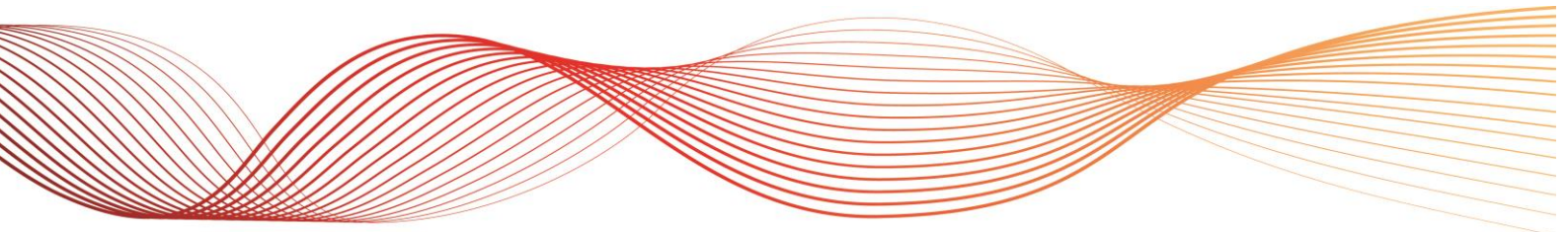


**DECLARED WHOLESALE GAS MARKET &
VICTORIAN GAS FULL RETAIL
CONTESTABILITY
FINAL BUDGET AND FEES: 2015-16**

PUBLISHED MAY 2015 





CONTENTS

EXECUTIVE SUMMARY	4
Introduction	4
2015-16 fees	4
Contacts	5
Energy consumption	6
Victorian Declared Wholesale Gas Market	6
1 VICTORIAN DECLARED WHOLESALE GAS MARKET	7
1.1 Fees	7
1.2 Revenue and Expenditure	8
1.3 PCF fees	10
2 VICTORIAN FULL RETAIL CONTESTIBILITY GAS	11
2.1 Fees	11
2.2 Revenue and Expenditure	12
3 GAS STATEMENT OF OPPORTUNITIES	14
3.1 Fees	14
4 ENERGY CONSUMERS AUSTRALIA	15
APPENDIX A. DWGM FEE STRUCTURE	16
LIST OF SYMBOLS AND ABBREVIATIONS	17



TABLES

Table 1	Key points	4
Table 2	Key fees	4
Table 3	DWGM consumption	6
Table 4	Summary of DWGM Fees	7
Table 5	Profit and Loss statement 2015-16 and comparison	9
Table 6	Victorian FRC Gas Projected Fees	11
Table 7	Profit and Loss statement 2015-16 and comparison	13
Table 8	Gas Statement of Opportunities Projected Fees	14
Table 9	Energy Consumers Australia (ECA) requirements	15
Table 10	DWGM fee structure	16

FIGURES

Figure 1	Annual DWGM consumption	6
Figure 2	Victorian Wholesale Gas Projected Fees	7
Figure 3	Expenditure by category 2015-16	8
Figure 4	Victorian FRC Gas Projected Fees	11
Figure 5	Expenditure by category 2015-16	12



EXECUTIVE SUMMARY

Introduction

AEMO operates on a cost recovery basis as a company limited by guarantee under the Corporations Act (2001). AEMO fully recovers its operating costs through fees paid by participants.

AEMO has a broad range of functions and each is underpinned by a fee structure developed in consultation with stakeholders and in line with requirements under the National Gas Rules (NGR). The fee structure details how AEMO will calculate fees and who it charges. In March 2015, AEMO published its final structure of participant fees for AEMO’s gas markets, covering the period from 1 July 2015 to 30 June 2018.

This document sets out the final 2015-16 budget and fees for AEMO’s Victorian Declared Wholesale Gas Market (DWGM) and Victorian Full Retail Contestability (FRC) gas functions.

In budgeting for 2015-16, AEMO has continued to apply strong commercial discipline to control costs to reduce the impact of fee increases to market participants.

