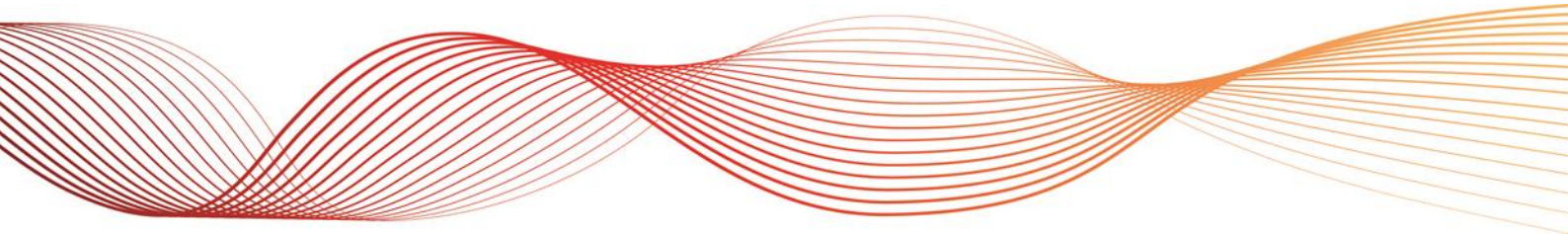




ELECTRICITY FINAL BUDGET AND FEES: 2016-17

Published: **May 2016**





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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 recovers all 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 the national rule requirements. The fee structures detail how AEMO will calculate fees and who will be charged. AEMO's annual budget sets out the amounts that will be charged under these fee structures.

The final fees in this report reflect the new electricity fee structure determination to apply from 1 July 2016 to 30 June 2021.

This report provides a view of the final 2016-17 electricity revenue and expenses, and estimates for the following four-year period.

1.2 Key messages

The energy market landscape is changing and flat growth on consumption is expected, placing pressure on AEMO market fees. For several years, AEMO has applied strong commercial discipline to control costs where possible, to reduce the impact of fee increases to market participants. As a result, minimal fee increases for participants have been achieved.

Fee (MWh)	2013-14	2014-15	2015-16	2016-17	Estimate 2017-18	Estimate 2018-19	Estimate 2019-20
NEM	0.37	0.39	0.38	0.39	0.40	0.41	0.42
% Change		+5%	-5%	+4%	+3%	+2%	+3%
FRC Electricity	0.060	0.060	0.040	0.061	0.065	0.066	0.068
% Change		+0%	-33%	+53%	+7%	+2%	+3%
NTP	0.01995	0.01990	0.02054	0.01606	0.02114	0.02164	0.02220
% Change		-0%	+3%	-22%	+32%	+2%	+3%

Key points:

- Electricity consumption is expected to increase by 1% in 2016-17 and then growth is expected to be flat. Refer to section 2.1 for more detail.
- The benchmark NEM fee will increase from \$0.38/MWh to \$0.39/MWh in 2016-17. This is in line with the estimate of \$0.39/MWh provided to stakeholders in the 2015-16 budget process.
- The Full Retail Contestability (FRC) electricity fee will increase to \$0.061/MWh. The increase is mainly as a result of the 2015-16 fee being lowered to return a surplus from the 2014-15 year and higher costs associated with the Power of Choice program of work.



1.3 2016-17 fees

Table 1 Final fees

Function	Budget 2016-17	Current 2015-16	Change	Prior year published estimate 2016-17	Unit
NEM	0.39	0.38	4%	0.39	\$/MWh
FRC - Electricity	0.061	0.040	53%	0.053	\$/MWh
National Transmission Planner	0.01606	0.02054	-22%	0.02421	\$/MWh

1.4 Budget contacts

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

<p>Mr Jack Fitcher Chief Financial Officer Australian Energy Market Operator Level 22, 530 Collins St MELBOURNE VIC 3000 Phone: 03 9609 8506 Email: Jack.Fitcher@aemo.com.au</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: Sandra.Chui@aemo.com.au</p>
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NATIONAL ELECTRICITY MARKET

2.1 Energy Consumption

The final forecast consumption for 2016-17 is based on available data estimates used in the 2016 National Electricity Forecast Report (NEFR) to be published in June 2016.

The 2016-17 and future years consumption (excluding LNG) is expected to be flat as the decrease in consumption due to solar PV and energy efficiency is offset by population growth. The industrial consumption is also flat.

