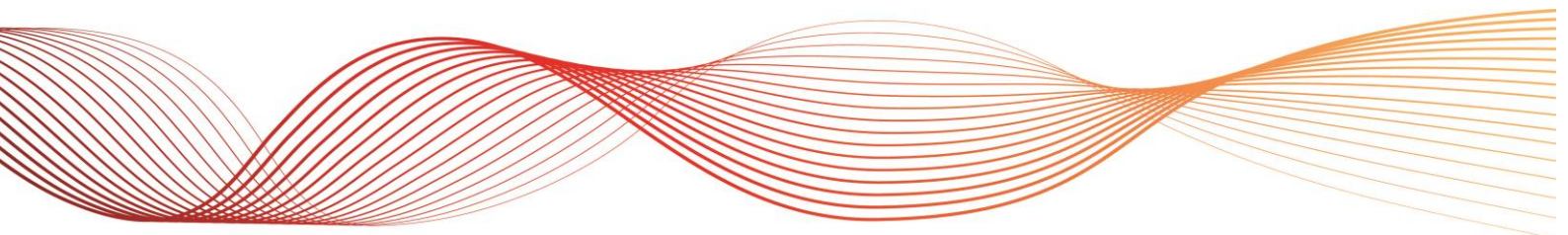


STTM GAS FINAL BUDGET AND FEES: 2014-2015

PUBLISHED MAY 2014





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CONTENTS

EXECUTIVE SUMMARY	3
1.1 Introduction	3
1.2 2014-15 fees	3
1.3 Expenditure	3
1.4 Contacts	4
1.5 Declining energy consumption is impacting fees	5
1.5.1 Short Term Trading Market	5
CHAPTER 1 - STTM	6
1.1 Fees	6
1.2 Revenue and Expenditure	7
1.3 PCF fees	9
CHAPTER 2 - MOS COSTS	10
2.1 Fees	10
LIST OF SYMBOLS AND ABBREVIATIONS	11
TABLES	
Table 1 Key points	3
Table 2 Key fees	3
Table 3 2014-15 budgeted expenditure compared to 2013-14	3
Table 4 STTM consumption	5
Table 5 Short Term Trading Market Projected Fees	6
Table 6 Profit and Loss statement 2014-15 and comparison	8
Table 7 Estimated recovery of MOS costs	10
FIGURES	
Figure 1 Annual STTM Gas consumption	5
Figure 2 Expenditure by category 2014-15	7



EXECUTIVE SUMMARY

1.1 Introduction

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




Declining STTM consumption forecasted impacts fees in 2014-15 and beyond.

AEMO is aware of the pressure on businesses in the energy industry as a result of the falling energy demand. AEMO has continued to apply commercial discipline to controlling its total operating expenses in order to reduce the impact of AEMO fee increases to market participants where possible.

There has been a change to the STTM fees from the final 2013-14 budget and fees.

Fee levels for the 2014-15 year is higher compared to prior year published 2014-15 estimates.

Table 1 Key points

<ul style="list-style-type: none"> <u>Energy consumption decline</u> 		Fees are impacted by the declining consumption of 6% in 2014-15 and by 7.5% in 2015-16.
<ul style="list-style-type: none"> <u>Expenditure</u> monitored closely 		2014-15 expenditure is budgeted to increase by 7%.
<ul style="list-style-type: none"> <u>Fee level</u> is 1% higher compared to previous year estimate 		Fee level is higher compared to prior years published estimate.


1.2 2014-15 fees

Table 2 Key fees

Key Fees	Budget 2014-15	Prior year published estimate 2014-15	Change	Current 2013-14	Unit
STTM - Activity Fee	0.08203	0.08091	 1%	0.07218	\$/GJ withdrawn

1.3 Expenditure

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

	Expenditure 2014-15 (\$M)	Expenditure 2013-14 (\$M)	Change
STTM	10,769	10,078	 7%



1.4 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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1.5 Declining energy consumption is impacting fees

1.5.1 Short Term Trading Market

Consumption in the Short Term Trading Market (STTM) hub is expected to decline by 6% in 2014-15 and by 7.5% in 2015-16. This is mainly due to:

