



Western Australia Wholesale Electricity Market 2018-19 AEMO Final Budget and Fees

June 2018

Australian Energy Market Operator Limited

Executive Summary

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's annual budget sets out the amounts that will be charged under the Wholesale Electricity Market Rules, 2.22. This report provides a view of the final 2018-19 WA electricity fees, revenue and expenses.

The key points of the 2018-19 final budget are:

- WEM fee is projected to increase by 5% in 2018-19 to recover an under recovery of prior year expenses of the system management function.
- AEMO will continue to manage our costs prudently to reduce the impact of fee increases to market participants, and we will identify further opportunities for efficiencies.

Energy **Security**,
Reliability and
Affordability for all
Australians.

1.1 Summary of Fees

Table 1 Summary of WEM Fees

| Fee | Actual 2017-18 | Budget 2018-19 | Estimate 2019-20 | Estimate 2020-21 | Estimate 2021-22 |
|---|----------------|----------------|------------------|------------------|------------------|
| WEM Market Operator fee (\$/MW·h) | 0.357 | 0.350 -2% | TBC | TBC | TBC |
| WEM System Management fee (\$/MW·h) | 0.434 | 0.484 +11% | TBC | TBC | TBC |
| WEM fee (\$/MW·h) | 0.791 | 0.833 +5% | TBC | TBC | TBC |
| WEM fee (indicative benchmark) ¹ (\$/MW·h) | 1.583 | 1.667 | TBC | TBC | TBC |

¹ The fee listed above is a benchmark fee calculated by dividing the total cost of the WEM functions and ERA revenue requirement by the total forecast consumption. The actual fee charged to both Market Customers and Generators is \$0.350/MWh, 0.484/MWh and 0.137/MWh for the Market Operations, System Management and ERA function respectively.

Table 2 ERA Fee

| Fee | Actual 2017-18 | Budget 2018-19 | Estimate 2019-20 | Estimate 2020-21 | Estimate 2021-22 |
|--|----------------|----------------|------------------|------------------|------------------|
| Economic Regulator Authority (ERA) fee (\$/MW·h) | 0.127 | 0.137 +11% | TBC | TBC | TBC |

1.2 Contact for inquiries

AEMO contact for inquiries

For all queries on budget and fees, please contact:

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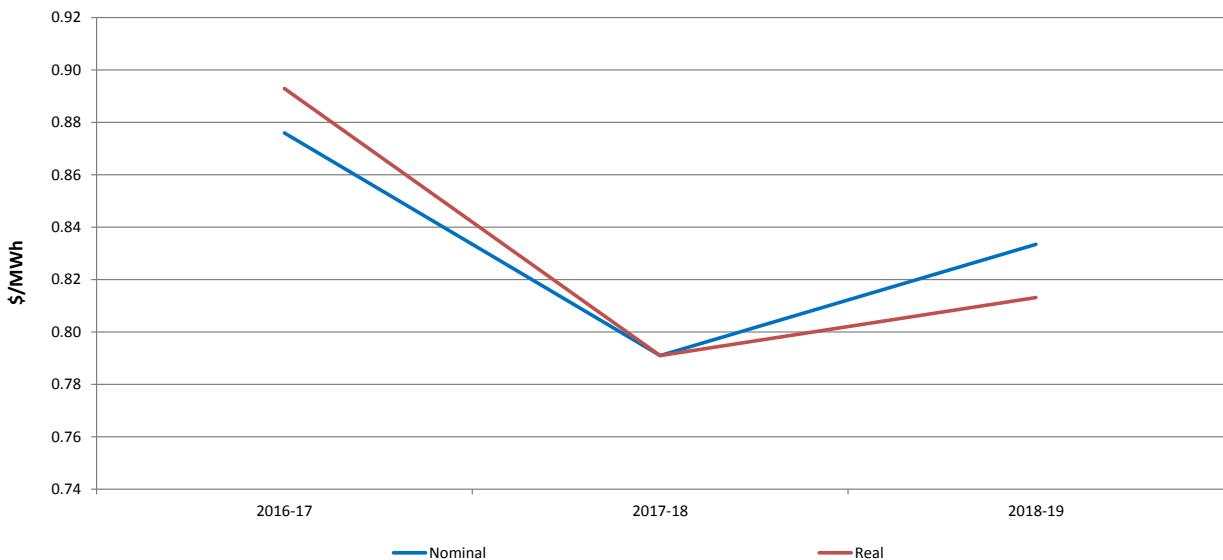
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2. Wholesale Electricity Market (WEM)

