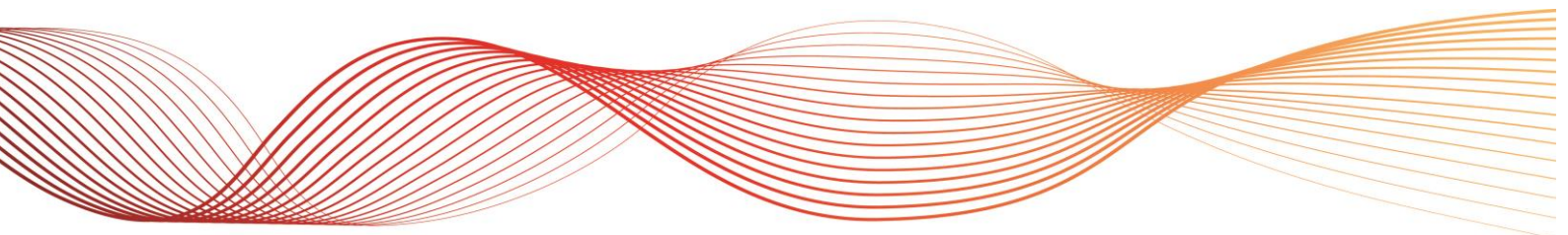


# DWGM & VIC GAS FRC FINAL BUDGET AND FEES: 2014-2015

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# EXECUTIVE SUMMARY

## 1.1 Introduction

Following the release of the draft 2014-15 budget and fees in March 2014, the 2014-15 final Victorian Declared Wholesale Gas Market (DWGM) and Victorian Full Retail Contestability (FRC) gas markets budget provides a view of revenue and expenses along with the final fees for 2014-15 and estimates for the following four-year period.

AEMO is aware of the pressure on energy industry businesses as a result of the falling energy demand over the last four years. AEMO continues to apply commercial discipline to control its total operating expenses over this period in order to reduce the impact of AEMO fee increases to market participants where possible. As a result, AEMO has in most cases achieved fee levels below the levels forecast in prior year budgets.

Table 1 Key points

<ul style="list-style-type: none"> <li>• <u>Energy consumption increase</u></li> </ul>		Consumption is expected to be increased mainly due to <b>strong growth in gas exports</b> from Victoria to NSW.
<ul style="list-style-type: none"> <li>• <u>Expenditure</u> is monitored closely</li> </ul>		2014-15 <b>expenditure</b> is budgeted to <b>increase by 4%</b> from 2013-14 for DWGM mainly for inflation, but <b>decrease</b> for FRC (3%) and <b>remain</b> the same for GSOO (0%).
<ul style="list-style-type: none"> <li>• <u>Lower fee levels achieved</u> compared to previous year estimate</li> </ul>		Gas fees are lower compared to <b>prior years published estimate.</b>

## 1.2 2014-15 fees

Table 2 Key fees

Key Fees	Budget 2014-15	Prior year published estimate 2014-15	Change	Current 2013-14	Unit
<b>VIC Wholesale Gas</b>					
Tariff D - Industrial	0.08230	0.09464	-13%	0.06858	\$/GJ
Tariff V - Domestic	0.08230	0.09464	-13%	0.10287	\$/GJ
Distribution Meter	1.4208	1.4396	-1%	1.4256	\$/day per meter
<b>VIC FRC Gas</b>					
Gas Statement of Opportunities	0.11974	0.12618	-5%	0.12875	\$ per customer supply point/mth
Gas Statement of Opportunities	0.0283	0.03098	-9%	0.02979	\$ per customer supply point/mth



### 1.3 Expenditure

Table 3 2014-15 budgeted expenditure compared to 2013-14

	Expenditure 2014-15 (\$M)	Expenditure 2013-14 (\$M)	Change
VIC Wholesale Gas	21,296	20,401	4%
VIC FRC Gas	2,874	2,977	-3%
Gas Statement of Opportunities	1,540	1,538	0%

### 1.4 Contacts

For stakeholder questions regarding the contents of this report, please do not hesitate to contact AEMO’s budget 2014-15 members:

