Financial Consultation Committee FY23 Meeting #2

Please note that the information presented in this document was developed to enable discussion at the Finance Consultation Committee and is a <u>preliminary draft subject to final review.</u>

14 March 2023

We acknowledge the Traditional Owners of country throughout Australia and recognise their continuing connection to land, waters and culture.

We pay respect to their Elders past, present and emerging.

Agenda

1. Welcome
2. Minutes, Actions & Forward Schedule
3. FY23 Financial Update
4. DRAFT Strategic Outcomes, FY24 Corporate Plan & Investment Plan
5. FY24 PRELIMINARY DRAFT Operational Budget
6. Capital Management Roadmap (including interest rate hedging)
7. Wrap up

The financials, outcomes and strategic priorities included in this pack are a preliminary draft, and may be influenced by:

- further review and refinement of revenue and costs due to stakeholder engagement and internal AEMO reviews; and
- final prioritisation of the FY24 Corporate Plan outcomes and deliverables.

Note: the focus is principally on FY24 at this stage with estimates for later years being completed and to be presented at the April FCC meeting.

2. Minutes, Actions & Forward schedule

Minutes

Draft minutes from the November 2022 meeting per attached link -> AEMO | Financial Consultation Committee

Actions

#	Item	Responsibility	Due Date	Status
FY23 1.1	Review and amend the wording of Financial Principles related to risk tolerance and efficient pass through of costs	AEMO	March 23 Meeting	Completed Refer to slide 6
FY23 1.2	Consistent with Financial Principles, share TUoS inputs on a timely basis. Consider an interim meeting if changes from agreed fee pathway	AEMO	February 2023	Completed via email on 16 Feb 23.
FY23 1.3	Provide links to NEM 2025 public consultation available from AEMO's website.	AEMO	March 23 Meeting	Completed Link Below NEM 2025 Public Consultation

AEMO's Financial Principles – updated for November 22 FCC Feedback

In FY22, AEMO, in consultation with the FCC developed the following financial principles to govern its financial management, planning and budgeting process.

These principles include:

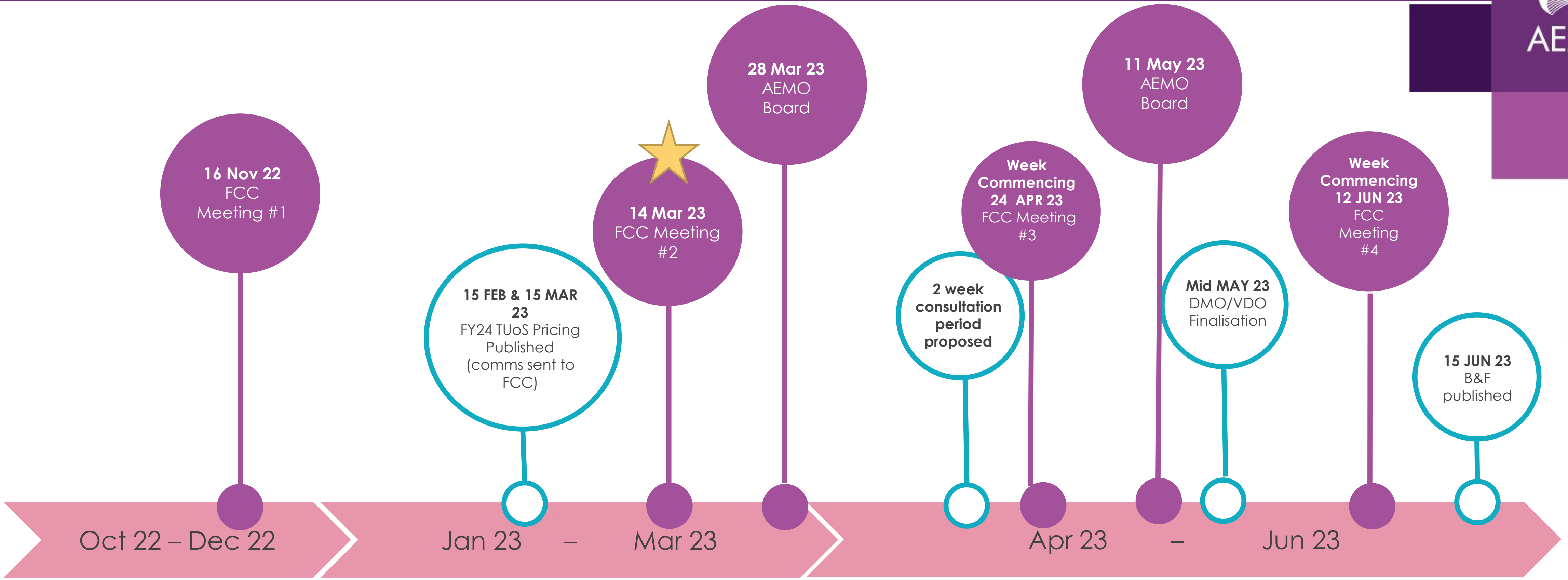
- Demonstrate efficiency & cost-effective delivery
- Full recovery of operating expenditures across entities – not-for-profit & not-for-loss
- Transparent ringfencing of participant and member funds by function
- New investment programs to have accepted funding pathway prior to proceeding
- *Very low appetite or tolerance for financial/funding risk in relation to contracted activities*
- Debt to assets ratio to remain under 100 percent
- Liquidity ratio to remain above 50 percent
- *Timely provision of AEMO cost budgets to market participants to facilitate (where applicable), efficient pass through of costs to consumers (e.g., Default Market Offer and Victorian Default Offer).*

Items in italics, represent changes discussed at last FCC.

Context to forward schedule

- In the 2022-23 financial year, AEMO continued its contribution toward delivery of the energy transition. In addition to our ongoing management of the gas and electricity market, we progressed several major packages of work including elements of the NEM2025 implementation roadmap, the VNI West project and our ongoing suite of network planning advice (ISP, ESOO, GSOO etc.).
- We continued to drive our commitment toward financial transparency, efficiency and driving value for money for our stakeholders, through the implementation of our financial principles, including guidance provided by the BCG review in 2021.
- An update on these activities is provided later in this pack.
- For FY24, we commit to further enhance our stakeholder engagement on our budget and fees. We will consult earlier with stakeholders and will seek to release draft information for consultation by mid-April 2023. Input from stakeholders during the consultation will be discussed with FCC and considered in the final Budget and Fees document to be released in June 2023.
- We also intend to work with the FCC on how we can undertake a reasonable forecast of our revenue requirements on a longer-term basis. We recognise that this forecast information will assist our stakeholders with their forward financial plans.
- Finally, we recognise our fees ultimately impact consumers. In response to feedback we received as part of our budget and fees consultation last year, we will be seeking to involve consumers more in the budget and fees process and seek representation of consumer advocates on the FCC.

FY23 FCC Timeline



Meeting	#1 - Nov 2022	#2 - Mar 2023	#3 - Apr 2023	#4 - Jun 2023
Focus areas	• FY22 Results Update • FY23 Budget Recap • FY23 Forecast Update (3+9) • Meeting Schedule and Focus Areas • FCC Terms of Reference	• Draft Strategy & Corporate Plan Priority Areas • FY23 Results & Forecast (7+5) • Preliminary draft Investment Plan • Preliminary draft FY24 Budget • NEM Deficit Recovery Update	• Draft FY24 Budget & forward plan • Draft Tariff and Fees • Initial public consultation feedback	• Public consultation lessons learnt • FCC Engagement Program reflections

3. FY23 Financial update

It was agreed in FY23 that AEMO needed to stop the trend of accumulating more deficits & start repaying the accumulated deficit over a 3 year timetable. As a result, we increased our revenue requirement to achieve these outcomes, but also to perform significant reform & change activities as well as to address material under-resourcing of central functions.

