

NEMMCO

**Draft Fee Requirements
for 2009-2010**

Business as Usual Functions

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SECTION 1: PURPOSE

In accordance with its Members' Agreement, NEMMCO produces a Statement of Corporate Intent (SCI) each year providing details of the areas for focus in the upcoming year. The SCI also includes NEMMCO's budgeted revenue requirements. Due to the transition to AEMO on 1 July 2009, NEMMCO will not be producing a SCI this year as the AEMO Board and Management will be responsible for determining the areas to be focussed on during the 2009/2010 financial year and following years.

While NEMMCO will not be producing a SCI, there remains a responsibility under the National Electricity Rules to publish a fee schedule prior to the commencement of the financial year. The fee schedule is determined by applying NEMMCO's budgeted revenue requirements (the quantum) to the previously determined structure of participant fees. In order to meet this requirement, NEMMCO has prepared this document to show the anticipated revenue requirements necessary to conduct business as usual functions. This will assist in the preparation of the fee schedule and will also provide an input into the AEMO budget, which will also include the financial requirements to operate the various gas markets and new functions.

The process for finalisation of a fee schedule for 2009/2010 is expected to be as follows:

- NEMMCO will consult with industry and its Members on the draft revenue requirements for its business as usual functions;
- The draft revenue requirements will be used as the basis for setting NEM fees for business as usual functions. This material, along with comments received from the consultation process, will be provided to AEMO(T) as an input into the AEMO budget process; and
- It is expected that AEMO(T) will determine the fees associated with new NEM functions and the recovery of transition costs for inclusion in the fee schedule for 2009/2010.

This document provides the revenue requirements for:

- General fees;
- FRC fees; and
- Gas B2B Hub fees

The underlying assumptions in the preparation of the draft fee requirements are detailed in Section 2.

Details of these fees are located in Section 5 onwards.

SECTION 2 : BASIS OF PREPARATION/ ASSUMPTIONS

The draft fee requirements have been prepared using a bottom up approach within the same organisation and business segment structure as previously. It has been prepared on the basis of NEMMCO business as usual, meaning that costs normally incurred to run the business and carry out NEMMCO's existing responsibilities have been included. It does not contain transition to AEMO costs. However, the introduction of AEMO will have some impact on business as usual, for example the requirement to prepare a National Transmission Statement replaces the Annual National Transmission Statement and the work to achieve this is reflected in the draft revenue requirements.

The reasons for adopting a business as usual approach include:

- NEMMCO is not in a position to determine the costs associated with new functions nor how common costs (e.g. Board/CEO costs) are to be applied across all of AEMO functions/markets
- It creates a platform from which an AEMO budget can be prepared, clearly ring fencing the costs associated with the NEM, FRC and the Gas B2B Hub; and
- Ensures consistency with prior periods and transparency about changes in the level of fees (and the underlying costs).

In preparing the draft fee requirements the following assumptions have been made:

- NEMMCO's Board and CEO costs have been included;
- An occupancy rate of 95% has been used for all positions below the level of Head to reflect staff turnover and periods where positions may remain unfilled;
- Remuneration increases and performance payments are based on recent market advice and previous year's experience respectively;
- Headcount only reflects NEMMCO positions required for business as usual functions;
- NEMMCO is providing secretariat services and coordinating subject matter experts for the National Smart Metering Project. These costs have not been included in the draft fee requirements as they are to be recovered separately. NEMMCO's costs associated with modifying systems and processes to enable the implementation of smart metering have been included as they are business as usual;
- Consistent with prior years a contingency amount of \$500,000 has been included to balance the competing objectives of minimising the fees in the current year and avoiding the need to recover excess costs in a subsequent year; and
- As provision of the future outlook beyond this period will be the responsibility of AEMO no forecasts of future periods have been included.

Following consultation fees relating to NEMMCO business as usual functions will be determined by the NEMMCO Board in May and published on the NEMMCO website as has been the usual practice.

SECTION 3: OVERVIEW OF KEY EXPENDITURE ITEMS

3.1 Labour

NEMMCO's labour costs have grown with increased headcount in response to increasing requests for involvement, the provision of advice and general growth and complexity in the market and associated systems. This has been impacted by:

- Proposed recruitment in accordance with the Board approved advanced recruitment strategy in relation to Power System Operations. This is to address the time and training required to develop Power Systems Operators (PSO) as well as recognising the aging profile of many PSOs some of whom are nearing retirement. As this group of employees and skill set is critical to the NEM the strategy includes over resourcing to ensure enough lead time to develop new staff before retirements occur; and
- NEMMCO also has a specific Graduate Development Program where three graduates are employed each year. This program has been in place since 2005. The graduates are employed for a period of three years and complete four nine-month rotations through different sections of the business. At the end of the three years, graduates are able to apply for vacant positions with the objective of retaining the graduates without increasing headcount.