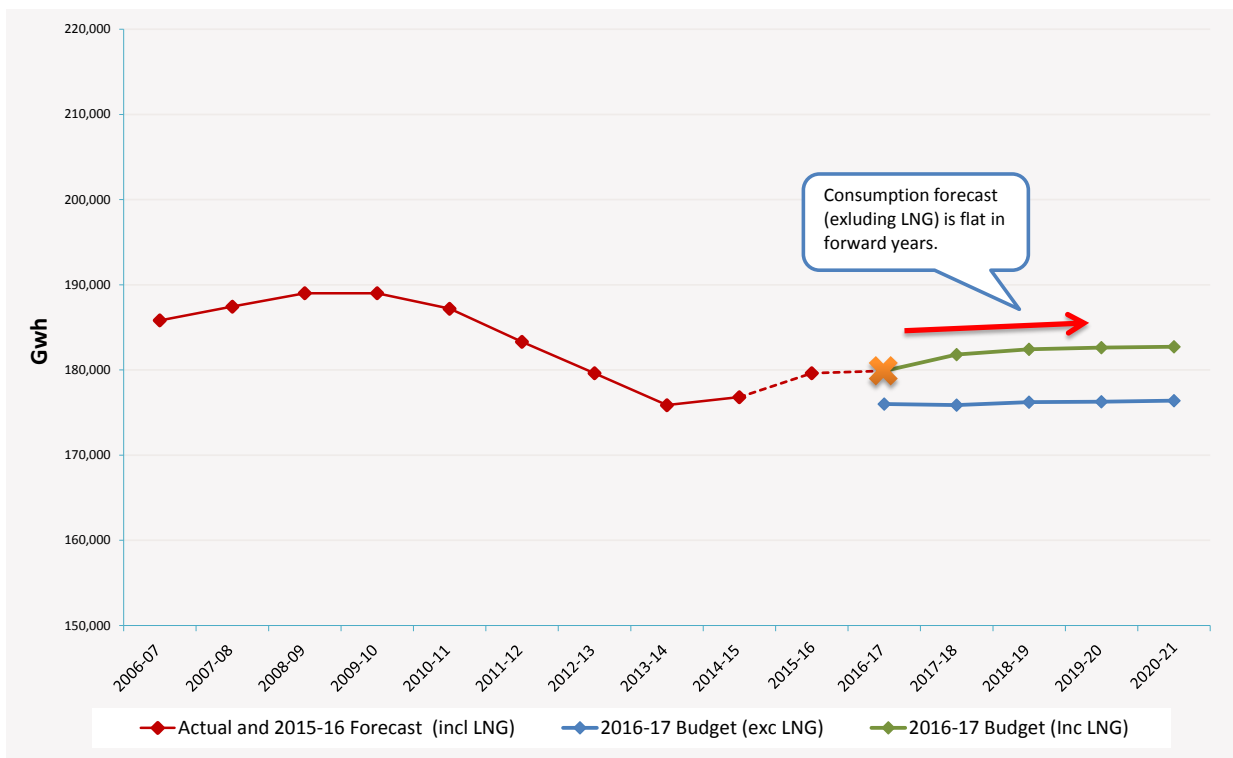
Table 2 NEM consumption

GWh	Budget 2015-16	Forecast ¹ 2015-16	Budget 2016-17	Estimate 2017-18	Estimate 2018-19	Estimate 2019-20	Estimate 2020-21
NEM (excluding LNG)	174,281	175,586	176,012	175,880	176,218	176,280	176,392
LNG	3,846	4,027	3,881	5,925	6,211	6,341	6,341
TOTAL	178,127	179,614	179,893	181,805	182,430	182,621	182,732
			+1.0%	+1.1%	+0.3%	+0.1%	+0.1%

¹ Forecast annual 2015-16 consumption as at April 2016

Figure 1 below demonstrates consumption forecasted to calculate the NEM fee

Figure 1 – Annual electricity consumption (market customer load)



2.2 Fees

The benchmark NEM fee will increase from \$0.38/MWh to \$0.39/MWh in 2016-17. This is in line with the estimate of \$0.39/MWh provided to stakeholders in the 2015-16 budget process.

The 2016-17 fee of \$0.39/MWh is due to:

- 2016-17 budgeted costs increase by 3% compared to 2015-16 that mainly relate to increased focus on the renewables program of works.
- Consumption forecast to increase by 1% in 2016-17 compared to the 2015-16 budget.

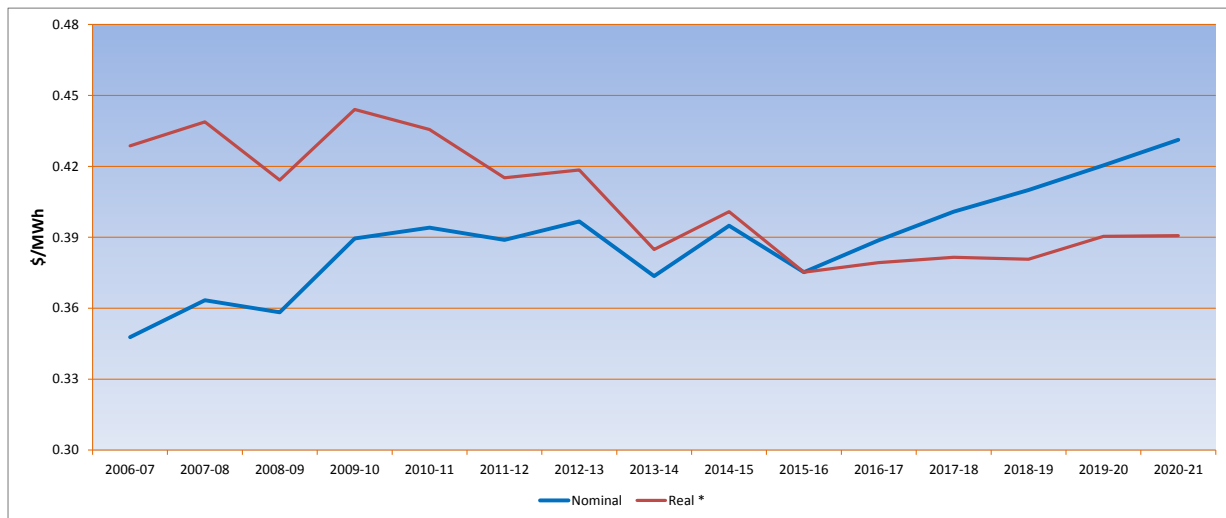
The Participant Compensation Fund (PCF) fee does not need to be charged in 2016-17 as the current level of NEM PCF funds being held meet the threshold requirement under the National Electricity Rules.

