



Determination

**2012–13 MOS allocation service costs
payable to STTM pipeline operators**

September 2013

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Shortened forms

Shortened form	Full title
AER	Australian Energy Regulator
AEMO	Australian Energy Market Operator
APT PPL	APT Petroleum Pipelines Pty Limited
EAPL	East Australian Pipeline Pty Limited
EGP	Eastern Gas Pipeline
Epic Energy	Epic Energy South Australia Pty Limited
IT	Information Technology
Jemena	Eastern Gas Pipeline Joint Venture
MAPS	Moomba to Adelaide Pipeline System
MOS	Market Operator Service
MSP	Moomba to Sydney Pipeline
NGR	National Gas Rules
RBP	Roma to Brisbane Pipeline
SEA Gas	South East Australia Gas Pty Ltd
SEAGP	South East Australia Gas Pipeline
STTM	Short Term Trading Market

1 Overview

On 14 August 2013, the Australian Energy Market Operator (AEMO) provided to the Australian Energy Regulator (AER) tax invoices and evidence it received from Short Term Trading Market (STTM) pipeline operators for costs relating to Market Operator Service (MOS) allocation services (2013 documents from AEMO).¹ The tax invoices specified the MOS allocation service costs incurred by the following STTM pipeline operators during the period 1 July 2012 to 30 June 2013 (the 2013 Invoices):

- \$80,757.69 (GST inclusive) by APA Group (for APT Petroleum Pipelines Pty Limited) with respect to the Roma to Brisbane Pipeline (RBP)
- \$79,849.00 (GST inclusive) by APA Group (for East Australian Pipeline Pty Limited) with respect to the Moomba to Sydney Pipeline (MSP)
- \$85,621.18 (GST inclusive) by Epic Energy South Australia Pty Limited (Epic Energy) with respect to the Moomba to Adelaide Pipeline System (MAPS)
- \$5,764.00 (GST inclusive) by Jemena (for Eastern Gas Pipeline Joint Venture) with respect to the Eastern Gas Pipeline (EGP)
- \$26,858.70 (GST inclusive) by South East Australia Gas Pty Ltd (SEA Gas) with respect to the South East Australia Gas Pipeline (SEAGP).

In the STTM hubs of Adelaide, Sydney and Brisbane, the respective pipeline operators are required to allocate gas on a daily basis in response to deviations on the pipeline or at the hubs. This is done by increasing or decreasing the quantity of gas supplied to the hub. MOS is a standing agreement between pipeline operators and shippers to balance positive or negative deviations at the end of each gas day. MOS allocation service means the allocation of pipeline deviations.²

MOS allocation service costs are defined as costs reasonably incurred by an STTM pipeline operator in providing a MOS allocation service.³ These costs may include labour costs, Information Technology (IT) costs and interest charges.

The National Gas Rules (NGR) allows an STTM pipeline operator to recover MOS allocation service costs from AEMO each year by providing AEMO with a tax invoice of those costs incurred during that financial year 1 July to 30 June. AEMO then provides the invoices to us – the AER, in order for us to determine the amount it is payable to each STTM pipeline operator.

Under rule 425 of the NGR, we must review whether the costs specified in the tax invoice have been incurred and are reasonable. In doing so, we must either approve or reject the amount specified in the invoice.

¹ Email from AEMO to AER, 2012-13 STTM pipeline operator's MOS costs, 14 August 2013.

² Rule 364 of the National Gas Rules (NGR).

³ Rule 364 of the National Gas Rules (NGR).

The AER's determination is to approve the amount of MOS allocation service costs specified in each STTM pipeline service provider's 2013 invoices. The amounts AEMO is payable are set out in Chapter 2 – Determination.

Structure of determination

This determination is structured as follows:

- Chapter 2 – sets out our determination on the MOS allocation service costs
- Chapter 3 – sets out information on the proposed 2012–13 MOS allocation service costs
- Chapter 4 – sets out our assessment approach
- Chapter 5 – sets out our reasons for the determination.

2 Determination

The AER reviewed the 2013 documents from AEMO and has determined the amount of MOS allocation service costs AEMO is payable to each of the following STTM pipeline operators. The amounts determined for the financial year 2012–13 are as follows:

- \$80,757.69 (GST inclusive) to APA Group (for APT Petroleum Pipelines Pty Limited);
- \$79,849.00 (GST inclusive) to APA Group (for East Australian Pipeline Pty Limited);
- \$5,764.00 (GST inclusive) to Jemena;
- \$26,858.70 (GST inclusive) to SEA Gas; and
- \$85,621.18 (GST inclusive) to Epic Energy.

