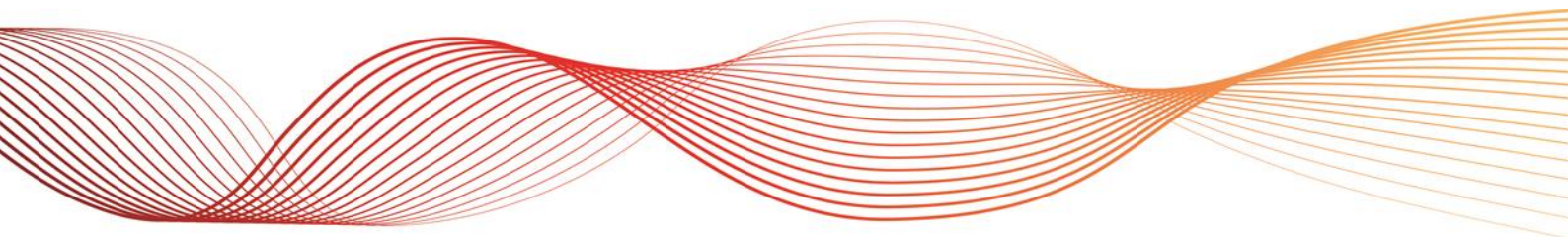




SHORT TERM TRADING MARKET FINAL BUDGET AND FEES: 2017-18

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Note – All amounts quoted in this document are exclusive of GST.



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 Short Term Trading Market (STTM) budget provides a view of the 2017-18 STTM gas fees, revenue and expenses, and fee estimates for the following four-year period.

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.

2. SHORT TERM TRADING MARKET

2.1 FEES

The STTM activity fee is budgeted to decrease 13% from \$0.07939/GJ to \$0.06884/GJ in 2017-18. The 2017-18 fee is lower than the fee of \$0.07708/GJ estimated as part of the 2016-17 budget process.

Costs for this function have decreased by \$2.5M (27%), mainly due to lower depreciation as the costs of establishing the market will be fully recovered by August 2017.