Table 3 NEM projected fees (indicative benchmark)

Fee	Actual 2015-16	Budget 2016-17	Estimate 2017-18	Estimate 2018-19	Estimate 2019-20	Estimate 2020-21
NEM fee (\$/MWh)	0.38	0.39	0.40	0.41	0.42	0.43
	-5%	+4%	+3%	+2%	+3%	+3%
PCF fee (\$/MWh)	0	0	TBC	TBC	TBC	TBC

The indicative benchmark NEM fee provides a high-level comparison of NEM fees. The fees actually charged to market customers and generators are detailed in Appendix B.

Figure 2 – NEM 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

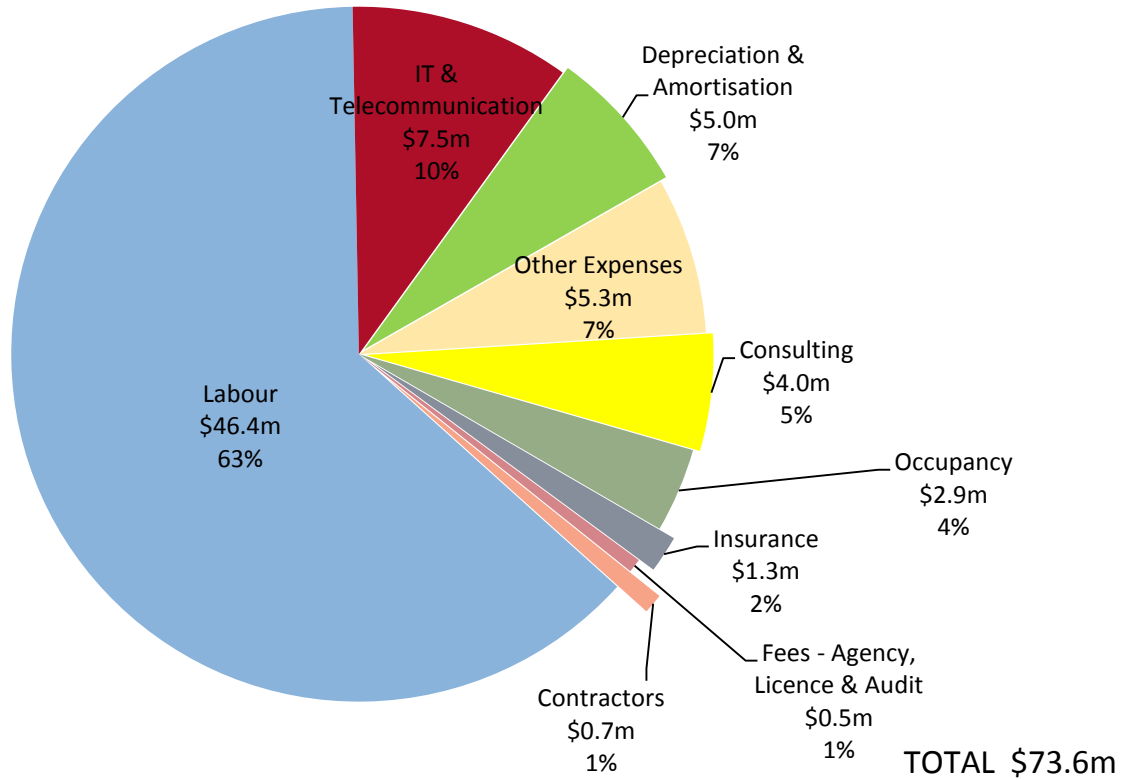


Table 4 Profit and Loss statement 2016-17 and comparison – NEM

	Budget	Forecast	Budget	Variance to Budget	
	2015-16 \$'000	2015-16 \$'000	2016-17 \$'000	\$'000	%
Fees and tariffs	67,124	68,090	70,363	3,239	+5%
Other Revenue	1,596	1,966	1,948	352	+22%
Total Revenue	68,720	70,057	72,311	3,591	+5%
Labour	44,468	45,200	46,370	1,902	+4%
Contractors	228	782	681	453	+199%
Consulting	3,310	2,778	4,006	696	+21%
Fees - Agency, Licence & Audit	420	421	472	51	+12%
IT & Telecommunication	7,351	6,803	7,541	190	+3%
Occupancy	2,567	2,601	2,886	319	+12%
Insurance	1,183	1,189	1,266	83	+7%
Other Expenses	5,084	5,626	5,347	263	+5%
Depreciation & Amortisation	6,703	5,934	4,982	(1,722)	-26%
Total Expenditure	71,314	71,333	73,551	2,237	+3%
Surplus/ (Deficit)	(2,595)	(1,277)	(1,240)	1,354	
Transfer to PCF	(394)	(394)	(375)	19	
Brought Forward Surplus/ (Deficit)	3,630	3,287	1,616	(2,014)	
Accumulated Surplus/ (Deficit)	641	1,616	(0)		

Key Points:

- NEM revenue for 2016-17 is estimated to be \$3.6M (5%) higher than the 2015-16 budget.
- NEM expenditure for 2016-17 is estimated to be \$2.2M (3%) higher than the 2015-16 budget. This is mainly due to:
 - **Labour costs (+\$1.9M)**
Labour costs are budgeted to increase in 2016-17 due to more resources allocated to this function. This is due to project work on the published strategic initiatives for 2015-17 to improve quality and frequency of demand forecast data and publication updates to stakeholders.
 - **Contractor costs (+\$0.5M)**
Contractor costs are budgeted to increase in 2016-17 mainly due to increased efforts on project strategic initiatives for energy forecasts and new connection application projects.
 - **Consulting costs (+\$0.7M)**
Consulting costs for 2016-17 are budgeted to increase for initiatives in electricity demand forecasting, the National Energy Forecast Report, IT security testing and electricity connection point forecasting.