<p>Mr Jack Fitcher Chief Financial Officer Australian Energy Market Operator Level 22, 530 Collins St Melbourne Vic 3000 Phone: 03 9609 8506 Email: <a href="mailto:Jack.Fitcher@aemo.com.au">Jack.Fitcher@aemo.com.au</a></p>	<p>Ms Sandra Chui Group Manager, Commercial Services Australian Energy Market Operator Level 22, 530 Collins St Melbourne Vic 3000 Phone: 03 9609 8623 Email: <a href="mailto:Sandra.Chui@aemo.com.au">Sandra.Chui@aemo.com.au</a></p>
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## 1.5 Declining energy consumption is impacting fees

### 1.5.1 Victorian Declared Wholesale Gas Market

AEMO estimates there will be flat growth in domestic consumption (1%) in 2014-15 compared to the 2013-14 budget, and declining industrial consumption. This decline is offset by a strong growth trend in Victorian exports to New South Wales.

**Table 4 DWGM consumption**

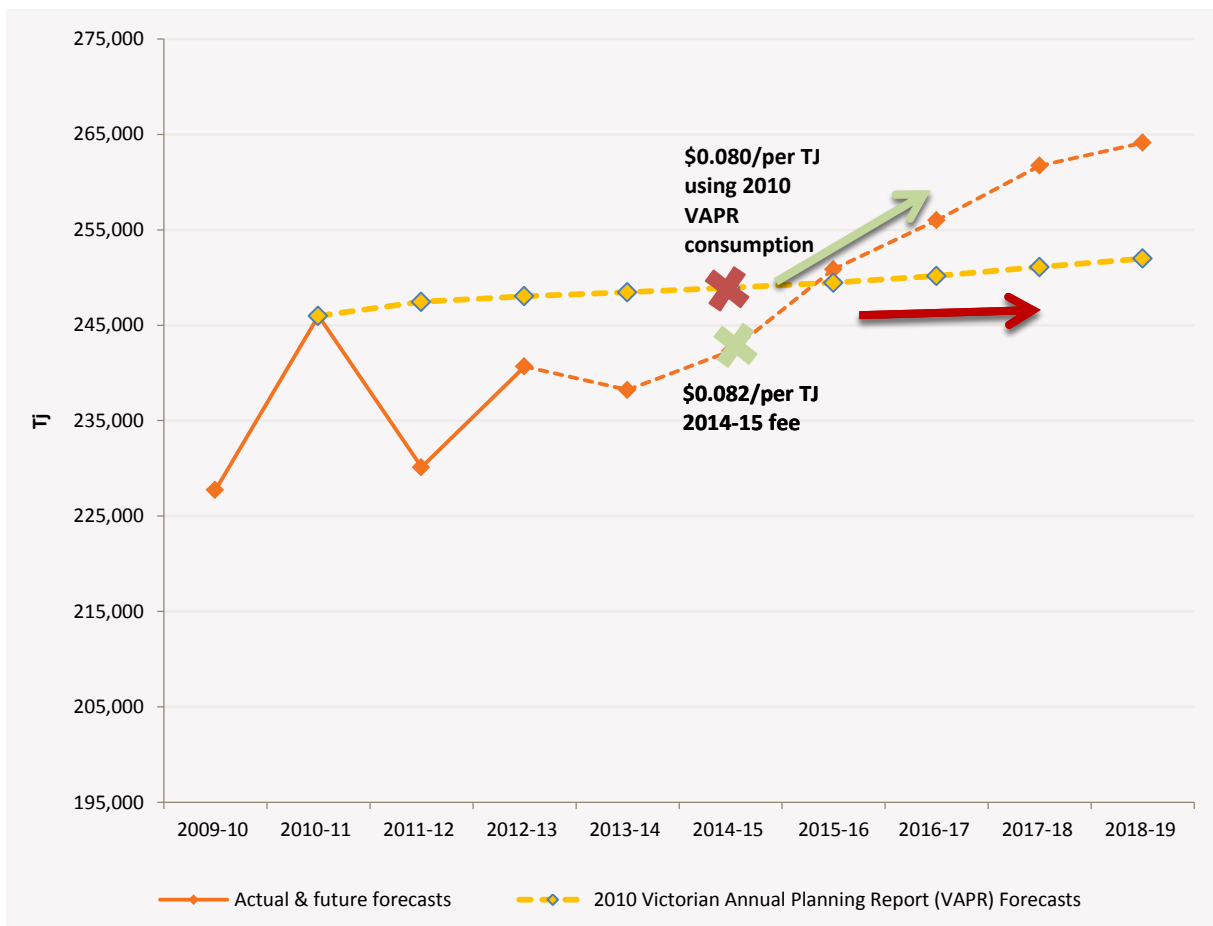
TJs	Budget 2013-14	Forecast <sup>1</sup> 2013-14	Budget 2014-15	Estimate 2015-16	Estimate 2016-17	Estimate 2017-18	Estimate 2018-19
Tariff V (Domestic)	126,424	121,981	125,399	126,441	127,932	129,616	131,245
Tariff D (Industrial)	77,628	72,479	70,938	70,119	70,104	70,468	70,918
Export	8,565	41,180	43,830	52,042	55,601	59,160	59,160
GPG	7,017	2,586	2,130	2,254	2,369	2,470	2,797
<b>TOTAL</b>	<b>219,635</b>	<b>238,225</b>	<b>242,296</b>	<b>250,856</b>	<b>256,006</b>	<b>261,713</b>	<b>264,120</b>
			+10.3%	+3.5%	+2.1%	+2.2%	+0.9%

