

Finance Consultation Committee FY24 Meeting #2

21 February 2024



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

We pay respect to Elders, past and present.

Agenda

1. Introduction
2. FCC Focus and Plan for FY25 Budget and Fee engagement
3. NEM Core Deficit Recovery Update
4. FY25 Fees – February/March publications
5. Energy Market Cyber Briefing (provided at the meeting)
6. Discussion and next steps

Minutes

Minutes from the November 2023 meeting are on the AEMO website. A quick synopsis of prior meeting is provided below.

- Recap of the FY23 Actual results and delivery against the Corporate plan
- Provided an update on FY24 Budget and Q1 Forecast.
- It was reiterated that AEMO is continuing to uplift transparency and opportunities for members and stakeholders to provide feedback.
- This is supported by stakeholder feedback, which generally seeks greater transparency, accountability and deeper discussions.
- We are actively working on a forward plan for 2024 to achieve this.

And the AEMO team ...



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EGM Finance & Governance



Cameron O'Donnell
Group Manager – Strategic Finance



Matthew Myers
GM, Stakeholder Engagement



Margaret Lynch
Stakeholder Engagement Lead,
Corporate

FCC Focus and Plan for FY25 Budget & Fee engagement



Purpose of the FCC

- AEMO is committed to enhancing the transparency of its financial management to build stakeholder trust.
- We acknowledge that stakeholders' trust and confidence in AEMO's processes, governance and transparency has been impacted by the accumulation of a deficit over several years, which AEMO is remedying.
- The FCC was established in 2021 to improve transparency around the development of AEMO's budget and fees and financial performance, as well as recovery of the accumulated deficit.
- The FCC's primary purpose is to:
 - Assure stakeholders of AEMO's balance sheet health and provide financial transparency
 - Build stakeholder confidence in AEMO's financial management and commitment to being cost-effective
 - Build stakeholders' confidence that AEMO is maturing its financial management, governance, accountability and transparency
 - Grow stakeholders' understanding of the budget and fee impacts of AEMO's evolving roles and responsibilities.