These are the same amounts as those specified in each STTM pipeline operator's 2013 invoice. We are satisfied that the costs specified in the invoice from each of the above STTM pipeline operators have been incurred and are reasonable. Our determination took into account the definition of MOS allocation service costs prescribed in rule 364 of the NGR. We also had regard to factors under rule 425(3) of the NGR, including the fact that AEMO did not receive any submissions on the 2013 invoices in response to their publication.

3 2012–13 MOS allocation service costs

On 14 August 2013, we received tax invoices and supporting documentation from AEMO for MOS allocation service costs incurred by STTM pipeline operators for the 2012–13 financial year. Table 3.1 below outlines the pipeline operators' proposed MOS allocation service costs as specified in their 2013 invoices and provides a summary of cost breakdown provided in the documentations supporting these invoices.

Table 3.1: summary of 2012–13 MOS allocation service costs

	Adelaide Hub		Sydney Hub		Brisbane Hub
	SEA Gas pipeline (SEA Gas)	Moomba to Adelaide (Epic Energy)	Eastern Gas Pipeline (Jemena)	Moomba to Sydney Pipeline (APA Group)	Roma to Brisbane Pipeline (APA Group)
Total proposed MOS costs (excl. GST)	\$24,417.00	\$77,837.44	\$5,240.00	\$72,590.00	\$73,416.08
Total proposed MOS costs (incl. GST)	\$26,858.70	\$85,621.18	\$5,764.00	\$79,849.00	\$80,757.69
Cost breakdown	-external service provider costs	internal labour costs	Confidential information	-IT system Operations and maintenance	-IT system Operations and maintenance
	-internal labour costs			-labour	-labour
				-other costs	-other costs
				-interest	-interest

Source: APA, Tax invoices to AEMO, 24 July 2013; Epic Energy, Tax invoice to AEMO, 25 July 2013; SEA Gas, Tax invoice to AEMO, 25 July 2013; Jemena, Tax invoice to AEMO, 7 July 2013;

4 Assessment approach

Rule 424 of the NGR allows an STTM pipeline service operator to recover MOS allocation service costs from AEMO. In this process, the STTM pipeline service operator must give AEMO an estimate of the MOS allocation service costs as well as a tax invoice for the actual MOS allocation service costs incurred.

Rule 425 of the NGR sets out the process for assessing the actual MOS allocation service costs. In this process, AEMO must publish the invoice received and allow at least 10 business days for any person to make comments on the invoice.

Sub-rule 425(2) of the NGR sets out that AEMO must, within 5 business days after the end of the period, give the AER:

- a copy of the tax invoice and evidence provided to it
- a copy of any comments received; and
- any comment by AEMO on either the invoice or evidence received.

Sub-rule 425(3) of the NGR sets out how the AER must assess the documentations from AEMO within 30 business days of their receipt. The key provisions of this rule are extracted out below.

4.1 Relevant regulatory requirements

We received the 2013 documents from AEMO on 14 August 2013, after the close of business at 5pm. Therefore, we applied the NGR in effect on the next business day, 15 August 2013.⁴

Rule 364 of the NGR defines MOS allocation service costs as follows.

MOS allocation service costs means the costs reasonably incurred by an STTM pipeline operator (including fees and expenses payable to an allocation agent) in providing a MOS allocation service to the extent that those costs:

- (a) are either:
 - (i) incremental costs incurred exclusively for the provision of the MOS allocation service; or
 - (ii) a proportionate share of any incremental costs reasonably attributable to the provision of the MOS allocation service; and
- (b) would not have been incurred but for the requirement to provide the MOS allocation service; and
- (c) are not offset by benefits reasonably available to the STTM pipeline operator in relation to its other activities.

The key clauses of the NGR relevant to this determination are set out in sub-rules 425(3) to (3C) of the NGR:

⁴ We note that version 18 of the NGR applied during the period in which the 2013 documents were received from AEMO.

