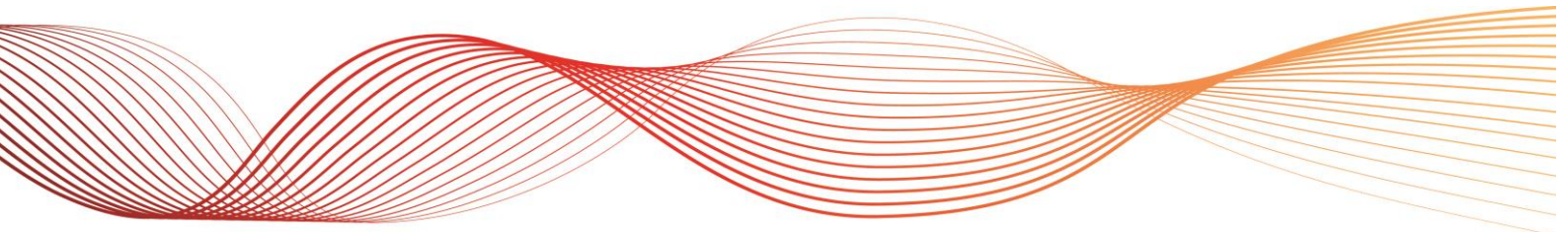


ELECTRICITY FINAL BUDGET AND FEES: 2014-2015

PUBLISHED MAY 2014





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EXECUTIVE SUMMARY

Following the release of the draft 2014-15 budget and fees in March 2014, the 2014-15 final electricity budget provides a view of revenue and expenses along with the final fees for 2014-15 and estimates for the following four-year period for the following functions:

- NEM
- FRC Electricity
- National Transmission Planner and
- Consumer Advocacy Panel / Energy Consumer Australia

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 electricity fee levels below the levels forecast in prior year budgets.

In calculating the final fees for 2014-15, electricity consumption assumptions are based on the final National Electricity Forecast Report (NEFR) 2014 to be published in June 2014.

Table 1 Key points

<ul style="list-style-type: none"> • <u>Energy consumption 5% decline</u> 		<p>Fees are impacted by the 5% consumption decline in 2014-15 compared to budget 2013-14 and flat for forward 4 years.</p>
<ul style="list-style-type: none"> • <u>Expenditure reduction achieved</u> 		<p>2014-15 expenditure is budgeted to decrease by \$2.4M or 3% from 2013-14 budget.</p>
<ul style="list-style-type: none"> • <u>Fee level</u> of \$0.39 / per MWh achieved in line with previous years estimate 		<p>Most electricity fees are lower or equal to prior years published estimate.</p>

1.1 2014-15 fees

Table 2 Key fees

Key Fees	Budget 2014-15	Prior year published estimate 2014-15	Change	Current 2013-14	Unit
NEM	0.39	0.39	0%	0.37	\$/MWh
FRC - Electricity	0.060	0.066	-9%	0.060	\$/MWh
National Transmission Planner	0.01990	0.02814	-29%	0.01915	\$/MWh

1.2 Expenditure

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

	Expenditure 2014-15 (\$M)	Expenditure 2013-14 (\$M)	Change
NEM	71,851	74,246	↓ -3%
FRC - Electricity	9,416	10,122	↓ -7%
National Transmission Planner	4,207	4,909	↓ -14%

1.3 Contacts

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

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1.4 Declining energy consumption is impacting fees

1.4.1 National Electricity Market

The final forecast consumption is based on the 2014 National Electricity Forecast Report (NEFR) to be published in June 2014.

The 2014-15 budget assumes a decline in annual electricity consumption from 2013-14 mainly due to the closure of Alcoa's Point Henry plant, reductions in industrial consumption and continued lower domestic use due to higher prices and an increase in solar PV uptake.

Liquefied Natural Gas (LNG) consumption growth is the main driver contributing to the small total NEM growth for the forward years from 2015-16 to 2018-19.

Table 4 NEM consumption

GWh	Budget 2013-14	NEFR Update ¹ 2013-14	Forecast ² 2013-14	Budget 2014-15	Estimate 2015-16	Estimate 2016-17	Estimate 2017-18	Estimate 2018-19
NEM (excluding LNG)	179,427	177,333	175,866	170,968	171,067	171,316	171,255	171,197
LNG	664	396	3	637	4,977	7,926	8,439	8,558
TOTAL	180,091	177,729	175,869	171,606	176,043	179,241	179,694	179,755
				-4.7%	+2.6%	+1.8%	+0.3%	+0.0%