The remuneration approach is consistent with previous years and includes remuneration increases based on independent advice.

Further details on labour can be located at pages 13 and 19.

3.2 Consultants

NEMMCO has a generally consistent annual spend on Consultants. Some of these costs reflect new initiatives arising each year with the balance being recurring in nature. This arises from the requirement to obtain specialist input or independent review from time to time as well as the choice to purchase a skill set rather than NEMMCO having to maintain an active skill set.

Examples of ongoing specialist input or review include IT and site security audits and penetration testing, calculation of marginal loss factors, demand and energy projections, development and testing of constraint equations, calculation of minimum reserve levels, remuneration advice, staff development and coaching, technical legal, accounting and tax advice, meter installation audits and maximum credit limits.

Specific impacts for the 2009/2010 year as compared to the 2008/2009 budget include:

- An additional \$390k in Planning (NEM) related to the preparation of the National Transmission Statement, recalculation of minimum reserve levels and increased cost as a result of the IRPC being disbanded as of 30 June 2009;

- A reduction of \$400k in Retail Competition Development (FRC) as the national aspects of the Victorian Smart Metering program are completed; and
- Costs associated with National Smart Metering that NEMMCO would undertake as part of business as usual. This includes involvement in working groups, development of procedures and the systems to support the procedures, which have been budgeted at approximately \$230k.

In addition to the above costs, the Commonwealth Government has tasked NEMMCO to provide the National Stakeholder Steering Committee Secretariat (project management and subject matter experts) to support the development of a consistent national framework for smart meters in the NEM. These costs, currently estimated to reach \$6 million over two years, are currently being accumulated (including interest) and quarantined for future recovery from NEM participants. They have not been included in the fee requirements.

3.3 Office Accommodation

There are a number of factors that impact on Office Accommodation costs as part of the 2009/2010 fee requirements. These are:

- As of 1 January 2009, NEMMCO is paying commercial rent for the use of the Queensland Control Centre. The 2009/2010 fee requirements include the full year impact of this increase; and
- Additional office space is required in Queensland due to space constraints at the Control Centre. An allowance has been included for additional space in the vicinity of the Brisbane CBD.

SECTION 4: FEE REQUIREMENTS OVERVIEW

Over/Under Recovery Adjustment

The draft fee requirements make no provision for any over or under recovery of fees resulting from a surplus or deficit during 2008/2009. The determination of over/under recovery adjustments occurs following the completion of the forecasting process in April. Tighter budgeting in recent years has reduced the surpluses that have occurred and interim expectations are that fee revenue and expenses for the year will be close.

Contingency in General Fees

As in recent years a contingency amount of \$500,000 is included in the NEM budget. The objective in including this amount is to buffer the impact of potential over/under recoveries that might occur from year to year, therefore best aligning fees for services in a particular year with those participants involved at the time. It also ensures that there are resources to respond to costs that might arise due to events that were unforeseen and could not be identified at the time of budgeting.

NEM General Fees

For the budget period of 2009-2010, the General fee revenue requirement is \$72.97 million. This equates to 37 cents per MWh, which is 1 cent higher than last year. This was foreshadowed in last year's SCI.

In summary, the main changes from last year are as follows:

- The General fee revenue has increased 2.7% compared to last financial year where the general fee revenue was \$71.05 million (prior to the over recovery adjustment);
- Revenue requirements have been offset by the reduction in amortisation as the write-off of the NEM establishment debt concluded in November 2008; and
- While there has been a continued focus on cost control and review, operating costs (excluding the amortisation of the NEM establishment debt) have increased by 5.95% compared to last year. The most significant area of increase has been in labour costs. In an environment where there is an expectation of a continuing high level of performance, and increased volume and complexity in the NEM, as well as the management of additional responsibilities or activities NEMMCO is required to undertake, NEMMCO must ensure there are sufficient and appropriately skilled resources to respond. Allowance has also been made for a staff retention strategy. A breakdown of the labour cost increase is provided later in this section.

A breakdown of the fees and associated operating costs is included in section 5.

FRC Fees

FRC fees will be \$14.80 million comprised of \$12.07 million operational expenditure and \$2.73 million establishment costs. This equates to 7 cents per MWh, which is consistent with the rate charged last year.

The increase in FRC fees compared to \$14.17 million charged in 2008-2009 is primarily due to increases in Labour, Rent and Depreciation.

A breakdown of the fees and associated operating costs is included in section 6.

B2B Gas Hub Fees

Fees associated with the B2B Gas Hub are collected from gas market operators in Victoria, South Australia, Queensland and Western Australia. These fees are collected to cover the operational and capital costs incurred by NEMMCO in providing these services based on an agreement between NEMMCO and the Victorian Energy Networks Corporation (VENCorp) and the Retail Energy Market Company (REMCO). It should be noted that with these entities transitioning into AEMO the nature of these arrangements may change.