More being asked of AEMO - FY23 Context

FY23 required an uplift to AEMO's labour requirements to manage: an increasingly complex system/ market environment; enhanced cyber capabilities (including new industry roles for AEMO) as well as deliver on key initiatives such as Distributed Energy Resources (DER), NEM2025, Integrated System Planning (ISP's), Connection Reform Initiative (CRI), Connections tool and markets/system development projects across Renewable Energy Zones (REZ) and Victoria New South Wales Interconnector (VNI)-West.

Results to Date

AEMO is continuing to deliver on key initiatives with CRI initiatives tracking in line to project plans, the Connections Simulation Tool was launched in mid-November 2022, commenced preparatory activities for VNI West, progressing on various REZ related projects, continued investment into the supercharged ISP's, ePO enhancing project prioritisation and management, Gas Reforms tranche 1 activities for winter 2023 and establishment of Future State Architecture (FSA) to reduce costs, complexity and deliver value.

Investment in central functions and people - FY23 Context

AEMO requested Boston Consulting Group to benchmark our costs against other system operators. The results, shared with the FCC, noted that AEMO's costs were low compared to peers (excluding digital costs). Some central functions were noted as being materially under resourced. The FY23 budget included a step-up in funding for central functions.

Results To Date

We are executing the uplift process, with key progress to date including:

- Finance, commercial, process improvement & investment portfolio management -> Re-organisation of finance teams to provide commercial & business improvement support to deliver operating efficiencies (including supporting digital on a cost reduction journey)
- Treasury & Interest rate management -> Establishment of Treasury function to develop an interest rate hedging approach and drive lower cost of financing though the development of a capital management program.

Despite strong progress to date, there are still roles to be filled. While there is a saving vs. budget, we are closing the remaining positions, which will put AEMO in a strong position to deliver on our capability and capacity uplift commitments.

NEM Core accumulated deficit is being repaid as per the agreed fee pathway.

Trading better than budget in FY23 and expect to repay more of the NEM Core deficit than planned. Exogenous factors such as higher settlement residues and gas capacity auctions uplifting VIC TNSP / ECG segment revenues respectively.

	YTD Jan 23 Act	YTD Jan 23 Bud	Var	Full Yr. FY23 F'Cast	Full Yr. FY23 Budget	Var
NEM Core						
Net Revenue	134.1	131.1	3.0	225.9	222.4	3.5
Expenditure	(96.8)	(109.1)	12.2	(187.0)	(188.5)	1.5
Annual Surplus/(Deficit)	**37.3**	**22.0**	**15.3**	**38.9**	**33.9**	**5.0**
NEM Other						
Net Revenue	50.2	53.2	(3.0)	85.5	92.1	(6.6)
Expenditure	(42.7)	(53.9)	11.2	(83.8)	(93.9)	10.1
Annual Surplus/(Deficit)	**7.4**	**(0.7)**	**8.1**	**1.6**	**(1.9)**	**3.5**
East Coast Gas						
Net Revenue	56.7	28.5	28.2	84.2	47.6	36.6
Expenditure	(27.9)	(30.3)	2.4	(50.0)	(52.7)	2.7
Annual Surplus/(Deficit)	**28.8**	**(1.8)**	**30.6**	**34.2**	**(5.1)**	**39.3**
Western Australia						
Net Revenue	25.6	26.5	(0.9)	43.3	44.9	(1.6)
Expenditure	(23.5)	(27.0)	3.6	(43.6)	(46.2)	2.6
Annual Surplus/(Deficit)	**2.1**	**(0.5)**	**2.6**	**(0.3)**	**(1.3)**	**1.0**
Total AEMO excl Vic TNSP						
Net Revenue	269.8	240.7	29.1	444.2	409.4	34.8
Expenditure	(193.4)	(221.3)	27.9	(368.5)	(382.9)	14.4
Annual Surplus/(Deficit)	**76.4**	**19.4**	**57.0**	**75.7**	**26.5**	**49.2**
Vic TNSP						
Net Revenue	63.4	33.1	30.2	56.4	47.4	9.1
Expenditure	(22.0)	(28.1)	6.1	(49.9)	(50.6)	0.7
Annual Surplus/(Deficit)	**41.4**	**5.0**	**36.4**	**6.5**	**(3.2)**	**9.7**
Total AEMO						
Net Revenue	333.2	273.8	59.4	500.6	456.8	43.8
Expenditure	(215.4)	(249.4)	34.0	(418.4)	(433.5)	15.1
Annual Surplus/(Deficit)	**117.7**	**24.4**	**93.4**	**82.2**	**23.3**	**58.9**

NEM Core (includes NEM connections)

YTD surplus is driven by lower expenditure, specifically labour costs (higher vacancy rate due to recruitment challenges), lower Tech costs and depreciation & amortisation. YTD favourability partially reduced as recruitment picks up to deliver core project work and depreciation expenses catch up. Higher interest costs on floating rate debt are impacting more in the second half.

NEM Other

Consisting of NEM 2025, National Transmission Planner, FRC, 5MS etc.

Full year Revenue is lower primarily as a result of Connection Reform related revenue estimates.

Expenses - YTD and Full Yr. favorability is primarily driven by 5MS lower operating costs +$9m (Cloud $5m, D&A $3m and Labour $1m).

East Coast Gas

Revenue higher due to YTD capacity auctions. Other tariff revenue is in line with Budget. Unexpected surplus to be returned in future periods.

Western Australia

Minor YTD surplus driven by lower labour costs and timing of consulting spend.

VIC TNSP

Net revenue favourable due to settlement residue partially offset by AusNet network charges for easement tax.

The numbers presented above are prior to the consolidation of AEMO Services Limited (ASL). The Corporate segment has been omitted as it is immaterial and does not impact this analysis. The accumulated Surplus/(Deficit) relates to NEM Core, NEM Other, ECG, WA and VIC TNSP.

FY23 YTD surplus is $93M higher than budget, full year forecast is for this higher surplus to be mostly retained

	YTD Jan 23 Act	YTD Jan 23 Bud	Var	Full Yr. FY23 F'Cast	Full Yr. FY23 Budget	Var
Fees & Tariffs	220.0	223.5	(3.5)	373.4	378.5	(5.0)
TUOS	360.9	361.3	(0.3)	623.1	623.9	(0.9)
Other Revenue	141.2	76.4	64.7	200.9	117.7	83.2
Total Revenue	**722.1**	**661.2**	**60.9**	**1,197.4**	**1,120.1**	**77.3**
Network Charges	(388.9)	(387.4)	(1.5)	(696.8)	(663.3)	(33.5)
Net Revenue	**333.2**	**273.8**	**59.4**	**500.6**	**456.8**	**43.8**
Net Labour	(109.4)	(121.3)	11.8	(194.7)	(209.2)	14.5
Consulting	(8.9)	(18.4)	9.5	(29.7)	(31.8)	2.1
IT & Telecommunications	(36.5)	(40.7)	4.1	(65.0)	(70.0)	4.9
Other Expense	(20.7)	(19.1)	(1.6)	(38.6)	(35.1)	(3.4)
Total Opex	**(175.6)**	**(199.5)**	**23.9**	**(328.0)**	**(346.1)**	**18.2**
EBITDA	**157.6**	**74.3**	**83.2**	**172.7**	**110.6**	**62.0**
Depreciation & Amortisation	(34.0)	(44.5)	10.5	(77.7)	(77.9)	0.2
Financing Costs	(5.9)	(5.5)	(0.4)	(12.8)	(9.4)	(3.3)
D&A and Interest	**(39.9)**	**(50.0)**	**10.1**	**(90.5)**	**(87.4)**	**(3.1)**
Annual Surplus/(Deficit)	**117.7**	**24.4**	**93.4**	**82.2**	**23.3**	**58.9**

The financials above provide a view of AEMO in aggregate. However, the segment view (presented on slide 11) offers better insights to how costs are allocated as there are no cross-subsidies between segments.