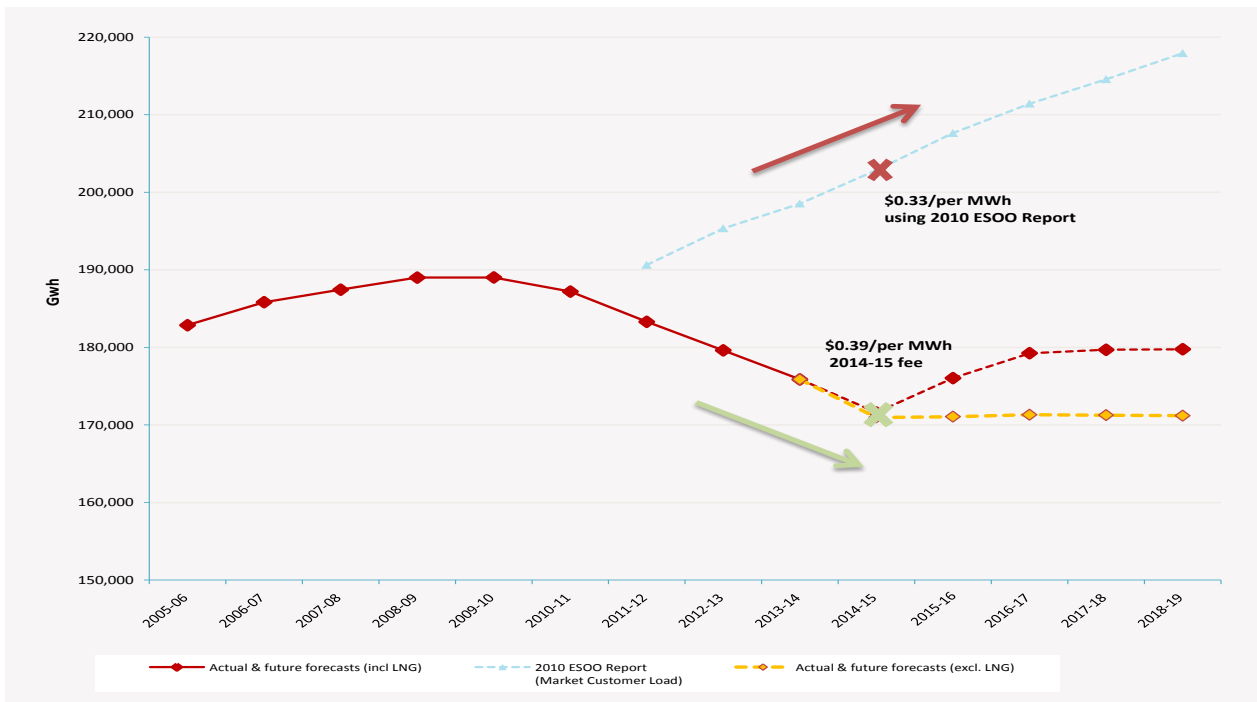
¹ NEFR update released November 2013

² Forecast annual 2013-14 consumption as at April 2014

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

Note: using the 2010 Electricity Statement of Opportunities (ESOO) forecast 2014-15 consumption, the 2014-15 NEM fee would have been \$0.33/per MWh rather than \$0.39/per MWh.

Figure 1 Annual electricity consumption (market customer load)



1.5 Revenue requirement and fee schedule

Table 5 Revenue requirement and fee schedule

Function	Budget 2014-15 \$'000	Rate ¹	Paying Participants
NEM			
General Fees (unallocated)	20,329	\$0.11846/MW·h of customer load	Market Customers
Allocated Fees			
- Market Customers	25,614	\$0.14926/MW·h of customer load	Market Customers
- Generators ² and Market Network Service Providers	21,820	Daily rate calculated on 2014 capacity/ energy basis	Generators and Market Network Service Providers
Participant Compensation Fund	Nil	Daily rate calculated on 2014 capacity/ energy basis	Scheduled Generators, Semi-Scheduled Generators and Scheduled Network Service Providers
Registration fees	250	Refer to table 6	Intending Participants
Other	2,838		Dependent on service provided
TOTAL NEM	70,851		
FRC ELECTRICITY			
FRC Operations	8,840	\$0.060/MW·h of customer load in jurisdictions with FRC	Market Customers with a Retail Licence
Other	84		Dependent on service provided
TOTAL FRC ELECTRICITY	8,924		
National Transmission Planner	3,415	\$0.01990/MW·h of customer load	Market Customers
Electricity Consumer Advocacy Panel	1,834	\$0.01069/MW·h of customer load	Market Customers
Additional Participant ID		\$5,000 per additional participant ID	Existing Participants

[1] All fees and rates are exclusive of GST

[2] Excluding non market non scheduled generators

1.6 Schedule of Registration fees

Table 6 Registration fees

Application Type	2014-15 \$
Registration as Scheduled Market Generator ¹	16,800
Registration as Semi-Scheduled Market Generators	
Registration as Scheduled Non-Market Generator	8,800
Registration as Semi-Scheduled Non-Market Generators	
Registration as Non-Scheduled Market Generator	
Registration as Market Customer	
Transfer of Registration	
Registration as Non-Scheduled Non-Market Generator	5,000
Registration as Network Service Provider	
Registration as Trader	
Registration as Reallocator	
Classification of generating units for frequency control ancillary services purposes	
Registration as Intending Participants	2,000
Exemption	

[1] Each category of *Generator* in this table includes applications made by persons intending to act as intermediaries.

CHAPTER 1 - NATIONAL ELECTRICITY MARKET

1.1 Fees

The benchmark NEM fee will increase from \$0.37/MWh to \$0.39/MWh in 2014-15. This is in line with the estimate provided to stakeholders in last year's budget process.