Table 1 Key points

<ul style="list-style-type: none"> Energy consumption declining 	↓	DWGM consumption declining next 5 years.
<ul style="list-style-type: none"> Fee changes 	↑ ↓	The DWGM fee will increase by 7% in 2015-16, however the Victorian FRC gas fee will decrease by -4%.

2015-16 fees

Table 2 Key fees

Key Fees	Budget 2015-16	Current 2014-15	Change	Prior year published estimate 2015-16	Unit
DWGM - Energy Tariff	0.08806	0.08230	↑ 7%	0.08477	\$/GJ withdrawn
VIC FRC Gas	0.11495	0.11974	↓ -4%	0.11136	\$ per customer supply point/mth
Gas Statement of Opportunities	0.0283	0.0283	↔ 0%	0.0269	\$ per customer supply point/mth



Contacts

For questions regarding the contents of this report, please do not hesitate to contact:

Mr Jack Fitcher
Chief Financial Officer
Australian Energy Market Operator
Level 22, 530 Collins St
Melbourne Vic 3000
Phone: 03 9609 8506
Email: Jack.Fitcher@aemo.com.au

Ms Sandra Chui
Group Manager, Commercial Services
Australian Energy Market Operator
Level 22, 530 Collins St
Melbourne Vic 3000
Phone: 03 9609 8623
Email: Sandra.Chui@aemo.com.au



Energy consumption

Victorian Declared Wholesale Gas Market

The final forecast consumption is based on the National Gas Forecasting Report (NGFR) published in December 2014.

AEMO estimates in 2015-16 an overall decrease of 3% in consumption from the 2014-15 budget due to lower domestic consumption and lower exports to NSW, offset by a small increase in industrial consumption.

