



# DECLARED WHOLESALE GAS MARKET & VICTORIAN GAS FULL RETAIL CONTESTABILITY FINAL BUDGET AND FEES: 2017-18

Published: **May 2017**





# CONTENTS

<b>1. EXECUTIVE SUMMARY</b>	<b>3</b>
1.1 Introduction	3
1.2 Summary of Fees (nominal)	3
<b>2. VICTORIAN DECLARED WHOLESALE GAS MARKET</b>	<b>4</b>
2.1 Energy consumption	4
2.2 DWGM Fees	5
2.3 Revenue and Expenditure	6
2.4 PCF fees	8
<b>3. VICTORIAN FULL RETAIL CONTESTIBILITY GAS</b>	<b>9</b>
3.1 Fees	9
3.2 Revenue and Expenditure	10
<b>4. GAS STATEMENT OF OPPORTUNITIES</b>	<b>12</b>
4.1 Fees	12
<b>5. ENERGY CONSUMERS AUSTRALIA</b>	<b>13</b>
<b>APPENDIX A. DWGM FEE STRUCTURE</b>	<b>14</b>
<b>LIST OF SYMBOLS AND ABBREVIATIONS</b>	<b>15</b>

# TABLES

Table 1 DWGM consumption	4
Table 2 DWGM projected fees	5
Table 3 Profit and Loss statement 2017-18 and comparison	7
Table 4 Victorian FRC Gas projected fees	9
Table 5 Profit and Loss statement 2017-18 and comparison	11
Table 6 Gas SOO projected fees	12
Table 7 ECA projected fees	13
Table 8 DWGM fee structure	14

# FIGURES

Figure 1 Annual DWGM consumption	4
Figure 2 DWGM projected fees	5
Figure 3 Expenditure by category 2017-18	6
Figure 4 Victorian FRC Gas projected fees	9
Figure 5 Expenditure by category 2017-18	10

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



# 1. 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 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 2017-18 Declared Wholesale Gas Market (DWGM) and Victorian Gas Full Retail Contestability (FRC) budget provides a view of the 2017-18 Victorian gas fees, revenue and expenses, and fee estimates for the following four-year period. In budgeting for 2017-18, AEMO has continued to apply strong commercial discipline to control costs to reduce the impact of fee increases to market participants.

For any questions relating to this report please contact Jack Fitcher, Chief Financial Officer, on 03 9609 8506 or via email on [jack.fitcher@aemo.com.au](mailto:jack.fitcher@aemo.com.au).

## 1.2 Summary of Fees (nominal)

	Actual 2016-17	Budget 2017-18	Estimate 2018-19	Estimate 2019-20	Estimate 2020-21	Estimate 2021-22
DWGM - Energy Tariff	0.08630	0.08544	0.08629	0.08715	0.09238	0.09792
% change	-2%	-1%	+1%	+1%	+6%	+6%
FRC Gas Tariff (\$ per customer supply point per month)	0.09771	0.08305	0.07059	0.06000	0.06180	0.06365
	-15%	-15%	-15%	-15%	+3%	+3%



## 2. VICTORIAN DECLARED WHOLESALE GAS MARKET

### 2.1 Energy consumption

The final forecast consumption is based on the National Gas Forecasting Report (NGFR) published in December 2016.

AEMO estimates an overall increase of 5.2% in 2017-18 consumption from the 2016-17 budget. This is due to increases in Victorian exports to NSW, and increased domestic consumption, partially offset by decreases in industrial consumption. Overall consumption is forecast to fall from 2018-19 due to reduction in domestic, industrial and GPG consumption. Industrial consumption is estimated to decline from 2017-18.

GPG consumption is forecast to increase in 2017-18 and 2018-19 but then reduce drastically in 2019-20. There are then slight increases in consumption forecast in 2020-21 and 2021-22.