The 2013-14 fee was reduced to return a surplus to participants and must now be increased to return a break-even position.

The 2014-15 costs for the NEM function are budgeted to decrease by 3% from 2013-14, mainly as a result of AEMO's savings from transmission network service provider (TNSP) operating agreements and a reduction in employee numbers.

The NEM fee is expected to increase in 2015-16 to \$0.41/MWh, reflecting no change to AEMO's previous estimate.

The Participant Compensation Fund (PCF) fee does not need to be charged in 2014-15 as the level of NEM PCF funds currently being held meet the Rules requirement.

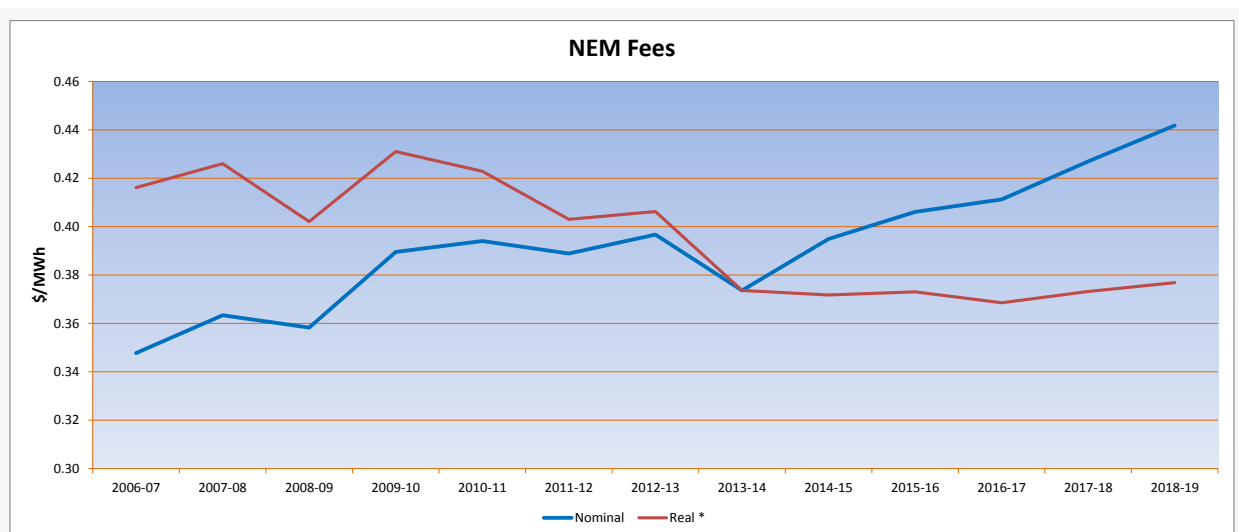
Table 7 Energy data 2014-15

	Budget 2013-14	Budget 2014-15
Market Customer Load forecast	180,075,309 MW·h	171,605,549 MW·h

Table 8 NEM projected fees (indicative benchmark)

Fee	Actual 2013-14	Budget 2014-15	Estimate 2015-16	Estimate 2016-17	Estimate 2017-18	Estimate 2018-19
NEM fee (\$/MW·h)	0.37	0.39	0.41	0.41	0.43	0.44

