

DECLARED WHOLESALE GAS
MARKET & VICTORIAN GAS
FULL RETAIL
CONTESTABILITY FINAL
BUDGET AND FEES: 2016-17

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EXECUTIVE SUMMARY

1.1 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 of is underpinned by a fee structure developed in consultation with stakeholders and in line with national rule requirements. The fee structures detail how AEMO will calculate fees and who will be charged. The current participant fee structure for AEMO’s gas markets is from 1 July 2015 to 30 June 2018.

AEMO’s annual budget sets out the amounts that will be charged under these fee structures.

The 2016-17 final Declared Wholesale Gas Market (DWGM) and Victorian Gas Full Retail Contestability (FRC) budget provide a view of the 2016-17 Victorian gas revenue and expenses, and estimates for the following four-year period. In budgeting for 2016-17, AEMO has continued to apply strong commercial discipline to control costs to reduce the impact of fee increases to market participants.

1.2 Key messages

AEMO has applied strong commercial discipline to control costs, where possible, to reduce the impact of fee increases to market participants. As a result, fee to participants are lower.

	Actual 2014-15	Actual 2015-16	Budget 2016-17	Estimate 2017-18	Estimate 2018-19	Estimate 2019-20	Estimate 2020-21
DWGM - Energy Tariff	0.08230	0.08806	0.08630	0.08457	0.08288	0.08868	0.09489
% change	+20%	+7%	-2%	-2%	-2%	+7%	+7%
VIC FRC Gas (\$ per customer supply point per month)	0.11974	0.11495	0.09771	0.08305	0.07059	0.07553	0.08082
% change	7%	-4%	-15%	-15%	-15%	+7%	+7%

Key points:

1. Consumption is forecast to increase in 2016-17 (+4.7%) before declining in the following years.
2. Lower fees are achieved in 2016-17 and two years forward.

1.3 Proposed 2016-17 Fees

Table 1 Proposed fees

Function	Budget 2016-17	Current 2015-16	Change	Prior year published estimate 2016-17	Unit
DWGM - Energy Tariff	0.08630	0.08806	↓ -2%	0.0942	\$/GJ withdrawn
VIC FRC Gas	0.09771	0.11495	↓ -15%	0.1104	\$ per customer supply point per month



1.4 Contacts

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

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DECLARED WHOLESALE GAS MARKET

2.1 Energy consumption

The final forecast consumption is based on the National Gas Forecasting Report (NGFR) published in December 2015.

AEMO estimates in 2016-17 an overall increase of 4.7% in consumption from the 2015-16 budget which is due to increases in Victorian exports to NSW, and increased domestic consumption, offset by decreases in industrial consumption. Industrial consumption is estimated to decline from 2016-17.