- (3) The AER must, within 30 business days after receipt of documents under subrule (2), determine the amount payable to a STTM pipeline operator in respect of the tax invoice received under rule 424(4) by reviewing whether the costs specified in that invoice:
- (a) have been incurred; and
 - (b) are reasonable,
- having regard to:
- (c) any comments received by AEMO, including objections to the payment of the invoice, under subrule (1);
 - (d) any comments from AEMO;
 - (e) any information received in accordance with a request or relevant notice issued by the AER;
 - (f) any other relevant information; and
 - (g) whether the likely costs of undertaking an assessment of the costs specified in the invoice outweigh the public benefit resulting from such assessment.
- (3A) In making a determination under subrule (3), the AER must:
- (a) either approve or reject the amount specified in the invoice; and
 - (b) if it rejects the amount specified in the tax invoice, undertake an assessment to determine an amount payable that, in the AER's opinion, is reasonable for the MOS allocation services in respect of that invoice.
- (3B) The AER must publish the reasons for its determination under subrule (3).
- (3C) In relation to the time limits fixed in subrule (3), any period taken by a person to provide information to the AER pursuant to a notice or request issued under subrule (3)(f) is to be disregarded for the purposes of calculating elapsed time.

4.2 What we considered in making this determination

The AER's determination has been made in accordance with rule 425(3) of the NGR.

In making the determination, we reviewed the 2013 documents from AEMO to assess whether the proposed MOS allocation service costs have been incurred and are reasonable. In this process, we reviewed the activities described for each expenditure category and the methodologies used to arrive at the expenditures. This enabled us to determine whether the proposed costs satisfy the definition of MOS allocation service costs as set out in rule 364 of the NGR. To satisfy the definition of MOS allocation service costs, the following conditions should be met:

- the costs claimed must be either
 - incremental costs incurred exclusively for the provision of MOS allocation service, which would not have been incurred but for the requirement to provide the MOS allocation service. (An example of cost claims the AER considers to be reasonable under this category may relate to legal costs incurred to incorporate the MOS allocations service in shipper agreements);
 - or costs claimed must be a proportionate share of any incremental costs reasonably attributable to the MOS allocation service, which would not have been required but for the requirement to provide the MOS allocation service. (An example of cost claims

the AER considers to be reasonable under this category may relate to enhancements to IT systems that enable the provision of MOS allocation service);

- and the costs are not offset by benefits reasonably available to the STTM pipeline operator in relation to its other activities.

In making the determination, we took into account:

- AEMO advice that it did not receive any comments or objections to the 2013 invoices following their publication on the AEMO website;⁵
- the expenditure categories and expenditure rates submitted for the 2012 tax invoices to gauge whether the proposed 2013 expenditures are reasonable;
- the estimated 2012–13 MOS allocation service costs and the 2011–12 MOS allocation costs on which the AER previously advised AEMO;
- Epic Energy’s response to our 23 August 2013 information request in relation to the breakdown of its 2013 MOS invoice;⁶ and
- whether the likely costs of undertaking an assessment of costs specified in the invoice would outweigh the public benefit resulting from such assessment.

⁵ Letter from AEMO to AER, request for AER decision on amount payable for STTM MOS allocation service costs, 14 August 2013.

⁶ Email from AER to Epic Energy, AER information request on Epic Energy’s MOS allocation service costs 1 July 2012 to 30 June 2013, 23 August 2013. Email from Epic Energy to AER, AER information request on Epic Energy’s MOS allocation service costs 1 July 2012 to 30 June 2013, 4 September 2013.

5 Reasons for determination

Following its assessment, the AER approved the MOS allocation service costs for the 2012–13 financial year as specified in the tax invoices from the following STTM pipeline operators. Therefore, the AER determined these amounts to be the MOS allocation service costs AEMO is payable to each STTM pipeline operator for the financial year 2012–13. Our reasons for this determination are set out below.

5.1 Timing of application

On 14 August 2013, AEMO provided the AER with tax invoices and evidence for MOS allocation service costs for the 2012–13 financial year provided to it by STTM pipeline operators under sub-rules 424(1)(b) and (1A)(b) of the NGR.⁷ This was two days after the end of AEMO's public consultation on 2013 invoices, on 12 August 2013. We are satisfied that AEMO made the submission within five business days of the end of its public consultation. Therefore, AEMO's submission meets the sub-rule 425(2) requirement.