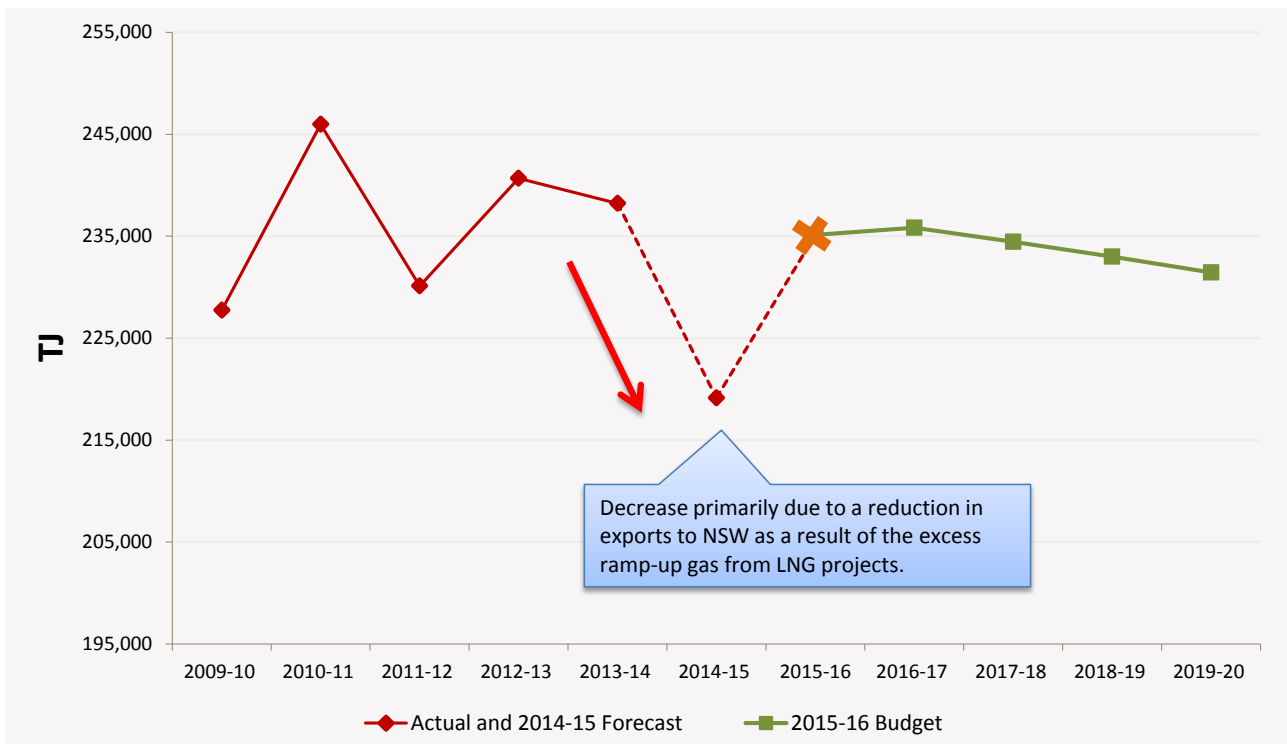
Table 3 DWGM consumption

TJs	Budget 2014-15	Forecast ¹ 2014-15	Budget 2015-16	Estimate 2016-17	Estimate 2017-18	Estimate 2018-19	Estimate 2019-20
Tariff V (Domestic)	125,399	117,265	119,396	120,242	121,098	121,690	121,911
Tariff D (Industrial)	70,938	73,150	74,039	73,792	71,455	69,075	67,295
Export	43,830	25,116	39,447	39,447	39,447	39,447	39,447
GPG	2,130	3,620	2,254	2,369	2,470	2,797	2,797
TOTAL	242,296	219,150	235,136	235,850	234,470	233,008	231,450
			-3.0%	+0.3%	-0.6%	-0.6%	-0.7%

¹ Forecast annual 2014-15 consumption as at December 2014

Figure 1 below demonstrates the impact of declining consumption on the tariff.

Figure 1 Annual DWGM consumption



1 VICTORIAN DECLARED WHOLESALE GAS MARKET

1.1 Fees

The DWGM fee is calculated on a three-year rolling break-even period.

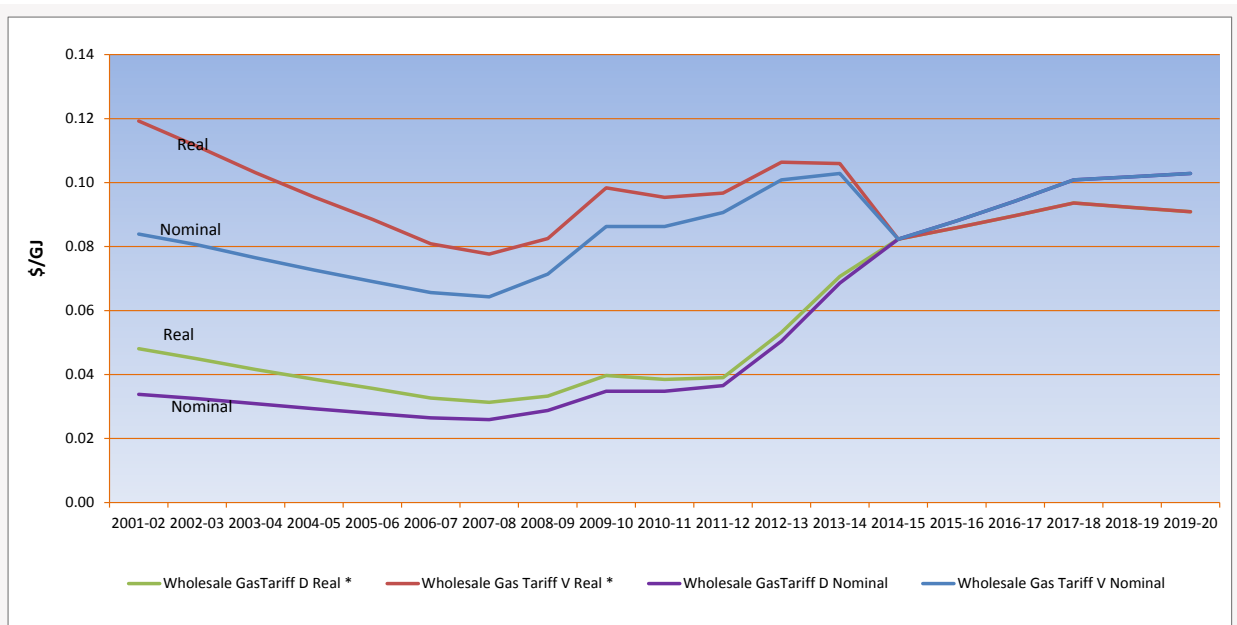
The DWGM fee is increasing by 7% in 2015-16 and is estimated to increase by a further 7% in each of the following two years to return to a break-even position. This is mainly due to a decrease in forecast consumption, the recovery of a revenue shortfall in 2014-15 caused by a decline in exports to NSW and an increase in expenditure mainly due to CPI.