- **Occupancy (+\$0.3M)**
Occupancy costs are budgeted to increase in 2016-17 mainly due to contractual increases in office leases and the Brisbane CBD office lease.
- **Other expenses (+\$0.3M)**
Other expense costs are budgeted to increase mainly due to higher training and travel costs to support projects.
- **Depreciation costs (-\$1.7M)**
Depreciation costs are budgeted to decrease in 2016-17 mainly due to declining depreciation costs in the NEM system.

2.4 PCF fees

The National Electricity Rules require AEMO to maintain a Participant Compensation Fund to pay 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 2016 is \$5.4M.

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

Table 5 NEM PCF

NEM PCF	Budget 2015-16 \$'000	Forecast 2015-16 \$'000	Budget 2016-17 \$'000
PCF Fees	-	-	-
PCF Interest	168	168	149
Revenue (including interest)	168	168	149
PCF Claims	-	-	-
Net Surplus	168	168	149
Opening PCF Reserve	5,177	5,183	5,350
Closing PCF Reserve	5,345	5,350	5,499

FULL RETAIL CONTESTABILITY (FRC) ELECTRICITY

3.1 Energy Consumption

The forecast consumption for FRC electricity tabled below:

Table 6 FRC Electricity consumption

	Budget 2015-16	Budget 2016-17
Retailer Load forecast for FRC jurisdictions	162,095,159 MW·h	165,501,106 MW·h

3.2 Fees

The FRC electricity fee will increase to \$0.061/MWh.

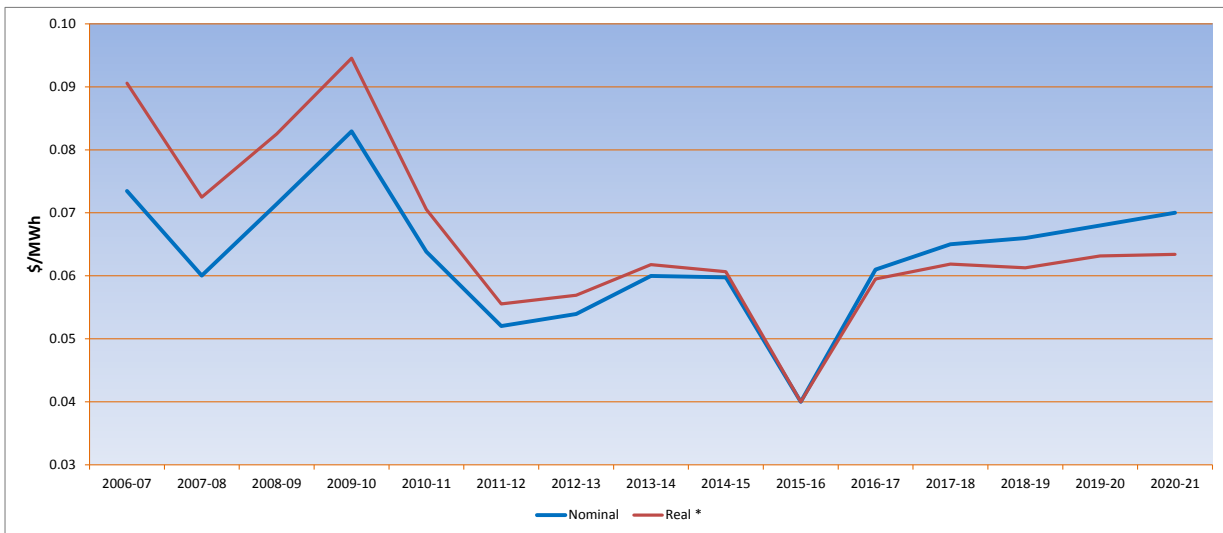
This increase is mainly due to:

- The 2015-16 fee being reduced to return a prior year surplus.
- Increased budget expenditure relating to the Power of Choice projects.

Table 7 FRC Electricity projected fee

Fee	Actual 2015-16	Budget 2016-17	Estimate 2017-18	Estimate 2018-19	Estimate 2019-20	Estimate 2020-21
(\$/MWh)	0.040	0.061	0.065	0.066	0.068	0.070
	-33%	+53%	+7%	+2%	+3%	+3%

Figure 4 – FRC Electricity projected fees



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

3.3 Revenue and Expenditure

The expenditure is detailed in Figure 5 by expenditure category.