5.2 Matters in sub-rule 425(2)

AEMO's 14 August 2013 submission specified the matters listed in sub-rule 425(2) of the NGR, including that it did not object to the tax invoices and had not received comments on the invoices through its consultation process.⁸

5.3 Whether costs have been incurred and are reasonable

5.3.1 APA Group –Moomba to Sydney Pipeline and Roma to Brisbane Pipeline

In the financial year 2012–13, APA Group sought to claim \$72,590.00 (excluding GST) in MOS allocation service costs for the MSP and \$73,416.08 (excluding GST) in MOS allocation service costs for the RBP. APA Group also confirmed in signed letters to AEMO that its invoices for MOS allocation service costs have been incurred for the MSP and the RBP for the financial year 2012–13.⁹ Based on the information provided, we consider that the costs specified in APA Group's 2013 invoices have been incurred for MOS allocation services for the MSP and the RBP.

APA Group applied the same methodologies to calculate MOS allocation costs for the MSP and the RBP. APA Group categorised each cost claim into the following: IT System operation and maintenance, labour and other costs, and interest.¹⁰ APA Group provided the methodologies behind each cost category but has claimed this information to be confidential. Our review of this confidential information is set out at Appendix A to this determination.

⁷ Email from AEMO to AER, 2012-13 STTM pipeline operator's MOS costs, 14 August 2013.

⁸ Letter from AEMO to AER, request for AER decision on amount payable for STTM MOS allocation service costs, 14 August 2013.

⁹ Letter from APA Group to AEMO, FY 13 MOS costs claim for Moomba to Sydney pipeline, 24 July 2013. Letter from APA Group to AEMO, FY 13 MOS costs claim for Roma to Brisbane pipeline, 24 July 2013.

¹⁰ Letter from APA Group to AEMO, FY 13 MOS costs claim for Moomba to Sydney pipeline, 24 July 2013, p.2. Letter from APA Group to AEMO, FY 13 MOS costs claim for Roma to Brisbane pipeline, 24 July 2013, p. 2.

Based on our assessment in Appendix A, we are satisfied that that the cost categories and activities claimed for in APA Group's 2013 invoices for the MSP and the RBP are for MOS allocation service costs. We are also satisfied with APA Group's approach to calculating the expenditures under each cost category.

Based on the information provided, we are satisfied that the MOS allocation service costs specified in APA Group's 2013 invoices for MSP and RBP are not offset by benefits reasonably available to APA Group in relation to its other activities.¹¹ Therefore, we consider that the costs specified in APA Group's 2013 invoices satisfy the definition of MOS allocation service costs under rule 364 of the NGR.

In assessing whether the costs specified in APA Group's tax invoices are reasonable MOS allocation service costs, we compared the input costs (such as labour rates, labour hours and material costs) claimed in APA Group's 2013 invoice against those input costs claimed in its 2012 invoices. We also compared APA Group's input costs against similar cost categories in claimed in the other STTM pipeline operator's 2013 invoices. We are satisfied that the input costs used by APA Group are reasonable when compared with its previous year's expenditures and those of other service providers.

We also had regard to the estimated MOS allocation service costs APA Group provided to AEMO in January 2012. The 2013 claims for the MSP (\$72,590.00 (excluding GST)) and the RBP (\$73,416.08 (excluding GST)) are lower than the cost estimates for each pipeline (\$110,762). APA Group submitted that this reduction is driven by reduced STTM information processing time and reduced STTM related activities. We also compared the 2013 claims against APA Group's 2012 invoices. The 2013 claims are lower than costs claimed in 2012 invoices (\$188,814 for the MSP and \$722,442 for the RBP). We consider these to be an indication of improvement in APA Group's processes for providing MOS allocation services.

Based on our review set out at Appendix A and having had regard to information set out above, we consider that the costs specified in APA Group's tax invoices for the MSP and the RBP for the for financial year 2012–13 to be reasonable MOS allocation service costs.

5.3.2 Jemena –Eastern Gas Pipeline

In the financial year 2012–13, Jemena sought to claim \$5,240 (excluding GST) in MOS allocation service costs for the EGP.¹² Jemena provided a breakdown of these costs, but claimed this information to be confidential.¹³ Our review of this confidential information is set out at Appendix A to this determination.