The Participant Compensation Fund (PCF) fee is not required to be charged in 2015-16 as the current level of DWGM PCF funds being held meet the Rules requirement.

Table 4 Summary of DWGM Fees

Fee	Actual 2014/15	Budget 2015-16	Estimate 2016-17	Estimate 2017-18	Estimate 2018-19	Estimate 2019-20
Energy Tariff (\$/GJ)	0.08230	0.08806 +7%	0.09422 +7%	0.10082 +7%	0.10183 +1%	0.10285 +1%
Distribution Meter (\$/day per meter)	1.4208	1.48740 +5%	1.48940 +0%	1.5128 +2%	1.5452 +2%	1.5915 +3%
PCF Fee (\$/GJ)	0	0	TBC	TBC	TBC	TBC

Figure 2 Victorian Wholesale Gas Projected Fees



* Real values are the nominal amounts adjusted for inflation. Prices have been calculated relative to the 2014–15 price.

Note: The Energy Tariff D and Tariff V transitioned to a single fee on 1 July 2014.



1.2 Revenue and Expenditure

The expenditure is detailed below in Figure 2 by expenditure category.

Figure 3 Expenditure by category 2015-16

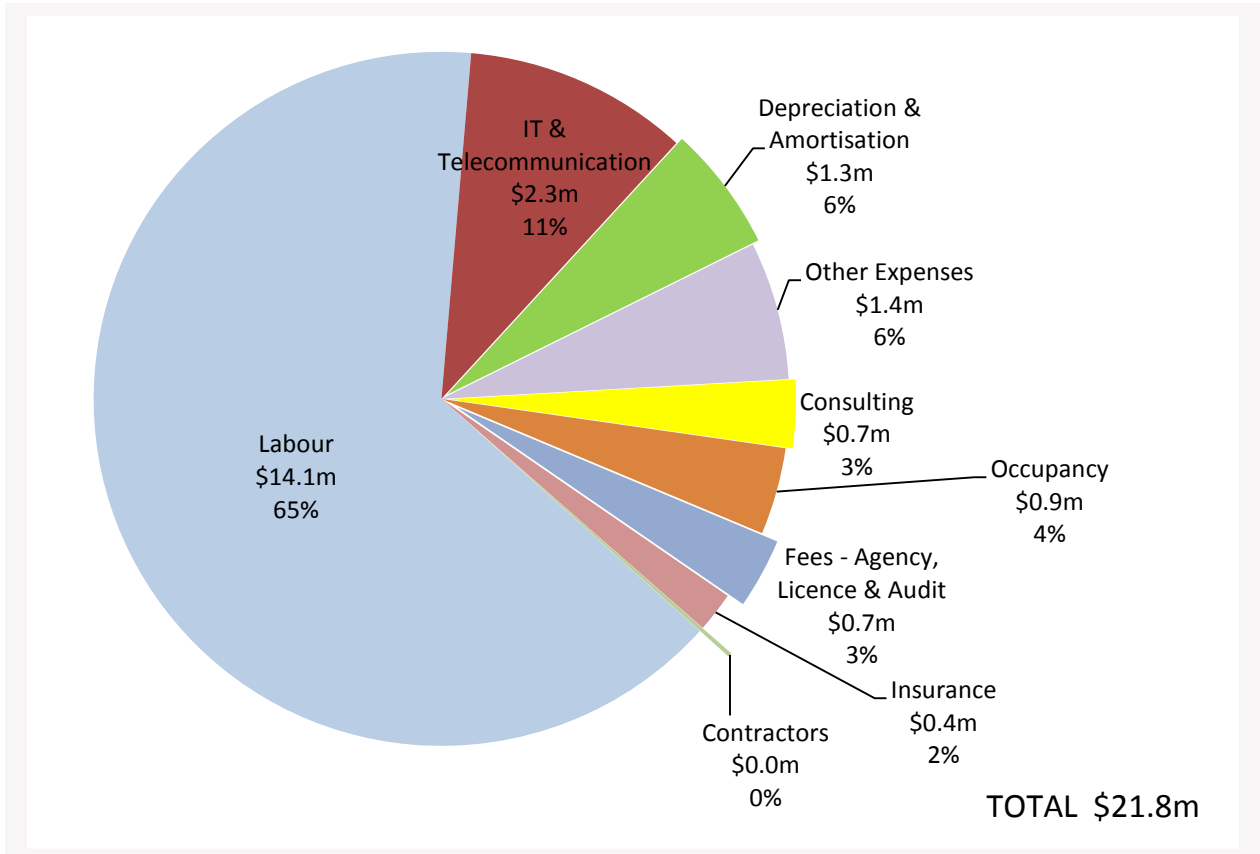


Table 5 Profit and Loss statement 2015-16 and comparison

	Budget	Forecast	Budget	Variance to Budget	
	2014-15 \$'000	2014-15 \$'000	2015-16 \$'000	\$'000	%
Fees and tariffs	20,618	18,481	21,408	791	+4%
Other Revenue	462	582	546	84	+18%
Total Revenue	21,079	19,063	21,954	875	+4%
Labour	13,647	14,483	14,073	426	+3%
Contractors	106	157	42	(63)	-60%
Consulting	1,017	546	693	(324)	-32%
Fees - Agency, Licence & Audit	739	734	714	(25)	-3%
IT & Telecommunication	1,842	1,841	2,271	429	+23%
Occupancy	839	851	881	43	+5%
Insurance	425	436	406	(19)	-4%
Other Expenses	1,326	1,342	1,398	72	+5%
Depreciation & Amortisation	1,357	1,402	1,273	(83)	-6%
Total Expenditure	21,296	21,792	21,751	455	+2%
Surplus/(Deficit)	(217)	(2,729)	203	420	