<sup>1</sup> Forecast annual 2013-14 consumption as at April 2014

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

Note: using the 2010 Victorian Annual Planning Report (VAPR) forecast 2014-15 consumption, the 2014-15 DWGM fee would have been \$0.080/per TJ rather than \$0.082/per TJ.

**Figure 1 Annual DWGM consumption**





# CHAPTER 1 - DWGM

## 1.1 Fees

In line with the gas market fee review undertaken in 2011-12, the Victorian Declared Wholesale Gas Market (DWGM) will transition to a single consumption fee from 1 July 2014.

Costs for this function have increased by \$0.9 million (4%), primarily driven by Enterprise Bargaining Agreement (EBA) salary increases and consulting costs.

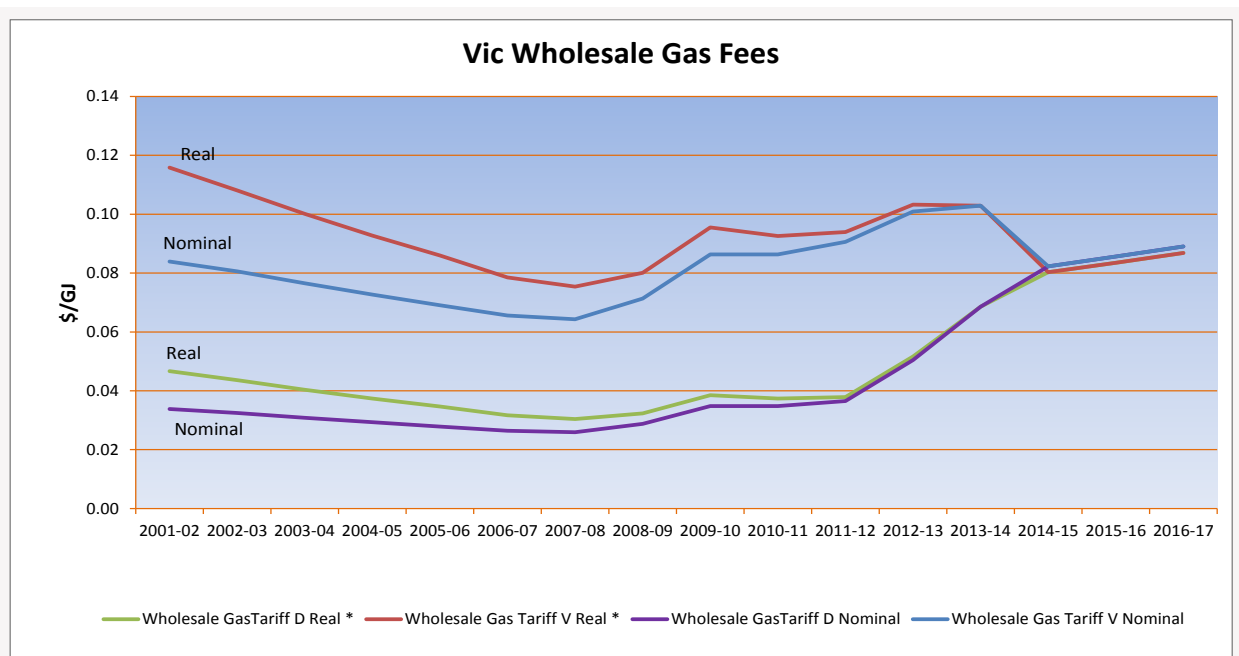
The distribution meter fee for 2014-15, which relates to metering data services, is in line with the current 2013-14 fee.

