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# Western Australia Wholesale Electricity Market 2019-20 AEMO Final Budget and Fees

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**June 2019**

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# Executive summary

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

AEMO's annual budget sets out the amounts that will be charged under the Wholesale Electricity Market Rules, 2.22. This report provides a view of the final 2019-20 WA electricity fees, revenue and expenses.

The key points of the 2019-20 final budget are:

- AEMO WEM fee will increase to \$0.861/MWh (+3%) in line with additional activities and complexity in the WEM including the on-going system management transition work, inflation and an increase in depreciation and amortisation.
- AEMO will continue to manage costs prudently to reduce the impact of fee increases to market participants and will identify further opportunities for efficiencies.

## 1.1 Summary of Fees

Table 1 Summary of WEM fees

| Fee                                     | Actual<br>2018-19 | Budget<br>2019-20 | Estimate<br>2020-21 | Estimate<br>2021-22 |
|---|-------------------|-------------------|---------------------|---------------------|
| AEMO WEM Market Operator fee (\$/MWh)   | 0.350             | 0.362             | 0.387               | 0.414               |
| AEMO WEM System Management fee (\$/MWh) | 0.484             | 0.499             | 0.519               | 0.540               |
| <b>Total AEMO WEM fee (\$/MWh)</b>      | <b>0.833</b>      | <b>0.861</b>      | <b>0.906</b>        | <b>0.954</b>        |
| ERA WEM fee (\$/MWh)                    | 0.137             | 0.179             | TBC                 | TBC                 |

## 1.2 Contact for inquiries

For all queries on budget and fees, please contact [2019-20budget@aemo.com.au](mailto:2019-20budget@aemo.com.au)

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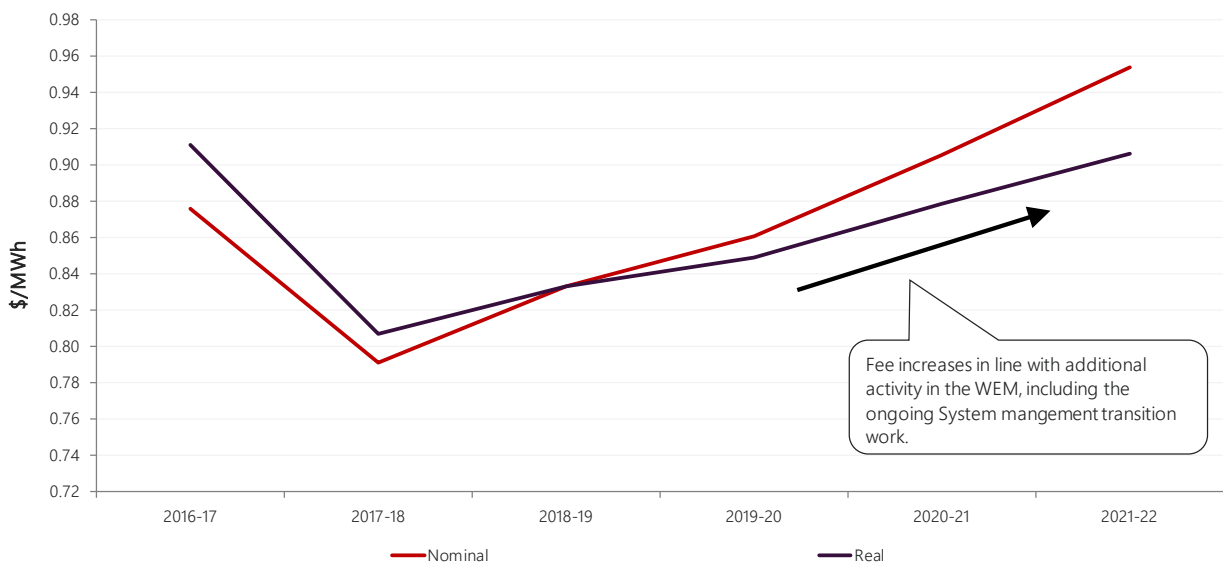
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# 2. Western Australia Wholesale Electricity Market (WEM)