2.1 WEM Fees

| | |
|--------------------------|--|
| Purpose of this function | <ul style="list-style-type: none"> • Power system security and reliability • Market operations and systems • Wholesale metering, settlements and prudential supervision • Longer term energy forecasting and planning services <p>(for the South West Interconnected System of Western Australia.)</p> |
| Fees | <p>The current WEM fee is \$0.791/MWh.</p> <p>This fee will increase to \$0.833 (+5%) in 2018-19 mainly due to an under recovery in the current year as a result of lower than expected energy consumption.</p> |
| Other | <p>Under the Market Rules, AEMO is required to seek pre-approval from the WA Economic Regulatory Authority (ERA) for future budgeted spend in the WEM for both operating costs and capital costs. The current three year ERA allowable revenue determination period will expire at 30 June 2019.</p> <p>AEMO will be required to lodge a new submission for the periods from 2019-20 to 2021-22 by 31 March 2019. The WEM fee for 2018-19 and forward three years is expected to increase due to the WA Market Reform program.</p> |

Figure 1 WEM projected fees



Real values are the nominal amounts adjusted for inflation. Prices have been calculated relative to the 2017-18 price.

Table 3 WEM projected fees

| Fee | Actual 2017-18 | Budget 2018-19 | Estimate 2019-20 | Estimate 2020-21 | Estimate 2021-22 |
|---|----------------------|---------------------|------------------|------------------|------------------|
| WEM Market Operator fee (\$/MW·h) | 0.357 -29% | 0.350 -2% | TBC | TBC | TBC |
| WEM System Management fee (\$/MW·h) | 0.434 +17% | 0.484 +11% | TBC | TBC | TBC |
| WEM fee (\$/MW·h) | 0.791 -10% | 0.833 +5% | TBC | TBC | TBC |
| WEM fee (indicative benchmark) ¹ (\$/MW·h) | 1.583 | 1.667 | TBC | TBC | TBC |

¹ The fee listed above is a benchmark fee calculated by dividing the total cost of the WEM functions by the total forecast consumption. The actual fee charged to both Market Customers and Generators is \$0.359/MWh and 0.454/MWh for the Market Operations and System Management functions respectively.

2.2 Energy Consumption

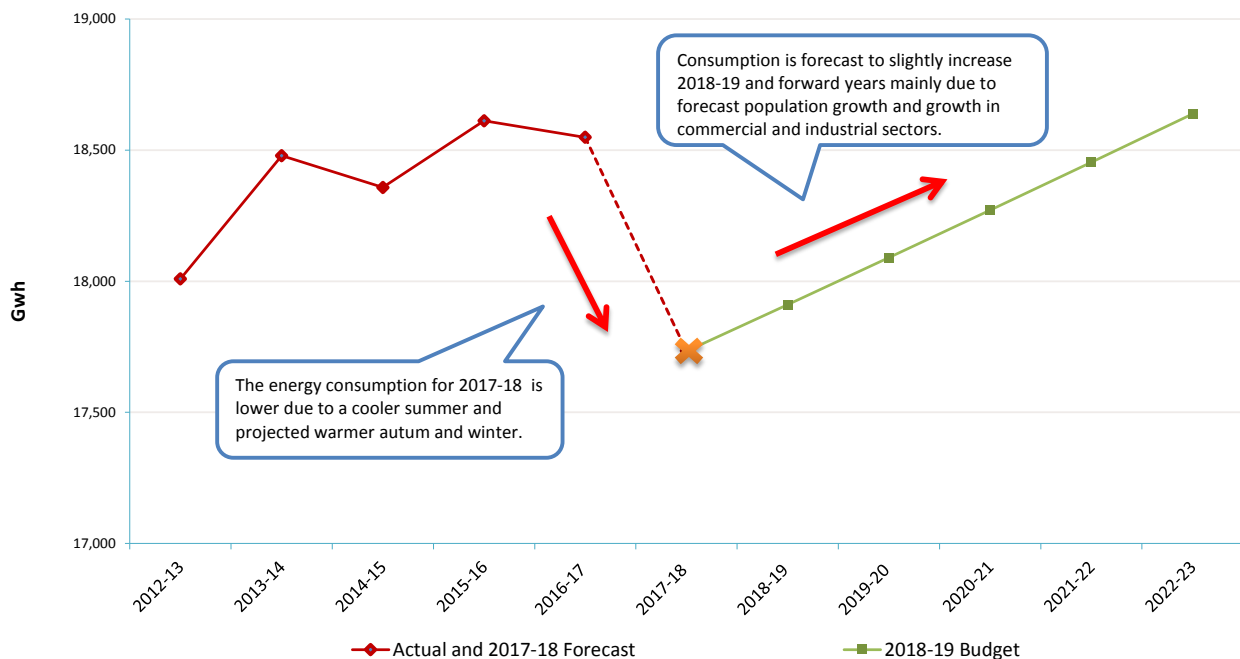
The budgeted consumption for 2018-19 is mainly based on data estimates used in the WA 2017 GSOO and a historical average annual trend to reduce the volatility in fees. Consumption is expected to increase slightly in 2018-19 and forward years mainly due to population, commercial and industrial sectors growth.