The Participant Compensation Fund (PCF) fee is not required to be changed in 2014-15 as the level of DWGM PCF funds currently being held meet the Rules requirement.

**Table 5 Summary of DWGM Fees**

Fee	Actual 2013/14	Budget 2014/15	Estimate 2015/16	Estimate 2016/17	Estimate 2017/18	Estimate 2018/19
Tariff D - Industrial (\$/GJ)	0.06858	\$0.08230 +20%	\$0.08477 +3%	0.08731 +3%	0.08731 +0%	0.08731 +0%
Tariff V - Domestic (\$/GJ)	0.10287	\$0.08230 -20%	0.08477 +3%	0.08731 +3%	0.08731 +0%	0.08731 +0%
Distribution Meter (\$/day per meter)	1.4256	\$1.4208 -0%	\$1.4399 +1%	1.4553 +1%	1.4793 +2%	1.5162 +2%

**Figure 2 Victorian Wholesale Gas Projected Fees**



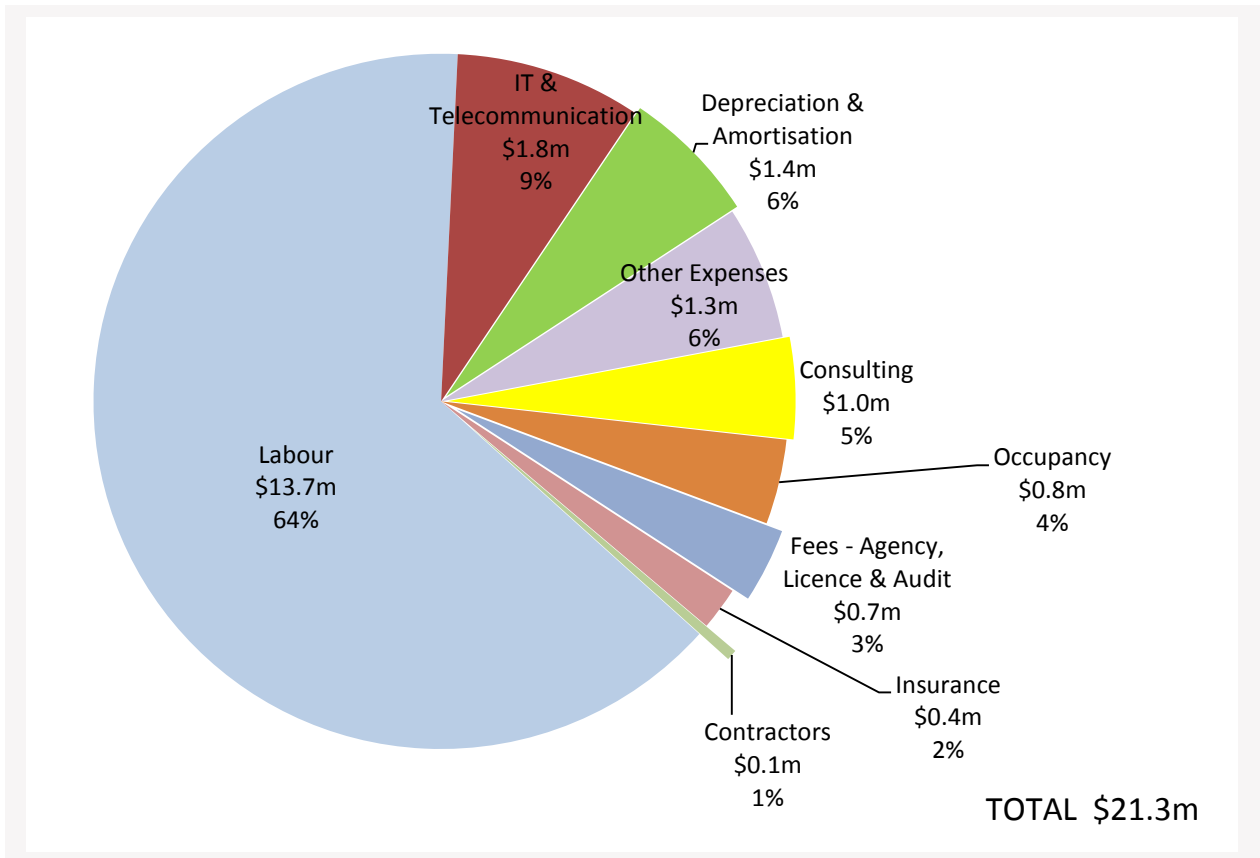
\* Real values are the nominal amounts adjusted for inflation. Prices have been calculated relative to the 2013-14 price.