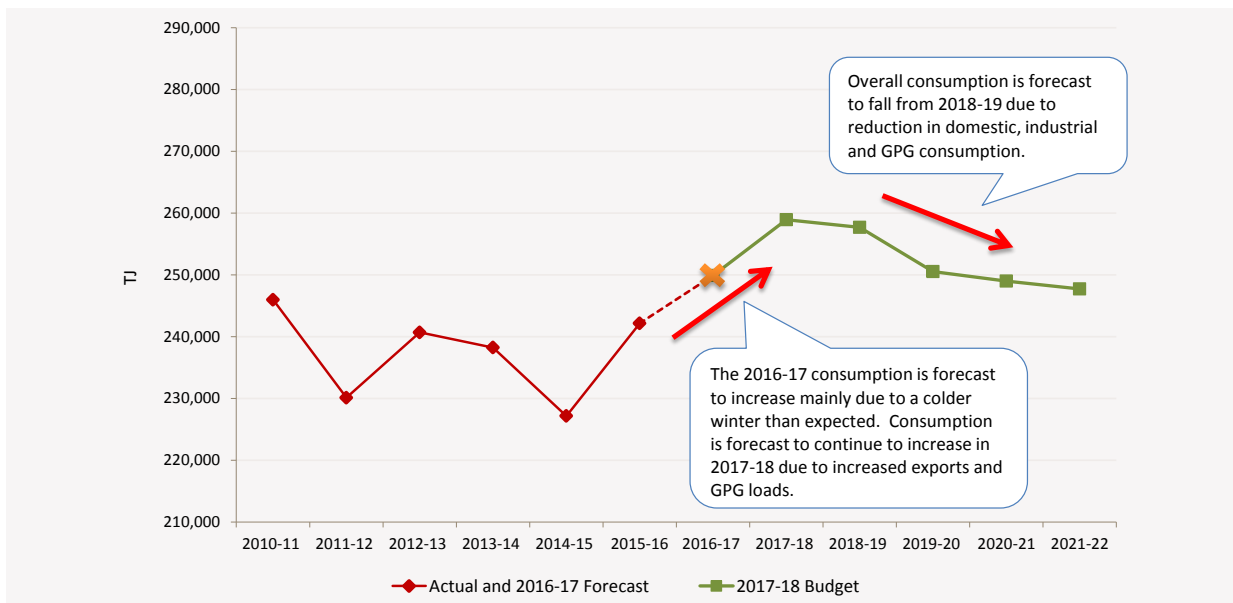
**Table 1 DWGM consumption**

TJs	Budget 2016-17	Forecast <sup>1</sup> 2016-17	Budget 2017-18	Estimate 2018-19	Estimate 2019-20	Estimate 2020-21	Estimate 2021-22
Domestic	125,822	131,173	127,045	126,348	125,507	124,190	122,678
Industrial	72,144	70,514	68,355	67,286	65,781	65,192	65,004
Export	45,664	45,687	58,660	59,000	59,000	59,000	59,000
GPG	2,500	2,515	4,857	5,058	261	626	1,042
<b>TOTAL</b>	<b>246,130</b>	<b>249,890</b>	<b>258,917</b>	<b>257,691</b>	<b>250,550</b>	<b>249,009</b>	<b>247,723</b>
			+5.2%	-0.5%	-2.8%	-0.6%	-0.5%

<sup>1</sup> Forecast annual 2016-17 consumption as at January 2017

Figure 4 demonstrates the impact of increasing consumption on the DWGM fee.

**Figure 1 Annual DWGM consumption**





## 2.2 DWGM Fees

The DWGM energy tariff is budgeted to decrease 1% from \$0.08630/GJ to \$0.08544/GJ in 2017-18. The 2017-18 fee is slightly higher (1%) than the fee estimated as part of the 2016-17 budget process.