Figure 2 NEM 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

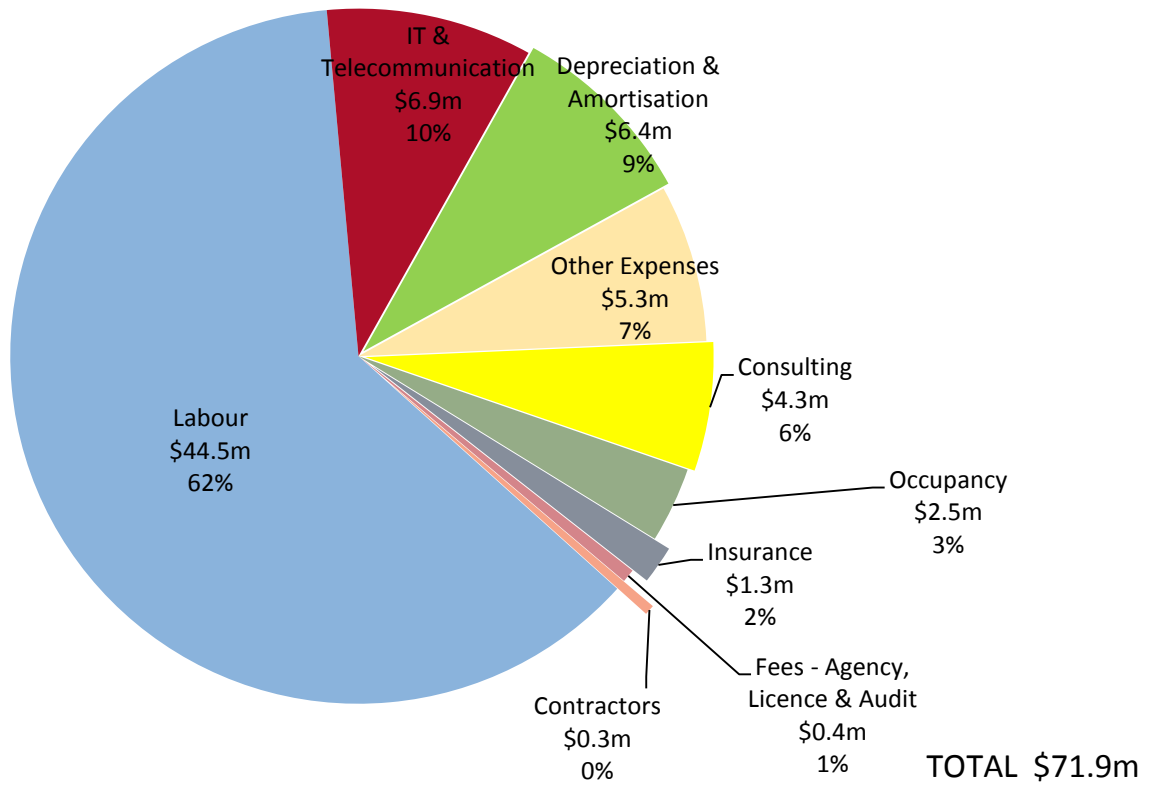


Table 9 Profit and Loss statement 2014-15 and comparison

	Budget	Forecast	Budget	Variance to Budget	
	2013-14 \$'000	2013-14 \$'000	2014-15 \$'000	\$'000	%
Fees and tariffs	68,140	66,485	68,013	(127)	-0%
Other Revenue	2,968	3,067	2,838	(130)	-4%
Total Revenue	71,108	69,553	70,851	(257)	-0%
Labour	42,743	43,282	44,461	1,717	+4%
Contractors	905	591	338	(567)	-63%
Consulting	4,056	3,146	4,301	246	+6%
Fees - Agency, Licence & Audit	1,621	1,551	441	(1,181)	-73%
IT & Telecommunication	6,946	6,470	6,878	(67)	-1%
Occupancy	2,511	2,453	2,523	12	+0%
Insurance	1,304	1,340	1,278	(26)	-2%
Other Expenses	6,538	6,095	5,260	(1,278)	-20%
Depreciation & Amortisation	7,622	7,259	6,371	(1,251)	-16%
Total Expenditure	74,246	72,187	71,851	(2,395)	-3%
Surplus/(Deficit)	(3,138)	(2,634)	(1,000)	2,138	
Transfer to PCF	(1,077)	(1,077)	(402)	675	
Brought Forward Surplus/(Deficit)	4,235	5,602	1,891	(2,343)	
Accumulated Surplus/(Deficit)	20	1,891	489		

Key Points:

Budgeted expenditure for 2014-15 is expected to decrease by \$2.4M (3%) from the 2013-14 budget. The key variances relate to:

- **Labour**

Labour costs are budgeted to increase by \$1.8M (4%) to allow a provision for salary increases in line with EBA.

- **Fees – Agency, Licence & Audit**

Agency costs are budgeted to decrease by \$1.2M (73%). This is due to savings relating to the TNSP operating agreements.

1.3 PCF fees

The National Electricity Rules require AEMO to maintain a Participant Compensation Fund for the purpose of paying compensation for scheduling errors to Scheduled Generators, Semi-Scheduled Generators and Scheduled Network Service Providers as determined by the dispute resolution panel.

The funding requirement for the PCF for each financial year is the lesser of:

- (1) \$1,000,000; and
- (2) \$5,000,000 minus the amount which AEMO reasonably estimates will be the balance of the PCF at the end of the relevant financial year.

The estimated balance of the NEM PCF at 30 June 2014 is \$5.1M.

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

Table 10 NEM PCF

NEM PCF	Budget 2013-14 \$'000	Forecast 2013-14 \$'000	Budget 2014-15 \$'000
PCF Fees	600	600	-
PCF Interest	250	250	175
Revenue (including interest)	850	850	175
PCF Claims	-	-	-
Net Surplus	850	850	175
Opening PCF Reserve	4,168	4,251	5,101
PCF Reserve	5,018	5,101	5,276

CHAPTER 2 - FULL RETAIL COMPETITION ELECTRICITY

2.1 Fees

The Full Retail Competition (FRC) electricity fee will remain stable at \$0.060.

This fee is lower than the \$0.066 estimate provided to stakeholders as part of last year's budget process, mainly due to a reduction in AEMO's employee numbers and lower IT costs.

The fee is expected to slightly increase over the coming years to 2018-19 due to slowing consumption growth.