Jan' 23 YTD vs. Budget +$93m

Revenue was ~$59m higher driven by East Coast Gas capacity auctions ($26m) and Vic TNSP settlement residue surplus ($30m).

Expenses were $34m below budget driven by challenges recruiting the uplift in roles to deliver on reform and transformation implementation. This resulted in lower labour, consulting and D&A expenses, with some projects delayed.

FY23 Full Year Forecast vs. budget

Revenue is forecast to be $44m higher principally driven by YTD favourability, partially offset by higher Network charges ($34m) principally relating to an increase to the easement tax charge from AusNet.

Expenses are forecast to be $15m favourable with YTD favourability partially reduced as recruitment picks up to deliver core project work and depreciation expenses catch up. Higher interest costs on floating rate debt are impacting more in the second half.

The numbers presented above are prior to the consolidation of AEMO Services Limited (ASL).

Participant security deposits were released as wholesale prices moderated. Investments in reform implementation continue and accumulated surplus increased.

AEMO Group Consolidated Balance Sheet	Actual Jun-22 $m	Actual Jan-23 $m	Movement YTD $m
Current assets			
Cash and Short Term Deposits	27.5	171.4	143.9
Participant Security Deposits and Prepayments	1,224.8	157.5	(1,067.3)
Participant Compensation Funds	10.6	10.8	0.3
Grant Funding	6.2	4.1	(2.1)
Other Current Assets	131.6	134.8	3.2
Total Current assets	1,400.7	478.6	(922.1)
Non-current assets			
Intangible Assets	179.2	181.9	2.6
Work in Progress	184.1	222.9	38.7
Property, Plant and Equipment	53.4	64.5	11.1
Trade and Other Receivables	0.2	0.1	(0.1)
Total Non-current assets	417.0	469.4	52.4
Total Assets	1,817.7	948.0	(869.7)
Current liabilities			
Participant Security Deposits and Prepayments	1,202.8	147.4	(1,055.4)
Other Current Liabilities	159.0	210.5	51.4
Total Current liabilities	1,361.8	357.8	(1,003.9)
Non-current liabilities			
Borrowings	433.2	439.3	6.2
Provisions	3.7	3.9	0.3
Lease Liabilities	13.7	21.1	7.3
Total Non-current liabilities	450.6	464.3	13.7
Total Liabilities	1,812.4	822.2	(990.2)
Net Assets	5.3	125.8	120.5
Equity			
Capital Contribution & Reserves	21.4	21.7	0.4
Accumulated Surplus/(Deficit)*	(16.0)	104.1	120.2
Total Equity	5.3	125.8	120.5

AEMO Group Consolidated Cashflow Statement	YTD Jan 23 $m
Cash Flows from operating activities	
Receipts from customers	398.4
Receipts from Victorian TNSP functions	349.7
Interest received	3.9
Payments to suppliers and employees	(191.1)
Payments for network charges	(345.9)
Interest and other finance costs paid	(6.2)
Net Receipts/(Releases) of participants security deposits and prepayments	(1,067.3)
Net cash inflows / (outflows) from operating activities after security deposits	(858.6)
Cash flows from investing activities	
Repayment of Grants	(2.1)
Payments for software assets	(26.3)
Payments for property, plant and equipment	(40.1)
Net cash outflows from investing activities	(68.4)
Cash flows from financing activities	
Proceeds from borrowings	6.2
Repayment of lease liabilities	(4.4)
Net cash inflows / (outflows) from financing activities	1.8
Net increase / (decrease) in cash and cash equivalents	(925.3)
Cash and cash equivalents at the beginning of the financial year	1,269.1
Cash and cash equivalents at end of Jan-23	343.8

The accumulated Surplus/(Deficit) relates to NEM Core, NEM Other, ECG, WA and VIC TNSP. Cash equivalents comprise cash and short-term deposits, participant deposits and funds and grant funding.

4. DRAFT Strategic Outcomes, FY24 Corporate Plan & Investment Plan

AEMO is uniquely positioned to set the pace and experience of Australia's energy transition. Resources are efficiently invested to drive the greatest value, while operating within budget envelopes.

Australia's energy transition is accelerating, and is posing major technical, environmental, economic and social challenges (including our ability to operate systems today and embedding market and system changes). AEMO is at the heart of this ecosystem.

AEMO's roles of keeping the lights on, highlighting and solving bottlenecks, and helping our partners do their best work means that AEMO is uniquely positioned to set the pace and experience of Australia's energy transition.

AEMO's responsibilities have increased (with more responsibilities continually being added), including in relation to cyber and Tranche 1 and 2 gas reforms. AEMO has prioritised and is currently progressing these initiatives in the most efficient manner.

Delivering the Finance module of the Enterprise Resource Planning system and other Digital enabled systems provide the foundation for AEMO to be more prudent and efficient with its operating and capital expenditure.

AEMO is collectively working to enable the energy transition and net-zero, whilst ensuring safe, reliable and affordable energy

Why we do what we do

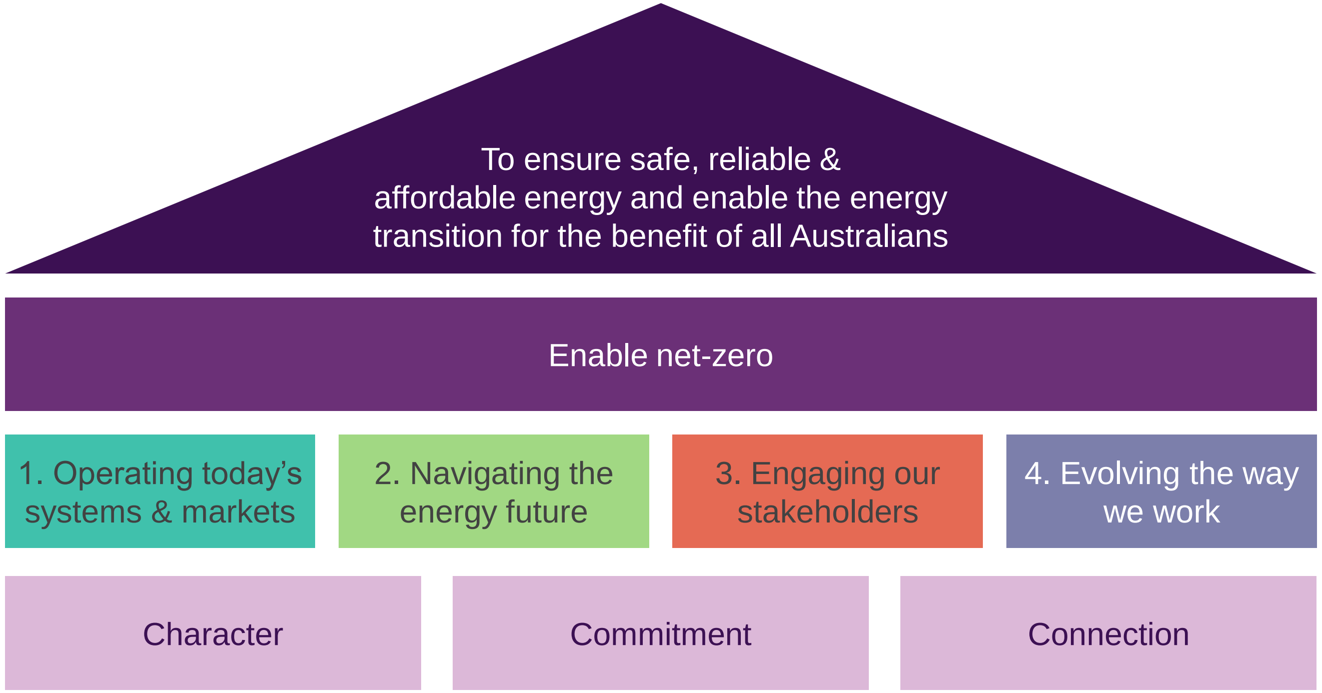
- **Purpose:** Why AEMO exists and why we work for AEMO.
  Based on the national energy objectives[1].
- **Vision:** What AEMO aspires to and what the future will look like if we fulfil our purpose.
  Considers government policy commitment to include emissions in the national energy objectives (incl. NEO, NGO, NERO & WA Energy Obj.)[1]