Transfer to PCF	(119)	(119)	(113)	6	
Brought Forward Surplus/(Deficit)	9,399	9,279	6,431	(2,968)	
Accumulated Surplus/(Deficit)	9,063	6,431	6,521		
Contributed Capital	8,704	8,704	8,704		
Accumulated Surplus/ (Deficit) excluding Contributed Capital	360	(2,273)	(2,182)		

Key Points

- Revenue in 2015-16 is budgeted to increase by \$0.9M (4%) from the 2014-15 budget mainly due to increase in fees.
- Expenditure in 2015-16 is budgeted to increase by \$0.5M (2%) from the 2014-15 budget mainly due to:
 - **Labour**
Labour costs are budgeted to increase \$0.4M (3%) predominantly due to CPI.
 - **Consulting**
Consulting costs are budgeted to decrease \$0.3M (32%) mainly due to a reclassification of services for the gas system to IT and telecommunications.
 - **IT & Telecommunication**
IT & telecommunication costs are budgeted to increase \$0.4M (23%) mainly due to the relocation of the Brisbane data centre, and a reclassification of a services recorded in consulting in the prior year.



1.3 PCF fees

The National Gas Rules requires AEMO to maintain a separate Participant Compensation Fund (PCF) for the purpose of paying compensation to Market Participants where the dispute resolution panel has upheld a complaint.

The funding requirement for the PCF for each financial year is the lesser of:

- (1) \$500,000; and
- (2) \$1,000,000 minus the amount which AEMO reasonably estimates will be the balance of the PCF at the end of the relevant financial year.

The June 2015 estimated balance of the PCF is \$3.5M.

The funding requirement for 2015-16 is \$Nil.

2 VICTORIAN FULL RETAIL CONTESTIBILITY GAS

2.1 Fees

The Victorian FRC fee is calculated on a three-year rolling break-even period.