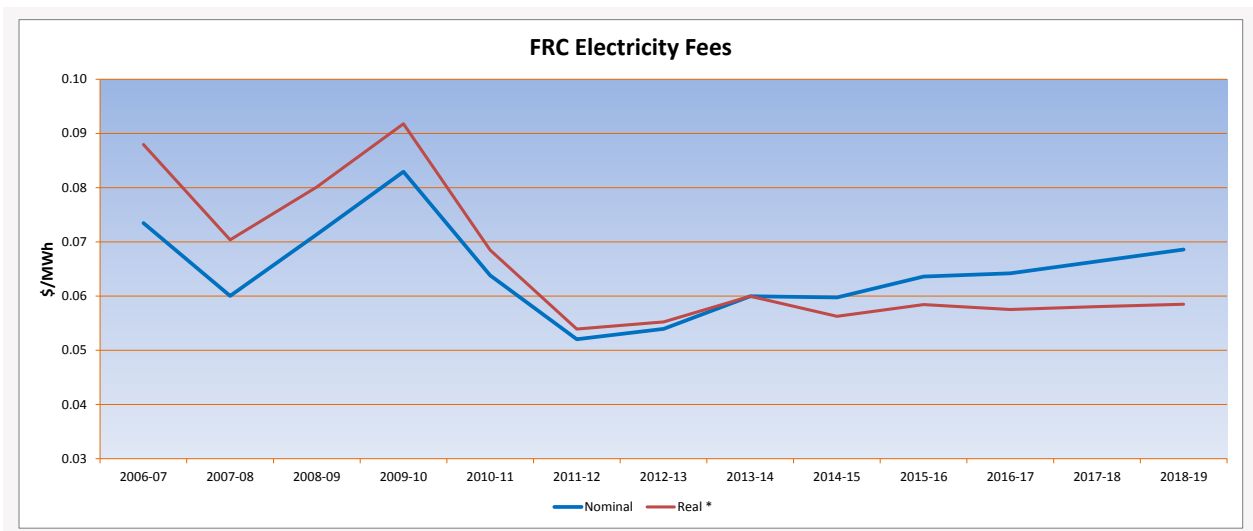
Table 11 Energy data 2014-15

	Budget 2013-14	Budget 2014-15
Retailer Load forecast	165,442,091 MW·h	157,660,598 MW·h
Retailer Load forecast for FRC jurisdictions	155,233,557 MW·h	147,932,218 MW·h

Table 12 FRC Electricity Projected Fees (Indicative Benchmark)

Fee	Actual 2013-14	Budget 2014-15	Estimate 2015-16	Estimate 2016-17	Estimate 2017-18	Estimate 2018-19
(\$/MW·h)	0.060	0.060	0.064	0.064	0.066	0.069
		-0%	+6%	+1%	+3%	+3%