What we do

- **Strategic priorities:** What AEMO does to fulfill our “why”.

How we work

- **Values:** Core set of beliefs that guide how we work.



1. NEO = National Electricity Objective, NGO = National Gas Objective, NERO = National Energy Retail Objective

DRAFT Strategic Outcomes

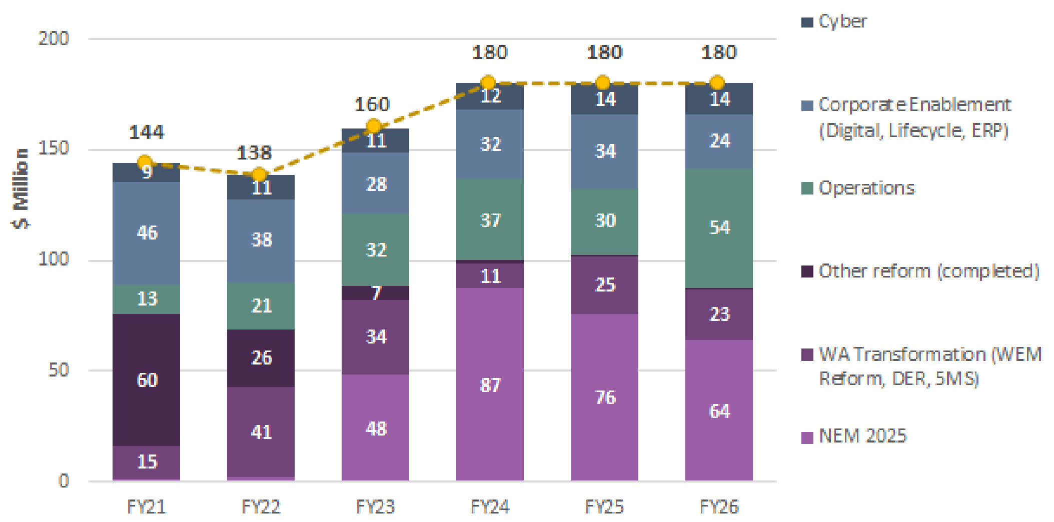
With policy alignment on emissions and net-zero, and the increasing challenges of the energy transition, AEMO must start preparing for net-zero energy systems whilst keeping the lights on and gas flowing, every day. AEMO can help our partners in their efforts to enable the transition – for example, by highlighting and removing bottlenecks and barriers

	FY26 strategic outcomes	FY24 strategic outcomes
1. Operating today's systems & markets	Through generation retirements, less reliable operation of ageing generators, gas & fuel supply challenges, and changing demand profiles - the lights are kept on, gas continues flowing, and markets keep trading with minimal AEMO market intervention	• We've prepared for and managed operational changes for the next 12 months, including embedding market & system changes, and managing increased renewable penetration and scheduled generation retirements • We've strengthened our core systems to be more resilient, including to cyber threats
2. Navigating the energy future	We have an aligned plan of infrastructure and engineering changes through further generation closures and to net-zero energy systems, with AEMO delivering our responsibilities to plan (incl. influencing market reform)	• We've incorporated emissions reductions in the 2024 ISP, enabled infrastructure delivery in our jurisdictional roles, and streamlined the planning process • We've influenced the design of critical reforms across reliability, firming, transmission, and DER; and helped deliver in-progress reforms
3. Engaging our stakeholders	We are a trusted partner to governments, industry and consumers in the energy transition, and we've worked with partners to improve public trust and confidence in the energy transition	• We've enhanced trust by clearly delivering value to our members and stakeholders, partnered with jurisdictions to achieve positive energy transition outcomes, and helped to build social licence
4. Evolving the way we work	We've modernised AEMO to make it easier to do our work - by evolving our day-to-day practices in line with our values, becoming a safer and more inclusive organisation, improving our talent development, modernising our core systems and embedding the financial discipline to operate within the parameters defined by our members	• We've modernised AEMO's systems and day-to-day practices to make it easier to do our work • We've reduced our accumulated deficit in NEM Core in line with the agreed fee pathway

Investment spend is aligned to Corporate Plan priorities. Consistent with FY23, the majority of the future year spend is on regulatory driven reform programs

Investment spend capped to $180m p.a. to FY26

(indicative allocations)



The investment profile has an overall expenditure constraint of $180m reflecting the business' delivery capacity, with reform implementation requirements.

- From FY23-FY25 ~$100m p.a. of program is regulatory driven (purple segment)
- Remaining~ $80m p.a. consists of Cyber related spend and Corporate Enablement spend including digital projects and lifecycle maintenance.
- For FY23, the forecast spend is ~$160m, being below the cap due to challenges recruiting as new programs commenced.

Regulatory: Largest element of spend is on the multi-year programs like NEM2025 and the WEM reform program (Go live of October 2023). These are key reforms driven by regulation.

Operations: Largest element of investment includes the Operational Technology Roadmap program of work to uplift controls room tools and systems, including replacement of the Short Term Projected Assessment of System Adequacy (ST PASA).

Corporate Enablement: Includes data centre consolidation, investment in operational data storage capability, lifecycle digital spend and web portal refresh for members, employees and consumers.

Cyber: Develop and implement AEMO compliance with Protective Security requirements of the Security of Critical Infrastructure (SOCI) Act. Develop and implement AEMO's new Cyber security roles in the Energy Sector as per the Commonwealth government. Cyber assurance, testing and exercises.

Note: The Investment plan excludes spend on VNI West early works. Allocations of investment for FY24 and beyond are in the process of being finalised, including through submissions to relevant State regulators. As a result, the numbers are subject to change and will align with final regulatory determinations where relevant.

5. FY24 PRELIMINARY DRAFT operational budget

AEMO is being asked to deliver more to support the energy transition, while continuing to invest in core operations and our people. AEMO seeks to provide transparency of its programs of work, and the roles it plays.

FY24 Context

AEMO's roles and responsibilities have been increasing as Australia's energy transition is accelerating. **AEMO's core role is becoming more challenging** e.g. challenging operating conditions in both electricity & gas, and a very dynamic planning environment.