The Victorian FRC function is currently holding a surplus due to an over-recovery in prior years.

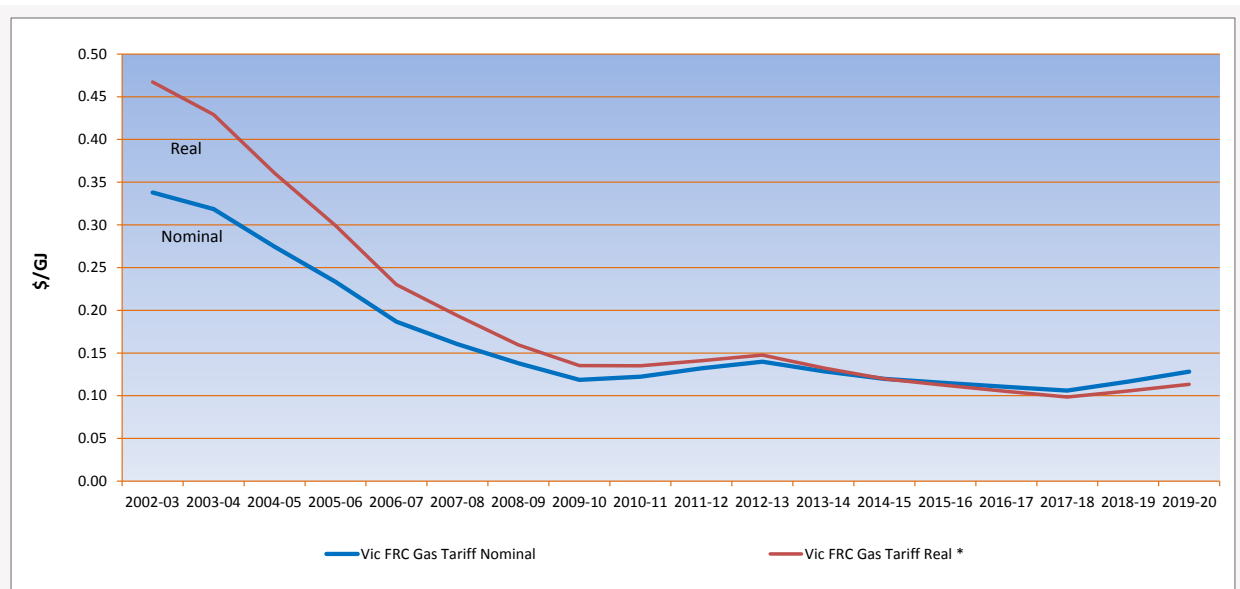
The FRC fee will reduce by approximately 4% in 2015-16 and is estimated to reduce by a further 4% in the following 2 years to reduce the surplus.

The fee is expected to increase in the following years after the surplus is fully returned to achieve a break-even position.

Table 6 Victorian FRC Gas Projected Fees

Fee	Actual 2014-15	Budget 2015-16	Estimate 2016-17	Estimate 2017-18	Estimate 2018-19	Estimate 2019-20
FRC Gas Tariff (\$ per customer supply point per month)	0.11974	0.11495 -4%	0.11035 -4%	0.10594 -4%	0.11653 +10%	0.12818 +10%
Initial Registration Fee (\$ per participant)	5,760	5,000	TBC	TBC	TBC	TBC
Gas Statement of Opportunities (\$ per customer supply point per month)	0.02830	0.02830 +0%	0.03255 15%	0.03743 15%	0.04117 10%	0.04529 10%
Energy Consumers Australia pass-through (\$ per customer supply point per month)	0.02998	0.03114 +4%	TBC	TBC	TBC	TBC