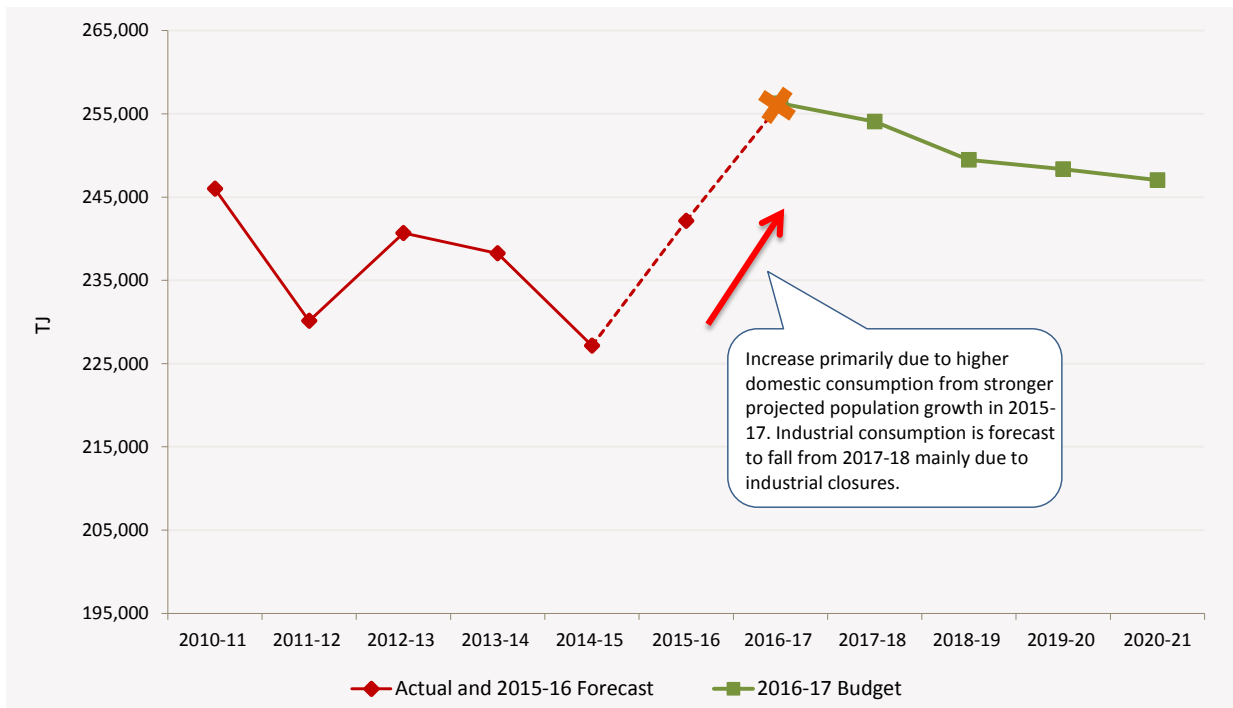
Table 2 DWGM consumption

TJs	Budget 2015-16	Forecast ¹ 2015-16	Budget 2016-17	Estimate 2017-18	Estimate 2018-19	Estimate 2019-20	Estimate 2020-21
Tariff V (Domestic)	119,396	126,336	125,822	125,295	124,117	123,167	122,065
Tariff D (Industrial)	74,039	72,534	72,144	68,963	66,033	65,847	65,710
Export	39,447	39,116	45,664	47,996	48,756	49,000	49,000
GPG	2,254	4,157	2,500	2,500	2,500	2,500	2,500
TOTAL	235,136	242,142	246,130	244,754	241,406	240,513	239,275
			+4.7%	-0.6%	-1.4%	-0.4%	-0.5%

¹ Forecast annual 2015-16 consumption as at April 2016

Figure 4 shows the effect of declining consumption on the DWGM fee.

