



SHORT TERM TRADING MARKET 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 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 Short Term Trading Market (STTM) budget provides a view of the 2016-17 STTM gas revenue and expenses, and estimates for the following four-year period.

1.2 Key messages

In budgeting for 2016-17, AEMO has applied strong commercial discipline to control costs, where possible, to reduce the impact of fee increases to market participants. As a result, fees to participants are lower.


The key messages are:

1. Consumption is forecast to decline over five years.
2. Lower fees will continue for 2016-17 and the following two years.

	Actual 2015-16	Budget 2016-17	Estimate 2017-18	Estimate 2018-19	Estimate 2019-20	Estimate 2020-21
Activity fee (\$/GJ withdrawn)	0.08193	0.07939	0.07708	0.07514	0.07964	0.08434
% change	+0.1%	-3%	-3%	-3%	+6%	+6%

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
STTM - Activity Fee	0.07939	0.08193	 -3%	0.0807	\$/GJ withdrawn



1.4 Contacts

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

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SHORT TERM TRADING MARKET

2.1 Energy consumption

Consumption in the Short Term Trading Market (STTM) is expected to decline over five years. This is mainly driven by the Brisbane hub, following planned closures of large industrial companies as well as lower backhaul and gas powered generation (GPG). The slight growth in the Sydney hub is offset by a slight decline in the Adelaide hub.

