



4 February 2010

Ms Karen Olesnicky
Executive General Manager, Financial and Business Services
Australian Energy Market Operator

Via email: sttm@aemo.com.au

Dear Ms Olesnicky

The Australian Pipeline Industry Association (APIA) welcomes the opportunity to comment on the STTM Fee Structure Draft Determination for AEMO. As pipeline owners will not be required to pay participant fees for the STTM, APIA interests lie in the STTM cost recovery process.

APIA understands that AEMO plans to recover its internal capital and operating costs from trading participants, amortised over a number of years. In addition AEMO will recover CAPEX and OPEX incurred by pipeline operators for the specific purpose of MOS allocation.

APIA is pleased that pipeline operators will be able to recover their MOS related costs. However APIA remains concerned that other relevant costs to Pipeline Operators for participating in the STTM are not included in the cost recovery process.

In the Draft Determination, AEMO advises the total MOS related costs are estimated to be \$0.9m CAPEX and \$0.5m OPEX for the four STTM pipeline operators, as a first pass. These numbers were provided to the Gas Market Leaders Group in July 2009 by the four pipeline operators as order of magnitude estimates of the core MOS related costs. It should be noted that each of the Pipeline Operators will have quite different costs dependent on their current level of automation, which varies from totally manual to quite complex existing systems.

It is too soon to provide an accurate update to the 2009 estimate; however APIA wishes to bring the following points to AEMO's attention:

1. The \$0.9m may not include all the MOS costs provided by the individual pipeline operators. APIA notes that the costs estimated by the individual pipeline operators varied significantly. This is thought to be primarily due to the amount of systems development required for existing systems and processes. However, it is also likely that some pipeline operators have only included the core MOS IT costs, whilst not including other relevant MOS costs. These other costs will include project management, change management, legal and regulatory costs and other overheads for the MOS development.
2. At least two pipeline operators will be operating two management systems for the market trials- one for the real market transactions and one for STTM transactions. This was requested by shippers. This duplication of costs was not included in the \$0.9m estimate.

The other two operators will be managing this process by manual changes, so may have related OPEX costs, rather than CAPEX.

3. The \$0.9m does not include the interest cost from the delay in cost recovery arising from MOS expenditure incurred in 2009 and 2010. This will not be recovered until mid 2011.
4. At this stage, the ongoing MOS operating costs are still unknown in any more detail than that used for the original \$0.5m pa estimate. These costs will be for additional personal engaged in MOS activities and maintenance and IT support for the MOS IT system. This support is required most days of the year throughout the day and night.

In conclusion, APIA believes that it is somewhat too early to accurately determine the likely MOS costs for the four pipeline operators. Whilst the costs are expected to be quite different for each company, the AEMO estimates may be low for the reasons outlined above, at least for some of the pipeline operators. APIA understands that as actual costs will be used, these will be reviewed at the appropriate time.

If you would like to discuss any issues further, please contact me on (02) 6273 0577 or at sdavies@apia.asn.au.

Yours sincerely



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on behalf of

CHERYL CARTWRIGHT
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