Figure 1 Annual DWGM consumption





2.2 Fees

The DWGM Energy Tariff is budgeted to decrease 2% from \$0.08806/GJ to \$0.08630/GJ in 2016-17. The 2016-17 fee is lower than the fee of \$0.09422/GJ estimated as part of the 2015-16 budget process.

This decrease is mainly due to the return of the 2015-16 surplus and a higher consumption forecast and lower expenditure in 2016-17. Costs in this function have decreased by \$0.6M (3%), primarily due to lower labour and depreciation costs.

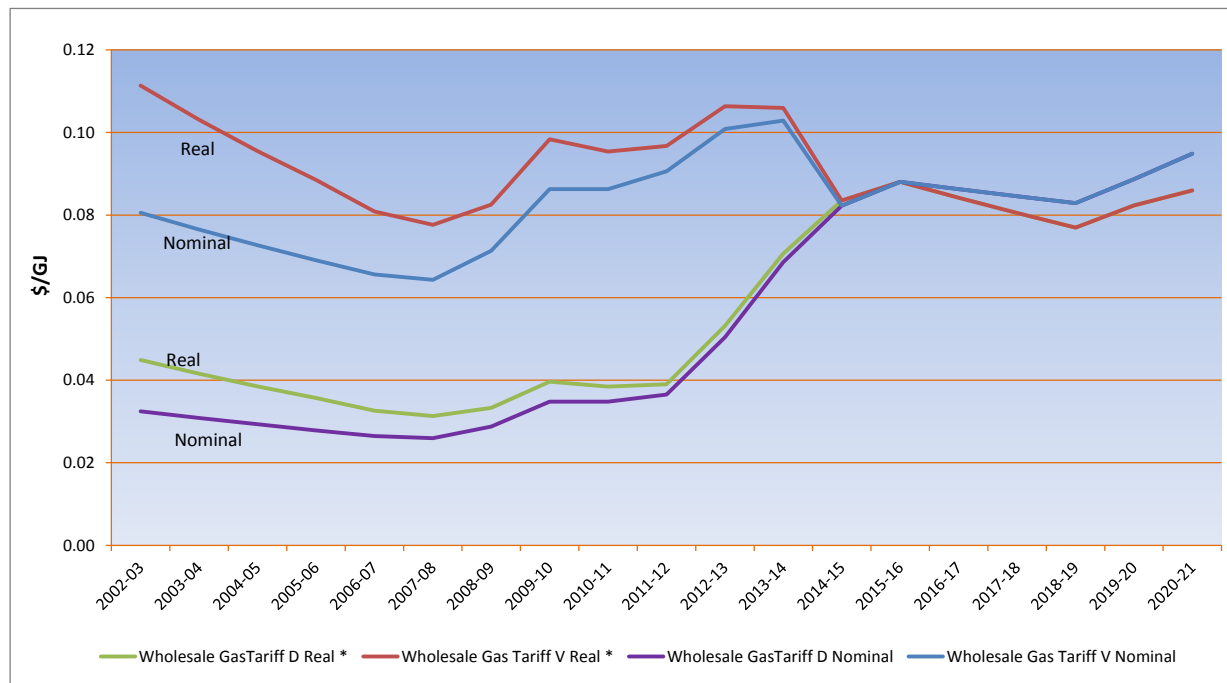
The distribution meter fee for 2016-17 relates to metering data services.

