



16 May 2013

Ms Claire Rozyn
Australian Energy Market Commission
Level 5
201 Elizabeth Street
Sydney NSW 2000

AEMC Reference: GRC0017

Dear Ms Rozyn

AEMC Draft Rule: MOS cost recovery processes

APA Group (APA) welcomes the opportunity to lodge the following submission in response to the Australian Energy Market Commission's (AEMC's) draft decision in relation to the Australian Energy Regulator's (AER's) MOS cost recovery rule change request.

APA is a major ASX-listed energy infrastructure business, owning and/or operating over \$12 billion of assets. Relevant to the Short Term Trading Market (STTM), these investments include the Moomba to Sydney Pipeline and the Roma to Brisbane Pipeline.

Experience under existing rules

Two rounds of invoice submission and payment have now been completed under the current Rules. While the process to assess and pay the first round of invoices was time consuming for all involved, the payment of the second round of invoices ran much more smoothly. This suggests that the issues that gave rise to this rule change request relate mostly to teething issues as pipeliners, the AER and the Australian Energy Market Operator (AEMO) gain experience and improve their understanding of their roles and responsibilities under the STTM.

Care should therefore be taken before changing the established rules and procedures as this risks losing the benefit of this knowledge applied to future MOS allocation cost recovery processes.

Comments on the draft Rule

Changing the expenditure assessment test

APA supports the AEMC's draft decision to maintain the current expenditure assessment test to refer to incurred and/or reasonable costs. Regardless of the scope to recover expenditure through the pass through measures under the Rules, all expenditure made by service providers must satisfy that business's internal expenditure governance processes for prudent commercial decision-making. This provides a natural control on expenditure.

In addition, given the reasonably modest amounts of expenditure involved in the MOS cost recovery process, APA agrees with the AEMC that assessment of costs by the AER against a standard of efficient and prudent expenditure would lead to uncertainty as to how the test would apply, and to assessment processes that are disproportionate to the size and nature of costs claimed to date and estimates for future costs.



Further, arguments that an efficiency assessment test would be more aligned with assessments under the AER's other economic regulatory roles miss the point as to why the current assessment test was adopted in the initial Rules. The vast majority of STTM transmission pipelines (in fact, all but one) are not subject to direct economic regulation: they are either uncovered or subject to light regulation. Given these pipelines are subject to competitive market pressures, it is not appropriate to regulate and assess costs for these pipelines in the same manner as if they were regulated. Instead, it is appropriate and sufficient to rely on normal market and commercial processes to ensure that only prudent and efficient costs are incurred.

Appropriate decision-making body

In line with the reasoning above, APA remains of the view that it is not necessary or appropriate for the AER to undertake assessments of invoiced amounts. AEMO was initially established as the decision-making body for the payment of invoices because, amongst other reasons, it is not appropriate for these costs to be assessed within an economic regulatory framework. Such an assessment would be disproportionate to the quantum of costs claimed to date, as well as the fact that the vast majority of these pipelines face market pressures that influence commercial decision-making and provide natural controls on expenditure.

Timeframes for assessment

APA supports the AEMC's draft rule setting a thirty business day deadline for the assessment of invoices. Given the size and nature of costs claimed to date and the decision making test, six weeks for verification of costs appears more than sufficient.

Justification of costs

APA supports the AEMC's draft decision not to vary the current requirement to provide evidence with cost invoices in relation to reasonable and/or incurred costs. Pipeline service providers currently provide AEMO with evidence in relation to submitted invoices in line with the relevant procedures. Any changes to information required for submission should be addressed through changes to the procedures.

Publication of Confidential Information

APA is concerned, however, that the AEMC's preferred draft rule would require AEMO to publish all information and evidence provided by service providers in support of invoices. While the AEMC's draft decision discusses the importance of maintaining the confidentiality of some evidence that may be provided to AEMO (in APA's view vendor invoices would be in this category), the draft Rule does not seem to implement this position. APA considers that the Rule requirement to publish submitted evidence should be subject to appropriate confidentiality claims on that information.

Please contact Alexandra Curran, Regulatory Manager on 02 92750020 if you would like further information on this submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. Bolding', written over a horizontal line.

Peter Bolding
General Manager Regulatory & Strategy