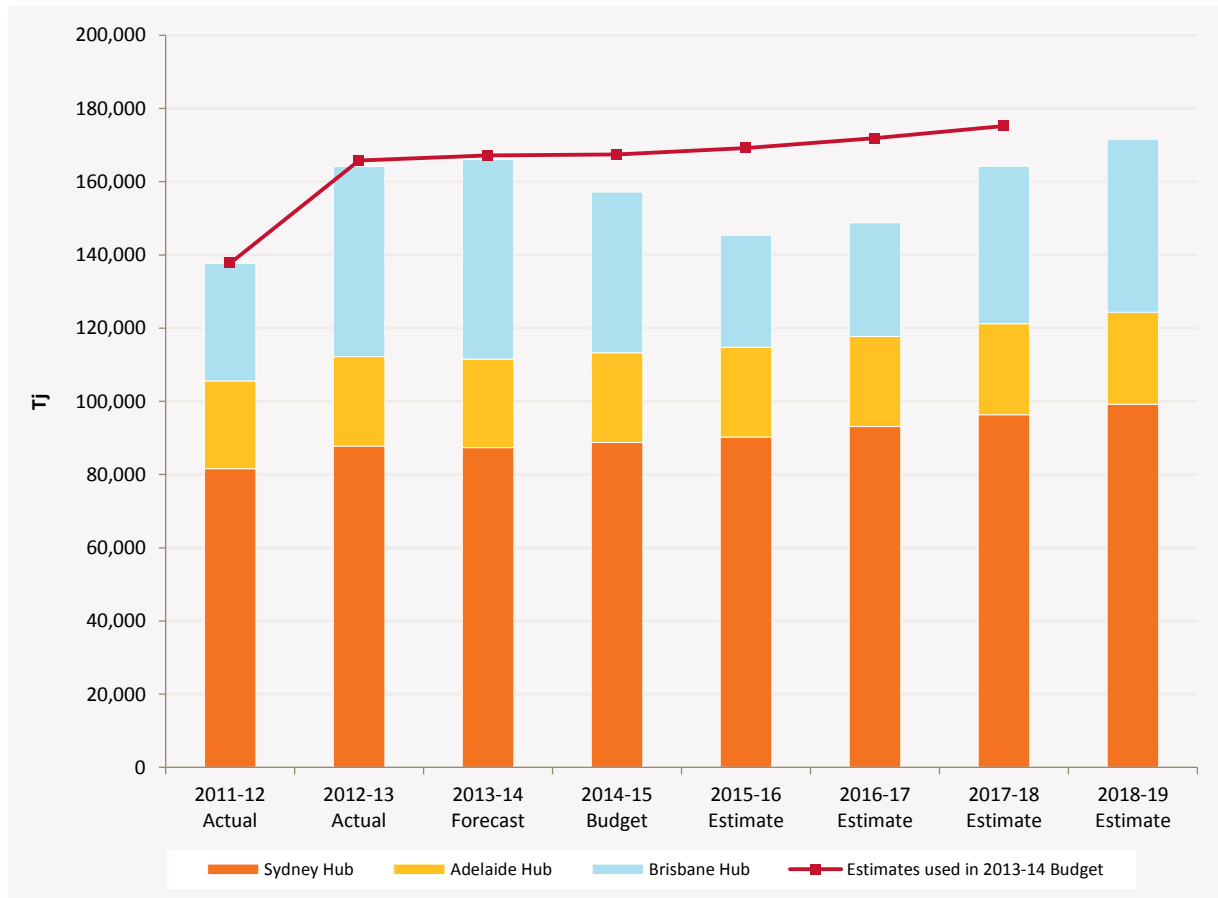
- The expected closure of Stanwell’s Swanbank E plant in October 2014 for three years, which will reduce STTM annual consumption. BP’s recent announcement that it will close the Bulwer refinery in mid-2015 will also impact energy consumption.

Table 4 STTM consumption

TJs	Budget 2013-14	Forecast ¹ 2013-14	Budget 2014-15	Estimate 2015-16	Estimate 2016-17	Estimate 2017-18	Estimate 2018-19
Adelaide	25,345	24,164	24,566	24,496	24,607	24,851	25,123
Brisbane	60,133	54,527	43,880	30,668	31,049	42,977	47,330
Sydney	81,666	87,358	88,723	90,236	93,119	96,368	99,202
TOTAL	167,145	166,049	157,169	145,400	148,774	164,196	171,654
			-6.0%	-7.5%	+2.3%	+10.4%	+4.5%

¹ Forecast annual 2013-14 consumption as at April 2014

Figure 1 Annual STTM Gas consumption





CHAPTER 1 - STTM

1.1 Fees

The STTM activity fee is budgeted to increase by 14% to \$0.08203/per GJ.

In 2010-11, the consumption forecast for the Sydney and Adelaide hubs was significantly overestimated which resulted in a shortfall of revenue. During the 2011-12 budget process, it was agreed with stakeholders and the Board that this shortfall would be recovered by increasing the STTM fee each year from 2011-12 to 2014-15 by approximately 12%.