Figure 5 – Expenditure by category 2016-17

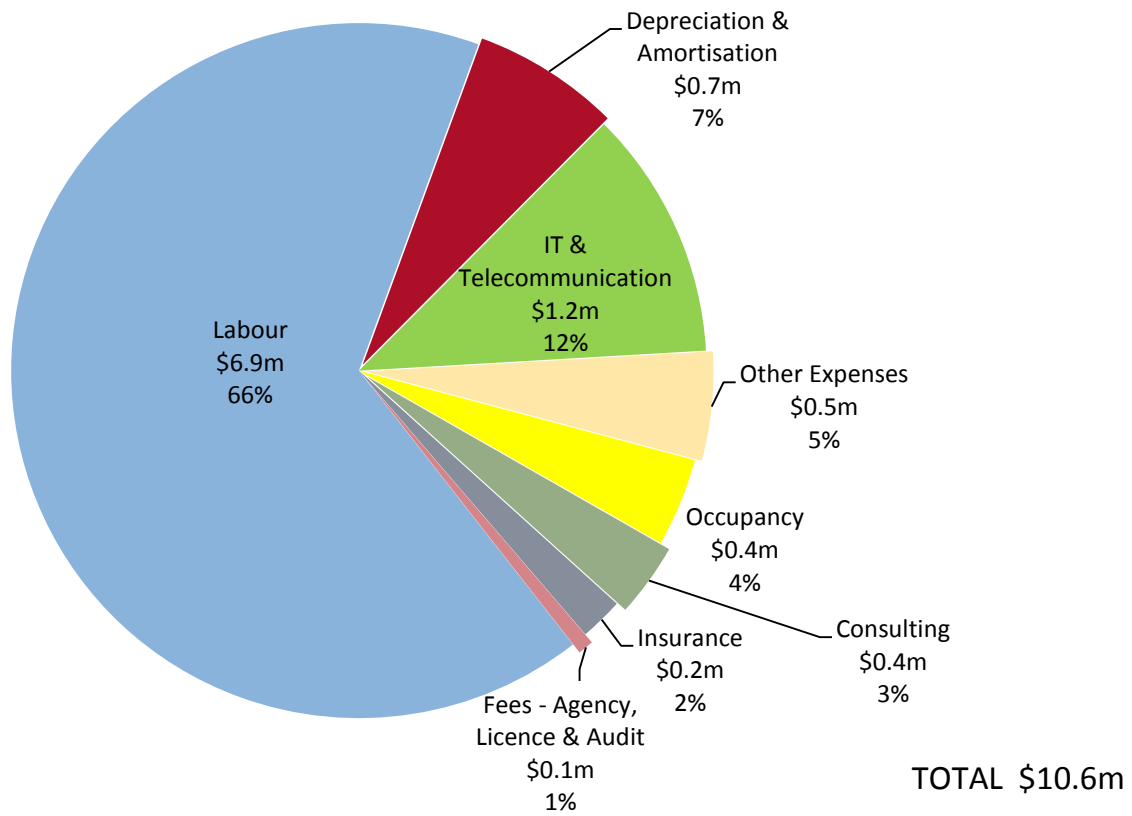


Table 8 Profit and Loss statement 2016-17 and comparison – FRC Electricity

	Budget	Forecast	Budget	Variance to Budget	
	2015-16 \$'000	2015-16 \$'000	2016-17 \$'000	\$'000	%
Fees and tariffs	6,474	6,700	10,047	3,573	+55%
Other Revenue	78	79	50	(28)	-36%
Total Revenue	6,552	6,778	10,097	3,545	+54%
Labour	5,186	4,982	6,872	1,686	+33%
Contractors	15	74	221	206	+1,373%
Consulting	408	322	357	(51)	-13%
Fees - Agency, Licence & Audit	73	72	76	3	+5%
IT & Telecommunication	1,015	927	1,208	194	+19%
Occupancy	313	306	428	115	+37%
Insurance	166	161	209	43	+26%
Other Expenses	426	853	526	100	+24%
Depreciation & Amortisation	1,128	1,122	714	(414)	-37%
Total Expenditure	8,730	8,818	10,611	1,882	+22%
Surplus/ (Deficit)	(2,178)	(2,040)	(514)	1,664	
Brought Forward Surplus/ (Deficit)	2,233	2,554	514	(1,719)	
Accumulated Surplus/ (Deficit)	55	514	0		

Key Points:

- FRC electricity revenue for 2016-17 is estimated to be \$3.5M (54%) higher than budgeted in 2015-16.
- FRC electricity expenditure for 2016-17 is estimated to be \$1.9M (22%) higher than budgeted in 2015-16. This is mainly due to:
 - **Labour costs (+\$1.7M)**
Labour costs are budgeted to increase in 2016-17 due to more resources allocated to Power of Choice projects.
 - **Contractor costs (+\$0.2M)**
Contractor costs are budgeted to increase in 2016-17 to provide Power of Choice specialist support.
 - **IT & Telecommunication (+\$0.2M)**
IT & telecommunication are budgeted to increase in 2016-17 due to an increase in software licencing.
 - **Occupancy (+\$0.1M)**
Occupancy costs are budgeted to increase in 2016-17 mainly due to contractual increases in office leases and the Brisbane CBD office lease.
 - **Depreciation costs (-\$0.4M)**
Depreciation costs are budgeted to decrease in 2016-17 due to declining depreciation costs for FRC electricity systems.

NATIONAL TRANSMISSION PLANNER (NTP)

4.1 Fees

The NTP fee for 2016-17 is budgeted to decrease from \$0.02054/MWh to \$0.01606/MWh in 2016-17. The previous year's published estimate for 2016-17 was \$0.02421.

This decrease in fee is mainly due to:

- Returning a forecast 2015-16 surplus.
- Higher energy consumption.
- Lower budgeted expenditure.

Table 9 NTP projected fee

Fee	Actual 2015-16	Budget 2016-17	Estimate 2017-18	Estimate 2018-19	Estimate 2019-20	Estimate 2020-21
(\$/MW·h)	0.02054	0.01606	0.02114	0.02164	0.02220	0.02279
	+3%	-22%	+32%	+2%	+3%	+3%