The Participant Compensation Fund (PCF) fee is not required to be charged in 2016-17 as the current level of DWGM PCF funds being held meets Rules requirement.

Table 3 DWGM projected fees

Fee	Actual 2015-16	Budget 2016-17	Estimate 2017-18	Estimate 2018-19	Estimate 2019-20	Estimate 2020-21
Energy Tariff (\$/GJ)	0.08806 +7%	0.08630 -2%	0.08457 -2%	0.08288 -2%	0.08868 +7%	0.09489 +7%
Distribution Meter (\$/day per meter)	1.4874 +5%	1.37050 -8%	1.48780 +9%	1.5122 +2%	1.5454 +2%	1.5751 +2%
PCF Fee (\$/GJ)	0	0	TBC	TBC	TBC	TBC

Figure 2 DWGM projected fees



* Real values are the nominal amounts adjusted for inflation. Prices have been calculated relative to the 2015–16 price.



2.3 Revenue and Expenditure

The expenditure is detailed below in Figure 3 by expenditure category

Figure 3 Expenditure by category 2016-17

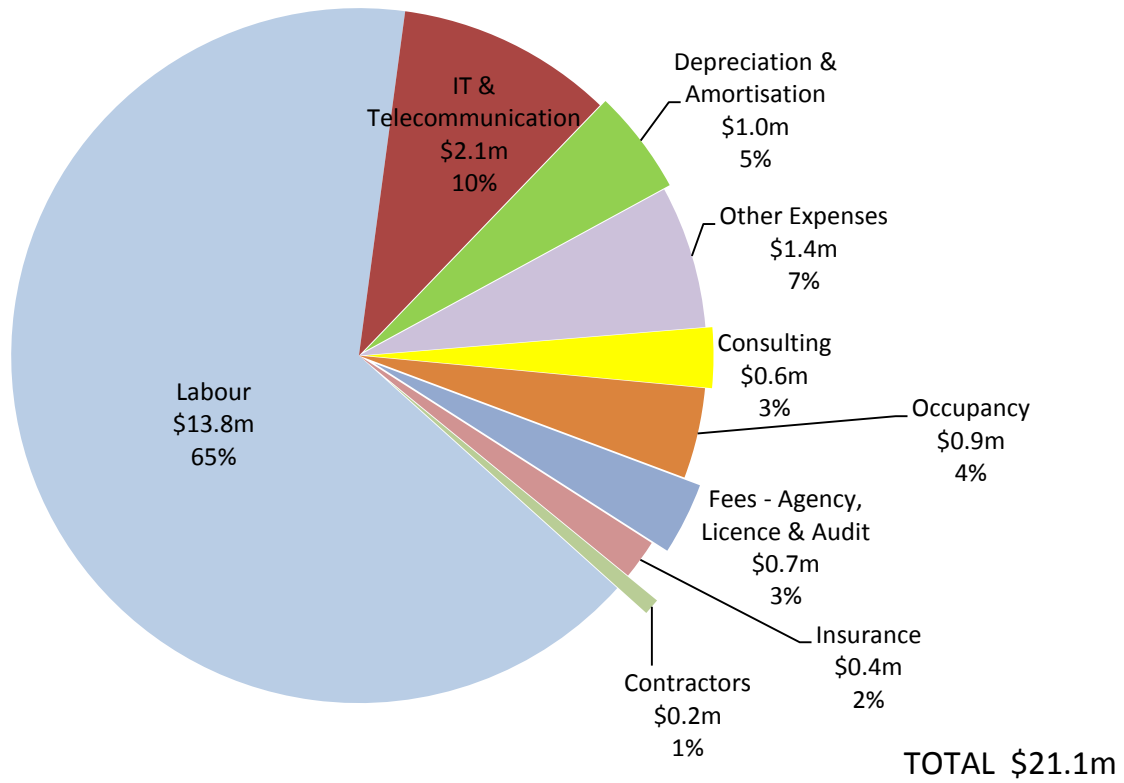




Table 4 Profit and Loss statement 2016-17 and comparison

	Budget 2015-16	Forecast 2015-16	Budget 2016-17	Variance to Budget	
	\$'000	\$'000	\$'000	\$'000	%
Fees and tariffs	21,408	22,362	21,903	495	+2%
Other Revenue	546	473	502	(44)	-8%
Total Revenue	21,954	22,835	22,405	451	+2%
Labour	14,073	13,860	13,816	(257)	-2%
Contractors	42	214	159	117	+279%
Consulting	693	514	591	(101)	-15%
Fees - Agency, Licence & Audit	714	713	709	(5)	-1%
IT & Telecommunication	2,271	2,053	2,125	(146)	-6%
Occupancy	881	878	889	8	+1%
Insurance	406	401	390	(16)	-4%
Other Expenses	1,398	1,331	1,400	2	+0%
Depreciation & Amortisation	1,273	1,213	1,027	(247)	-19%
Total Expenditure	21,751	21,178	21,106	(645)	-3%
Surplus/(Deficit)	203	1,657	1,299	1,096	
Transfer to PCF	(113)	(113)	(100)	13	
Brought Forward Surplus/(Deficit)	6,431	6,817	8,361	1,930	
Accumulated Surplus/(Deficit)	6,521	8,361	9,561		
Contributed Capital	8,704	8,704	8,704		
Accumulated Surplus/ (Deficit) excluding Contributed Capital	(2,182)	(342)	857		

Key Points:

- Revenue for 2016-17 is estimated to be \$0.5M (2%) higher than the 2015-16 budget mainly due to higher forecast consumption.
- Expenditure for 2016-17 is estimated to be \$0.6M (3%) lower than 2015-16 budget. This is mainly due to:
 - **Labour costs (-\$0.3M)**
Labour costs are budgeted to decrease in 2016-17 due to lower resources allocated to this function, partially offset by higher contractor costs.
 - **Contractor costs (+\$0.1M)**
Contractor costs are budgeted to increase in 2016-17 mainly due to support required for forecasting and modelling.



- **Consulting costs (-\$0.1M)**
Consulting costs are budgeted to decrease in 2016-17 mainly due to new training courses developed in 2015-16 and lower corporate consulting costs.
- **IT and Telecommunication (-\$0.1M)**
IT Telecommunication costs are budgeted to decrease in 2016-17 due to a decrease in IT costs through renegotiations of Optus and Telstra agreements for datalinks and market net services.
- **Depreciation costs (-\$0.2M)**
Depreciation costs are budgeted to decrease in 2016-17 mainly due to network equipment and other corporate systems that are fully depreciated.



2.4 PCF fees

The National Gas Rules require AEMO to maintain a separate Participant Compensation Fund (PCF) to pay 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 2016 estimated balance of the PCF is \$3.6M.

The funding requirement for 2016-17 is \$Nil.



VICTORIAN FULL RETAIL CONTESTABILITY GAS

3.1 Fees

The Victorian FRC fee will reduce by 15% in 2016-17 and by a further 15% in the following two years due to an accumulated surplus in the function from prior years.