Table 4 WEM consumption

| GWh | Budget 2017-18 | Forecast 2017-18 | Budget 2018-19 | Estimate 2019-20 | Estimate 2020-21 | Estimate 2021-22 | Estimate 2022-23 |
|---------------|----------------|------------------|----------------|------------------|------------------|------------------|------------------|
| Load forecast | 18,826 | 17,850 -5.2% | 18,029 -4% | 18,209 +1.0% | 18,391 +1.0% | 18,575 +1.0% | 18,761 +1.0% |

Figure 2 below demonstrates the forecast energy consumption used to calculate the WEM fee.

Figure 2 Annual electricity consumption



2.3 Revenue and Expenditure – WEM Market Operator

The expenditure is detailed below in Figure 3 by expenditure category

Figure 3 Expenditure by category 2018-19

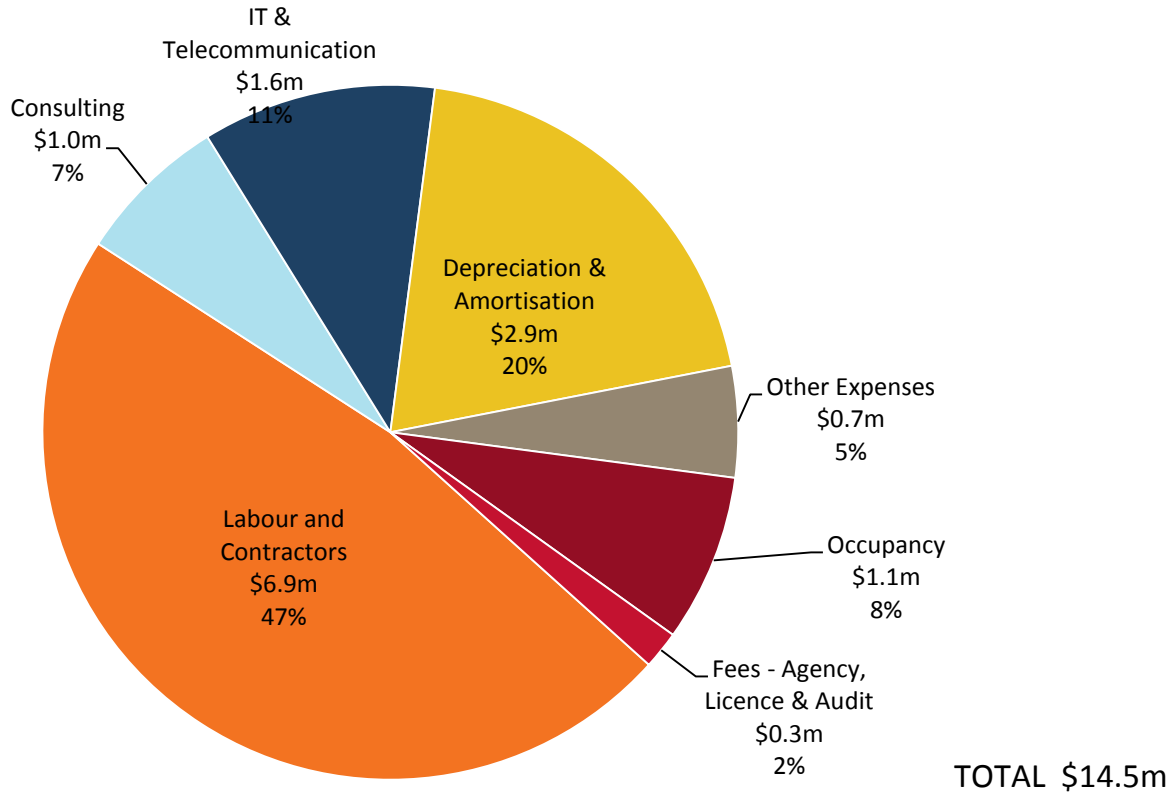


Table 5 Profit and Loss statement 2018-19 and comparison – WEM Market Operator

| | Budget | Budget | Variance | |
|--------------------------------------|-------------------|-------------------|--------------|-------------|
| | 2017-18 \$'000 | 2018-19 \$'000 | \$'000 | % |
| Fees and tariffs | 13,534 | 12,695 | (839) | -6% |
| Other Revenue | 50 | 0 | (50) | -100% |
| Total Revenue | 13,584 | 12,695 | (889) | -7% |
| Labour and Contractors | 4,647 | 6,885 | 2,238 | +48% |
| Consulting | 953 | 1,022 | 69 | +7% |
| Fees - Agency, Licence & Audit | 293 | 255 | (38) | -13% |
| IT & Telecommunication | 1,645 | 1,576 | (68) | -4% |
| Occupancy | 705 | 1,133 | 428 | +61% |
| Other Expenses | 930 | 749 | (181) | -19% |
| Depreciation & Amortisation | 2,887 | 2,883 | (4) | -0% |
| Total Expenditure | 12,060 | 14,504 | 2,443 | +20% |
| Surplus/(Deficit) | 1,524 | (1,809) | (3,333) | |
| Brought Forward Surplus/(Deficit) | 1,239 | 1,442 | 203 | |
| Accumulated Surplus/(Deficit) | 2,762 | (368) | | |

Key points for 2018-19 profit and loss

Expenditure

- Labour and contractor costs are higher in 2018-19 due to increased regulatory changes in industry.