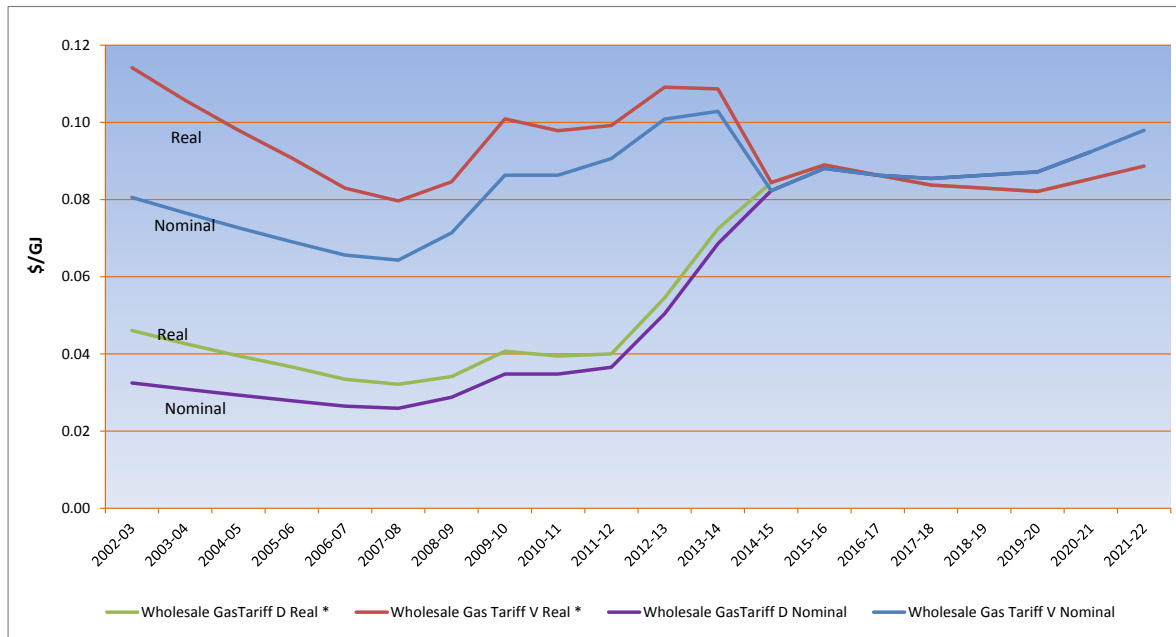
Consumption growth is estimated to increase in 2017-18 due to higher Victorian exports to NSW and higher Gas Powered Generation, offset by a decrease in domestic consumption. Industrial consumption is expected to decline across 2017-18 to 2019-20 and remain flat until 2021-22.

The distribution meter fee for 2017-18 relates to metering data services and is expected to decrease in 2017-18 to return an over recovery of funds. The fee will then return to historical levels in 2018-19.

**Table 2 DWGM projected fees**

Fee	Actual 2016-17	Budget 2017-18	Estimate 2018-19	Estimate 2019-20	Estimate 2020-21	Estimate 2021-22
Energy Tariff (\$/GJ)	0.08630	0.08544	0.08629	0.08715	0.09238	0.09792
	-2%	-1%	+1%	+1%	+6%	+6%
Distribution Meter (\$/day per meter)	1.3705	1.16350	1.32710	1.3456	1.3719	1.3953
	-8%	-15%	+14%	+1%	+2%	+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 2016–17 price.

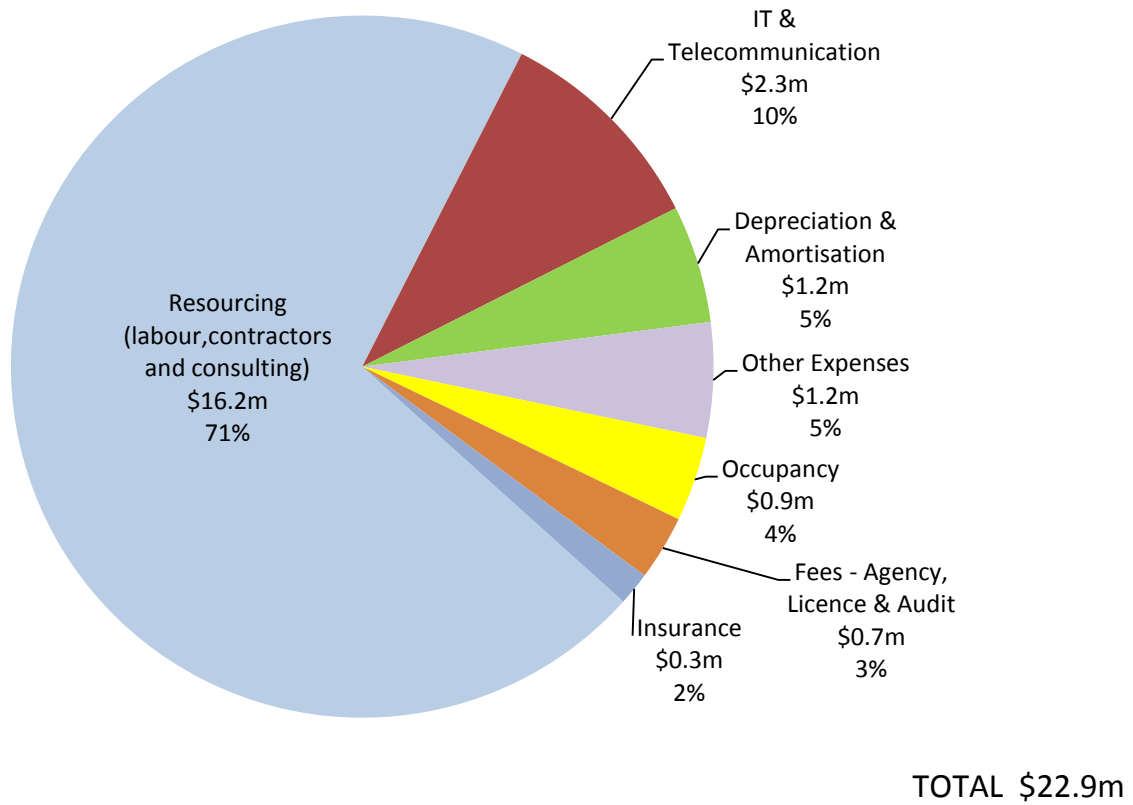
Note: The Energy Tariff D and Tariff V transitioned to a single fee on 1 July 2014.