Figure 4 Victorian FRC Gas Projected Fees



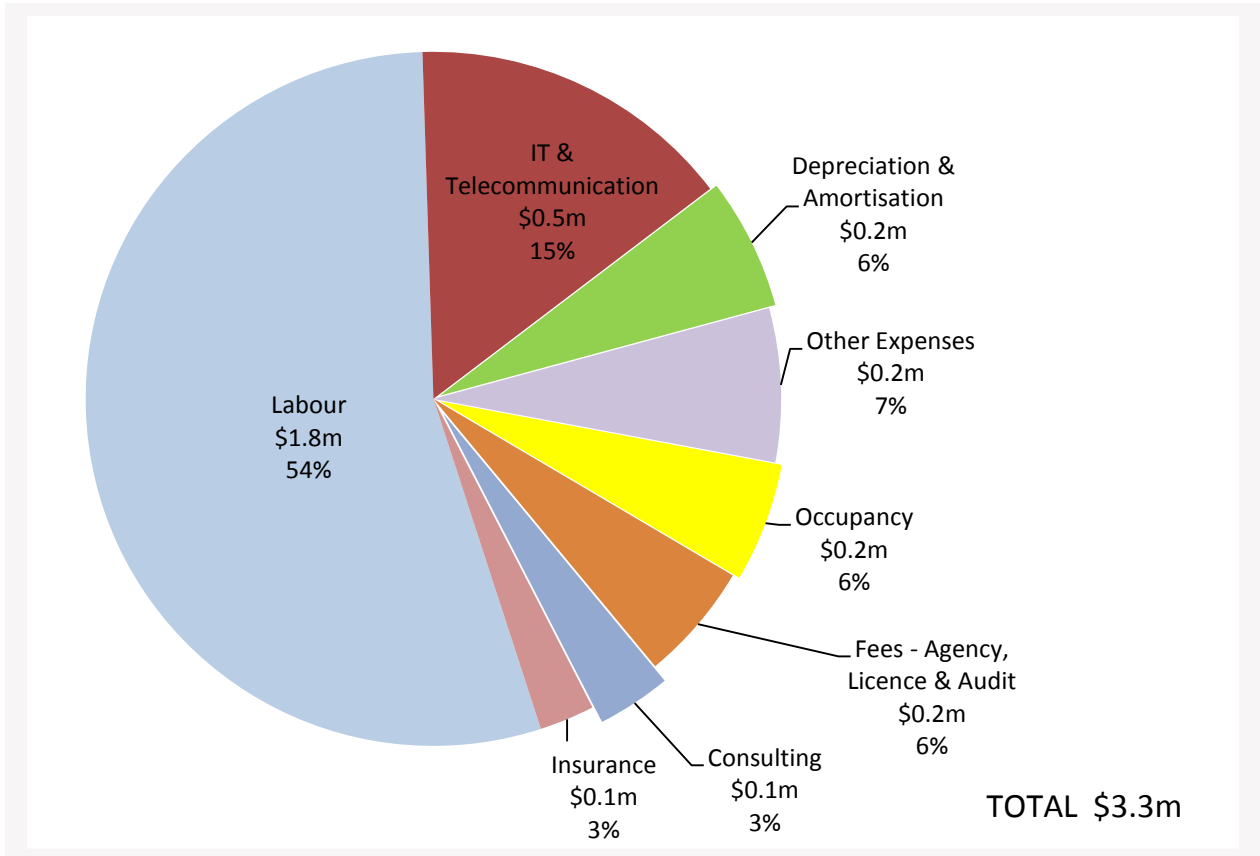
* Real values are the nominal amounts adjusted for inflation. Prices have been calculated relative to the 2014–15 price.



2.2 Revenue and Expenditure

The expenditure is detailed below in Figure 5 by expenditure category.

Figure 5 Expenditure by category 2015-16



**Table 7 Profit and Loss statement 2015-16 and comparison**

	Budget	Forecast	Budget	Variance to Budget	
	2014-15 \$'000	2014-15 \$'000	2015-16 \$'000	\$'000	%
Fees and tariffs	2,846	2,846	2,774	(71)	-3%
Other Revenue	60	66	67	7	+12%
Total Revenue	2,906	2,912	2,841	(64)	-2%
Labour	1,624	1,511	1,790	166	+10%
Contractors	13	25	9	(4)	-31%
Consulting	78	61	113	35	+44%
Fees - Agency, Licence & Audit	118	111	181	63	+53%
IT & Telecommunication	392	384	498	106	+27%
Occupancy	143	134	183	39	+28%
Insurance	72	69	84	12	+16%
Other Expenses	191	170	235	44	+23%
Depreciation & Amortisation	243	223	201	(42)	-17%
Total Expenditure	2,874	2,688	3,293	419	+15%
Surplus/(Deficit)	31	224	(452)	(483)	
Brought Forward Surplus/(Deficit)	1,579	1,742	1,966	387	
Accumulated Surplus/(Deficit)	1,610	1,966	1,514		