2.4 Revenue and Expenditure – WEM System Management

The expenditure is detailed below in Figure 4 by expenditure category

Figure 4 **Expenditure by category 2018-19**

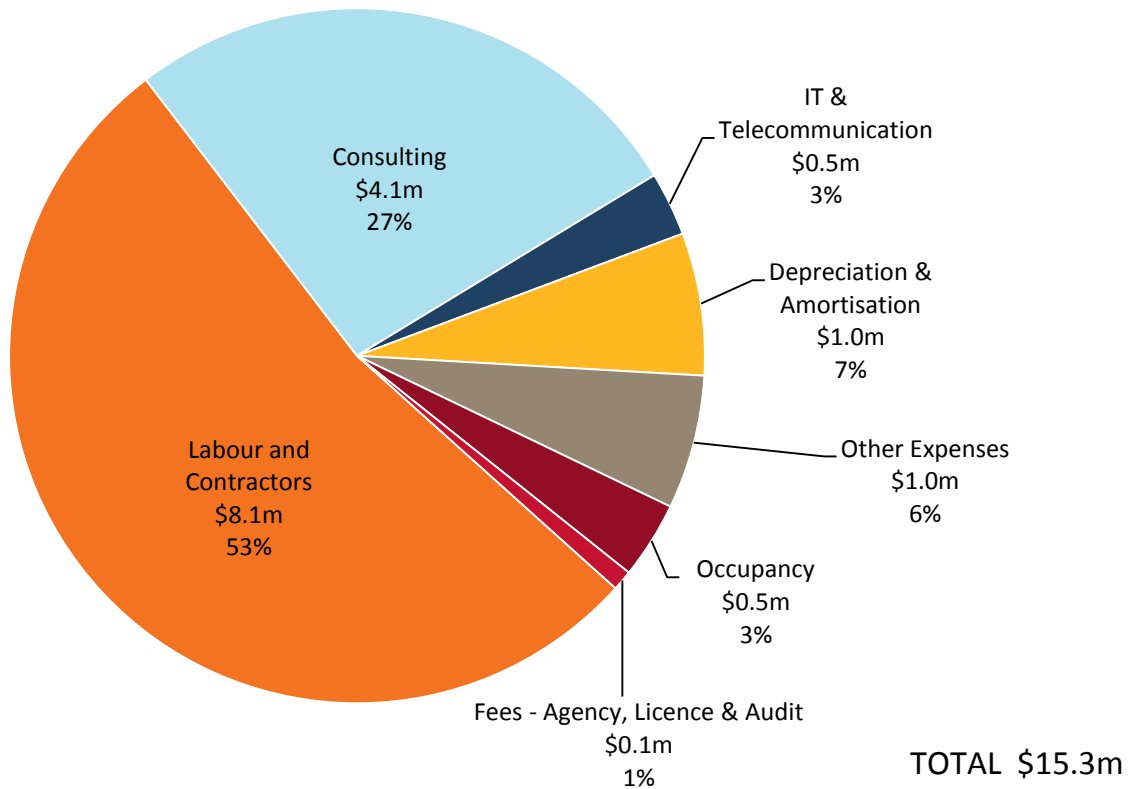


Table 6 Profit and Loss statement 2018-19 and comparison – WEM System Management

| | Budget | Budget | Variance | |
|--|-------------------|-------------------|--------------|------------|
| | 2017-18 \$'000 | 2018-19 \$'000 | \$'000 | % |
| Fees and tariffs | 16,464 | 17,563 | 1,099 | +7% |
| Total Revenue | 16,464 | 17,563 | 1,099 | +7% |
| Labour and Contractors | 8,582 | 8,107 | (475) | -6% |
| Consulting | 4,602 | 4,086 | (515) | -11% |
| Fees - Agency, Licence & Audit | 72 | 144 | 72 | +100% |
| IT & Telecommunication | 738 | 456 | (283) | -38% |
| Occupancy | 293 | 548 | 255 | +87% |
| Other Expenses | 926 | 954 | 29 | +3% |
| Depreciation & Amortisation | 851 | 1,016 | 165 | +19% |
| Total Expenditure | 16,064 | 15,311 | (753) | -5% |
| Surplus/(Deficit) | 400 | 2,252 | 1,852 | |
| Brought Forward Surplus/(Deficit) | (2,023) | (2,810) | (787) | |
| Accumulated Surplus/(Deficit) | (1,623) | (558) | | |

Key points for 2018-19 profit and loss

Revenue

Higher revenue in 2018-19 mainly due to increase in WEM – system management fee. Fee increased to recovery prior year deficit.

Expenditure

- Labour and contractor costs are lower in 2018-19 mainly due increased internal capitalised labour as a result of greater mix of resources dedicated to capital program such as WA system management system transition and WA EMP upgrade.
- Consulting and IT & telecommunication costs are lower the 2018-19 expenditure mainly due to lower costs relating to the services agreement with Western Power as AEMO Systems Management transitions out of the Western Power location.

3. Economic Regulator Authority (ERA)

| | |
|--------------------------|--|