Figure 4 FRC electricity projected fees



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

2.2 Revenue and Expenditure

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

Figure 5 Expenditure by category 2014-15

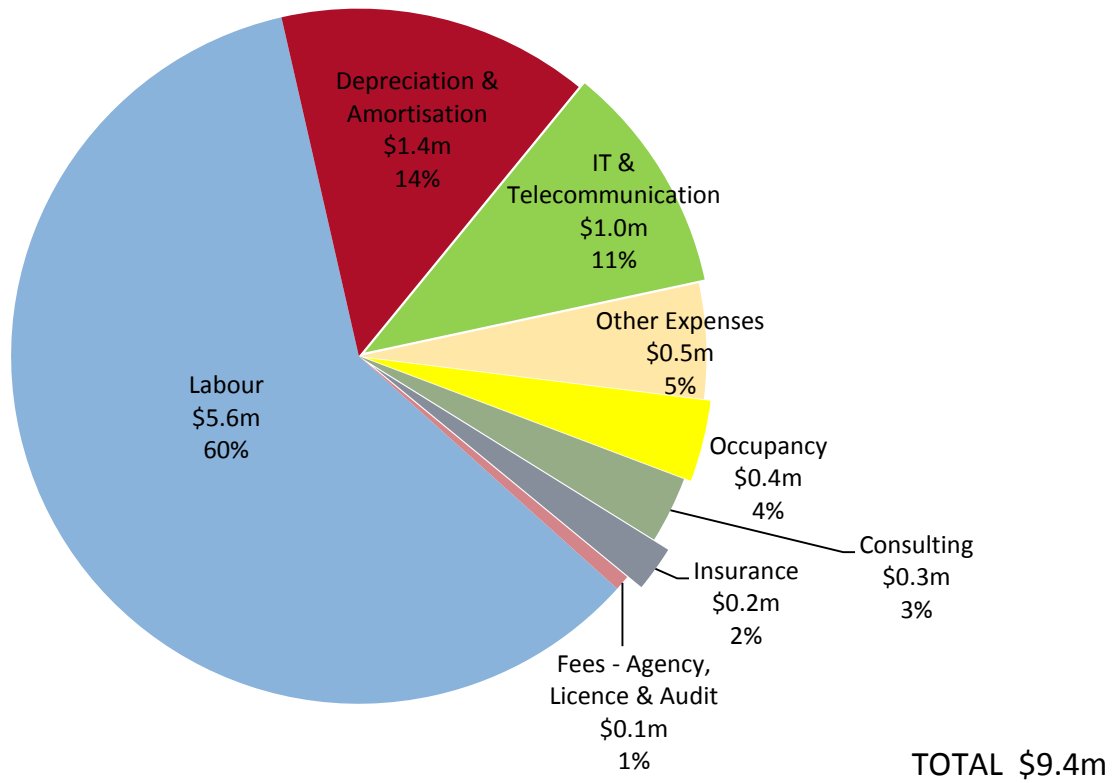


Table 13 Profit and Loss statement 2014-15 and comparison

	Budget	Forecast	Budget	Variance to Budget	
	2013-14	2013-14	2014-15	\$'000	%
	\$'000	\$'000	\$'000		
Fees and tariffs	9,491	9,097	8,840	(651)	-7%
Other Revenue	83	103	84	1	+1%
Total Revenue	9,574	9,200	8,924	(650)	-7%
Labour	5,703	5,403	5,608	(95)	-2%
Contractors	52	28	31	(21)	-40%
Consulting	287	281	291	3	+1%
Fees - Agency, Licence & Audit	69	67	66	(2)	-3%
IT & Telecommunication	1,450	1,319	1,007	(443)	-31%
Occupancy	397	345	355	(42)	-11%
Insurance	228	211	198	(30)	-13%
Other Expenses	514	424	501	(12)	-2%
Depreciation & Amortisation	1,422	1,402	1,358	(64)	-5%
Total Expenditure	10,122	9,478	9,416	(706)	-7%
Surplus/(Deficit)	(548)	(277)	(492)	56	
Brought Forward Surplus/(Deficit)	629	789	512	(117)	
Accumulated Surplus/(Deficit)	81	512	20		

Key Points:

Budgeted expenditure for 2014-15 is expected to decrease by \$0.7M (7%) from the 2013-14 budget. The key variances relate to:

- **Labour**

Labour costs are budgeted to decrease by \$0.1M (2%) mainly due to decreased resources allocated to this function.

- **IT & Telecommunication**

IT & Telecommunication costs are budgeted to decrease by \$0.4M (31%) mainly due to lower spend in IT service level contracts.

CHAPTER 3 - NATIONAL TRANSMISSION PLANNER

3.1 Fees

The benchmark National Transmission Planner (NTP) fee is budgeted to increase from \$0.01915/MWh to \$0.01990/MWh in 2014-15.

The 2013-14 fee was reduced to return a previous year's surplus and the 2014-15 fee needs to be increased by 4% to return to a break-even position.

The 2014-15 fee is lower than the fee of \$0.02814/MWh, estimated as part of last year's budget process.

Costs for the NTP function have decreased by \$0.7 million (14%) compared to the 2013-14 budget mainly due to a reduction in employee numbers and consultancy costs.

Table 14 National Transmission Planner Projected Fees

Fee	Actual 2013-14	Budget 2014-15	Estimate 2015-16	Estimate 2016-17	Estimate 2017-18	Estimate 2018-19
(\$/MWh)	0.01915	0.01990	0.02651	0.02439	0.02587	0.02682
		+4%	+33%	-8%	+6%	+4%

3.2 Revenue and Expenditure

The expenditure is detailed below in Figure 6 by expenditure category.