In addition to the Investment spend outlined in the prior section, in FY24 AEMO will deliver the following major programs of work, **comprising mainly labour and consulting costs within operating expenses.** A significant portion of these major programs require inputs and collaboration with stakeholders.

Major Programs of Work (in addition to capital investments)

- Greater operational and planning responsibilities towards 100% renewables by 2025
- Further improvements in the connection process
- Work with government, market bodies and industry to influence Tranche 2 gas reforms and reforms in the electricity markets
- Operationalise new settlement processes as a result of the Dandenong Liquefied Natural Gas (DLNG) Rule Change for AEMO to act as a buyer and supplier of last resort if storage capacity is not fully contracted
- Operationalise new roles and responsibilities in Cyber incident co-ordination across participants in NEM/ WEM
- Compliance to new mandatory obligations and reporting under the Security of Critical Infrastructure (SOCI) Act
- Operationalise the necessary procedure and system changes required from the extension of AEMO's functions and powers to manage the east coast gas supply adequacy and reliability (Tranche 1 gas reforms)
- Progress the VNI West initial work activities

With the uplift in AEMO's core operations and people which started in FY23, AEMO remains well placed to continue to deliver on these new reform activities.

AEMO Segment – PRELIMINARY DRAFT Operational Budget

AEMO consists primarily of four business segments, as follows:

1. National Electricity Market (NEM)
2. East Coast Gas
3. WA Electricity & Gas (WA)
4. Victorian TNSP (VicTNSP)
5. AEMO Services Limited (ASL)*

NEM's FY24 Draft budget revenue is largely consistent to Year 2 of prior year plan except for timing assumptions of NEM 2025 cost recovery. Costs are consistent with prior year plan.

NEM core fee pathway is on track for recovery of accumulated deficit by FY25.

Full recovery of costs has been achieved by the other three segments.

Further detail of each segment's results is provided in the following slides.

Segment Annual Financial Surplus / Deficit ($m)	Actual 2022	Budget 2023	Forecast 2023	Estimate 2024	Draft Budget 2024
NEM Other					
Revenue	71.1	92.1	85.5	114.5	94.6
Expenditure	(59.2)	(93.9)	(83.8)	(115.2)	(106.5)
Annual Surplus / (Deficit)	11.9	(1.9)	1.6	(0.6)	(11.9)
Accumulated Surplus/(Deficit)	8.2	6.3	9.8	5.6	(2.1)
NEM Core ^					
Revenue	130.8	222.4	225.9	230.3	236.3
Expenditure	(146.4)	(188.5)	(187.0)	(192.2)	(202.0)
Annual Surplus / (Deficit)	(15.6)	33.9	38.9	38.1	34.3
Accumulated Surplus/(Deficit)	(97.9)	(64.3)	(59.2)	(26.4)	(25.1)
ECG					
Revenue	49.2	47.6	84.2	46.8	50.5
Expenditure	(42.5)	(52.7)	(50.0)	(50.8)	(55.9)
Annual Surplus / (Deficit)	6.7	(5.1)	34.2	(3.9)	(5.4)
Accumulated Surplus/(Deficit)	32.8	27.7	67.0	23.7	61.6
WA					
Revenue	35.8	44.9	43.3	56.1	59.6
Expenditure	(39.3)	(46.2)	(43.6)	(55.7)	(55.8)
Annual Surplus / (Deficit)	(3.4)	(1.3)	(0.3)	0.4	3.8
Accumulated Surplus/(Deficit)	4.2	3.0	4.0	3.3	7.8
TNSP					
Revenue	45.8	47.4	56.4	48.6	34.3
Expenditure	(31.2)	(50.6)	(49.9)	(52.3)	(74.7)
Annual Surplus / (Deficit)	14.7	(3.2)	6.5	(3.7)	(40.4)
Accumulated Surplus/(Deficit)	36.8	33.6	43.3	29.9	2.9

*Estimate 2024 = Year 2 of the FY23 Budget. *ASL/Corp not disclosed in this pack. Accumulated Surplus at the end of FY24 is $6m for Corp. The $6m explains the variance between sum of accumulated surplus/(deficits) within this slide to $51.1m within slide 24. Immaterial adjustments to reserves are not presented.*

^ NEM Core includes NEM and Vic Connections

NEM Core – PRELIMINARY DRAFT Operational Budget

NEM Core includes core functions plus Connections

DRAFT Budget vs. Estimate for 2024

The draft NEM Core Fee & Tariffs budget is in line with Year 2 of the prior plan, which is a 4.5% tariff increase compared to prior year (consistent with 3-year fee pathway agreed). Volume assumptions have changed which results in an increased revenue outcome.

Other revenue has increased for anticipated Connections volume growth +$4.5m (full offset within costs).

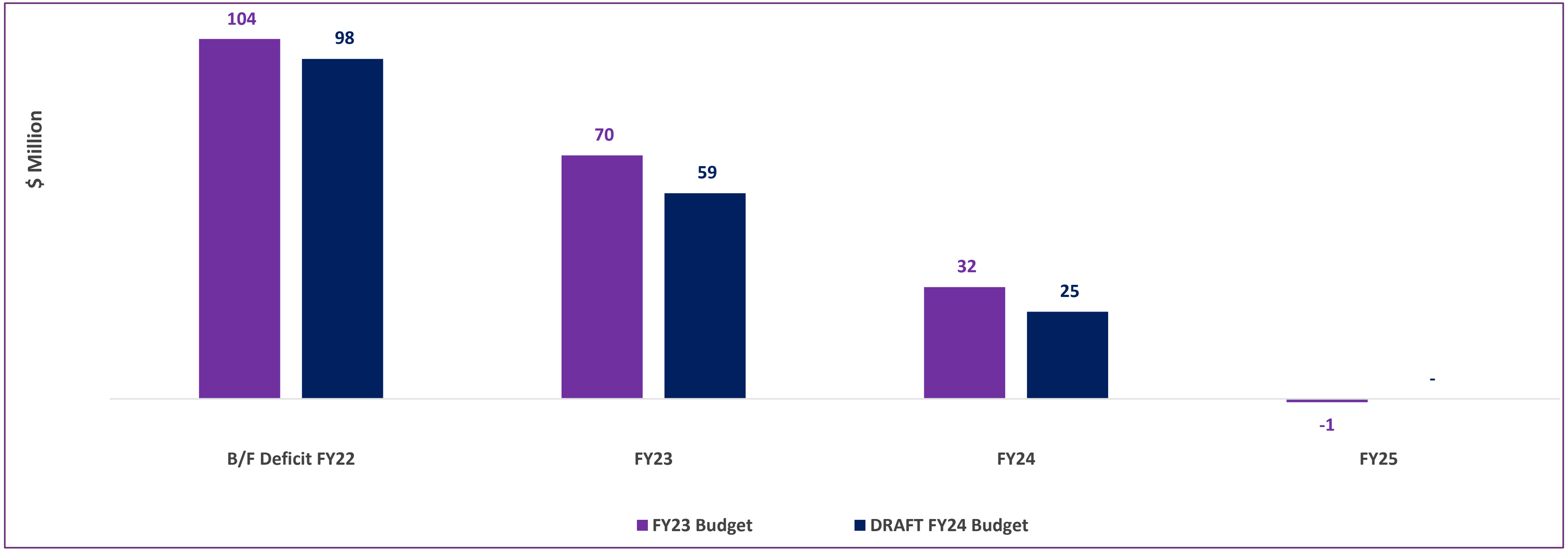
The increase in FY24 expenditure of $10m reflects:

- $3m increase in labour driven by resourcing required to support new Connections activity and new systems requirements (Power system simulation and forecasting).
- Consulting spend increase of $4m as a result of greater operating and planning responsibilties (towards 100% renewables by 2025) and Cyber related expenditure.
- Increases in Borrowing costs are reflective of the interest rate environment and capex spends.