Based on our assessment in Appendix A, we are satisfied that that the cost categories and activities claimed for in Jemena's 2013 invoices for the EGP are for MOS allocation service costs. We are also satisfied with Jemena's approach to calculating the expenditures under each cost category.

Based on the information provided, we are satisfied that the MOS allocation service costs specified in Jemena's 2013 invoices for the EGP are not offset by benefits reasonably

¹¹ A requirement for MOS allocation service costs defined under r. 364 of the NGR.

¹² Letter from Jemena to AEMO, Short Term Trading Market MOS Allocation Service Costs, 9 July 2013.

¹³ Letter from Jemena to AEMO, Short Term Trading Market MOS Allocation Service Costs, 9 July 2013.

available to Jemena in relation to its other activities.¹⁴ Therefore, we consider that the costs specified in Jemena's 2013 invoices satisfy the definition of MOS allocation service costs under rule 364 of the NGR.

In assessing whether the costs specified in Jemena's tax invoice are reasonable MOS allocation service costs, we compared the input costs (such as labour rates, labour hours and material costs) claimed in Jemena's 2013 invoice against those input costs claimed in its 2012 invoice. We also compared Jemena's input costs against similar cost categories claimed in the other STTM pipeline operator's 2013 invoices. We are satisfied that the input costs used by Jemena are reasonable when compared with its previous year's expenditures and those of other service providers.

We also considered the estimated MOS allocation service costs Jemena provided to AEMO in January 2012. The 2013 claim for the EGP (\$5,240 (excluding GST)) is lower than the cost estimate of (\$18,601). Jemena did not provide reasons for this reduction. We also compared the 2013 claim against Jemena's 2012 invoice. The 2013 claim is lower than costs claimed in 2012 (\$15,805). We consider these to be an indication of improvement in Jemena's processes for providing MOS allocation services.

Based on our review set out at Appendix A and having had regard to factors set out above, the we consider that the costs specified in Jemena's tax invoices for the EGP for financial year 2012–13 to be reasonable MOS allocation service costs.

5.3.3 SEA Gas –South East Australia Gas Pipeline

In the financial year 2012–13, SEA Gas sought to claim \$24,417.00 (excluding GST) in MOS allocation service costs for the SEAGP.¹⁵ SEA Gas also confirmed in a signed letter to AEMO that its invoice for MOS allocation service costs has been incurred for the SEAGP for the financial year 2012–13. Based on the information provided, we consider that the costs specified in SEA Gas's 2013 invoice have been incurred for MOS allocation services for the SEAGP.

The costs specified in SEA Gas's 2013 invoice are comprised of internal labour and external labour costs. SEA Gas broke these costs down further into external service provider costs and internal labour costs. External service provider costs consist of IT costs for after hour support, costs for ensuring timely lodgement of STTM data and business hour support for the STTM. Internal labour costs are related to ensuring timely lodgement of STTM data and costs of monitoring MOS. SEA Gas identified some of these costs to be direct MOS allocation service costs and costs indirectly related to MOS. SEA Gas submitted 4,215 STTM files during 2012–13 and 45 per cent of these files were MOS allocation files. Therefore, SEA Gas allocated 45 per cent of indirect costs to MOS allocation service costs.

Based on evidence provided and the above review, we are satisfied that that the cost categories and activities claimed for in SEA Gas's 2013 invoice are for MOS allocation service costs. We are also satisfied with SEA Gas's approach to calculating the expenditures under each cost category.

¹⁴ A requirement for MOS allocation service costs defined under r. 364 of the NGR.

¹⁵ Letter from SEAGas to AEMO, SEAGas MOS allocation service costs for the year ending 30 June 2013, 25 July 2013.

Based on the information provided, we are satisfied that the MOS allocation service costs specified in SEA Gas's 2013 invoices for the SEAGP are not offset by benefits reasonably available to SEA Gas in relation to its other activities.¹⁶ Therefore, we consider that the costs specified in SEA Gas's 2013 invoice satisfy the definition of MOS allocation service costs under rule 364 of the NGR.

In assessing whether the costs specified in SEA Gas's tax invoice are reasonable MOS allocation service costs, we compared the input costs (such as labour rates, labour hours and material costs) claimed in SEA Gas's 2013 invoice against those input costs claimed in its 2012 invoice. We also compared SEA Gas's input costs against similar cost categories claimed in the other STTM pipeline operator's 2013 invoices. We are satisfied that the input costs used by SEA Gas are reasonable when compared with its previous year's expenditures and those of other service providers.