Figure 6 Expenditure by category 2014-15

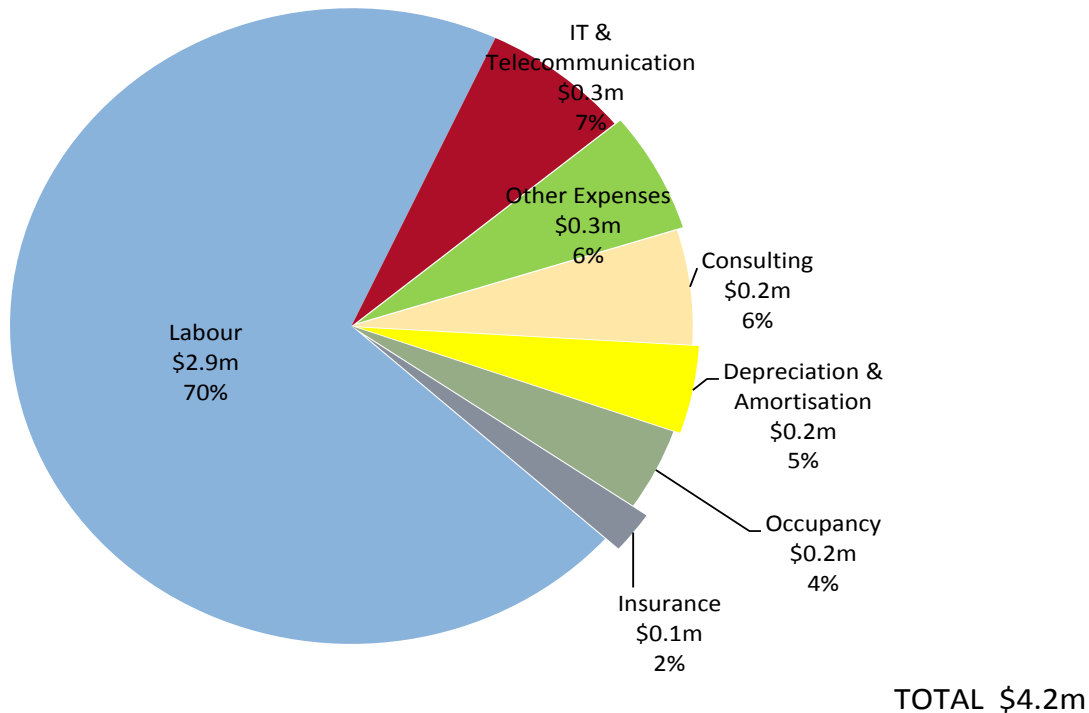


Table 15 Profit and Loss statement 2014-15 and comparison

	Budget	Forecast	Budget	Variance to	
	2013-14	2013-14	2014-15	Budget	
	\$'000	\$'000	\$'000	\$'000	%
Fees and tariffs	3,408	3,370	3,415	7	+0%
Other Revenue	12	42	36	24	+208%
Total Revenue	3,420	3,412	3,451	31	+1%
Labour	3,265	3,044	2,937	(328)	-10%
Contractors	26	14	15	(11)	-42%
Consulting	450	319	243	(206)	-46%
Fees - Agency, Licence & Audit	12	11	12	0	+1%
IT & Telecommunication	330	282	296	(35)	-10%
Occupancy	202	181	174	(27)	-13%
Insurance	105	99	88	(16)	-16%
Other Expenses	310	270	256	(54)	-17%
Depreciation & Amortisation	210	178	186	(24)	-12%
Total Expenditure	4,909	4,398	4,207	(702)	-14%
Surplus/(Deficit)	(1,489)	(986)	(756)	733	
Brought Forward Surplus/(Deficit)	1,147	1,809	824	(323)	
Accumulated Surplus/(Deficit)	(343)	824	68		

Key Points:

Total expenditure for 2014-15 is budgeted to decrease by \$0.7M (14%) from the 2013-14 budget. The key variances relate to:

- **Labour**
Labour costs are budgeted to decrease by \$0.3M (10%). This mainly due to decreased resources allocated to the function.
- **Consulting**
Consulting costs are budgeted to decrease by \$0.2M (46%).

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

Table 16 Consumer Advocacy Panel requirements

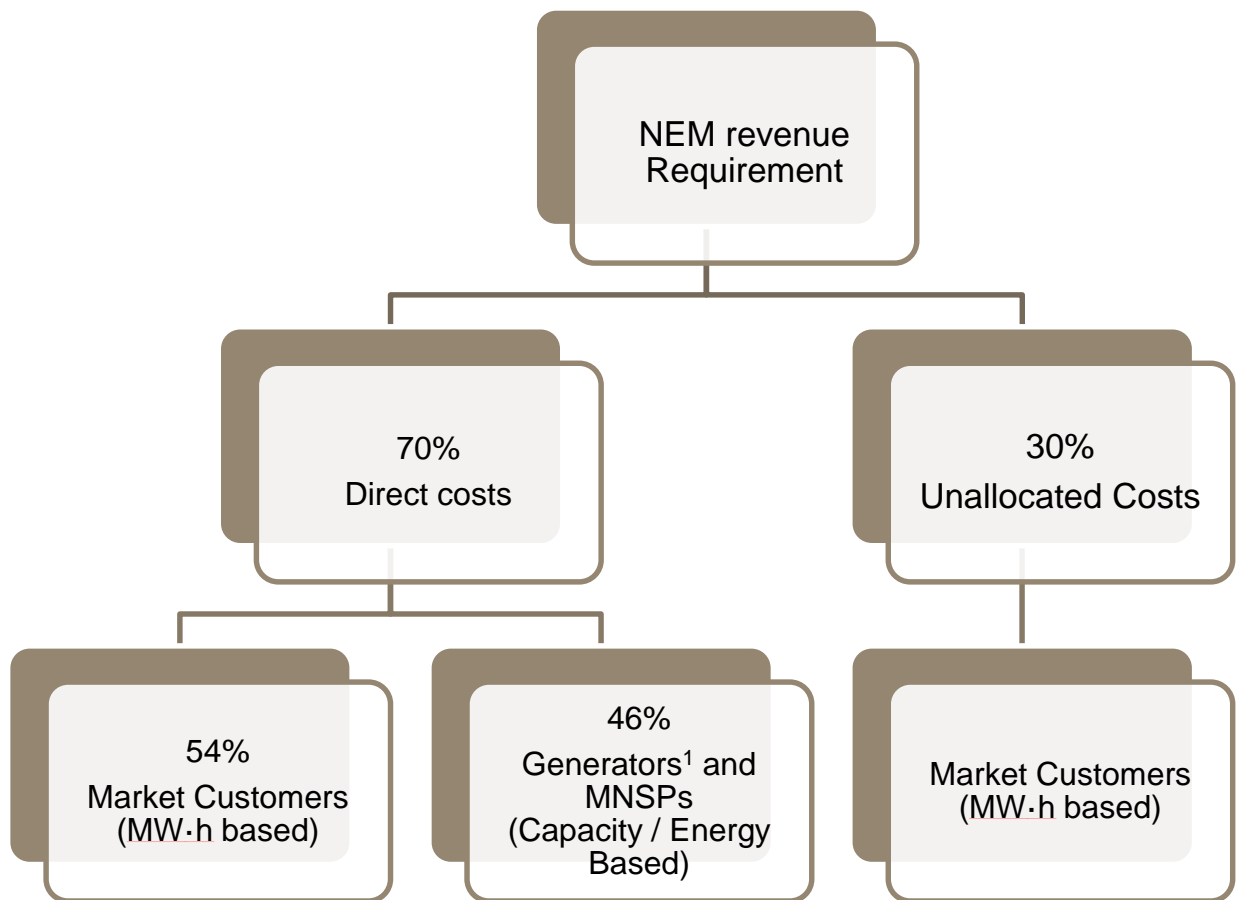
CAP Fees	Budget 2014-15	Actual 2013-14
Electricity (\$/MWh)	0.01069	0.01399