## 2.3 Revenue and Expenditure

The expenditure is detailed below in Figure 4 by expenditure category

**Figure 3 Expenditure by category 2017-18**



**Table 3 Profit and Loss statement 2017-18 and comparison**

	Budget	Budget	Variance	
	2016-17 \$'000	2017-18 \$'000	\$'000	%
Fees and tariffs	21,903	22,707	804	+4%
Other Revenue	502	513	10	+2%
<b>Total Revenue</b>	<b>22,405</b>	<b>23,220</b>	<b>814</b>	<b>+4%</b>
Resourcing (labour, contractors and consulting)	14,351	16,229	1,878	+13%
Fees - Agency, Licence & Audit	709	684	(25)	-3%
IT & Telecommunication	2,129	2,302	173	+8%
Occupancy	891	892	1	+0%
Insurance	391	349	(42)	-11%
Other Expenses	1,403	1,215	(188)	-13%
Depreciation & Amortisation	1,028	1,240	212	+21%
<b>Total Expenditure</b>	<b>20,902</b>	<b>22,911</b>	<b>2,010</b>	<b>+10%</b>
Surplus/(Deficit)	1,504	309	(1,195)	
Transfer to PCF	(100)	(91)	9	
Brought Forward Surplus/(Deficit)	8,361	10,226	1,864	
<b>Accumulated Surplus/(Deficit)</b>	<b>9,765</b>	<b>10,444</b>		
Contributed Capital	8,704	8,704		
<b>Accumulated Surplus/ (Deficit) excluding Contributed Capital</b>	<b>1,062</b>	<b>1,740</b>		

**Key Points:**

- Revenue for 2017-18 is estimated to be \$0.8M (4%) higher than the 2016-17 budget mainly due to higher forecast consumption.
- Expenditure for 2017-18 is estimated to be \$2.0M (10%) higher than 2016-17 budget. This is mainly due to:
  - **Resourcing costs (+\$1.9M)**  
Resourcing costs are budgeted to increase in 2017-18. The major reasons for this increase are the work required on the upgrade on the DWGM database system and on the upgrade of the Gas Market applications, providing support for the East Coast Gas Market review as well as the provision for Enterprise Bargaining Agreement (EBA) increase of 2.9%.
  - **Other Expenses (-\$0.2M)**  
Other expenses are budgeted to decrease in 2017-18 due to identification of efficiencies.
  - **IT & Telecommunication (+\$0.2M)**  
IT & Telecommunication costs are budgeted to increase in 2017-18 due to increased spend in software relating to the move to Office 365 and additional enterprise licences.



- **Depreciation costs (+\$0.2M)**

Depreciation costs are budgeted to increase in 2017-18 mainly due to increased investment to ensure systems are fit for purpose and supported along with initiatives that require initial investment to consolidate systems and services that will reduce future maintenance costs.

## 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 2017 estimated balance of the PCF is \$3.7M.

The funding requirement for 2017-18 is \$Nil.





### 3. VICTORIAN FULL RETAIL CONTESTIBILITY GAS

#### 3.1 Fees

The Victorian FRC fee will reduce by 15% in 2017-18 and by a further 15% in the following two years due to an accumulated surplus from prior years in the function. This is in line with the estimates in last year’s budget.