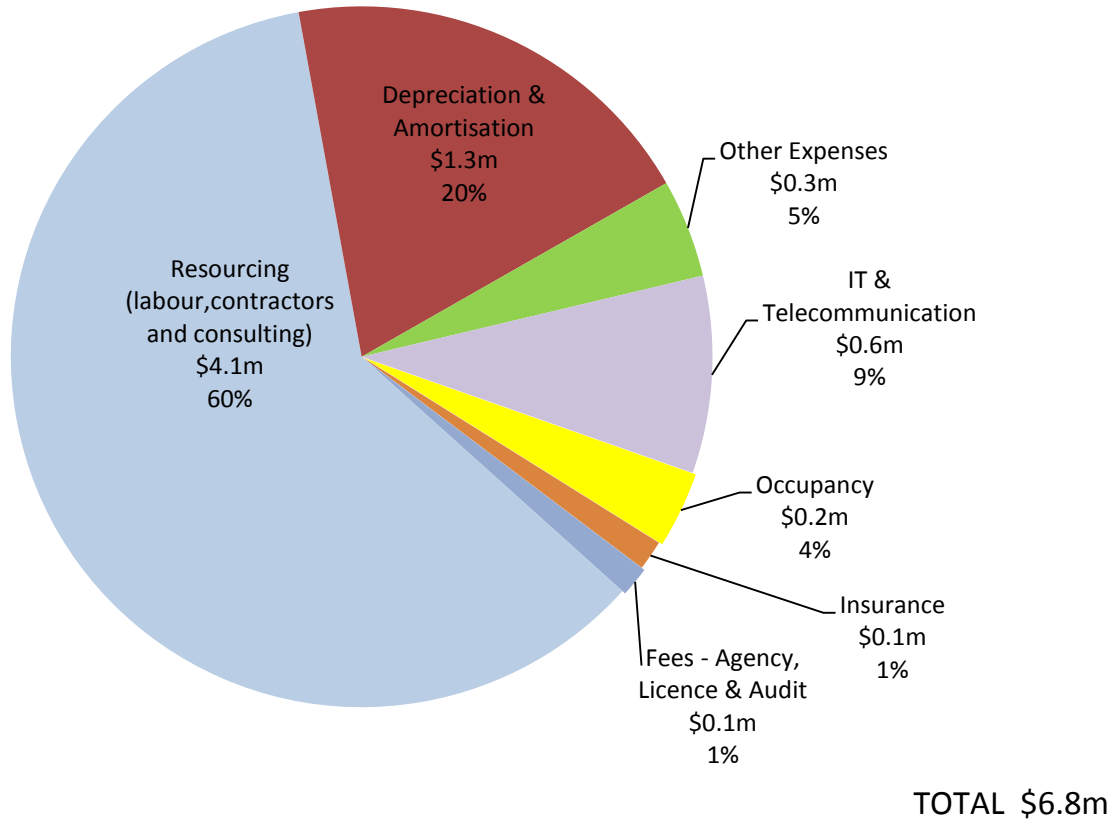
Table 1 STTM Projected Fees

Fee	Actual 2016-17	Budget 2017-18	Estimate 2018-19	Estimate 2019-20	Estimate 2020-21	Estimate 2021-22
Activity Fee	0.07939	0.06884	0.06090	0.05350	0.05358	0.05365
(\$/GJ withdrawn)	-3%	-13%	-12%	-12%	+0%	+0%

2.2 Revenue and Expenditure

The expenditure is detailed below in Figure 1 by expenditure category

Figure 1 Expenditure by category 2017-18



**Table 2 Profit and Loss statement 2017-18 and comparison**

	Budget 2016-17	Budget 2017-18	Variance	
	\$'000	\$'000	\$'000	%
Fees and tariffs	10,453	9,415	(1,039)	-10%
Other Revenue	94	90	(5)	-5%
Total Revenue	10,548	9,504	(1,043)	-10%
Resourcing (labour, contractors and consulting)	4,173	4,083	(89)	-2%
Fees - Agency, Licence & Audit	88	93	5	+6%
IT & Telecommunication	655	615	(40)	-6%
Occupancy	284	238	(45)	-16%
Insurance	124	93	(31)	-25%
Other Expenses	633	306	(327)	-52%
Depreciation & Amortisation	3,255	1,326	(1,929)	-59%
Total Expenditure	9,211	6,754	(2,457)	-27%
Surplus/(Deficit)	1,337	2,750	1,414	
Transfer to PCF	(46)	(42)	5	
Brought Forward Surplus/(Deficit)	(1,853)	(152)	1,702	
Accumulated Surplus/(Deficit)	(563)	2,557		

Key Points:

- Revenue for 2017-18 is estimated to be \$1.0M (10%) lower than the 2016-17 budget.
- Expenditure for 2017-18 is estimated to be \$2.5M (27%) lower than 2016-17 budget.
 - A number of costs have been reduced as efficiencies have been identified.
 - Depreciation costs have reduced significantly as the costs of establishing the market will be fully recovered by August 2017.



2.3 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 2017 is \$0.8M.

The funding requirement for 2017-18 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 2017 is \$0.4M.

The funding requirement for 2017-18 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 2017 is \$0.5M.

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



3. MARKET OPERATOR SERVICES (MOS) COSTS

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 2017–18 are estimated to be \$0.3M.

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 2016-17 financial year until after 1 July 2017. Once these invoices are received, AEMO will publish them and seek comment on whether there is any objection to payment of the invoices.

Table 3 Estimated recovery of MOS costs

MOS	Forecast 2016–17 (\$'M)	Budget 2017–18 (\$'M)	Estimate 2018–19 (\$'M)	Estimate 2019–20 (\$'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	0.3	0.4	0.4



4. STTM ENERGY CONSUMPTION

Consumption in the STTM is expected to decline over the next two years and remain flat through 2020-21 and 2021-22.

This is mainly driven by the Brisbane hub, following planned closures of large industrial companies and lower gas powered generation (GPG).