We also compared the estimated MOS allocation cost for the financial year 2012–13 (\$15,000) with the actual cost claim for the financial year 2012–13 (\$24,417 (excluding GST)). The actual cost claim is higher than the cost estimates SEA Gas provided to AEMO in January 2012. However, we did not seek further information on this matter. This is because rule 425 (3) of the NGR stipulates that the AER should have regard to whether the likely costs of assessing the cost claims would outweigh the public benefit resulting from such assessment. We considered that the likely cost of undertaking an assessment of estimated 2012–13 expenditures would outweigh the public benefit resulting from such assessment. In addition, we compared the 2013 claim against SEA Gas's 2012 invoice. The 2013 claim is lower than costs claimed in 2012 (\$30,115). We consider these to be an indication of improvement in SEA Gas's processes for providing MOS allocation services.

Based on our review of the above factors, we consider that the costs specified in SEA Gas's tax invoices for the SEAGP for the financial year 2012–13 to be reasonable MOS allocation service costs.

5.3.4 Epic Energy – Moomba to Adelaide Pipeline System

In the financial year 2012–13, Epic Energy sought to claim \$77,837.44 (excluding GST) in MOS allocation service costs for the MAPS. This is comprised of internal labour costs and commercial interest costs.

In its original submission to AEMO, Epic Energy did not provide any information to support the amount claimed in its invoice. On 23 August 2013, we sought the following information from Epic Energy about its 2013 tax invoice:¹⁷

- a cost breakdown of the invoice (including wage rates, labour hours and MOS allocation)
- information regarding commercial interests claimed in Epic Energy's invoice; and
- confirmation that the costs claimed for MOS allocation service costs are not offset by benefits related to Epic Energy's other STTM activities.

¹⁶ A requirement for MOS allocation service costs defined under r. 364 of the NGR.

¹⁷ Email from AER to Epic Energy, AER information request on Epic Energy's MOS allocation service costs 1 July 2012 to 30 June 2013, 23 August 2013.

Epic Energy responded to our information request on 4 September 2013.¹⁸ Epic Energy has claimed this information to be confidential. Our review of this confidential information is set out at Appendix A to this determination.

Based on our assessment of information set out in Appendix A, we are satisfied that the cost categories and activities claimed for in Epic Energy's 2013 invoice are for MOS allocation service costs. We are also satisfied with Epic Energy's approach to calculating these expenditures.

Based on the information provided, we are satisfied that the MOS allocation service costs specified in Epic Energy's 2013 invoice for the MAPS are not offset by benefits reasonably available to Epic Energy in relation to its other activities.¹⁹ Therefore, we consider that the costs specified in Epic Energy's 2013 invoice satisfy the definition of MOS allocation service costs under rule 364 of the NGR.

In assessing whether the costs specified in Epic Energy's tax invoice are reasonable MOS allocation service costs, we compared the input costs (such as labour rates, labour hours and material costs) claimed in Epic Energy's 2013 invoice against those input costs claimed in its 2012 invoice. We also compared Epic Energy's input costs against similar cost categories in claimed in the other STTM pipeline operator's 2013 invoices. We are satisfied that the input costs used by Epic Energy are reasonable when compared with its previous year's expenditures and those of other service providers.

We also considered the estimated MOS allocation service costs Epic Energy provided to AEMO in January 2012. The 2013 claim for the MAPS (\$77,837.44 (excluding GST)) is lower than the cost estimate of \$234,803. In addition, we compared the 2013 claim against Epic Energy's 2012 invoice. The 2013 claim is lower than costs claimed in 2012 (\$123,984). We consider these to be an indication of improvement in Epic Energy's processes for providing MOS allocation services.

Based on our review set out at Appendix A and having had regard to information set out above, we consider that the costs specified in Epic Energy's tax invoice for the MAPS for financial year 2012–13 to be reasonable MOS allocation service costs.

¹⁸ Email from Epic Energy to AER, AER information request on Epic Energy's MOS allocation service costs 1 July 2012 to 30 June 2013, 4 September 2013.

¹⁹ A requirement for MOS allocation service costs defined under r. 364 of the NGR.