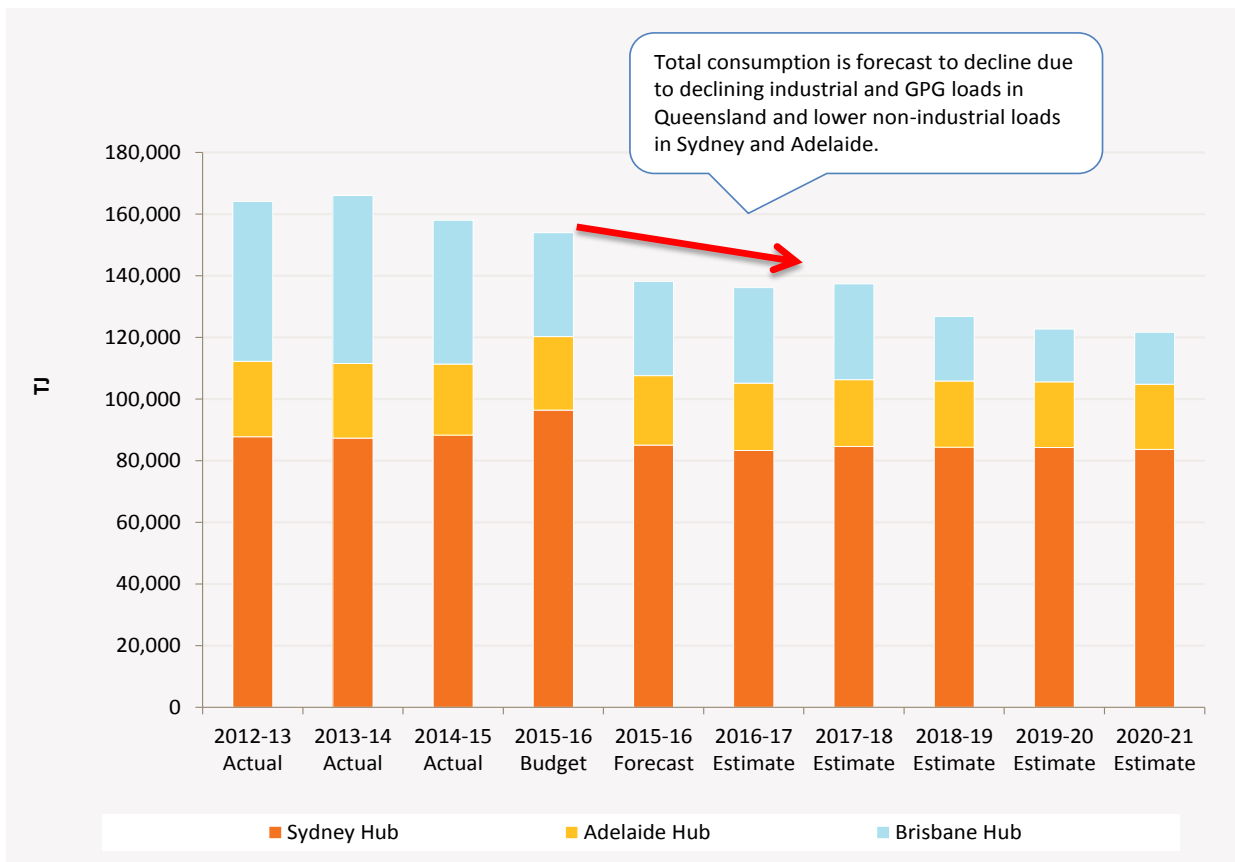
Table 2 STTM consumption

TJs	Budget 2015-16	Forecast ¹ 2015-16	Budget 2016-17	Estimate 2017-18	Estimate 2018-19	Estimate 2019-20	Estimate 2020-21
Adelaide	23,913	22,618	21,835	21,752	21,464	21,313	21,182
Brisbane	33,690	30,526	31,062	31,027	20,988	17,175	16,883
Sydney	96,392	85,021	83,304	84,581	84,383	84,240	83,643
TOTAL	153,994	138,166	136,201	137,360	126,835	122,728	121,707
			-11.6%	+0.9%	-7.7%	-3.2%	-0.8%

¹ Forecast annual 2015-16 consumption as at April 2016

Figure 1 shows forecast declining consumption.

Figure 1 Annual STTM consumption





2.2 Fees

The STTM activity fee is budgeted to decrease 3% from \$0.08193/GJ to \$0.07939/GJ in 2016-17. The 2016-17 fee is lower than the fee of \$0.08067/GJ estimated as part of the 2015-16 budget process.

The decrease in fee is associated with the decrease in costs for this function. The STTM costs are decreased by \$1.7M (15%) in 2016-17, mainly due to fewer resources being allocated to this function, lower interest as the STTM loan will be fully repaid, and lower depreciation.

The recovery of pipeline operator's Market Operator Services (MOS) costs also impact the STTM activity fee. AEMO is required to recover pipeline operator's MOS costs from STTM participants and pass these funds onto the pipeline operators. The 2016-17 fee increase is due to higher MOS cost estimates.

There is no requirement to collect PCF funds for the Sydney, Brisbane and Adelaide hubs as the current level of funds being held for these hubs meets Rules requirements.