Fees are expected to increase again in 2015-16 by 10%, mainly due to lower consumption forecasts as a result of the announced closure of Swanbank E (Stanwell) operations in the Brisbane hub for the next three years, and BP's Queensland Bulwer Island refinery in mid-2015.

The recovery of pipeline operators' Market Operator Services (MOS) costs also impacts the STTM activity fee. AEMO is required to recover pipeline operators' MOS costs from STTM participants and pass these funds onto pipeline operators. There is a forecast over-recovery from MOS costs in 2013-14, which reduces MOS costs for 2014-15.

Costs in this function have increased by \$0.7 million (6%), primarily due to labour cost increases under the current EBA, and an increased focus and effort of operational resources.

PCF fees are required to be collected for the Brisbane hub only in 2014-15, following the February 2013 Rule change to increase the fund balance from \$0.1 million to \$0.45 million. There is no requirement to collect PCF funds for the Sydney and Adelaide hubs as the level of funds currently being held for these hubs meets the Rules requirements.

Table 5 Short Term Trading Market Projected Fees

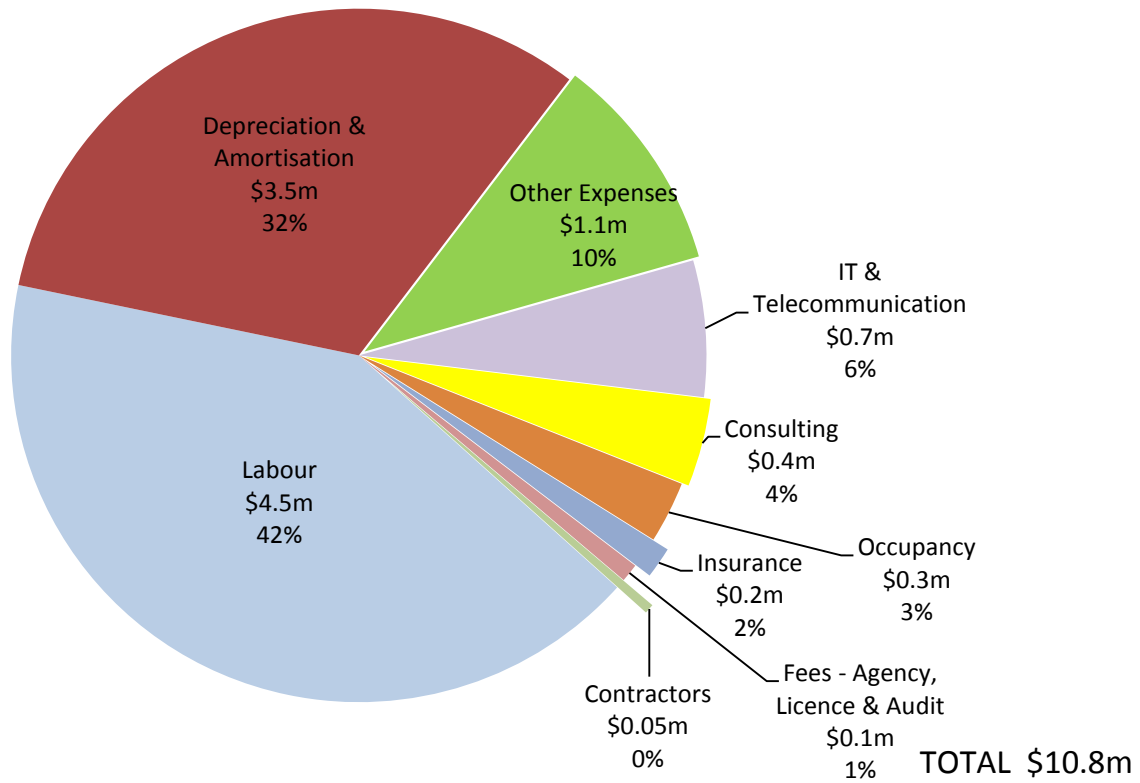
Fee	Actual 2013-14	Budget 2014-15	Estimate 2015-16	Estimate 2016-17	Estimate 2017-18	Estimate 2018-19
Operating Component	0.07033	0.08158 +16%	0.08822 +12%	0.07234 -18%	0.05932 -18%	0.04864 -18%
MOS Component	0.00185	0.00045 -76%	0.00230 +417%	0.00231 +0%	0.00214 -7%	0.00210 -2%
Activity Fee (\$/GJ withdrawn)	0.07218	0.08203 +14%	0.09052 +10%	0.07465 -18%	0.06146 -18%	0.05074 -17%
Fixed Fee (\$/day per hub per ABN)	30	30	30	30	30	30
PCF Fee - Syd (\$/GJ withdrawn per hub per ABN)	0	0	TBC	TBC	TBC	TBC
PCF Fee - Adel (\$/GJ withdrawn per hub per ABN)	0.00268	0	TBC	TBC	TBC	TBC
PCF Fee - Bris (\$/GJ withdrawn per hub per ABN)	0.00374	0.00262 -30%	TBC	TBC	TBC	TBC



1.2 Revenue and Expenditure

The expenditure is detailed below in Figure 2 by expenditure category.