Key Points

- Expenditure for 2015-16 is budgeted to increase by \$0.4M (15%) from the 2014-15 budget mainly due to:
 - **Labour**
Labour costs are budgeted to increase \$0.17M (10%) due to increased resources allocated to this function and a forecast CPI increase.
 - **IT & Telecommunication**
IT & telecommunication costs are budgeted to increase \$0.1M (27%) mainly due to the Brisbane data centre relocation.



3 GAS STATEMENT OF OPPORTUNITIES

3.1 Fees

The Gas SOO costs are recovered via charges to retailers in AEMO's FRC gas markets on a fee per meter basis.

Costs for this function have increased due to work on the National Gas Forecasting Report.

There is no change in the 2015-16 fee due to an over-recovery from prior years. Fees are expected to increase in future years to return to a break-even position.

Table 8 Gas Statement of Opportunities Projected Fees

Fee	Actual 2014-15	Budget 2015-16	Estimate 2016-17	Estimate 2017-18	Estimate 2018-19	Estimate 2019-20
Gas Statement of Opportunities (\$ per customer supply point per month)	0.02830	0.02830 +0%	0.03255 +15%	0.03743 +15%	0.04117 +10%	0.04529 +10%



4 ENERGY CONSUMERS AUSTRALIA

In May 2014 the Council of Australian Governments (COAG) Energy Council approved the establishment of Energy Consumers Australia (ECA) to promote the long term interests of energy consumers, in particular for residential customers and small business customers.

AEMO is required to recover the funding for the ECA from market participants. This has replaced the Consumer Advocacy Panel (CAP) fee.

The commencement date of the ECA was 30 January 2015.

The below table reflects the fees to be collected for 2015-16.

Table 9 — Energy Consumers Australia (ECA) requirements

ECA Fees	Budget 2015-16	Actual 2014-15
Gas (\$ / customer supply point / month)	0.03114 4%	0.02998



Appendix A. DWGM FEE STRUCTURE

Table 10 DWGM fee structure

Fee	Who pays	How fee is applied
Energy tariff D	Each market participant who withdraws gas, or whose customers withdraw gas, from the Declared Transmission System for use at tariff D connection points.	A flat rate (\$ per gigajoule) for each gigajoule of gas withdrawn daily from the Declared Transmission System for use at tariff D connection points.
Energy tariff V	Each market participant who withdraws gas, or whose customers withdraw gas, from the Declared Transmission System for use at tariff V connection points.	A flat rate (\$ per gigajoule) for each gigajoule of gas withdrawn daily from the Declared Transmission System for use at tariff V connection points.
Distribution meter fee	Each market participant who is connected to a Declared Distribution System, or whose customers are connected to a Declared Distribution System, at a connection point at which there is an interval metering installation.	A flat rate (\$) for each connection point which is an interval metering installation.
Participant Compensation Fund	Each market participant who withdraws gas, or whose customers withdraw gas, from the Declared Transmission System.	A flat rate (\$ per gigajoule) for each gigajoule of gas withdrawn from the Declared Transmission System.



LIST OF SYMBOLS AND ABBREVIATIONS

Term	Definition
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
B2B	business-to-business
COAG	Council of Australian Governments
DWGM	Victorian Declared Wholesale Gas Market
ECA	Energy Consumers Australia
FRC	Full Retail Contestability
GJ	gigajoule
GPG	Gas Powered Generation
GSOO	Gas Statement of Opportunities
MCE	Ministerial Council on Energy
NA	not applicable
PCF	Participant Compensation Fund
TBC	to be confirmed
TJ	Terajoule

Note – all amounts quoted in this document are nominal dollars unless otherwise stated and all amounts are exclusive of GST.