Table 3 STTM Projected Fees

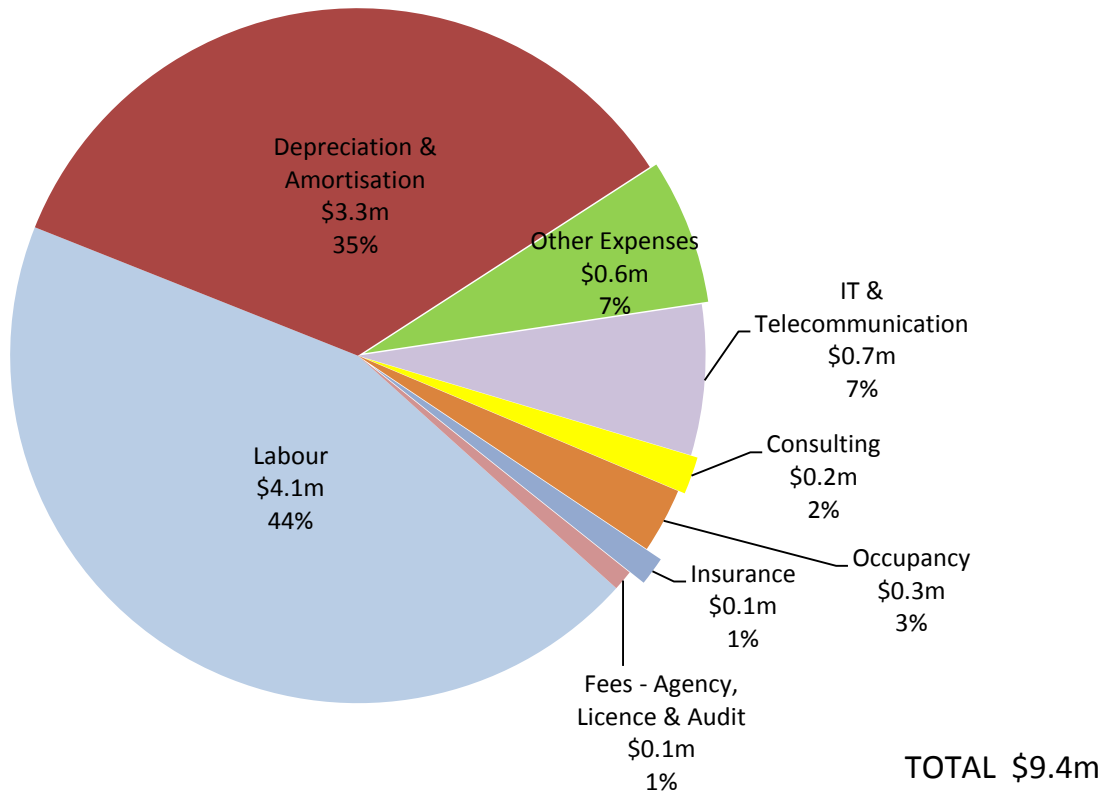
Fee	Actual 2015-16	Budget 2016-17	Estimate 2017-18	Estimate 2018-19	Estimate 2019-20	Estimate 2020-21
Operating Component	0.07995 -2%	0.07675 -4%	0.07445 -3%	0.07222 -3%	0.07655 +6%	0.08114 +6%
MOS Component	0.00198 345%	0.00264 +33%	0.00263 -0%	0.00292 +11%	0.00309 +6%	0.00320 +4%
Activity Fee	0.08193	0.07939	0.07708	0.07514	0.07964	0.08434
(\$/GJ withdrawn)	-0%	-3%	-3%	-3%	+6%	+6%
PCF Fee - Syd (\$/GJ withdrawn per hub per ABN)	0	0	TBC	TBC	TBC	TBC
PCF Fee - Adel (\$/GJ withdrawn per hub per ABN)	0	0	TBC	TBC	TBC	TBC
PCF Fee - Bris (\$/GJ withdrawn per hub per ABN)	0	0	TBC	TBC	TBC	TBC



2.3 Revenue and Expenditure

The expenditure is detailed below in Figure 2 by expenditure category

Figure 2 Expenditure by category 2016-17



**Table 4 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	12,312	11,029	10,453	(1,858)	-15%
Other Revenue	133	160	94	(38)	-29%
Total Revenue	12,445	11,189	10,548	(1,897)	-15%
Labour	4,982	4,872	4,144	(839)	-17%
Contractors	16	80	27	11	+71%
Consulting	274	189	163	(112)	-41%
Fees - Agency, Licence & Audit	99	99	88	(11)	-11%
IT & Telecommunication	838	742	654	(184)	-22%
Occupancy	329	328	283	(47)	-14%
Insurance	152	150	124	(28)	-18%
Other Expenses	905	883	632	(273)	-30%
Depreciation & Amortisation	3,435	3,434	3,254	(181)	-5%
Total Expenditure	11,031	10,776	9,368	(1,662)	-15%
Surplus/(Deficit)	1,414	414	1,179	(234)	
Transfer to PCF	(52)	(52)	(46)	5	
Brought Forward Surplus/(Deficit)	(1,735)	(2,216)	(1,853)	(119)	
Accumulated Surplus/(Deficit)	(372)	(1,853)	(720)		