## 2.1 WEM Fees

|                                 |  |
|---------------------------------|--|
| <b>Purpose of this function</b> | <ul style="list-style-type: none"> <li>• Power system security and reliability.</li> <li>• Market operations and systems.</li> <li>• Wholesale metering, settlements and prudential supervision.</li> <li>• Preparing for and implementing WA Government's WEM and Constrained Access Reforms.</li> <li>• Longer-term energy forecasting and planning services (for the South West Interconnected System of Western Australia).</li> </ul> |
| <b>Fees</b>                     | <p>The current WEM fee is \$0.833/MWh.</p> <p>This fee will increase to \$0.861/MWh (+3%) in 2019-20. The fee has increased in line with additional activities and complexity in the WEM including the on-going system management transition work, inflation and an increase in depreciation and amortisation.</p>   |
| <b>Other notes</b>              | <p>On 14 June 2019, the ERA approved and released its final determination on the AEMO Allowable Revenue and Forecast Capital Expenditure for 2019/20 to 2021/2022 to be effective from 1 July 2019.</p> <p>For further information, please refer to the <a href="#">AEMO Allowable Revenue and Forecast Capital Expenditure 2019/20 to 2021/2022 final determination</a> on the ERA website.</p>   |

**Figure 1 WEM fees in real and nominal terms**



Note: Real values are the nominal amounts adjusted for inflation. Prices have been calculated relative to the 2018-19 price

Table 2 **WA WEM fees**

| Fee   | Actual 2018-19 | Budget 2019-20 | Estimate 2020-21 | Estimate 2021-22 |
|---|----------------|----------------|------------------|------------------|
| AEMO WEM Market Operator fee (\$/MWh)                 | 0.350          | 0.362          | 0.387            | 0.414            |
|   | -2%            | +4%            | +7%              | +7%              |
| AEMO WEM System Management fee (\$/MWh)               | 0.484          | 0.499          | 0.519            | 0.540            |
|   | +11%           | +3%            | +4%              | +4%              |
| <b>AEMO WEM fee (\$/MWh)</b>                          | <b>0.833</b>   | <b>0.861</b>   | <b>0.906</b>     | <b>0.954</b>     |
|   | <b>+5%</b>     | <b>+3%</b>     | <b>+5%</b>       | <b>+5%</b>       |
| <b>AEMO WEM fee (indicative benchmark) * (\$/MWh)</b> | 1.667          | 1.722          | 1.812            | 1.908            |

\* The fee listed above is a benchmark fee calculated by dividing the total cost of the WEM functions by the total forecast consumption. The actual fee charged to both Market Customers and Generators is \$0.362/MWh and \$0.499/MWh for the Market Operator and System Management functions respectively. The isolated grid, different regulatory and market arrangements are a key driver of costs.