NEM Core	Actual 2022	Budget 2023	Forecast 2023	Estimate 2024	Draft Budget 2024
Revenue					
Fees & Tariffs	106.7	198.6	197.9	205.7	207.4
TUOS	-	-	-	-	-
Settlement Residue	-	-	-	-	-
Other Revenue	24.1	23.7	28.0	24.5	28.9
Network Charges	-	-	-	-	-
Net Revenue	130.8	222.4	225.9	230.3	236.3
Operating Expenditure					
Labour	(62.2)	(74.6)	(68.1)	(78.9)	(82.2)
Consulting	(2.1)	(5.9)	(5.2)	(2.7)	(6.9)
IT & Telecommunications	(6.0)	(8.0)	(6.6)	(8.2)	(8.5)
Other expenses	(8.4)	(9.0)	(9.4)	(9.9)	(9.2)
Depreciation & Amortisation	(7.1)	(9.0)	(19.9)	(10.7)	(10.7)
Borrowing Costs	(0.0)	(3.8)	(3.2)	(4.0)	(6.4)
Enterprise Recoveries	(60.6)	(78.2)	(74.5)	(77.8)	(78.1)
Total Expenditure	(146.4)	(188.5)	(187.0)	(192.2)	(202.0)
Annual Surplus/(Deficit)	(15.6)	33.9	38.9	38.1	34.3
Accumulated Surplus/(Deficit)	(97.9)	(64.3)	(59.2)	(26.4)	(25.1)

*Estimate 2024 = Year 2 of the FY23 Budget. *ASL not disclosed in this pack. Immaterial adjustments to reserves are not presented*

NEM Core – Deficit recovery by FY25 remains on track with the agreed fee pathway of 4.5% in FY24 and FY25



AEMO – PRELIMINARY DRAFT Operating Budget

	Actual 2022	Budget 2023	Forecast 2023	Estimate 2024	Draft Budget 2024
Revenue					
Fees & Tariffs	258.5	378.5	373.4	418.3	397.7
TUOS	603.0	623.9	623.1	649.4	650.2
Settlement Residue	45.9	20.0	56.2	20.7	25.6
Other Revenue	105.2	97.7	144.7	100.2	144.3
Network Charges	(672.8)	(663.3)	(696.8)	(690.6)	(733.8)
Net Revenue	**339.8**	**456.8**	**500.6**	**498.1**	**484.0**
Operating Expenditure					
Labour	(170.3)	(209.2)	(194.7)	(224.7)	(241.0)
Consulting	(14.2)	(31.8)	(29.7)	(21.0)	(46.5)
IT & Telecommunications	(52.7)	(70.0)	(65.0)	(84.3)	(80.2)
Other expenses	(35.0)	(35.1)	(38.6)	(43.1)	(44.8)
Depreciation & Amortisation	(51.6)	(77.9)	(77.7)	(82.8)	(72.2)
Borrowing Costs	(1.7)	(9.4)	(12.8)	(12.0)	(14.0)
Total Expenditure	**(325.5)**	**(433.5)**	**(418.4)**	**(467.8)**	**(498.7)**
Annual Surplus/(Deficit)	**14.3**	**23.3**	**82.2**	**30.3**	**(14.7)**
Accumulated Surplus/(Deficit)	**(15.9)**	**7.1**	**66.0**	**37.1**	**51.1**

The financials above provide a view of AEMO in aggregate. However, the segment view (presented on slide 21) offers better insights to how costs are allocated as there are no cross-subsidies between segments.

DRAFT Budget vs. Estimate for 2024

Fees and tariffs are lower than the 2024 Estimate due to return of surplus within East Cost gas Segment ~$10m, timing of NEM 2025 revenues assumed in prior year – (~$20m) partially offset by increases in other segments such as 5MS etc.

TUoS revenue and network charges are higher principally due to higher AusNet easement tax, partially offset by return of accumulated surplus.

Other revenue is higher primarily due to increased connections revenue within NEM +$4.5m, Higher Negotiated & Renewable energy Zones (REZ) related revenue within VicTNSP +$23m, higher Capacity auction revenue +$9m in DWGM and higher interest income from higher cash holding.

The key drivers of operating cost increases compared to 2024 estimate are:

- Labour increases of $16m resulting from activities relating to gas reforms, greater operational and planning responsibilities and wage inflation reflecting market conditions.
- Consulting increase in VicTNSP activities including VNI West +$14m and Cyber related expenses +$4m, WEM reform activities +$2m and other projects such as ISP etc ~$5m.
- Higher borrowing costs due to rise in interest rates on floating rate borrowings.

The Group accumulated surplus is expected to be $51m at the end of FY24.

*Estimate 2024 = Year 2 of the FY23 Budget. *ASL/Corp not disclosed in this pack. Immaterial adjustments to reserves are not presented*

AEMO – PRELIMINARY DRAFT Balance Sheet & Cash Flow

The fall in wholesale energy prices from FY22 to FY23 has released participant security deposits held to safeguard AEMO from financial exposure.

Non-current asset growth reflects ongoing investment in systems and tools including the major NEM2025 and WEM reform programs. As the programs are delivered, the depreciation and amortisation will begin.

Other liabilities include Participant Security Deposits and Prepayments, Easement tax payable and other working capital items. Easement tax is forecasted to increase significantly in FY23 and FY24, hence increasing the liability at year end.

AEMO Financial Statements ($m)	Actual 2022	Budget 2023	Forecast 2023	Estimate 2024	Draft Budget 2024
Balance Sheet					
Current Assets	1,400.7	342.4	325.8	363.8	268.4
Non Current Assets	417.0	530.7	498.7	638.3	619.3
Total Assets	1,817.7	873.1	824.5	1,002.1	887.7
Borrowings	(433.2)	(525.7)	(452.5)	(589.0)	(495.9)
Other Liabilities	(1,379.2)	(369.6)	(284.5)	(405.1)	(318.9)
Net Assets	5.3	(22.2)	87.5	8.1	72.9
Debt/Assets	**24%**	**60%**	**55%**	**59%**	**56%**
Cash Flow Statement					
Net cashflows from operating	1,082.3	92.9	(953.9)	134.6	66.9
Net cashflows from investing	(104.1)	(174.9)	(154.7)	(180.0)	(174.2)
Net cashflows from financing	68.1	26.1	23.7	61.3	40.7
Net increase/decrease in cash	1,046.3	(55.9)	(1,085.0)	15.9	(66.7)
Cash at the beginning	222.8	254.1	1,269.1	198.2	184.1
Cash at the end of the period	1,269.1	198.2	184.1	214.1	117.5