A breakdown of B2B gas market fees and operating costs is included in section. 7

SECTION 5: NEM GENERAL FEES**GENERAL FEES SUMMARY****General Participant Fees (\$m)**¹

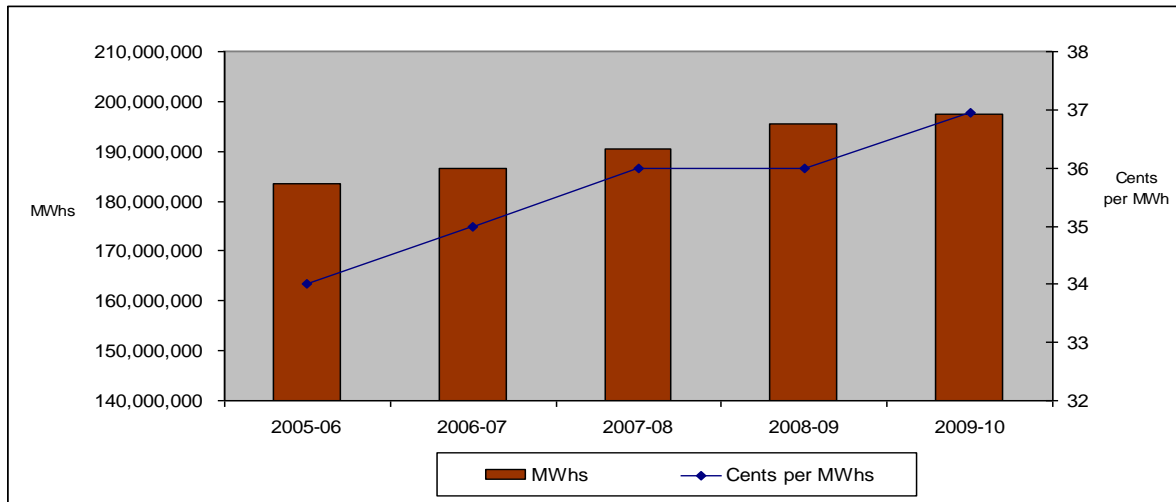
	Budget	Budget
	2008-09	2009-10
NEMMCO Operating Expenses	70.10	74.27
Less Other Revenue	(1.29)	(0.99)
Less SRA	(0.26)	(0.31) ²
Establishment Receivables	2.50	0.00
Sub Total	71.05	72.97
Cents per MWh prior to (over)/under recovery	36	37
Prior Year (Over)/Under Recovery	(1.00)	0.00
Total Fee Revenue	70.05	72.97
Cents per MWh	36	37
Energy MWh	195,514,000	197,459,000³

NOTES FOR GENERAL FEES SUMMARY:

1. Excludes FRC fees and B2B Gas Market fees
2. The NEMMCO establishment receivable was fully recovered during 2008-2009
3. The energy forecast used for calculating cents per MWh is based on last year's Market Customer Energy multiplied by the native energy annual growth forecast. Market Customer Energy is the total MWh settled in spot market transactions by Market Customers during a financial year.

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2005-06 to 2009-10 General Fees per MWh



The formal long-term cost efficiency measure of fees per MWh by which NEMMCO's financial management is monitored has remained relatively stable over the past few years with continued focus on cost control and reduction:

- The increase from 2005-2006 to 2006-2007 is largely due to the commencement of recovery of the costs of the new Sydney Control Centre;
- The increase to 2007-2008 reflects total costs increasing by 5.7% and MWhs increasing by 2.2%; and
- The increase to 2009/10 reflects costs increasing by 5.95% however due to no further requirement for NEM establishment amortisation the net increase is only 2.7%. An increase in MWh of 1.0% has caused cents per MWh to increase by 1 cent to 37 cents as was projected in last year's SCI.

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Operating Expense Summary

NEMMCO's continuing management objective is to allocate resources to optimise the performance of existing services and functions, and meet the needs for growth resulting from NEM developments that require new products or services.