| Purpose of this function | To ensure that WA has a fair, competitive and efficient environment for consumers and businesses. |
| Fees | AEMO is required to recover the funding for the ERA from market customers and generators (i.e. pass through recovery). Total expenditure budgeted by the ERA to be recovered in 2018-19 is \$4.96m (+3% increase) (2017-18: \$4.80m). The WEM ERA fee is \$0.137 per MWh in 2018-19 (11% increase). |
| Other notes | For any questions on the ERA budget in 2018-19, contact Pam Herbener, Director, Corporate Services at pam.herbener@erawa.com.au |

Table 7 ERA Fee

| Fee | Actual 2017-18 | Budget 2018-19 |
|--|-------------------|-------------------|
| Economic Regulator Authority (ERA) fee (\$/MW·h) | 0.127 | 0.137 +11% |

Table 8 ERA revenue requirement

| ERA Revenue Requirement | Actual 2017-18 (\$'000) | Budget 2018-19 (\$'000) |
|--------------------------------------|-------------------------------|-------------------------------|
| ERA - Regulator Fee | 4,200 | 3,948 |
| ERA - Rule Change Panel | 602 | 1,008 |
| Total ERA Revenue Requirement | 4,802 | 4,956 3% |

4. APPENDIX A. FEE SCHEDULES

Fee schedule of new WA WEM registrations

| Application Type | 2018-19 \$ |
|--|---------------|
| Rule Participant Registration Application Fee | 680 |
| Facility Registration Application Fee | 340 |
| Facility Transfer Application Fee | 390 |
| Conditional Certification of Reserved Capacity | 680 |
| Resubmission - Application for Early Certified Reserved Capacity | 6,215 |

List of Abbreviations

| Term | Definition |
|-------------|-----------------------------------|
| AEMO | Australian Energy market Operator |
| ERA | Economic Regulatory Authority |
| GSOO | Gas Statement of opportunity |
| GWh | Gigawatt Hour |
| MW·h | Megawatt hour |
| NA | Not Applicable |
| TBC | To Be Confirmed |
| WA | Western Australia |
| WEM | Wholesale Energy Market |