## 1.2 Revenue and Expenditure

The expenditure is detailed below in Figure 3 by expenditure category.

Figure 3 Expenditure by category 2014-15



**Table 6 Profit and Loss statement 2014-15 and comparison**

	Budget	Forecast	Budget	Variance to Budget	
	2013-14 \$'000	2013-14 \$'000	2014-15 \$'000	\$'000	%
Fees and tariffs	20,110	21,199	20,617	507	+3%
Other Revenue	441	539	462	22	+5%
<b>Total Revenue</b>	<b>20,550</b>	<b>21,738</b>	<b>21,079</b>	<b>529</b>	<b>+3%</b>
Labour	12,942	13,155	13,650	708	+5%
Contractors	114	95	106	(9)	-8%
Consulting	782	585	1,006	224	+29%
Fees - Agency, Licence & Audit	775	733	739	(37)	-5%
IT & Telecommunication	2,072	2,098	1,845	(227)	-11%
Occupancy	805	816	840	35	+4%
Insurance	418	446	425	7	+2%
Other Expenses	1,275	1,130	1,327	52	+4%
Depreciation & Amortisation	1,216	1,130	1,358	142	+12%
<b>Total Expenditure</b>	<b>20,401</b>	<b>20,189</b>	<b>21,296</b>	<b>895</b>	<b>+4%</b>
Surplus/(Deficit)	150	1,549	(217)	(366)	
Transfer to PCF	(150)	(150)	(119)	31	
Brought Forward Surplus/(Deficit)	6,603	7,999	9,399	2,796	
<b>Accumulated Surplus/(Deficit)</b>	<b>6,603</b>	<b>9,399</b>	<b>9,063</b>	<b>2,460</b>	
<b>Contributed capital</b>	<b>(8,704)</b>	<b>(8,704)</b>	<b>(8,704)</b>		
<b>Accumulated Surplus/(Deficit) excluding Contributed Capital</b>	<b>(2,101)</b>	<b>695</b>	<b>359</b>		

### Key Points

Total expenditure in 2014-15 is budgeted to increase by \$0.9M (4%) from the 2013-14 budgeted expenditure. The key reasons for this increase are:

- **Labour**

Labour costs are budgeted to increase \$0.7M (5%). The increase in costs is predominantly due to the provision for staff increases and increase in the allocation of resources to the function.

- **Consulting**

Consulting costs are budgeted to increase \$0.2M (29%).

- **IT & Telecommunication**

IT & telecommunication costs are budgeted to decrease \$0.2M (11%) mainly in IT service level contracts.



### 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 2014 estimated balance of the PCF is \$3.4M.

The funding requirement for 2014-15 is \$Nil.