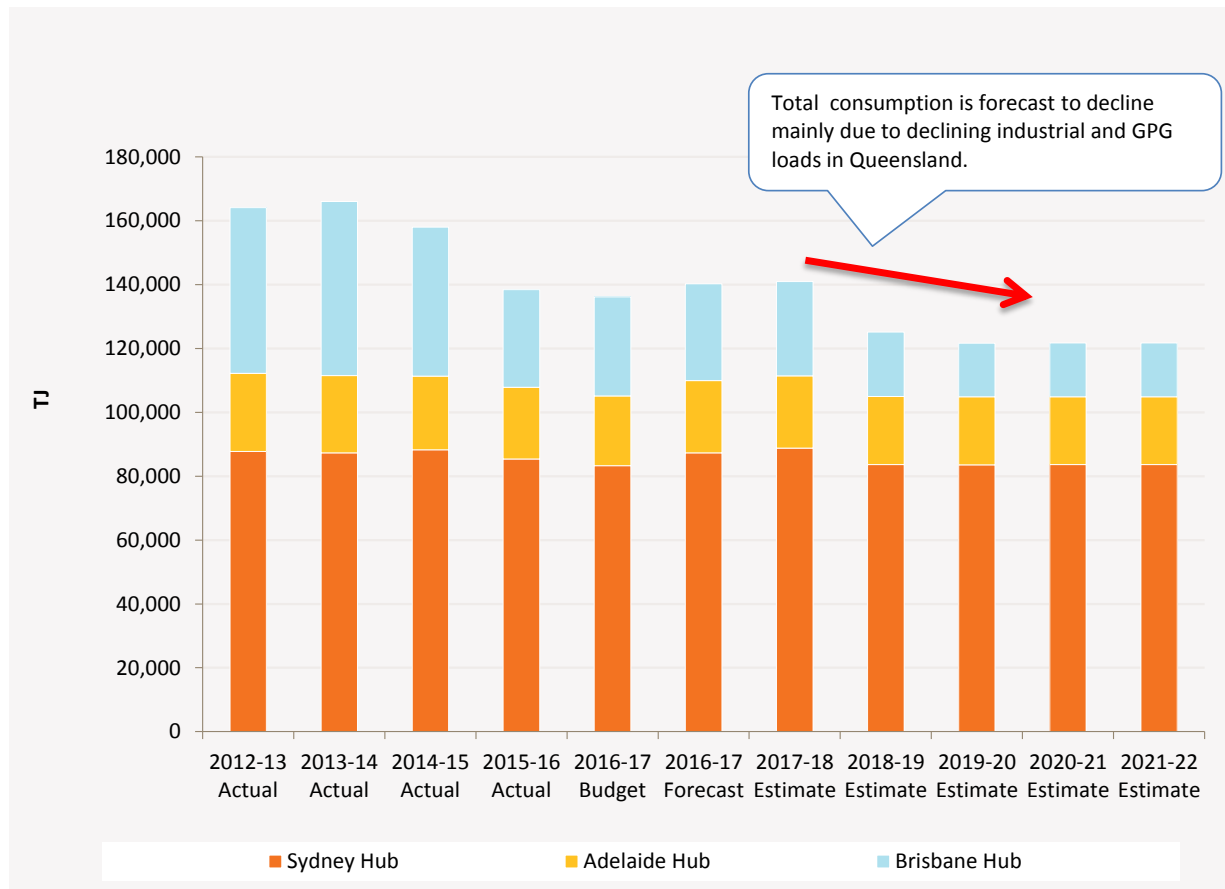
Table 4 STTM consumption

TJs	Budget 2016-17	Forecast ¹ 2016-17	Budget 2017-18	Estimate 2018-19	Estimate 2019-20	Estimate 2020-21	Estimate 2021-22
Adelaide	21,835	22,683	22,576	21,317	21,294	21,291	21,291
Brisbane	31,062	30,287	29,584	20,212	16,810	16,808	16,808
Sydney	83,304	87,313	88,842	83,659	83,588	83,635	83,635
TOTAL	136,201	140,283	141,002	125,188	121,692	121,734	121,734
			3.5%	-11.2%	-2.8%	+0.0%	+0.0%

1 Forecast annual 2016-17 consumption as at March 2017

Figure 1 shows forecast declining consumption.

Figure 2 Annual STTM consumption





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