recent history. Several authoritative bodies have clearly committed an extensive amount of resources to study this matter and to date; there do not appear to have been any conclusive results with regards to its perceived effectiveness. We encourage the Board to give appropriate recognition to the challenging nature of this issue, as evidenced by previous studies and debate, and give consideration to the historical challenges that have existed in this area. If such challenges cannot currently be clearly overcome to the satisfaction of impacted parties, a longer-term plan may need to be established before any conclusions may be reached on the effectiveness of mandatory auditor rotation.

Mandatory auditor rotation does have certain benefits in theory which are reasonably addressed in the concept release. However, we caution the Board to ensure a thorough evaluation process is performed so as to ensure that such benefits are realistic and achievable and will not be offset or negated by limitations in practice by related or unrelated matters. While auditor rotation may reduce the potential for "coziness" between the auditor and management, relationships between auditors and management may always be influenced by the auditors need to replace business that the firm is losing as a result of the rotation process. Additionally, when considering how rotation impacts the relationship between auditors and management, factors such as management turnover, acquisitions and divestitures and local market and industry sizes and dynamics should be considered. Also, the concept release acknowledges the view that audit quality may decrease in early periods following a rotation due to "learning curve" factors. In our opinion, we believe that this is a reasonable expectation given the complexity of today's business environment and the amount of time that it takes for any person to fully understand the nature of a company's activities to the point where they are able to conduct a quality audit. The "learning curve" issue is also likely to be further exacerbated by the level of employee turnover at audit firms. While some element of cumulative audit knowledge is certainly retained at the institutional level, we believe that a greater component of this knowledge rests with the individuals performing the audit and in the event such individuals are not engaged in each audit during the rotation period, getting over the "learning curve" is a continual challenge for audit firms. We also believe the overall audit quality may decrease as a result of mandatory rotation of audit firms as audit firms may rotate engagement team members more frequently amongst engagements for marketing purposes as they attempt to allocate talent in a manner to facilitate replacing clients that they are nearing the end of their engagement with.

With regards to costs, the concept release states that costs are likely to increase in the event of the adoption of a standard requiring auditor rotation. We agree with this assertion. While we don't necessarily object to cost increases if they ultimately result in improved audit quality, we do believe that there must be a clear conclusion that such costs are necessary and unavoidable, increases are being incurred in the most efficient manner possible and are borne by the appropriate parties. While there does not appear to be a consensus reached on whether or not overall audit quality would improve as a

result of mandatory auditor rotation, it does seem commonly accepted that costs will increase in the event mandatory auditor rotation is required. We encourage the Board to take appropriate measures to ensure a standard is not adopted which results in increased costs with more than offsetting audit quality improvements. The concept release states that larger firms estimate that first year audit costs may increase by 20%. It is not clear in the concept release whether or not this estimate gives consideration to market pricing conditions. In the event, auditor rotations are required, there will likely be a greater impact of market conditions on audit fees as a result of a more competitive bidding process. Whether this impact is positive or negative is a matter that appears to warrant further consideration. Otherwise, the concept release is silent on other drivers for increased costs. We believe that there are many hidden costs, which are much more difficult to measure, which may potentially result from a standard requiring mandatory audit rotation. Many of these internal costs, such as the costs of running a proposal process, the additional company effort in the audit firm transition process and the facilitating of the new auditor scrutinizing positions taken by the former auditor, have the ability to be substantial. We believe that a more comprehensive analysis of potential incremental costs be performed prior to adopting any new standard to more fully indentify and assess incremental costs. A better definition and analysis of both the nature and amount of costs appears to be necessary before it can be asserted that the benefits of a new auditor rotation standard would outweigh the costs. How additional costs are incurred also appears to be a matter that should be considered. Would an expansion of your inspections process be less costly than auditor rotation? This may potentially be less costly for public companies while being more effective in addressing the perceived audit quality issues outstanding. Additionally, while companies should be expected to bear their fair share of costs, we believe it is important to reiterate that audit quality issues appear to be the primary driver of the proposal for mandatory auditor rotation. If companies and shareholders end up bearing a disproportionate share, or potentially all, of the increases costs, there may not be sufficient incentive for audit firms to ensure appropriate corrective action is taken to address the perceived audit quality issues. We believe that it is important for there to be some form of financial incentive for audit firms to ensure appropriate improvements are made. Care should be taken to ensure that audit firms do not profit as a result of a potential mandatory rotation requirement.

In the event a mandatory auditor rotation standard is adopted, there will be a significant increase in volume of public companies changing audit firms. As such, appropriate consideration should be given to a potential need to revisit applicable standards and rules related to auditor changes and their potential impact on capital markets transactions and the corporate governance processes prior to the adoption of a new standard on mandatory auditor rotation. Mandatory auditor rotation may create complexities for issuers accessing capital markets from both timing and cost perspectives. Further, an increase in anticipated auditor changes would likely warrant further standards and guidance surrounding the current auditor's evaluation of positions taken by management and the prior auditor. Given that many significant accounting positions are highly judgmental in nature and based on the best information available at the time the decision is made, a revisiting of prior reached conclusions by the new auditor could result in some challenging discussions for both audit firms and management. Without defined

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parameters by which to manage this process, there could be many unintended, adverse implications including avoidable and unnecessary delays in the financial statement reporting process.

Thank you for the opportunity to comment on this concept release.

Sincerely,



Victor Burk
Chairman of the Audit Committee



Al Swanson
Executive Vice President and Chief Financial Officer



Don O'Shea
Chief Accounting Officer