APPENDIX A. Electricity Fee Structure

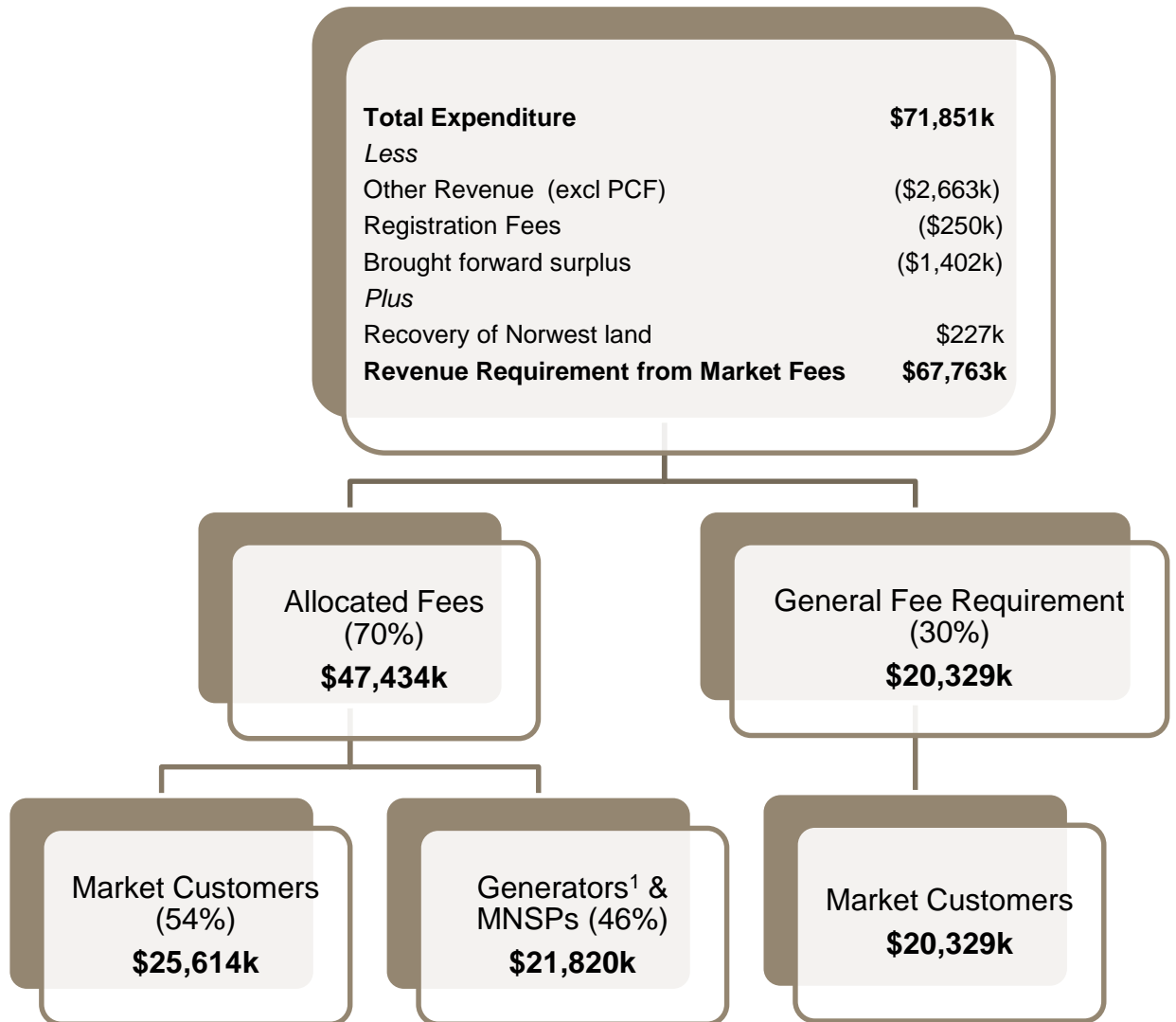
Overview of NEM fee calculation

The NEM fees are calculated in accordance with the current NEM fee determination that became effective from 1 July 2011 for a five year period.

In summary the NEM fee determination requires the annual revenue requirement to be allocated as follows:



¹ Excludes Non-Market Non-scheduled generators. Fees may vary between classes of generators.



¹ Excludes Non-Market Non-scheduled generators. Fees may vary between classes of generators.



LIST OF SYMBOLS AND ABBREVIATIONS

Term	Definition
CAP	Consumer Advocacy Panel
ECA	Energy Consumers Australia
FRC	Full Retail Contestability
MW·h	megawatt hour
MCE	Ministerial Council on Energy
NA	not applicable
NEFR	National Electricity Forecast Report
NEM	National Electricity Market
NTP	National Transmission Planner
PCF	Participant Compensation Fund
TBC	to be confirmed
GJ	gigajoule

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