## CHAPTER 2 - VICTORIAN FULL RETAIL COMPETITION GAS

### 2.1 Fees

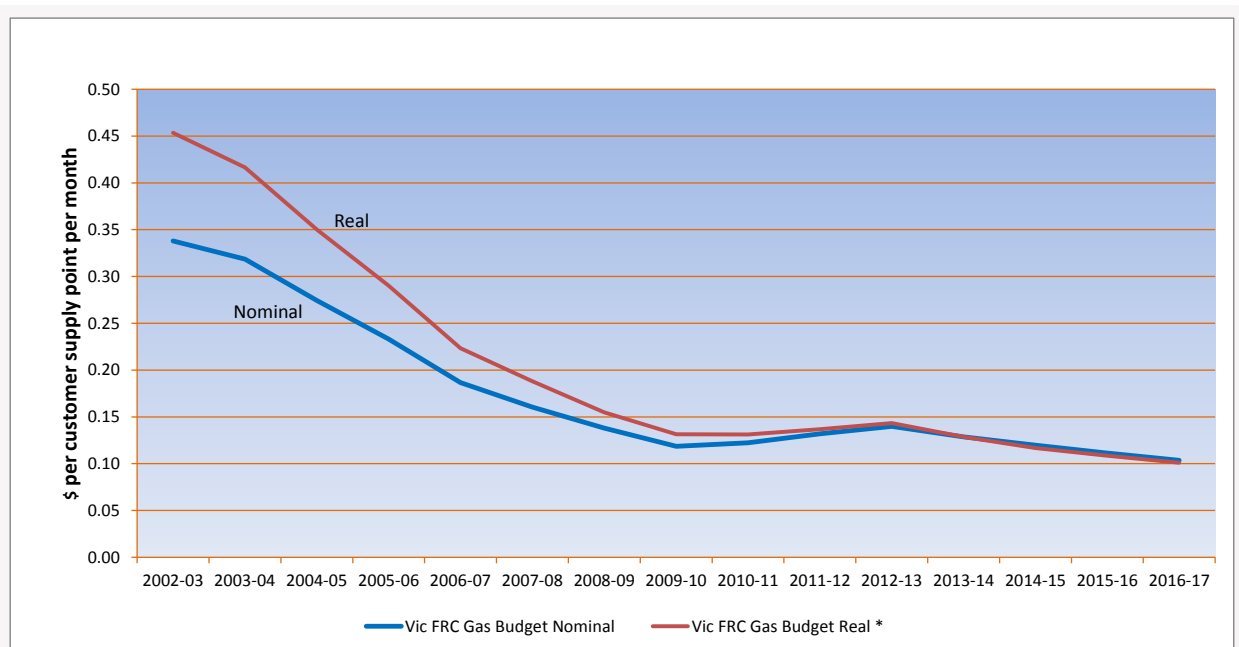
The Full Retail Competition (FRC) Gas fee will reduce by approximately 7% in 2014-15 and by a further 7% in the following two years due to a prior-year surplus in the function.

Costs for this function have decreased by 3%, mainly due to a reduced number of employees.

**Table 7 Victorian FRC Gas Projected Fees**

Fee	Actual 2013-14	Budget 2014-15	Estimate 2015-16	Estimate 2016-17	Estimate 2017-18	Estimate 2018-19
FRC Gas Tariff (\$ per customer supply point per month)	0.12875	0.11974 -7%	0.11136 -7%	0.10356 -7%	0.10874 +5%	0.11418 +5%
Initial Registration Fee (\$ per participant)	5,760	5,760	TBC	TBC	TBC	TBC
Gas Statement of Opportunities (\$ per customer supply point per month)	0.02979	0.0283 -5%	0.02689 -5%	0.02823 +5%	0.02964 +5%	0.03112 +5%
Gas Advocacy Panel pass-through (\$ per customer supply point per month)	0.01910	0.01110 <sup>1</sup> -42%	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 2013–14 price.