Key Points:

- Revenue for 2016-17 is estimated to be \$1.9M (17%) lower than the 2015-16 budget.
- Expenditure for 2016-17 is estimated to be \$1.7M (15%) lower than 2015-16 budget. This is mainly due to:
 - **Labour costs (-\$0.8M)**
Labour costs are budgeted to decrease in 2016-17 due to fewer resources being allocated to this function.
 - **Consulting costs (-\$0.1M)**
Consulting costs are budgeted to decrease in 2016-17 mainly due to the training courses developed in 2015-16 and lower corporate consulting costs.
 - **IT and Telecommunication (-\$0.2M)**
IT Telecommunication costs are budgeted to decrease in 2016-17 due to a reduction in software purchases and lower telecommunication costs through renegotiations of Optus and Telstra agreements.



- **Other expenses (-\$0.3M)**

Other expenses costs are budgeted to decrease in 2016-17 mainly due to lower interest paid on the STTM loan as the principal outstanding reduces. The STTM loan is fully repaid in 2016-17.

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

Depreciation costs are budgeted to decrease in 2016-17 due to a decline in the STTM and other corporate systems.



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. Each STTM hub has to have a separate PCF and the National Gas Rules (NGR) also details specific funding requirements for each hub's PCF.

Sydney Hub

The Sydney hub's PCF funding requirement each financial year is the lesser of:

- (1) \$335,000; and
- (2) \$670,000 minus the amount which AEMO reasonably estimates will be the balance of PCF at the end of the relevant financial year.

The estimated balance of the PCF at 30 June 2016 is \$0.8M.

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

Adelaide Hub

The Adelaide hub's PCF funding requirement each financial year is the lesser of:

- (1) \$115,000; and
- (2) \$330,000 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 PCF at 30 June 2016 is \$0.4M.

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

Brisbane Hub

The Brisbane hub's PCF funding requirement each financial year is the lesser of:

- (1) \$225,000; and
- (2) \$450,000 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 PCF at 30 June 2016 is \$0.5M.

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



MARKET OPERATOR SERVICES COSTS

3.1 Fees

In line with the NGR, AEMO is required to recover the pipeline operator's market operator services (MOS) costs from STTM participants and pass these funds on to pipeline operators.

MOS costs are a straight pass-through to pipeline operators and therefore AEMO intends to recover these costs in the same financial year that payment is required to be made to pipeline operators.

Total MOS costs to be recovered in 2016–17 is expected to be about \$0.4M, a slight increase in line with the Consumer Price Index (CPI).

MOS costs have been included in the STTM activity fee.

In accordance with the NGR, pipeline operators must not issue AEMO with a tax invoice for MOS allocation costs for the 2015-16 financial year until after 1 July 2016. Once these invoices are received, AEMO will publish them and seek comment on whether there is any objection to payment of the invoices.

Table 5 Estimated recovery of MOS costs

MOS	Forecast 2015–16 (\$'M)	Budget 2016–17 (\$'M)	Estimate 2017–18 (\$'M)	Estimate 2018–19 (\$'M)
Sydney hubs	0.1	0.1	0.1	0.1
Adelaide hubs	0.1	0.2	0.2	0.2
Brisbane hub	0.1	0.1	0.1	0.1
Total MOS costs	0.3	0.4	0.4	0.4



LIST OF SYMBOLS AND ABBREVIATIONS

Term	Definition
AEMO	Australian Energy Market Operator
CPI	Consumer Price Index
GJ	gigajoule
GPG	Gas Powered Generation
MOS	Market Operator Services
NA	not applicable
NGR	National Gas Rules
PCF	Participant Compensation Fund
STTM	Short Term Trading Market
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.