4.2 Revenue and Expenditure

The expenditure is detailed below in Figure 6 by expenditure category

Figure 6 – Expenditure by category 2016-17

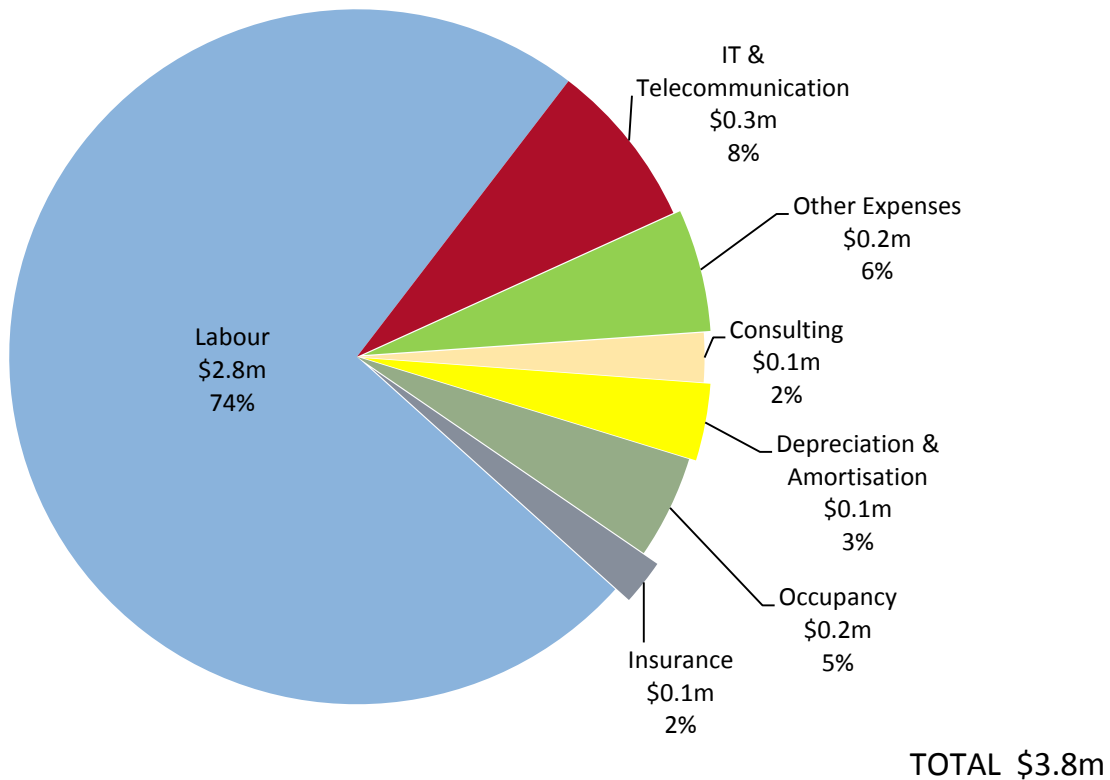


Table 10 Profit and Loss statement 2016-17 and comparison – NTP

	Budget	Forecast	Budget	Variance to	
	2015-16	2015-16	2016-17	Budget	
	\$'000	\$'000	\$'000	\$'000	%
Fees and tariffs	3,658	3,734	2,889	(770)	-21%
Other Revenue	37	37	34	(2)	-7%
Total Revenue	3,695	3,771	2,923	(772)	-21%
Labour	3,109	2,810	2,762	(347)	-11%
Contractors	10	50	17	7	+74%
Consulting	169	144	86	(83)	-49%
Fees - Agency, Licence & Audit	13	13	16	3	+20%
IT & Telecommunication	373	325	292	(81)	-22%
Occupancy	205	207	180	(26)	-12%
Insurance	95	94	79	(16)	-17%
Other Expenses	257	259	213	(44)	-17%
Depreciation & Amortisation	204	204	134	(70)	-34%
Total Expenditure	4,433	4,107	3,778	(656)	-15%
Surplus/ (Deficit)	(738)	(336)	(854)	(116)	
Brought Forward Surplus/ (Deficit)	893	1,190	854	(39)	
Accumulated Surplus/ (Deficit)	155	854	0		

Key Points:

- NTP revenue for 2016-17 is budgeted to be \$0.8M (21%) lower than in the 2015-16 budget.
- NTP expenditure for 2016-17 is budgeted to decrease by \$0.7M (15%) from the 2015-16 budget mainly due to:
 - **Labour costs (-\$0.3M)**
Labour costs are budgeted to decrease in 2016-17 due to lower resources allocated to this function.
 - **Consulting (-\$0.1M)**
Consulting costs are budgeted to decrease mainly due to a reduction in external consulting support.
 - **IT Telecommunication (-\$0.1M)**
IT Telecommunication costs are budgeted to decrease in 2016-17 mainly due to a decrease in IT costs through renegotiations of Optus and Telstra agreements for datalinks and market net services.



ENERGY CONSUMERS AUSTRALIA

In May 2014, the Council of Australian Governments (COAG) Energy Council approved establishment of the Energy Consumers Australia (ECA) to absorb the functions of the existing Consumer Advocacy Panel (CAP) and to promote the long term interests of energy consumers, in particular for residential customers and small business customers. AEMO is required to recover funding for the ECA from market participants.

The commencement date of the ECA was 30 January 2015.

Table 11 reflects the fees to be collected in electricity ECA fees for 2016-17.