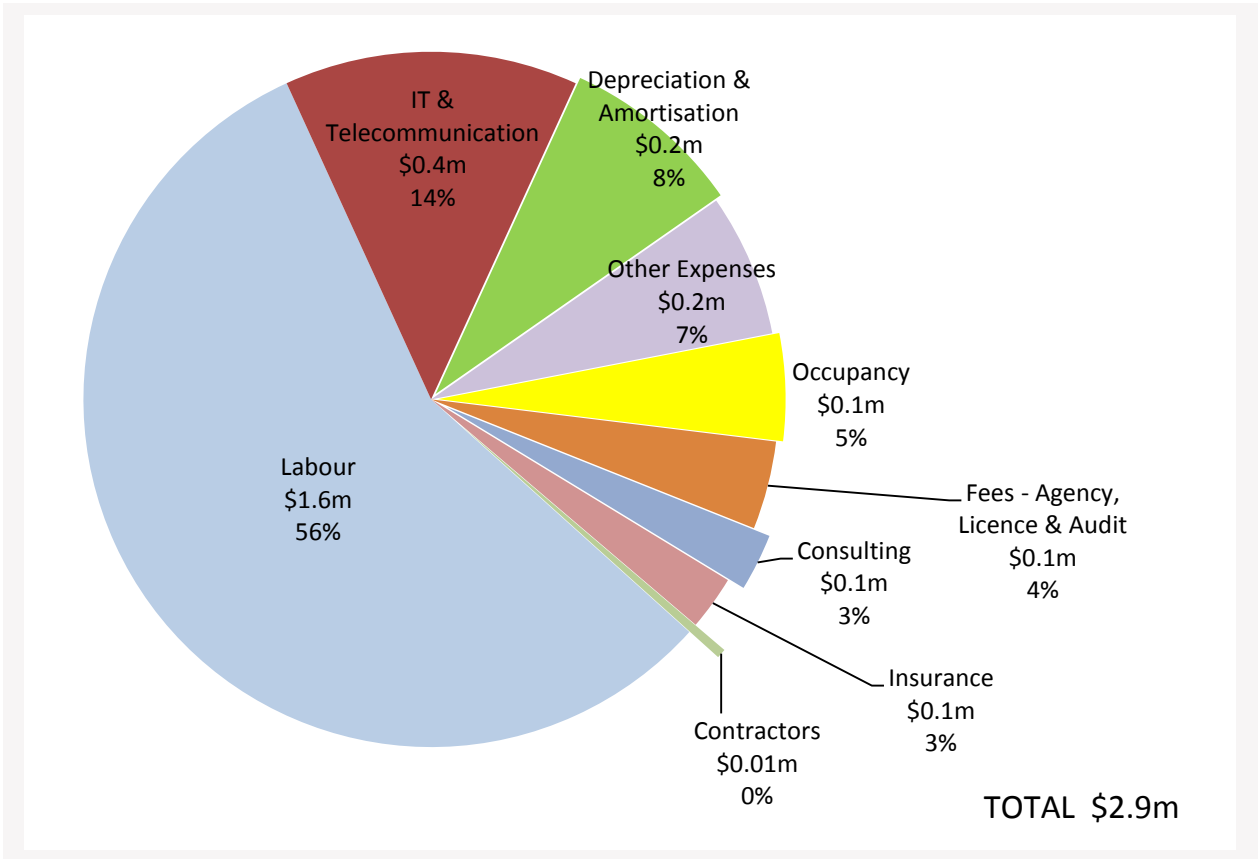
<sup>1</sup> This fee relates to the recovery of costs for the gas Consumer Advocacy Panel. The costs and fees associated with the new Energy Consumers Australia are yet to be finalised