Figure 2 Expenditure by category 2014-15



**Table 6 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	12,292	12,033	13,260	968	+8%
Other Revenue	405	408	221	(184)	-45%
Total Revenue	12,697	12,441	13,481	784	+6%
Labour	4,111	3,616	4,479	368	+9%
Contractors	44	51	48	5	+10%
Consulting	204	189	443	239	+117%
Fees - Agency, Licence & Audit	81	61	92	11	+13%
IT & Telecommunication	575	560	684	108	+19%
Occupancy	265	260	310	45	+17%
Insurance	137	142	157	19	+14%
Other Expenses	1,377	1,408	1,101	(276)	-20%
Depreciation & Amortisation	3,285	3,302	3,456	171	+5%
Total Expenditure	10,078	9,589	10,769	691	+7%
Surplus/(Deficit)	2,619	2,853	2,713	93	
Transfer to PCF	(353)	(353)	(167)	186	
Brought Forward Surplus/(Deficit)	(7,687)	(7,679)	(5,180)	2,507	
Accumulated Surplus/(Deficit)	(5,421)	(5,180)	(2,634)		

Key Points:

Revenue for 2014-15 is budgeted to increase by \$0.8M (6%) from the 2013-14 budget. Note that the revenue requirement excludes \$0.3M of estimated MOS costs that AEMO is required to collect and pass onto pipeline operators.

Total expenditure for 2014-15 is budgeted to increase by \$0.7M (7%) from the 2013-14 budget. The key movements relate to:

- **Labour**

Labour expenses are budgeted to increase by \$0.4M (9%). This is mainly due to provisions for labour increases under the enterprise agreement and increased employee numbers required to operate the STTM function.

- **Depreciation & amortisation**

Depreciation and amortisation costs are budgeted to increase by \$0.2M (5%) mainly due to increased capital project initiatives.



1.3 PCF fees

The National Gas Rules requires AEMO to maintain a separate Participant Compensation Fund (PCF) for the purpose of paying compensation to Market Participants where the dispute resolution panel has upheld a complaint. Each STTM hub to have a separate PCF and the NGR also details specific funding requirements for each hub's PCF.

Sydney Hub

The funding requirement for the PCF for the Sydney hub 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 the PCF at the end of the relevant financial year.

The estimated balance of the PCF at 30 June 2014 is \$0.7M.

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

Adelaide Hub

The funding requirement for the PCF for the Adelaide hub 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 2014 is \$0.4M.

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

Brisbane Hub

The funding requirement for the PCF for the Brisbane hub 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 2014 is \$0.3M.

The funding requirement for 2014-15 is \$0.1M.



CHAPTER 2 - MOS COSTS

2.1 Fees

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

The 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 2014–15 expected to be approximately \$0.3M and remain flat in forward years.

These costs have been incorporated into the STTM fee but have not been classified as operating or capital expenditure for AEMO as they are a direct pass through of costs to the pipeline operators.

In accordance with the NGR, pipeline operators must not issue AEMO with a tax invoice for MOS allocation costs for the 2013-14 financial year until after 1 July 2014. Once these invoices are received AEMO will publish them and seek comment on whether there is any objection to the payment of the invoices.

Table 7 Estimated recovery of MOS costs

MOS	Forecast 2013-14 (\$'M)	Budget 2014-15 (\$'M)	Estimate 2015-16 (\$'M)	Estimate 2016-17 (\$'M)
Sydney hubs	0.1	0.1	0.1	0.1
Adelaide hubs	0.3	0.1	0.2	0.2
Brisbane hub	0.1	0.1	0.1	0.1
Total MOS costs	0.5	0.3	0.3	0.3



LIST OF SYMBOLS AND ABBREVIATIONS

Term	Definition
GJ	gigajoule
MOS	Market Operator Services
NA	not applicable
NGR	National Gas Rules
PCF	Participant Compensation Fund
TBC	to be confirmed

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