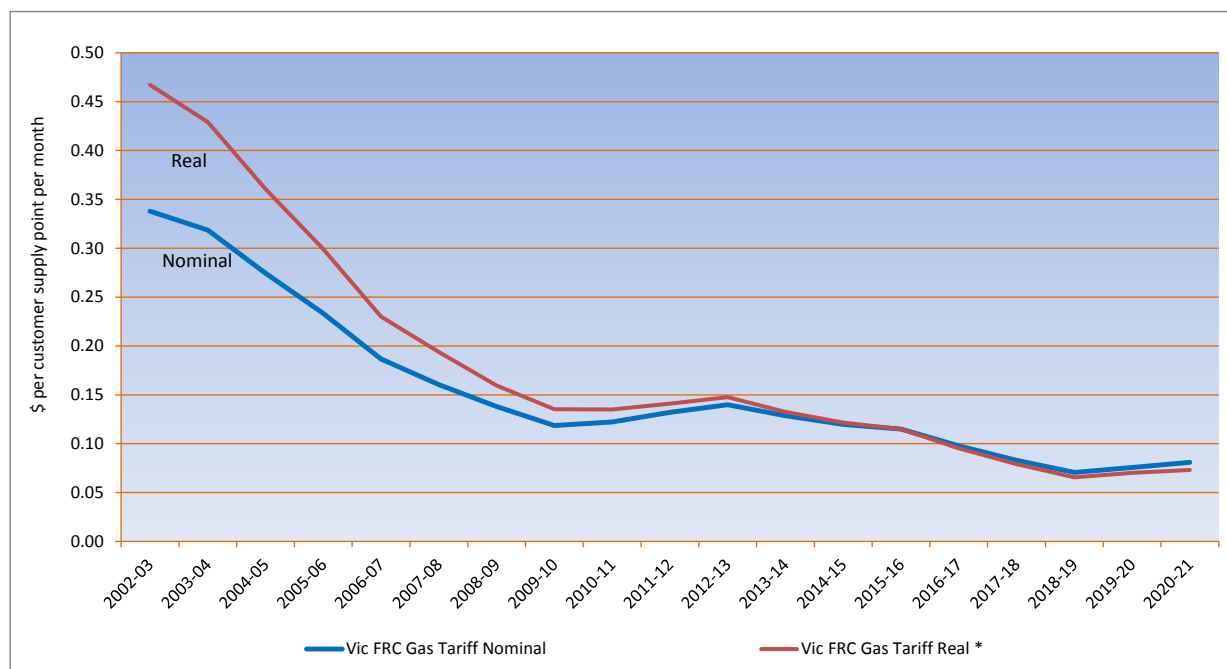
The fee is then expected to increase in following years after the surplus is fully returned to achieve a break-even position.

Costs for this function have decreased by 25%, mainly due to lower labour costs.

Table 5 Victorian FRC Gas projected fees

Fee	Actual 2015-16	Budget 2016-17	Estimate 2017-18	Estimate 2018-19	Estimate 2019-20	Estimate 2020-21
FRC Gas Tariff (\$ per customer supply point per month)	0.11495	0.09771	0.08305	0.07059	0.07553	0.08082
	-4%	-15%	-15%	-15%	+7%	+7%
Initial Registration Fee (\$ per participant)	5,760	5,760	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 2015–16 price.