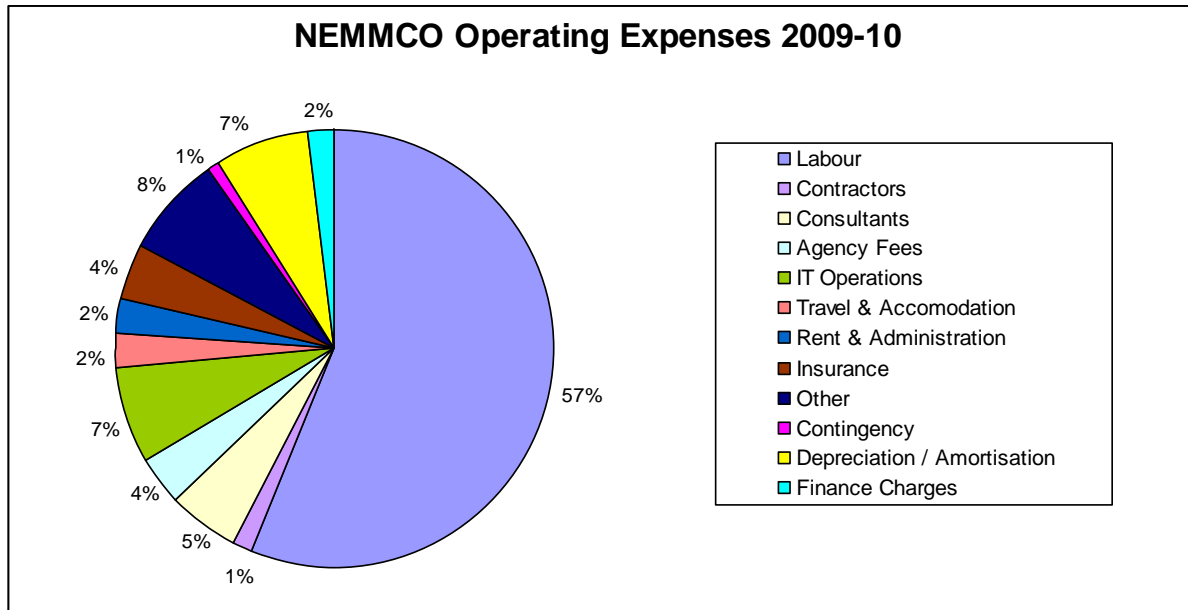
Historical Performance - Expenses (\$m)

	Actual 2005-06	Actual 2006-07	Actual 2007-08	Forecast 2008-09
Labour	29.54	32.59	34.37	37.38
Contractors	1.12	1.18	1.21	1.32
Consultants	3.62	5.39	3.44	4.12
Agency Fees	1.90	2.55	2.64	2.70
IT Operations	3.84	3.99	4.45	5.13
Trav & Accom	1.24	1.59	1.68	1.90
Rent	1.25	1.12	0.81	1.16
Insurance	4.16	3.66	3.29	3.12
Other	4.75	4.92	5.09	5.39
Contingency	0.00	0.00	0.00	0.00
Depreciation / Amortisation	6.21	5.50	5.58	5.13
Finance Charges	1.16	1.90	2.07	1.78
Sub Total	58.79	64.39	64.63	69.13
Establishment Amortisation	4.45	4.45	4.45	2.50
Total	63.24	68.84	69.08	71.63

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Budget and Forecast Performance - Expenses (\$m)

	Budget 2008-09	Forecast 2008-09	Budget 2009-10
Labour	38.73	37.38	41.61
Contractors	0.86	1.32	1.09
Consultants	3.57	4.12	4.00
Agency Fees	2.62	2.70	2.71
IT Operations	5.29	5.13	5.33
Trav & Accom	1.89	1.90	1.82
Rent	1.15	1.16	1.84
Insurance	3.13	3.12	3.14
Other	5.52	5.39	5.61
Contingency	0.50	-	0.50
Depreciation / Amortisation	4.88	5.13	5.15
Finance Charges	1.96	1.78	1.47
Sub Total	70.10	69.13	74.27
Establishment Amortisation	2.50	2.50	0.00
Total	72.60	71.63	74.27



Major Changes to NEMMCO Operating Expenses

Overall the operating expenses have increased \$4.17 million (5.95%) predominantly due to an increase in labour costs. Savings in the areas of Travel, Depreciation and Finance Charges are largely offset by increases in Consultant, Rent and Other (Utilities and Maintenance)

In making a comparison of 2009-2010 to the 2008-2009 budget the following should be noted:

LABOUR

Labour costs (including contractors) are budgeted to increase by \$3.11 million (8%). \$1.82 million relates to expected labour market increases and expected occupancy levels. \$1.29 million relates to new positions either approved during 2008-2009 or allowed for in the 2009-2010 budget. Primarily the new positions relate to:

- An expanded graduate development program;
- IT Graduates to provide additional capacity in MMS, OPDMS and security;
- Additional PSO controllers to manage expected retirements in this area of operations. Over the next few years this increased number is expected to reduce depending upon future trends in staff turnover.

CONSULTANTS

Consultants have increased by \$0.43 million. Of this, \$390k relates to additional expenditure in the planning area due to the preparation of a National Transmission Statement, recalculation of minimum reserve levels and increased cost as a result of the IRPC being disbanded as of 30 June 2009, removing the opportunity to share costs with JPBs.

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AGENCY FEES

Agency Fees have increased by \$0.09 million as per the TNSP operating agreements.

IT OPERATIONS

IT costs have increased by \$0.04 million due to increments in service fees and staff costs.

TRAVEL AND ACCOMMODATION

Travel has decreased by \$0.07 million due a reduction in airfares. The level of travel remains consistent with the prior year.