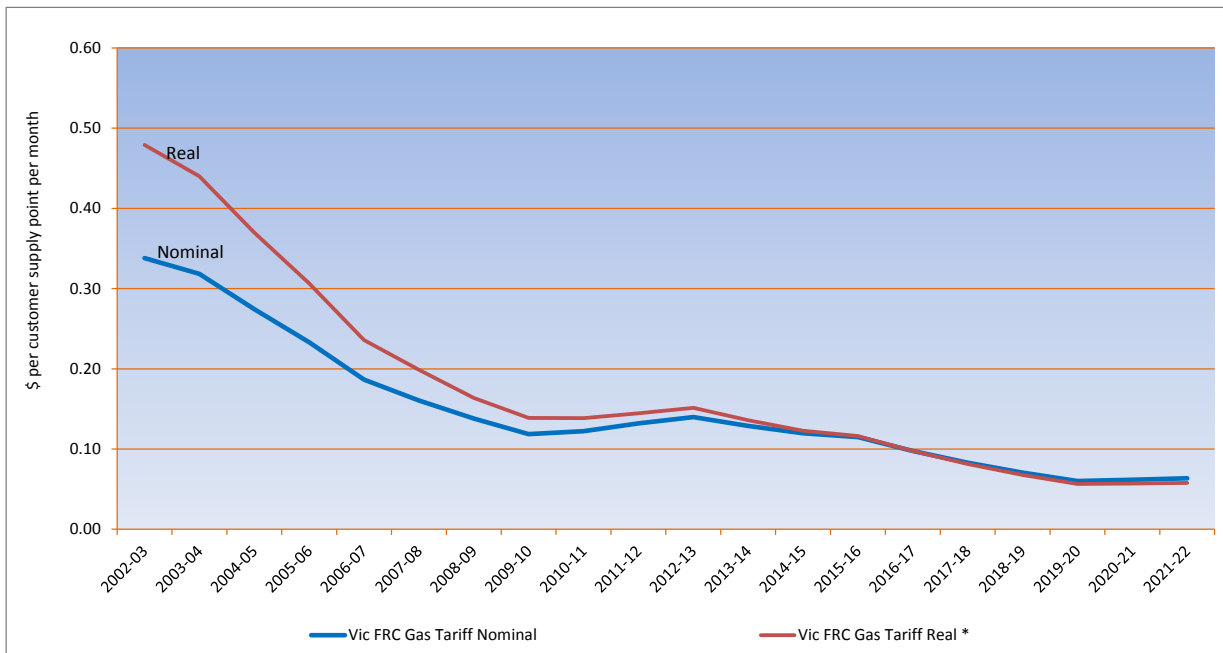
The fee is then expected to increase slightly in the following years after the surplus is fully returned to achieve a break-even position.

Estimates of future Initial registration Fees are not provided as they are mainly impacted by future items that may arise from time to time.

**Table 4 Victorian FRC Gas projected fees**

Fee	Actual 2016-17	Budget 2017-18	Estimate 2018-19	Estimate 2019-20	Estimate 2020-21	Estimate 2021-22
FRC Gas Tariff (\$ per customer supply point per month)	0.09771 -15%	0.08305 -15%	0.07059 -15%	0.06000 -15%	0.06180 +3%	0.06365 +3%
Initial Registration Fee (\$ per participant)	5,760	5,760	TBC	TBC	TBC	TBC