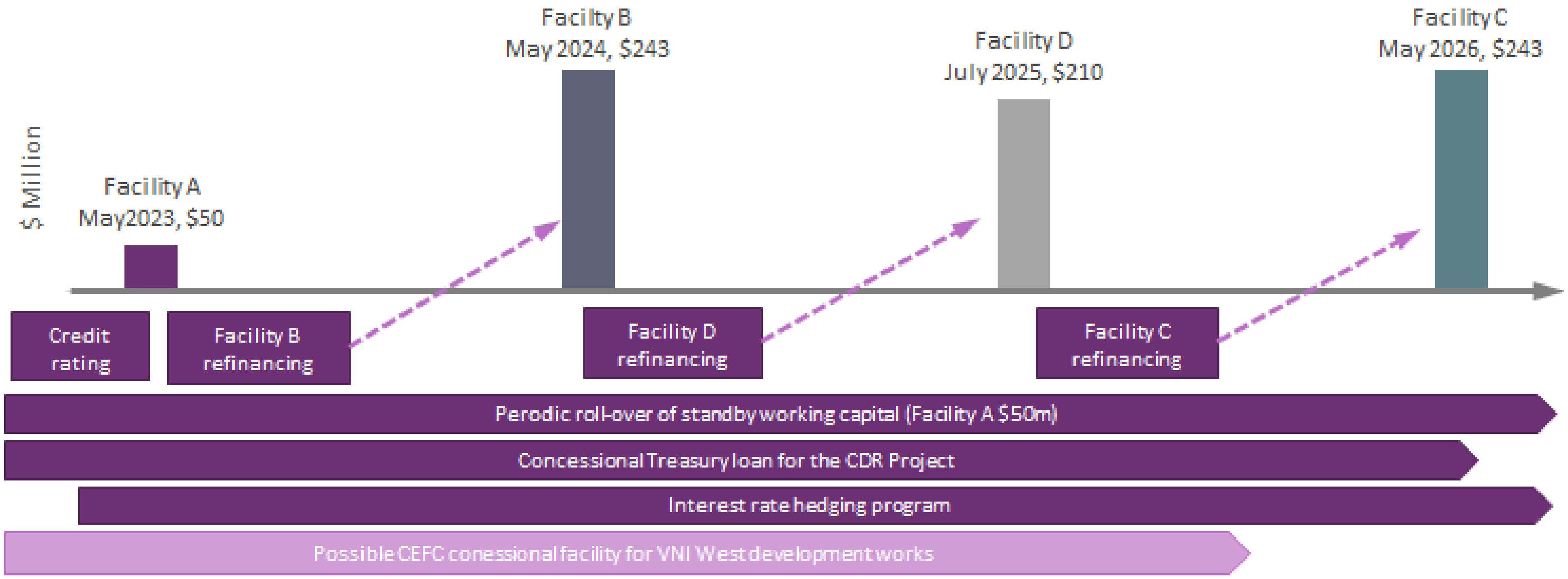
*Estimate 2024 = Year 2 of the FY23 Budget. *ASL not disclosed in this pack. Immaterial adjustments to reserves are not presented. Included within the Cash Balances are Participant Security Deposits and the Participant Compensation Fund balances which are not available for AEMO operational use.*

6. Capital management roadmap (inc interest rate hedging)

Capital management roadmap

AEMO have developed a capital management roadmap, supported by Debt and Capital Market specialists. The key elements include:

- seeking a credit rating to diversify financing sources;
- undertaking debt re-financing at least 12 months prior to maturity (excluding annual roll over of WC facility);
- ensuring adequate working capital and standby liquidity;
- implementing interest rate hedging program; and
- seeking concessional debt facilities for specific initiatives.



Hedging principles & approach – Draft for discussion

Risk Tolerance Framework

- We have a very low appetite for unbudgeted financial expenditure, and a low-risk appetite for P&L and cash-flow volatility. This appetite level guides the approach to the interest rate and Foreign Exchange (FX) risk management framework.
- Historically AEMO's debt has all been floating rate with no interest rate hedging. We propose to alter the mix over time by entering into interest rate hedges and considering bond market debt (fixed rate).
- Interest rate hedges are intended to be vanilla interest rate swaps with approved counterparties executed under appropriate documentation (ISDA agreement).
- FX risk is primarily embedded in commercial contracts. Given the nominal FX exposure, FX trades are primarily anticipated to be FX Spot or Forward Contracts.
- Trades are to be considered and executed with the core objective of minimising volatility in interest rate costs and FX exposure.

Interest rate hedging profile – Draft for discussion

Interest Rate Hedging Approach

- A progressive hedging approach is being contemplated, with greater levels of hedging in place in the shorter term, to provide greater cost certainty across the 3-year plan horizon.
- There is higher certainty of the level of forecast debt in the short term compared to the longer-term period, and the cost of longer-term hedging is higher
- A progressive longer term hedge profile ensures that the volatility in future cashflows is reduced, providing longer term cost certainty.
- Hedging will be applied against highly probable forecast investments and will be expected to qualify for hedge accounting.
- The policy limits (set out below) will apply 18 months from policy commencement, recognising the transition required.

Draft interest rate hedging policy limits

Given the hedging approach above, we are exploring setting hedging limits in the order of:

- 70-90% of forecast debt in Year 1-3;
- 50-70% of forecast debt in Year 4-5; and
- 0-50% of forecast debt in Year 6-7.

General Discussion and Questions

Additional Supporting Slides

NEM – PRELIMINARY DRAFT Operating Budget

NEM Segment includes core functions plus Connections, FRC, 5MS, DER, NTP, NEM 2025 etc

AEMO

DRAFT Budget vs. Estimate for 2024

NEM's revenue budget is in line with Year 2 of the prior plan, except for NEM 2025 as mentioned within slide 24.

The increase in FY24 expenditure of $2m reflects:

- A $4m increase in labour resourcing driven by increases required within the Operations teams to support new systems (Power system simulation and forecasting) and markets (NEM 2025)
- Consulting spend increase of $5m primarily due to initiatives for greater operating and planning responsibilities (how to run power system on 100% renewable by FY25) and improvements to connection process.
- Reduction in IT & Telco primarily as a result of timing of NEM 2025 project requirements and other strategies to reduce cloud costs.
- Increases in Depreciation and Amortisation and Borrowing costs are associated primarily with 5MS.
- Increases in enterprise recoveries primarily as a result of the cost of support services and higher Cyber costs associated with new responsibilities conferred on AEMO in relation to the market security.

NEM	Actual 2022	Budget 2023	Forecast 2023	Estimate 2024	Draft Budget 2024
Revenue					
Fees & Tariffs	175.6	287.9	281.8	317.4	301.0
TUOS	-	-	-	-	-
Settlement Residue	-	-	-	-	-
Other Revenue	26.3	26.5	29.6	27.4	30.0
Network Charges	-	-	-	-	-
Net Revenue	201.9	314.4	311.4	344.8	330.9
Operating Expenditure					
Labour	(74.4)	(93.5)	(83.9)	(99.6)	(103.2)
Consulting	(2.6)	(8.8)	(7.6)	(4.7)	(9.7)
IT & Telecommunications	(24.6)	(33.9)	(25.5)	(44.6)	(26.5)
Other expenses	(8.7)	(9.3)	(9.7)	(10.1)	(9.6)
Depreciation & Amortisation	(20.3)	(31.9)	(41.7)	(40.6)	(41.6)
Borrowing Costs	(0.0)	(7.1)	(7.9)	(9.4)	(15.0)
Enterprise Recoveries	(75.0)	(98.0)	(94.6)	(98.3)	(102.8)
Total Expenditure	(205.5)	(282.4)	(270.8)	(307.4)	(308.5)
Annual Surplus/(Deficit)	(3.7)	32.0	40.5	37.4	22.5
Accumulated Surplus/(Deficit)	(89.7)	(58.0)	(49.4)	(20.8)	(27.2)

*Estimate 2024 = Year 2 of the FY23 Budget. *ASL not disclosed in this pack. Immaterial adjustments to reserves are not presented*

East Coast Gas – PRELIMINARY DRAFT Operating Budget

DRAFT Budget vs. Estimate for 2024

DWGM: Fees and Tariff revenue reduces by $9m (return of surplus), however, is offset by expected capacity auction outcomes and higher interest from participant related cash holdings (within other revenue).