## 2.2 Revenue and Expenditure

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

Figure 5 Expenditure by category 2014-15



**Table 8 Profit and Loss statement 2014-15 and comparison**

	Budget	Forecast	Budget	Variance to Budget	
	2013-14 \$'000	2013-14 \$'000	2014-15 \$'000	\$'000	%
Fees and tariffs	3,014	3,014	2,846	(169)	-6%
Other Revenue	52	62	60	8	+16%
<b>Total Revenue</b>	<b>3,066</b>	<b>3,076</b>	<b>2,906</b>	<b>(161)</b>	<b>-5%</b>
Labour	1,662	1,707	1,624	(38)	-2%
Contractors	20	26	13	(7)	-37%
Consulting	68	69	77	9	+13%
Fees - Agency, Licence & Audit	109	8	118	9	+8%
IT & Telecommunication	444	392	392	(52)	-12%
Occupancy	153	140	143	(9)	-6%
Insurance	79	76	73	(7)	-8%
Other Expenses	190	164	191	1	+0%
Depreciation & Amortisation	252	235	244	(9)	-3%
<b>Total Expenditure</b>	<b>2,977</b>	<b>2,816</b>	<b>2,874</b>	<b>(103)</b>	<b>-3%</b>
Surplus/(Deficit)	89	260	32	(58)	
Brought Forward Surplus/(Deficit)	1,022	1,319	1,579	557	
<b>Accumulated Surplus/(Deficit)</b>	<b>1,111</b>	<b>1,579</b>	<b>1,611</b>		

**Key Points**

Total expenditure for 2014-15 is budgeted to decrease by \$0.1M (3%) from the 2013-14 budget. The key variances relate to:

- **IT & Telecommunications**

IT & Telecommunication costs are budgeted to decrease by \$52k (12%) mainly in IT service level contracts.



## CHAPTER 3 - GAS STATEMENT OF OPPORTUNITIES

### 3.1 Fees

Gas Statement of Opportunities (GSOO) costs are recovered via charges to retailers in AEMO’s FRC gas markets on a fee per meter basis.

A reduction in the fee is expected in 2014-15, mainly due to a forecast carry forward surplus from 2013-14, and also a reduction in operational costs for this function relating to labour and consultancies.

**Table 9 Gas Statement of Opportunities Projected Fees**

Fee	Actual 2013-14	Budget 2014-15	Estimate 2015-16	Estimate 2016-17	Estimate 2017-18	Estimate 2018-19
Gas Statement of Opportunities	0.02979	0.02830	0.02689	0.02823	0.02964	0.03112
(\$ per customer supply point per month)		-5%	-5%	+5%	+5%	+5%





## CHAPTER 4 - ENERGY CONSUMERS AUSTRALIA / CONSUMER ADVOCACY PANEL RECOVERY

The Standing Council of Energy and Resources (SCER) has approved the establishment of the ECA by 1 July 2014, to provide a focus on national energy market matters of strategic importance for energy consumers, and residential and small business consumers in particular. AEMO is required to collect funds for the operation of the ECA, which will need to be incorporated into the participant fee process we operate with gas and electricity market stakeholders.

The funding arrangements for ECA are proposed to be similar to that of the existing Consumer Advocacy Panel (CAP) whose functions will be absorbed by the ECA, however fees will be collected on a per supply point basis for both gas and electricity (the CAP is currently recovered as a per MWh rate from electricity customers). AEMO is also expected to manage the over/under-recovery through its annual budget process.

SCER officials are progressing an ECA implementation plan, which will put in place the necessary provisions for AEMO to collect revenue on behalf of ECA. An update is provided on the SCER website: <https://scer.govspace.gov.au/files/2011/12/Energy-Consumers-Australia-Implementation-Plan-Synopsis.pdf>. A transitional funding arrangement is expected to be in place until 1 January 2015. From 1 January 2015, permanent funding is expected to be in place, and CAP functions to be absorbed by the ECA.

Table 10 reflects the fee for the recovery of costs for the gas Consumer Advocacy Panel. The costs and fees associated with the new Energy Consumers Australia are yet to be finalised.

**Table 10 Consumer Advocacy Panel requirements**

CAP Fees	Budget 2014-15	Actual 2013-14
Gas (\$ per customer supply point per month)	0.01110	0.01910



## Appendix A. DWGM FEE STRUCTURE

**Table 11 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
B2B	business-to-business
CAP	Consumer Advocacy Panel
DWGM	Victorian Declared Wholesale Gas Market
FRC	Full Retail Contestability
GJ	gigajoule
GSOO	Gas Statement of Opportunities
MCE	Ministerial Council on Energy
NA	not applicable
PCF	Participant Compensation Fund
TBC	to be confirmed