RENT

Rental costs have increased by \$0.69 due to increased rental costs as well as the requirement to pay commercial rent on the Queensland Control Centre site from Dec 2009 and increased rates, maintenance and utility costs. A second Brisbane office location has been budgeted at a cost of \$0.25 million for the full year.

INSURANCE

Insurance has increased by \$0.01 million.

OTHER

Other expenses have increased by \$0.09 million. This is largely due to an increase in maintenance costs for the Queensland and New South Wales Control Centre sites. Other line items experienced minor variations.

A detailed breakdown of "Other" expenses is provided in the next table and chart.

DEPRECIATION / AMORTISATION

Depreciation is \$0.27 million higher due to the nature of the items in the capital plan. Amortisation has decreased by \$2.23 million due to the establishment cost amortisation no longer required as it was completed in January 2009.

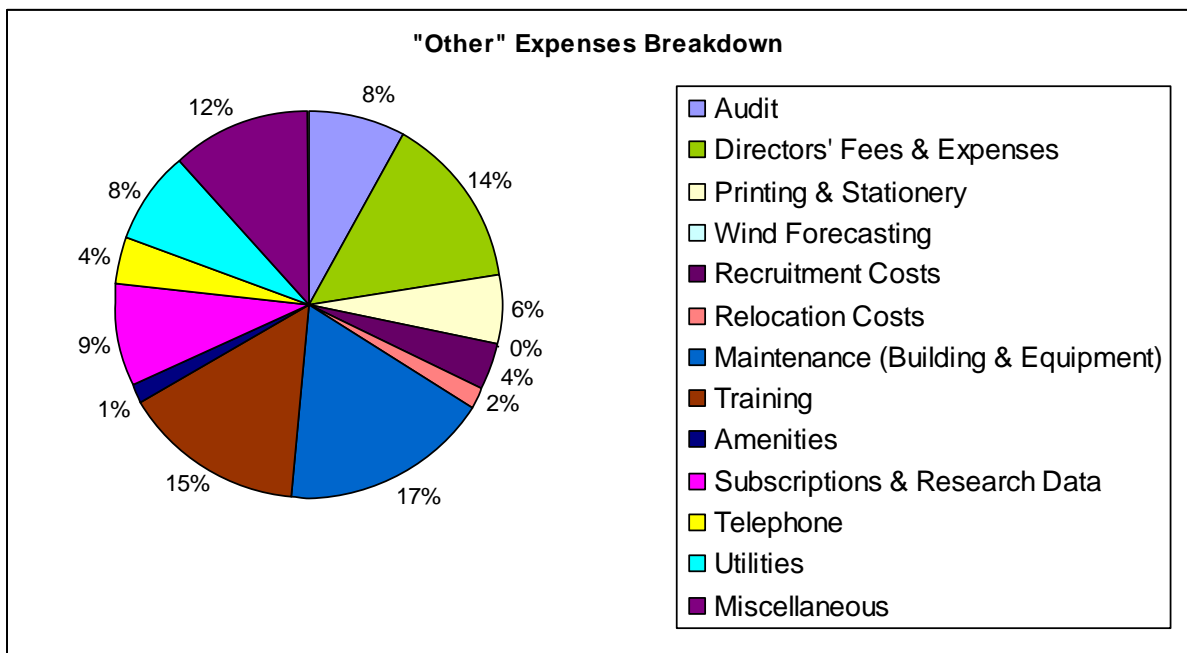
FINANCE CHARGES

A reduction of \$0.49 million is due to reduction in establishment debt by progressive repayments, the downward trend in interest rates and assumptions of no further borrowings.

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"Other" Expenses Breakdown (\$m)