GSOO: There is an increase in revenue to recoup additional expenditure to manage complexities in producing the statement of opportunities.

Other markets such as DAA, STTM: Higher interest revenue from higher cash holding related to market dynamics and higher service revenue as a result of higher volumes.

Operating expenditure:

Increases in other expenses represent Dandenong LNG liquification related expenditures ~$4m

Higher D&A as a result of increased spend on corporate enablement projects allocated to ECG.

Borrowing costs are lower due to higher cash holding in DWGM and STTM.

Unexpected surplus to be returned in future periods.

ECG	Actual 2022	Budget 2023	Forecast 2023	Estimate 2024	Draft Budget 2024
Revenue					
Fees & Tariffs	46.5	44.8	47.8	44.0	36.4
TUOS	-	-	-	-	-
Settlement Residue	-	-	-	-	-
Other Revenue	2.8	2.7	36.4	2.8	14.1
Network Charges	-	-	-	-	-
Net Revenue	49.2	47.6	84.2	46.8	50.5
Operating Expenditure					
Labour	(17.4)	(18.4)	(18.0)	(18.9)	(19.7)
Consulting	(0.3)	(0.2)	(0.4)	(0.2)	(0.3)
IT & Telecommunications	(3.2)	(4.9)	(3.4)	(5.0)	(4.7)
Other expenses	(1.3)	(4.1)	(5.1)	(4.3)	(9.1)
Depreciation & Amortisation	(3.0)	(3.2)	(5.8)	(4.7)	(6.7)
Borrowing Costs	(0.0)	(0.2)	1.5	(0.4)	2.6
Enterprise Recoveries	(17.3)	(21.5)	(18.8)	(17.3)	(17.9)
Total Expenditure	(42.5)	(52.7)	(50.0)	(50.8)	(55.9)
Annual Surplus/(Deficit)	6.7	(5.1)	34.2	(3.9)	(5.4)
Adjustments	-	-	-	-	-
Accumulated Surplus/(Deficit)	32.8	27.7	67.0	23.7	61.6

*Estimate 2024 = Year 2 of the FY23 Budget. *ASL not disclosed in this pack. Immaterial adjustments to reserves are not presented*

WA – PRELIMINARY DRAFT Operating Budget

DRAFT Budget vs. Estimate for 2024

In Western Australia, the fees and charges are approved by the Economic Regulatory Authority. (ERA).

ERA AR6 allowance covers periods FY23-FY25. WA revenue for FY24 reflects ~50% of the remainder of the allowed revenue.

Operating expenditure is materially in line with Year 2 of the prior year plan with small increases to D&A as a result of the WEM reform program.

Note: amounts included within FY24 for Depreciation and Amortisation and borrowing costs reflect the final AR6 determination by the ERA.

AEMO anticipates making an in-period submission to ERA in relation to WEM reform, which could impact the FY24 results. As a result, the WA budget figures are subject to change based on the outcome of the ERA submission process.

WA	Actual 2022	Budget 2023	Forecast 2023	Estimate 2024	Draft Budget 2024
Revenue					
Fees & Tariffs	35.8	44.9	43.2	56.1	59.6
TUOS	-	-	-	-	-
Settlement Residue	-	-	-	-	-
Other Revenue	0.0	-	0.1	0.0	-
Network Charges	-	-	-	-	-
Net Revenue	35.8	44.9	43.3	56.1	59.6
Operating Expenditure					
Labour	(21.5)	(24.2)	(24.6)	(28.9)	(27.3)
Consulting	(1.2)	(1.6)	(1.2)	(1.5)	(3.3)
IT & Telecommunications	(1.8)	(3.0)	(1.5)	(4.6)	(4.5)
Other expenses	(1.1)	(2.6)	(1.4)	(3.6)	(2.3)
Depreciation & Amortisation	(12.1)	(11.7)	(11.4)	(13.1)	(14.9)
Borrowing Costs	(0.0)	(1.7)	(2.0)	(2.2)	(2.4)
Enterprise Recoveries	(1.6)	(1.5)	(1.5)	(1.9)	(1.2)
Total Expenditure	(39.3)	(46.2)	(43.6)	(55.7)	(55.8)
Annual Surplus/(Deficit)	(3.4)	(1.3)	(0.3)	0.4	3.8
Accumulated Surplus/(Deficit)	4.2	3.0	4.0	3.3	7.8

*Estimate 2024 = Year 2 of the FY23 Budget. *ASL not disclosed in this pack. Immaterial adjustments to reserves are not presented*

VicTNSP – PRELIMINARY DRAFT Operating Budget

DRAFT Budget vs. Estimate for 2024

Network Charges: Net increase primarily as a result of higher AusNet easement tax of $42m. Other increases are for negotiated services* of $15m (fully offset in other Revenue). Included within Network charges is a net Modified Load Export Charge (MLEC) movement of ~$16m.

Other Rev: Includes negotiated services income* of $16m and cost recoupment towards REZ Stage 1 ~$8m.

TUoS: Increase in TUoS revenue is minimal as a result of return of surpluses from prior periods (FY22 & FY23).

Operating expenditure has increased by $23m in FY24 primarily as a result of:

- VNI West; and
- REZ related projects (offset in Other rev).

Victorian TNSP	Actual 2022	Budget 2023	Forecast 2023	Estimate 2024	Draft Budget 2024
Revenue					
Fees & Tariffs	0.6	0.8	0.7	0.7	0.7
TUOS	603.0	623.9	623.1	649.4	650.2
Settlement Residue	45.9	20.0	56.2	20.7	25.6
Other Revenue	69.1	66.0	73.3	68.3	91.5
Network Charges	(672.8)	(663.3)	(696.8)	(690.6)	(733.8)
Net Revenue	**45.8**	**47.4**	**56.4**	**48.6**	**34.3**
Operating Expenditure					
Labour	(11.9)	(18.0)	(17.0)	(20.3)	(26.8)
Consulting	(1.5)	(10.7)	(10.0)	(7.4)	(21.3)
IT & Telecommunications	(0.0)	(0.0)	(0.0)	(0.0)	(0.3)
Other expenses	(5.9)	(3.4)	(3.1)	(3.8)	(5.2)
Depreciation & Amortisation	(0.2)	(0.3)	(3.6)	(0.4)	(0.8)
Borrowing Costs	(0.0)	(0.0)	1.7	(0.1)	3.2
Enterprise Recoveries	(11.7)	(18.2)	(17.9)	(20.2)	(23.5)
Total Expenditure	**(31.2)**	**(50.6)**	**(49.9)**	**(52.3)**	**(74.7)**
Annual Surplus/(Deficit)	**14.7**	**(3.2)**	**6.5**	**(3.7)**	**(40.4)**
Accumulated Surplus/(Deficit)	**36.8**	**33.6**	**43.3**	**29.9**	**2.9**

**Negotiated services are provided to single network users or a small group of network users. Typically, this will be for a new generator or large loads connecting to the transmission system. The costs incurred to provide negotiated services will be recovered directly from that user. TUoS is discussed in more detail as part of a broader consultation process.*

*Estimate 2024 = Year 2 of the FY23 Budget. *ASL not disclosed in this pack. Immaterial adjustments to reserves are not presented*

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