## 2.2 WEM energy consumption

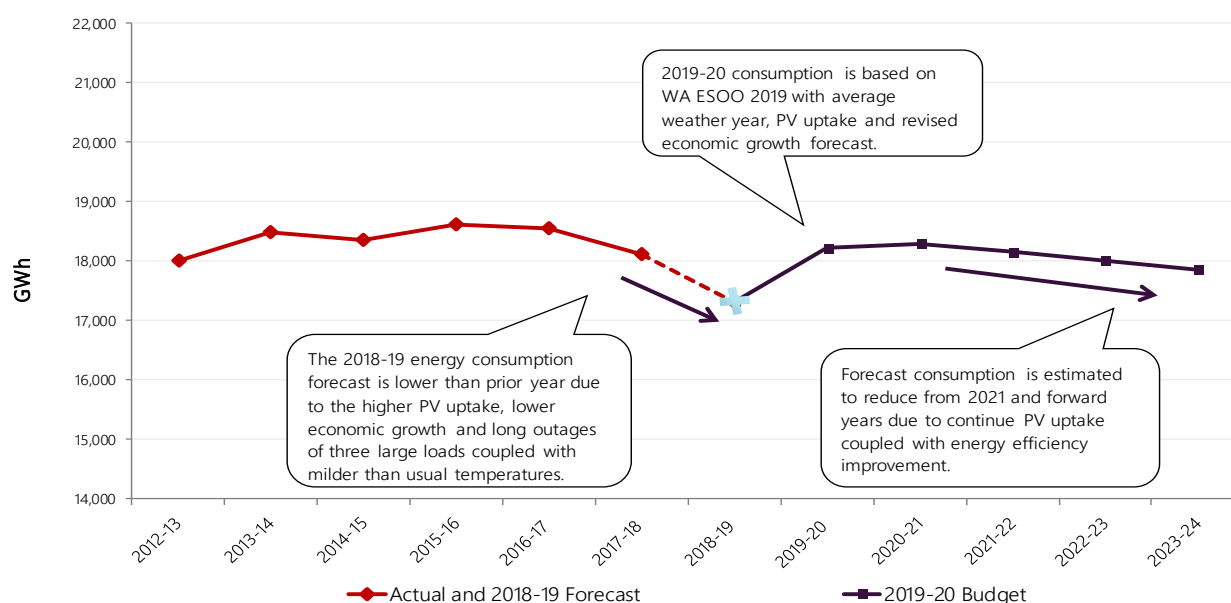
The budgeted consumption for 2019-20 is based on data estimates used in the [WA 2019 ESOO](#), published on 14 June 2019. Consumption is expected to increase by 1.1% in 2019-20 and with small increase in 2020-21 before trending downward in forward years due to declining residential consumption as a result of rapid uptake of rooftop PV coupled with energy efficiency improvements.

Table 3 **WEM consumption**

| GWh                  | Budget 2018-19 | Forecast * 2018-19 | Budget 2019-20 | Estimate 2020-21 | Estimate 2021-22 | Estimate 2022-23 | Estimate 2023-24 |
|----------------------|----------------|--------------------|----------------|------------------|------------------|------------------|------------------|
| <b>Load forecast</b> | 18,029         | 17,319             | 18,221         | 18,289           | 18,151           | 18,008           | 17,864           |
|                      |                | -3.9%              | +1.1%          | +0.4%            | -0.8%            | -0.8%            | -0.8%            |

Figure 2 below outlines the forecast energy consumption used to calculate the WEM fee.

**Figure 2 WA annual electricity consumption**



## 2.3 Revenue and Expenditure

**Table 4 Profit and Loss statement 2019-20 and comparison – WEM**

|                                      | Budget            | Budget            | Variance     |            |
|--------------------------------------|-------------------|-------------------|--------------|------------|
|                                      | 2018-19<br>\$'000 | 2019-20<br>\$'000 | \$'000       | %          |
| Fees and tariffs                     | 30,258            | 31,580            | 1,322        | +4%        |
| Other Revenue                        | 0                 | 0                 | 0            | +100%      |
| <b>Total Revenue</b>                 | <b>30,258</b>     | <b>31,580</b>     | <b>1,322</b> | <b>+4%</b> |
| Labour and Contractors               | 14,992            | 16,003            | 1,011        | +7%        |
| Consulting                           | 5,109             | 3,950             | (1,158)      | -23%       |
| Fees - Agency, Licence & Audit       | 399               | 422               | 23           | +6%        |
| IT & Telecommunication               | 2,032             | 2,749             | 717          | +35%       |
| Occupancy                            | 1,681             | 546               | (1,135)      | -68%       |
| Insurance                            | 0                 | 11                | 11           |            |
| Other Expenses                       | 1,704             | 1,269             | (435)        | -26%       |
| Depreciation & Amortisation          | 3,899             | 6,659             | 2,760        | +71%       |
| <b>Total Expenditure</b>             | <b>29,815</b>     | <b>31,609</b>     | <b>1,794</b> | <b>+6%</b> |
| <b>Surplus/(Deficit)</b>             | <b>442</b>        | <b>(30)</b>       | <b>(472)</b> |            |
| Brought Forward Surplus/(Deficit)    | (1,368)           | 77                | 1,445        |            |
| <b>Accumulated Surplus/(Deficit)</b> | <b>(925)</b>      | <b>47</b>         |              |            |