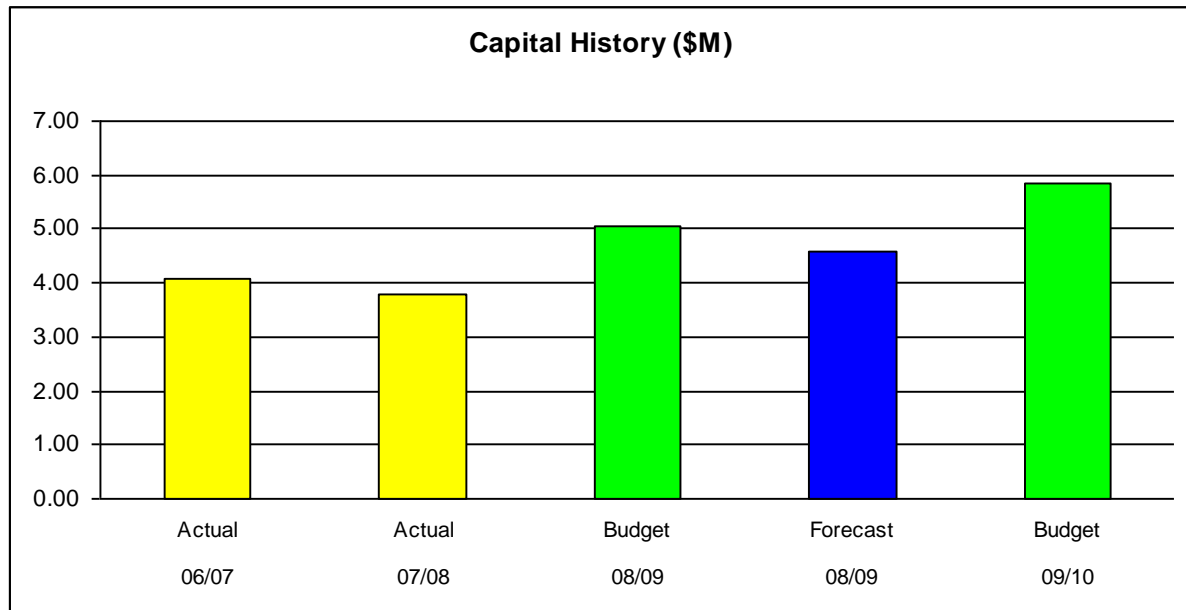
	Budget 2008-09	Forecast 2008-09	Budget 2009-10
Audit	0.44	0.44	0.45
Directors' Fees & Expenses	0.79	0.80	0.82
Printing & Stationery	0.27	0.26	0.32
Wind Forecasting	0.09	0.11	0.00
Recruitment Costs	0.24	0.32	0.21
Relocation Costs	0.14	0.12	0.10
Maintenance (Building & Equipment)	0.84	0.86	0.99
Training	0.86	0.70	0.85
Amenities	0.08	0.11	0.08
Subscriptions & Research Data	0.44	0.40	0.48
Telephone	0.25	0.19	0.22
Utilities	0.53	0.50	0.44
Miscellaneous	0.55	0.58	0.65
Total	5.52	5.39	5.61



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Capital

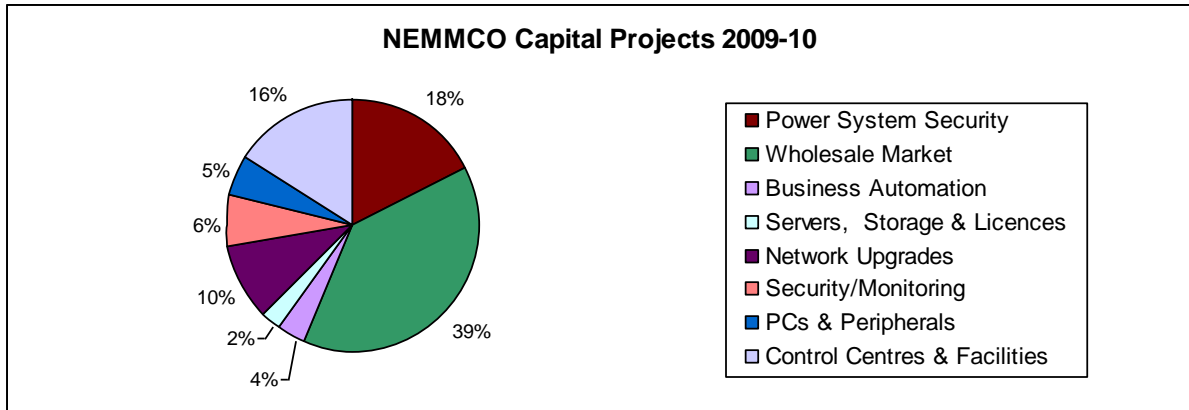
The planned capital expenditure for 2009/10 is \$5.85 million (excluding FRC and B2B Gas). The increase provides for upgrade to the Control Centre infrastructure and further improvements to power system security. The table and charts below illustrate the level of capital expenditure over time and the major areas of expenditure.

**NEMMCO Capital Projects (\$'000)**

		08/09 Forecast	09/10 Budget
Core Systems	Power System Security	888	1,035
	Wholesale Market	1,695	2,245
	Business Automation	201	220
Infrastructure	Servers, Storage & Licences	54	140
	Network Upgrades	423	585
	Security/Monitoring	434	380
	PCs & Peripherals	225	310
	Control Centres & Facilities	645	935
TOTAL NEMMCO		4,565	5,850

Key capital initiatives include:

- Load forecasting upgrade: accurate load and generation forecasts are essential to achieving optimal market outcomes;
- OPDMS enhancements to improve power system modelling;
- Control Centre site and plant upgrade;
- the continuation of bi-annual releases for MMS; and
- Network upgrades.



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SECTION 6: FRC FEES

In accordance with the Determination on the Structure of Participant fees dated 24 March 2006, FRC costs are to be recovered solely from Market Customers licensed under the laws of a participating jurisdiction as a retailer and are levied in two components: an FRC establishment component and an FRC operations component.