3.2 Revenue and Expenditure

The expenditure is detailed below in Figure 5 by expenditure category

Figure 5 Expenditure by category 2016-17

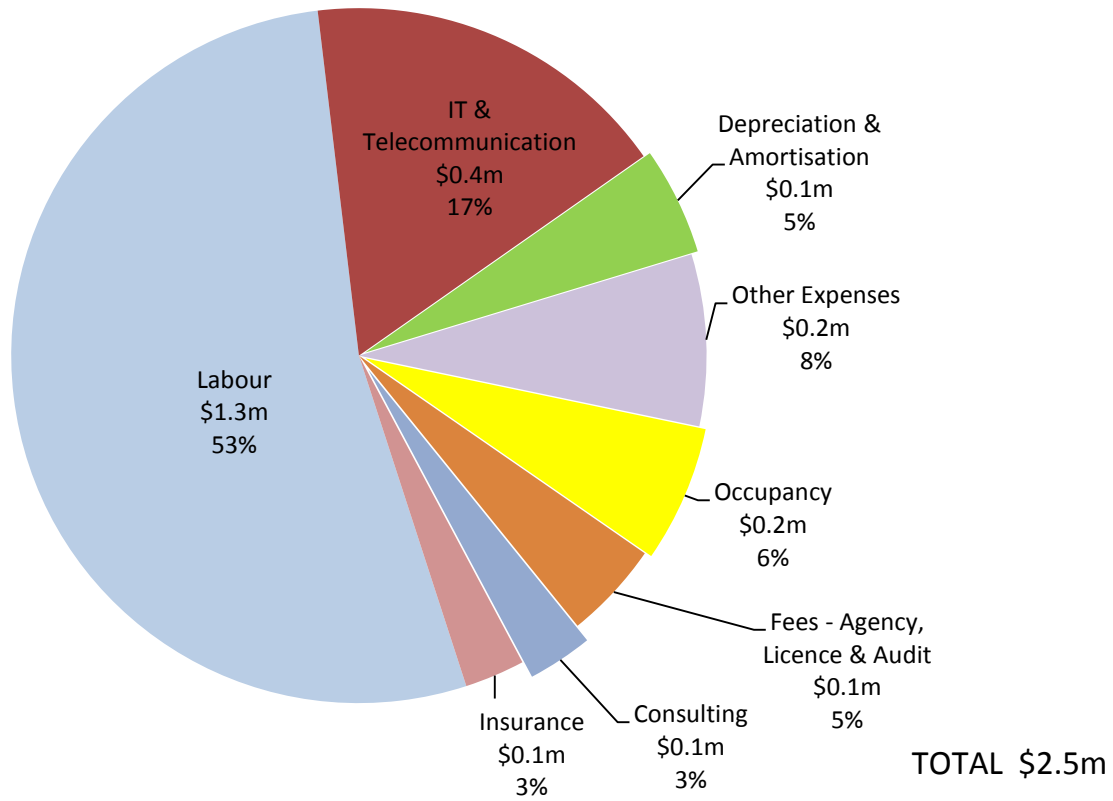




Table 6 Profit and Loss statement 2016-17 and comparison

	Budget	Forecast	Budget	Variance to Budget	
	2015-16 \$'000	2015-16 \$'000	2016-17 \$'000	\$'000	%
Fees and tariffs	2,774	2,774	2,401	(373)	-13%
Other Revenue	67	58	57	(10)	-15%
Total Revenue	2,841	2,833	2,458	(383)	-13%
Labour	1,790	1,673	1,291	(499)	-28%
Contractors	9	60	22	13	+152%
Consulting	113	93	74	(39)	-35%
Fees - Agency, Licence & Audit	181	62	110	(70)	-39%
IT & Telecommunication	498	459	417	(80)	-16%
Occupancy	183	186	155	(28)	-15%
Insurance	84	85	68	(16)	-19%
Other Expenses	235	230	194	(41)	-17%
Depreciation & Amortisation	201	204	122	(79)	-39%
Total Expenditure	3,293	3,051	2,454	(840)	-25%
Surplus/(Deficit)	(452)	(218)	4	456	
Brought Forward Surplus/(Deficit)	1,966	1,966	1,748	(218)	
Accumulated Surplus/(Deficit)	1,514	1,748	1,752		

Key Points:

- Revenue for 2016-17 is estimated to be \$0.4M (13%) lower than the 2015-16 budget.
- Expenditure for 2016-17 is estimated to be \$0.8M (25%) lower than 2015-16 budget. This is mainly due to:
 - **Labour costs (+\$0.5M)**
Labour costs are budgeted to decrease in 2016-17 due to lower resources allocated to this function.
 - **Fees – Agency, Licence & Audit (-\$0.1M)**
Fees – Agency, Licence & Audit costs are budgeted to decrease in 2016-17 due to lower market audit costs.
 - **IT and Telecommunication (-\$0.1M)**
IT Telecommunication costs are budgeted to decrease in 2016-17 due to a decrease in IT costs through renegotiations of Optus and Telstra agreements for datalinks and market net services.
 - **Depreciation costs (-\$0.1M)**
Depreciation costs are budgeted to decrease in 2016-17 mainly due to network equipment and other corporate systems that are fully depreciated.



GAS STATEMENT OF OPPORTUNITIES

4.1 Fees

The Gas Statement of Opportunity (GSOO) 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 additional work on modelling for the National Gas Forecasting Report (NGFR).

The 2016-17 fee is lower than the fee estimated as part of the 2015-16 budget process.

Table 7 Gas SOO projected fees

Fee	Actual 2015-16	Budget 2016-17	Estimate 2017-18	Estimate 2018-19	Estimate 2019-20	Estimate 2020-21
Gas Statement of Opportunities	0.02830	0.03198	0.03614	0.04084	0.04247	0.04417
(\$ per customer supply point per month)		+13%	+13%	+13%	+4%	+4%



ENERGY CONSUMERS AUSTRALIA

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

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

The ECA start date was 30 January 2015.

Table 8 reflects the fees to be collected for 2016-17.

Table 8 ECA projected fees

ECA Fees	Actual 2015-16	Budget 2016-17
Gas (\$ / customer supply point per month)	0.03114 +4%	0.03183 +2%



APPENDIX A. DWGM FEE STRUCTURE

Table 9 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
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
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.