### Key points for 2019-20 profit and loss

Total expenditure is \$1.79m or 6% higher in 2019-20 due to:

- Higher labour and contractor costs driven by salary increases as a result of AEMO's 2018 Enterprise Agreement and further labour required for additional activities and complexity in the WEM including the ongoing system management transition work as well as backfill for staff deployed on capital projects; and

- Higher depreciation and amortisation as a result of increased capital expenditure, completion of recent projects and lower prior year costs as most of the previously acquired assets from the Independent Market Operator had already been fully depreciated. Depreciation for the WEM reform project has been excluded from the AR5 period with the capital costs of this project depreciated over later allowable revenue periods

which is partly offset by:

- Lower consultancy reflecting the cessation of the service level agreement with Western Power for the provision of system management services. A separate capital project is underway to internally resource system management. Completing this and the power system operations project will conclude the transfer of system management functions from Western Power to AEMO; and
- Lower occupancy costs as a result of recent changes mandated by the new Leasing Accounting standard (AASB 16) applicable to AEMO from 1 July 2019 requiring most operating leases to be reflected on-balance sheet with the subsequent expense now recognised through depreciation and interest charges.

## 3. Economic Regulation Authority (ERA)

|                                 |  |
|---------------------------------|--|
| <b>Purpose of this function</b> | <b>To ensure that WA has a fair, competitive and efficient environment for consumers and businesses.</b>   |
| <b>Fees</b>                     | AEMO is required to recover the funding for the ERA from WEM market customers and generators and gas shippers (i.e. pass through recovery). Total expenditure budgeted by the ERA for the WEM functions to be recovered in 2019-20 is \$6.58m (+33% increase) (2018-19: \$4.96m).<br><br>The WEM ERA fee is \$0.179 per MWh in 2019-20 (31% increase). |
| <b>Other notes</b>              | For any questions on the ERA budget in 2019-20, contact Pam Herbener, Director, Corporate Services at <a href="mailto:pam.herbener@erawa.com.au">pam.herbener@erawa.com.au</a>   |

Table 5 ERA revenue requirements

| ERA revenue requirement              | Actual 2018-19 | Budget 2019-20       |
|--------------------------------------|----------------|----------------------|
| WEM regulator fee (\$'000)           | 3,948          | 5,021                |
| Rule change panel (\$'000)           | 1,008          | 1,561                |
| <b>Total ERA revenue requirement</b> | <b>4,956</b>   | <b>6,582</b><br>+33% |

Table 6 ERA WEM fee

| ERA WEM fee          | Actual 2018-19 | Budget 2019-20 |
|----------------------|----------------|----------------|
| ERA WEM fee (\$/MWh) | 0.137          | 0.179          |
|                      | 11%            | +31%           |

# Appendix A. Fee schedules

Table 7 Fee schedule of new WA WEM registrations

| Application type   | 2019-20<br>\$ |
|--|---------------|
| Rule Participant Registration Application Fee                    | 1,130         |
| Facility Registration Application Fee                            | 570           |
| Facility Transfer Application Fee                                | 650           |
| Conditional Certification of Reserved Capacity                   | 1,130         |
| Resubmission - Application for Early Certified Reserved Capacity | 10,360        |



# Symbols and abbreviations

| <b>Term</b> | <b>Definition</b>                 |
|-------------|-----------------------------------|
| <b>AEMO</b> | Australian Energy Market Operator |
| <b>ERA</b>  | Economic Regulation Authority     |
| <b>MWh</b>  | Megawatt hour                     |
| <b>NA</b>   | Not Applicable                    |
| <b>TBC</b>  | To Be Confirmed                   |
| <b>WA</b>   | Western Australia                 |
| <b>WEM</b>  | Wholesale Electricity Market      |