The following table provides the level of FRC fees that will be required to cover expenses for 2009/10.

FRC Fees (\$m)

	Budget 2008-09	Budget 2009-10
FRC Operating Expenses	11.44	12.07
Establishment Receivables	2.73	2.73
Sub Total	14.17	14.80
Cents per MWh prior to (Over)/under recovery	7	7
Prior Year (Over)/under recovery	-	-
Total Fee Revenue	14.17	14.80
Cents per MWh	7	7
Energy MWh	195,514,000	197,459,000 ¹

Note:

1. The energy forecast used for calculating cents per MWh is based on last year's Market Customer Energy multiplied by the native energy annual growth forecast. Market Customer Energy is the total MWh settled in spot market transactions by Market Customers during a financial year.

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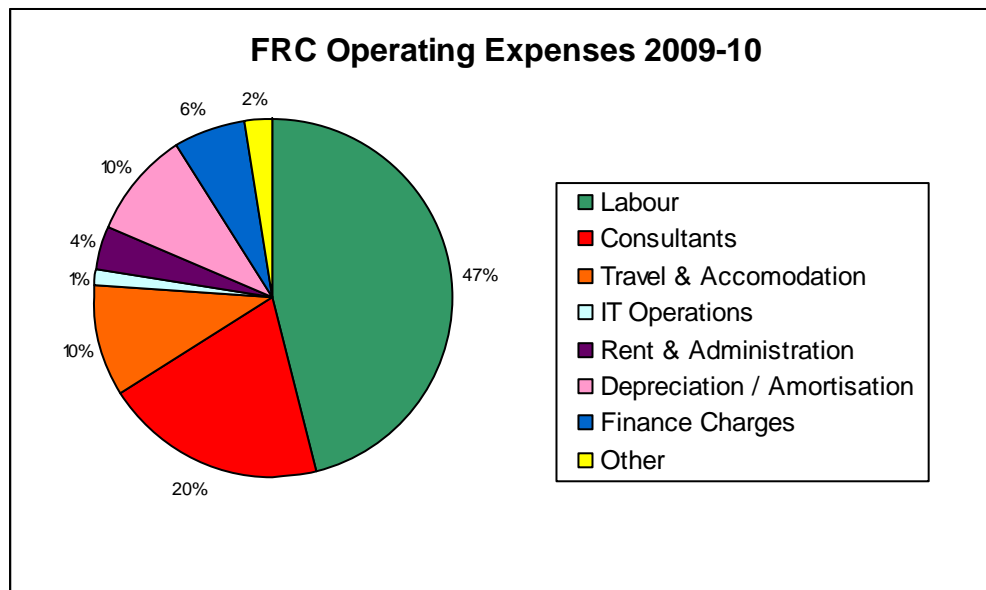
FRC Fees (\$m)

	Budget 2008-09	Budget 2009-10
Establishment Fees		
Pre-operating Receivables	2.21	2.21
Interest	0.87	0.78
Sub Total	3.08	2.99
Operating Costs		
Costs Incurred Feb 2002 - June 2003	0.52	0.52
Depreciation (Post Implementation)	1.09	1.18
Operating Costs (Post Implementation)	9.48	10.11
Sub Total	11.09	11.81
TOTAL	14.17	14.80

FRC Operating Expenses (\$m)

	Budget 2008-09	Forecast 2008-09	Budget 2009-10
Labour	5.20	5.11	5.55
Contractors	0.07	0.11	1.30
Consultants	2.09	1.88	1.08
IT Operations	1.29	1.18	1.24
Trav & Accom	0.17	0.19	0.18
Rent & Admin	0.37	0.38	0.47
Market Audit	0.04	0.04	0.04
Training	0.10	0.09	0.11
Other	0.15	0.16	0.14
Sub Total	9.48	9.13	10.11
Depreciation / Amortisation	1.09	1.16	1.18
Finance Charges	0.87	0.98	0.78
Total	11.44	11.26	12.07

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FRC Operating Expenses

Overall operating expenses have increased \$0.63 million (5.5%) predominantly due to increases to Labour reflective of the addition of new positions, Depreciation and Rent and Administration. These increases are partially offset by savings in Consultants and Finance charges.

In making a comparison of 2009-2010 to the 2008-2009 budget the following should be noted:

LABOUR

Labour costs are to increase by \$0.35 million. This is attributed to expectations of labour market increases, more specific budgeting in relation to remuneration as well as the impact of new positions and introduction of improved cost allocation methodologies.

CONSULTANTS AND CONTRACTORS

Expenditure on consultants and contractors has increased by \$0.22 million due mainly to project work on the MSATS 2009 release.

IT OPERATIONS

IT costs have reduced by \$0.05 million.