**Figure 4 Victorian FRC Gas projected fees**

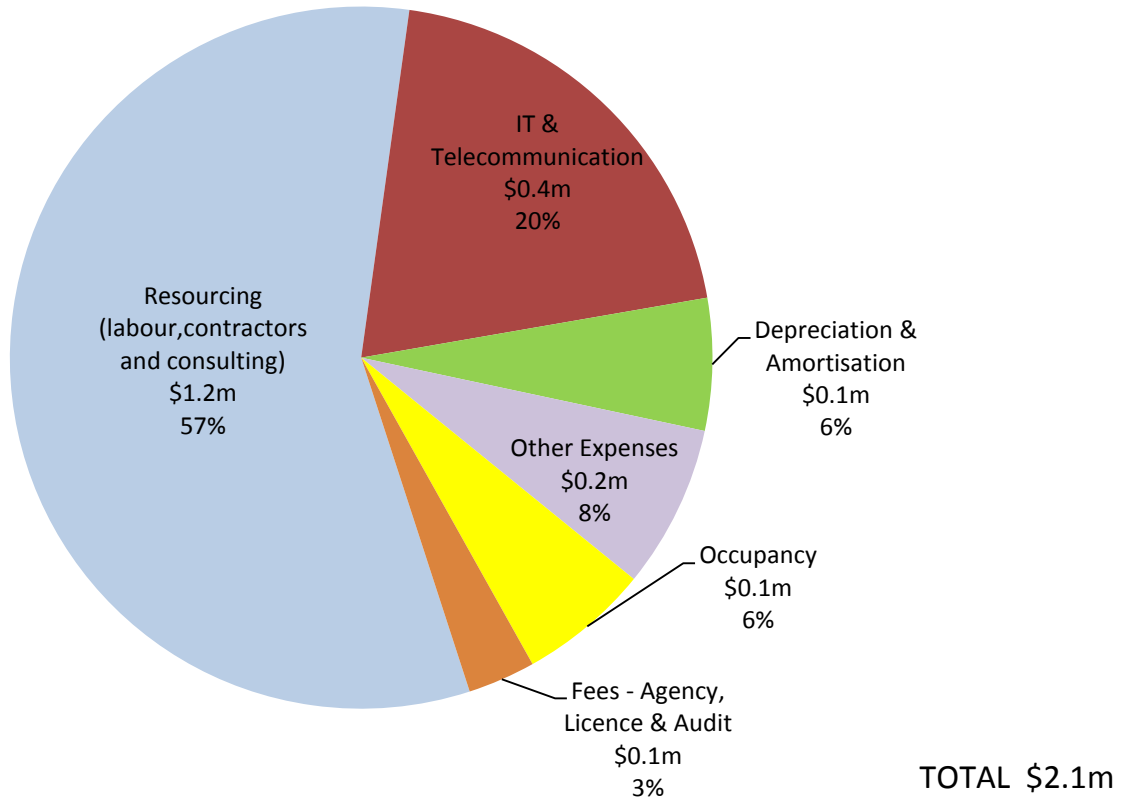


\* Real values are the nominal amounts adjusted for inflation. Prices have been calculated relative to the 2016–17 price.

### 3.2 Revenue and Expenditure

The expenditure is detailed below in Figure 6 by expenditure category

Figure 5 Expenditure by category 2017-18



**Table 5 Profit and Loss statement 2017-18 and comparison**

	Budget 2016-17	Budget 2017-18	Variance	
	\$'000	\$'000	\$'000	%
Fees and tariffs	2,401	2,081	(320)	-13%
Other Revenue	57	46	(11)	-19%
<b>Total Revenue</b>	<b>2,458</b>	<b>2,128</b>	<b>(331)</b>	<b>-13%</b>
Resourcing (labour, contractors and consu	1,248	1,171	(77)	-6%
Fees - Agency, Licence & Audit	110	63	(47)	-43%
IT & Telecommunication	418	415	(3)	-1%
Occupancy	155	122	(33)	-21%
Insurance	68	48	(20)	-30%
Other Expenses	194	152	(42)	-22%
Depreciation & Amortisation	122	123	1	+1%
<b>Total Expenditure</b>	<b>2,317</b>	<b>2,094</b>	<b>(223)</b>	<b>-10%</b>
<b>Surplus/(Deficit)</b>	<b>142</b>	<b>34</b>	<b>(108)</b>	
Brought Forward Surplus/(Deficit)	1,748	2,109	361	
<b>Accumulated Surplus/(Deficit)</b>	<b>1,890</b>	<b>2,143</b>		

**Key Points:**

- Revenue for 2017-18 is estimated to be \$0.3M (13%) lower than the 2016-17 budget.
- Expenditure for 2017-18 is estimated to be \$0.2M (10%) lower than 2016-17 budget. This is mainly due to continued focus on cost controls and lower resources allocated to this function.



## 4. 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 2017-18 fee is lower than the fee estimated as part of the 2016-17 budget process.

**Table 6 Gas SOO projected fees**

Fee	Actual 2016-17	Budget 2017-18	Estimate 2018-19	Estimate 2019-20	Estimate 2020-21	Estimate 2021-22
Gas Statement of Opportunities	0.03198	0.03518	0.03870	0.04257	0.04257	0.04257
(\$ per customer supply point per month)	+13%	+10%	+10%	+10%	+0%	+0%



## 5. 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 residential and small business customers.

AEMO is required to recover funding for the ECA from market participants.

Table 8 reflects the fees to be collected for 2017-18.

**Table 7 ECA projected fees**

AEMO's ECA Fees	Actual 2016-17	Budget 2017-18
Gas (\$ / customer supply point per month)	0.03183	0.03199
	+2%	+1%



## APPENDIX A. DWGM FEE STRUCTURE

**Table 8 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