Table 11 Energy Consumers Australia (ECA) requirements

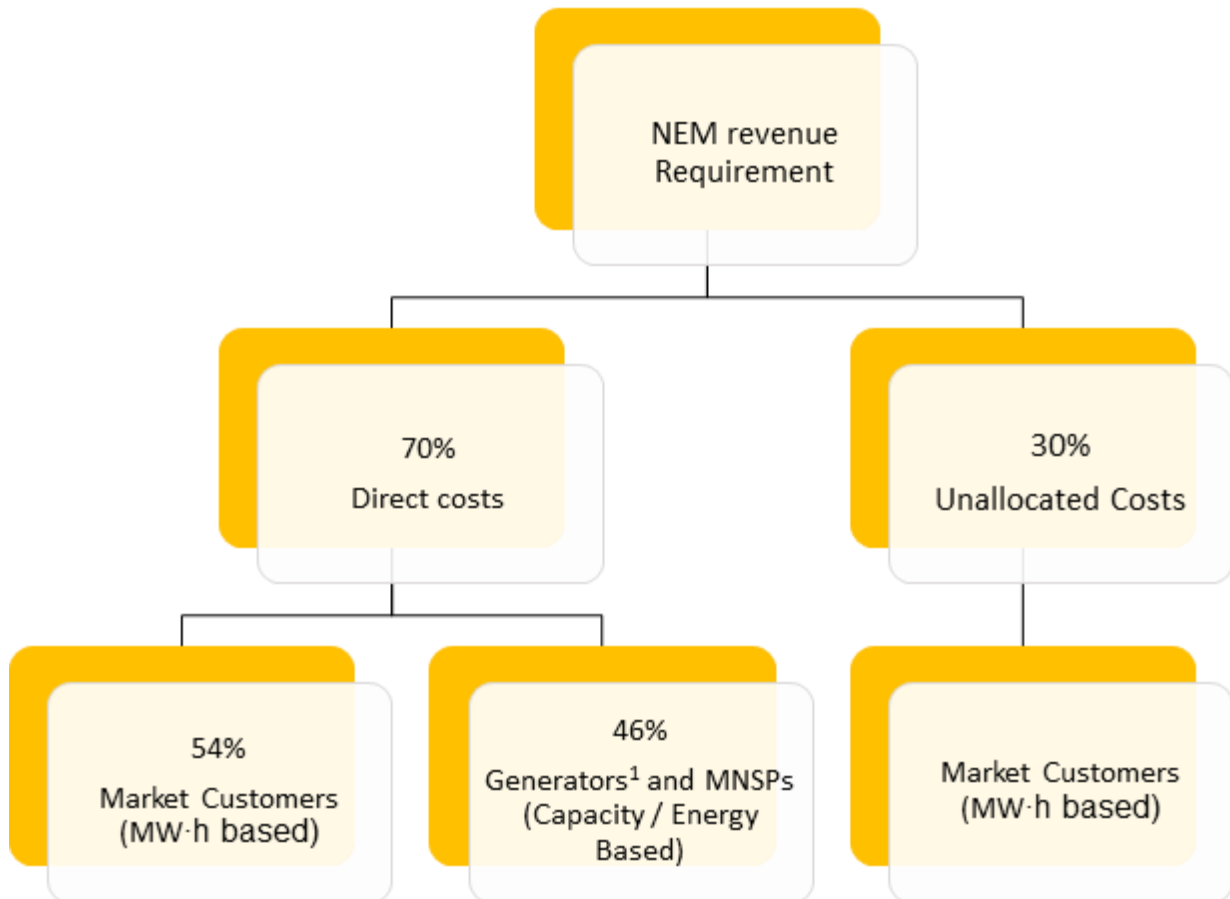
ECA Fees	Actual 2015-16	Budget 2016-17
Electricity (\$ / connection point for small customers per week)	0.00976 +11%	0.00951 -3%