RENT AND ADMIN

An increase of \$0.10 million is due to general rent and utility cost increases as well as an allocation of costs for the Queensland Control Centre and the second Brisbane location.

OTHER

Other expenses have decreased by \$0.01 million.

DEPRECIATION

The increase in depreciation of \$0.09 million is attributable to the mix of assets and their useful lives.

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FINANCE CHARGES

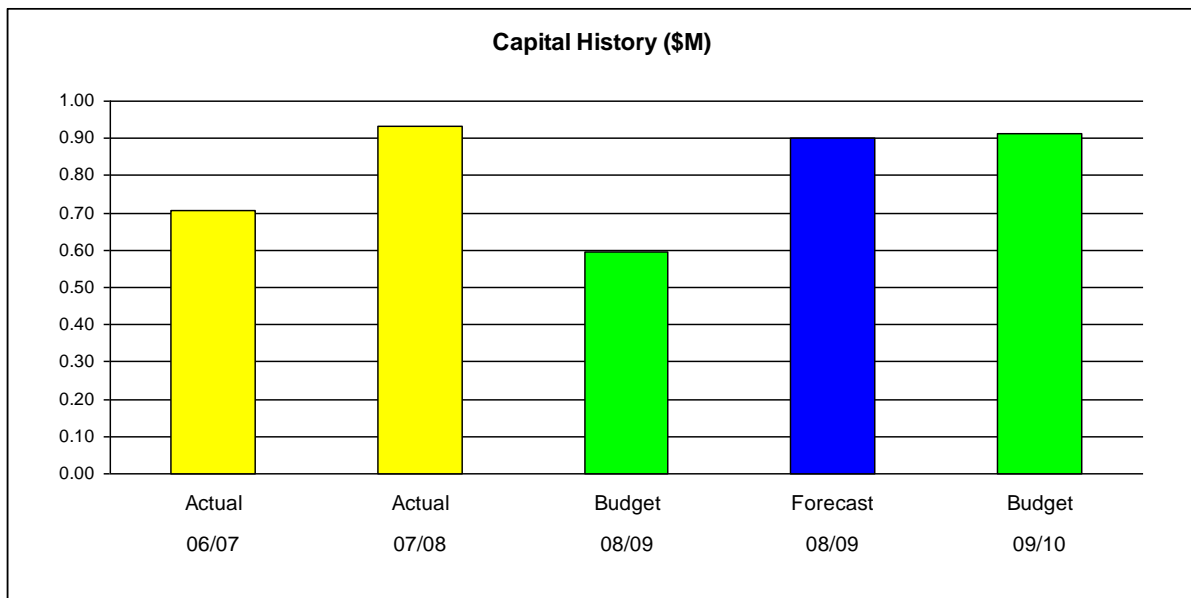
A reducing level of debt has reduced finance charges by \$0.09 million. The impact of lower interest rates has also contributed to this reduction.

INFORMATION EXCHANGE COMMITTEE

NEMMCO provides secretariat and other support services to the Information Exchange Committee (IEC) as prescribed by the Rules. The 2009/10 fee requirements includes \$0.10 million for IEC costs.

FRC Capital

The planned capital expenditure for 2009/10 is \$0.9 million. The table and charts below illustrate the level of capital expenditure over time and the major areas of expenditure.



FRC Capital Projects (\$'000)

	Forecast 2008-09	Budget 2009-10
Retail Market	901	914
TOTAL FRC	594	914

Retail market capital expenditure is forecast over budget due to unbudgeted expenditure required to support interval meter rollout.

Key capital initiatives include:

- Smart meter rollout;
- Continuation of the bi-annual releases for MSATS; and
- The Meter data warehouse project.

SECTION 7: B2B GAS MARKET FEES

The recovery of NEMMCO's costs for providing Gas Market B2B services is on a fee for service basis, consistent with an agreement reached between NEMMCO and the Victorian Energy Networks Corporation (VENCorp) and the Retail Energy Market Company (REMCO)

B2B Gas Market Fees and Expenses (\$m)

	Budget 2008-09	Forecast 2008-09	Budget 2009-10
Budget Fees			
Operating Costs B2B Gas Hub	1.02	0.94	1.02
Total Fees Revenue	(1.02)	(1.02)	(1.02)
Total Surplus / Deficit	0.00	(0.08)	0.00
Labour	0.32	0.23	0.22
Consultants	0.23	0.22	0.26
IT Operations	0.32	0.40	0.42
Trav & Accom	0.01	0.00	0.00
Other	0.09	0.06	0.07
Depreciation / Amortisation	0.04	0.03	0.05
Finance Charges	0.01	0.00	0.00
Total	1.02	0.94	1.02

Operating costs have increased by \$0.01 million (1%) due to:

- Labour has reduced by \$0.10 due to a change to the staffing mix engaged in providing the service.
- IT Operations increased by \$0.10 million due to the addition of new software licences commencing during 08/09.