APPENDIX A. ELECTRCITY FEE STRUCTURE

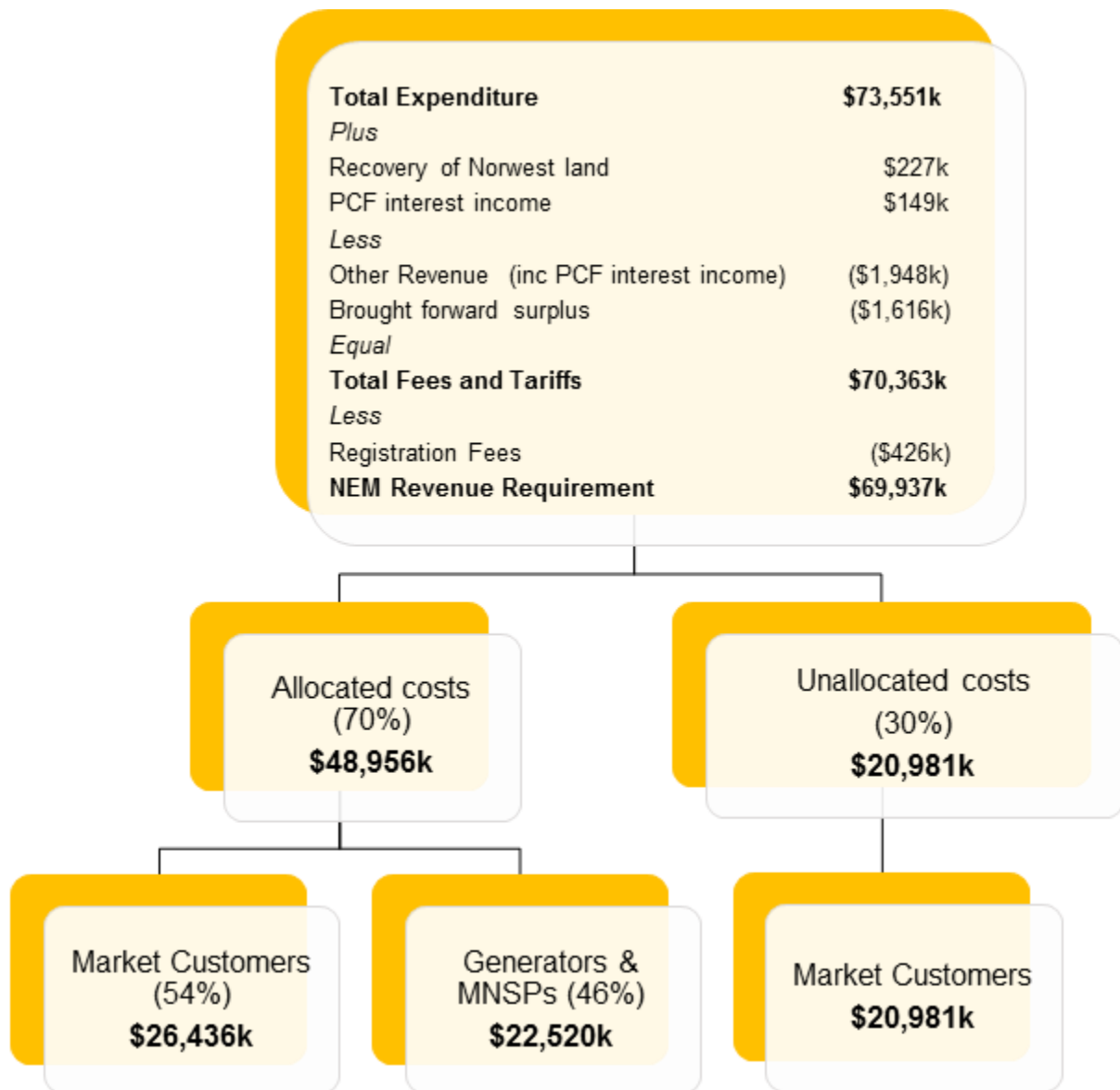
Overview of NEM fee calculation

NEM fees are calculated in accordance with the current NEM fee determination that became effective from 1 July 2011 five years.

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



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



APPENDIX B. ELECTRICITY REVENUE AND FEE

Revenue requirement and fee schedule for 2016-17

Function	Budget 2016-17 \$'000	Rate ¹	Paying Participants
NEM			
General Fees (unallocated)	20,981	\$0.11663/ MW·h of customer load	Market Customers
Allocated Fees			
- Market Customers	26,436	\$0.14695/ MW·h of customer load	Market Customers
- Generators ² and Market Network Service Providers	22,520	Daily rate calculated on 2015 capacity/ energy basis	Generators and Market Network Service Providers
Participant Compensation Fund	Nil	Daily rate calculated on capacity/ energy basis	Scheduled Generators, Semi-Scheduled Generators and Scheduled Network Service Providers
Registration fees	426	Refer to table 6	Intending Participants
Other	1,948		Dependent on service provided
TOTAL NEM	72,311		
FRC ELECTRICITY			
FRC Operations	10,047	\$0.06100/ MW·h of customer load in jurisdictions with FRC	Market Customers with a Retail Licence
Other	50		Dependent on service provided
TOTAL FRC ELECTRICITY	10,097		
National Transmission Planner	2,889	\$0.01606/ MW·h of customer load	Market Customers
Electricity Consumer Advocacy Panel	4,781	\$0.00951/ connection point for small customers/ week	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



Fee schedule for 2016-17 and forward years estimates

Function	Rate ¹					Basis	Paying Participants
	Budget 2016-17	Estimate 2017-18	Estimate 2018-19	Estimate 2019-20	Estimate 2020-21		
NEM							
General Fees (unallocated)	0.11663	0.12026	0.12300	0.12612	0.12937	MW·h of customer load	Market Customers
Allocated Fees							
- Market Customers	0.14695	0.15152	0.15498	0.15891	0.16300	MW·h of customer load	Market Customers
- Generators ² and Market Network Service	22,520	23,466	24,085	24,721	25,373	Daily rate calculated on capacity/ energy basis	Generators and Market Network Service Providers
Participant Compensation Fund	Nil	TBC	TBC	TBC	TBC	Daily rate calculated on capacity/ energy basis	Scheduled Generators, Semi-Scheduled Generators and Scheduled Network Service Providers
FRC ELECTRICITY							
FRC Operations	0.06100	0.06500	0.06600	0.06800	0.07000	MW·h of customer load in jurisdictions with FRC	Market Customers with a Retail Licence
Other							
National Transmission Planner	0.01606	0.02114	0.02164	0.02220	0.02279	MW·h of customer load	Market Customers
Energy Consumers Australia	0.00951	TBC	TBC	TBC	TBC	connection point for small customers/ week	Market Customers

[1] All fees and rates are exclusive of GST

[2] Excluding non market non scheduled generators



Fee schedule of new registrations

Application Type	2016-17 \$
Registration as Scheduled Market Generator ¹	20,000
Registration as Semi-Scheduled Market Generators	20,000
Registration as Scheduled Non-Market Generator	10,000
Registration as Semi-Scheduled Non-Market Generators	10,000
Registration as Non-Scheduled Market Generator	10,000
Registration as Market Customer	10,000
Registration as Market Small Generation Aggregator	10,000
Transfer of Registration	10,000
Registration as Non-Scheduled Non-Market Generator	5,000
Registration as Network Service Provider	5,000
Registration as Trader	5,000
Registration as Reallocator	5,000
Classification of generating units for frequency control ancillary services purposes	5,000
Registration as Intending Participants	2,000
Exemption from registration	2,000

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



LIST OF SYMBOLS AND ABBREVIATIONS

Term	Definition
ECA	Energy Consumers Australia
FRC	Full Retails Contestability
MW·h	megawatt hour
NA	not applicable
NEFR	National Electricity Forecast Report
NEM	National Electricity Market
NER	National Electricity Rules
NTP	National Transmission Planner
PCF	Participant Compensation Fund

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