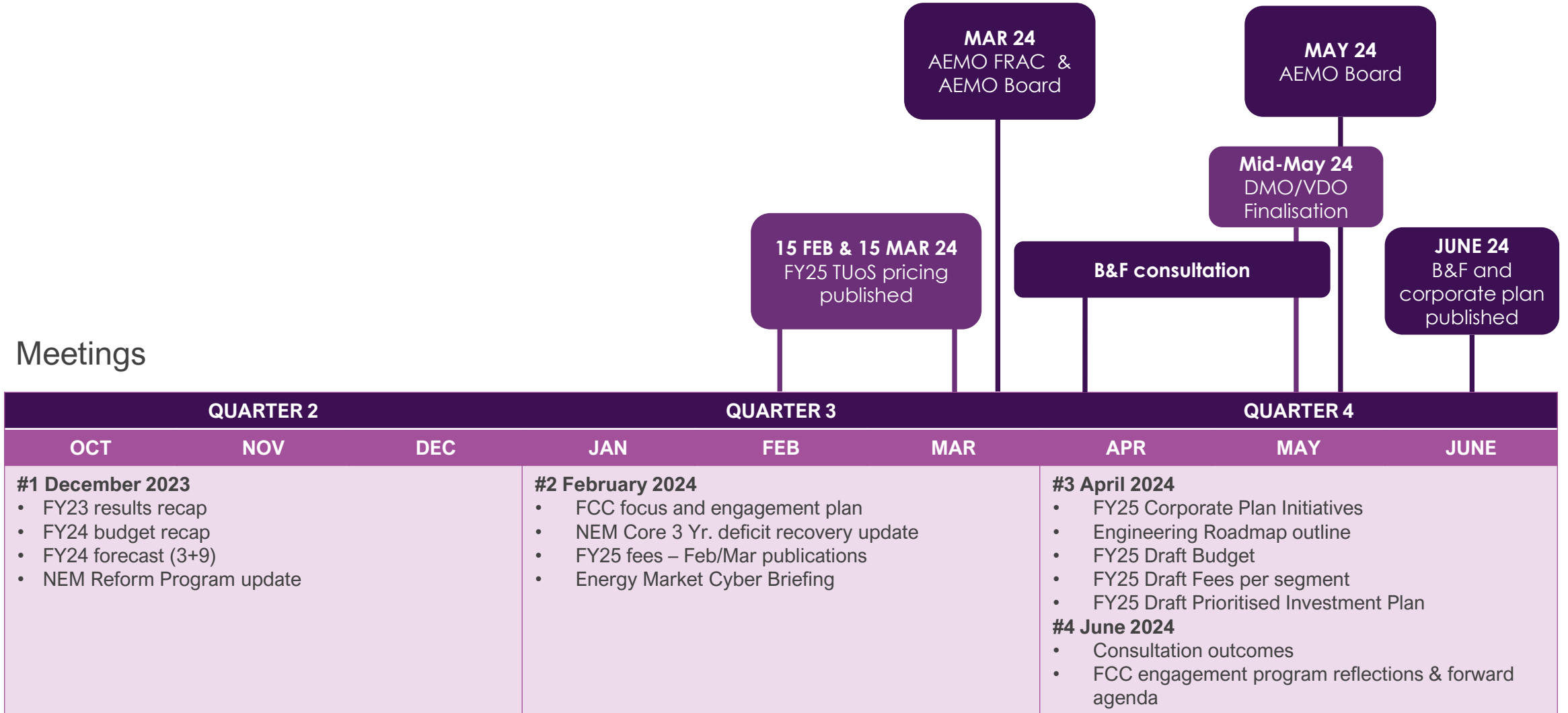
Key committees and forums

Budget and fees	Energy system and market operations	Energy system planning	Energy reform	Social licence
<p>Financial Consultation Committee</p> <ul style="list-style-type: none"> • Early engagement to improve the transparency and rigour of AEMO budget and Strategic and Corporate Plan. • Members include representatives from jurisdictions, industry associations (Australian Energy Commission (AEC), Energy Networks Australia (ENA) and Clean Energy Council (CEC)) and consumer bodies (Energy Consumers Australia (ECA), Energy Users Association of Australia (EUAA)). 	<p>NEM Operations Committee</p> <ul style="list-style-type: none"> • A forum for stakeholders to discuss routine operations and improvements to current network practices. • Focused membership including ENA, AEC, CEC. • A number of related working groups. <p>WA Electricity Consultative Forum To enable effective consultation and communication between AEMO and stakeholders on the operation of and matters relating to the WEM and SWIS.</p> <p>WA Gas Consultative Forum To enable effective consultation and communication between AEMO and stakeholders regarding the gas arrangements in Western Australia including the Gas Bulletin Board and Gas Statement of Opportunities.</p>	<p>Executive Joint Planning Committee</p> <ul style="list-style-type: none"> • Holds specific joint planning functions outlined in the rules. • AEMO, jurisdictional planning bodies and Transmission Network Service Providers (TNSPs). • Supported by the working Joint Planning Committee. • A number of related working groups. 	<p>Reform Delivery Committee</p> <ul style="list-style-type: none"> • Collaboration across the industry to develop a Regulatory and IT Implementation Roadmap. • Membership includes market bodies, and nominations from ENA, AEC, CEC, Energy Efficiency Council (EEC) and consumer groups. 	<p>Advisory Council on Social Licence</p> <ul style="list-style-type: none"> • Established to provide AEMO with advice on community sentiment and social licence insight to inform the ISP and to assist AEMO to carry out non-ISP functions.

AEMO also hosts a range of forums and technical working groups to provide input and support delivery of a range of activities. Examples include:

- ISP Consumer Panel
- Consumer Forum
- Forecasting Reference Group
- East Coast Gas System Reforms Working Group
- A range of NEM Reform working groups and consultative forums
- WA DER Market Participation Forum
- WEM Reform Implementation Group
- WEM Procedure Change Working Group
- Regulatory Implementation Roadmap

FY25 Budget – FCC engagement



Planned Enhancements to FCC Agenda

NOTE: The below is indicative only and topics may change or shift between meeting dates.

Focus area	October	February	April	June
Primary focus	<ul style="list-style-type: none"> Reporting against previous financial year. 	<ul style="list-style-type: none"> Planning and budget for next financial year. In-year financial and operational performance. 	<ul style="list-style-type: none"> Planning and budget for next financial year. In-year financial and operational performance. 	<ul style="list-style-type: none"> Budget consultation feedback.
Strategic planning and prioritisation	<ul style="list-style-type: none"> Delivery against prior year priorities. Strategic/budget context/environment. 	<ul style="list-style-type: none"> Delivery against in-year priorities. Strategic/budget context/environment. 	<ul style="list-style-type: none"> Delivery against in-year priorities. Inform on relevant draft Corporate Plan priorities. Share performance measures. Strategic/budget context/environment. 	<ul style="list-style-type: none"> Delivery against in-year priorities. Inform on final Corporate Plan and priorities. Strategic/budget context/environment for AEMO.
Enterprise financial health and performance	<p>Prior year performance</p> <ul style="list-style-type: none"> Delivery against prior year budget. 	<p>In-year performance</p> <ul style="list-style-type: none"> Budget performance: Q2 in-year forecast against budget by segment + trendline. Capital management/funding update.* 	<p>In-year performance</p> <ul style="list-style-type: none"> Budget performance: Q3 in-year forecast against budget by segment + trendline. Capital management/funding update.* 	<p>In-year performance</p> <ul style="list-style-type: none"> Review in-year forecast against budget by segment + trendline budget forward. Capital management/funding update.*
	<p>In-year performance</p> <ul style="list-style-type: none"> Budget performance: Q1 in-year forecast against budget by segment + trendline. Capital management/funding update.* 			
	<p>Year ahead budget/revenue</p> <ul style="list-style-type: none"> Outline budget process and timelines. 	<p>Year/s ahead budget/revenue</p> <ul style="list-style-type: none"> Present version 1 of year ahead budget/revenue requirement and anticipated forward view of revenue requirements. Forward outlook for revised TUoS fees. 	<p>Year/s ahead budget/revenue</p> <ul style="list-style-type: none"> Present version 2 of year ahead budget/revenue requirement and anticipated forward view of revenue requirements. Present final TUoS fees. 	<p>Year/s ahead budget/revenue</p> <ul style="list-style-type: none"> Present final budget. Share B&F consultation feedback and responses.
Project/program financial and delivery performance*	<ul style="list-style-type: none"> Program portfolio performance. Where relevant, implementation review outcomes.* Major project deep dive*. 	<ul style="list-style-type: none"> Overview of major planned investments. Program portfolio performance. Major project deep dive.* 	<ul style="list-style-type: none"> Prioritised draft investment plan. Overview of major planned investments. Major project deep dive.* 	<ul style="list-style-type: none"> Program portfolio performance. Major project deep dive.*

*If required/relevant and time allows.

NEM Core Deficit Recovery Update



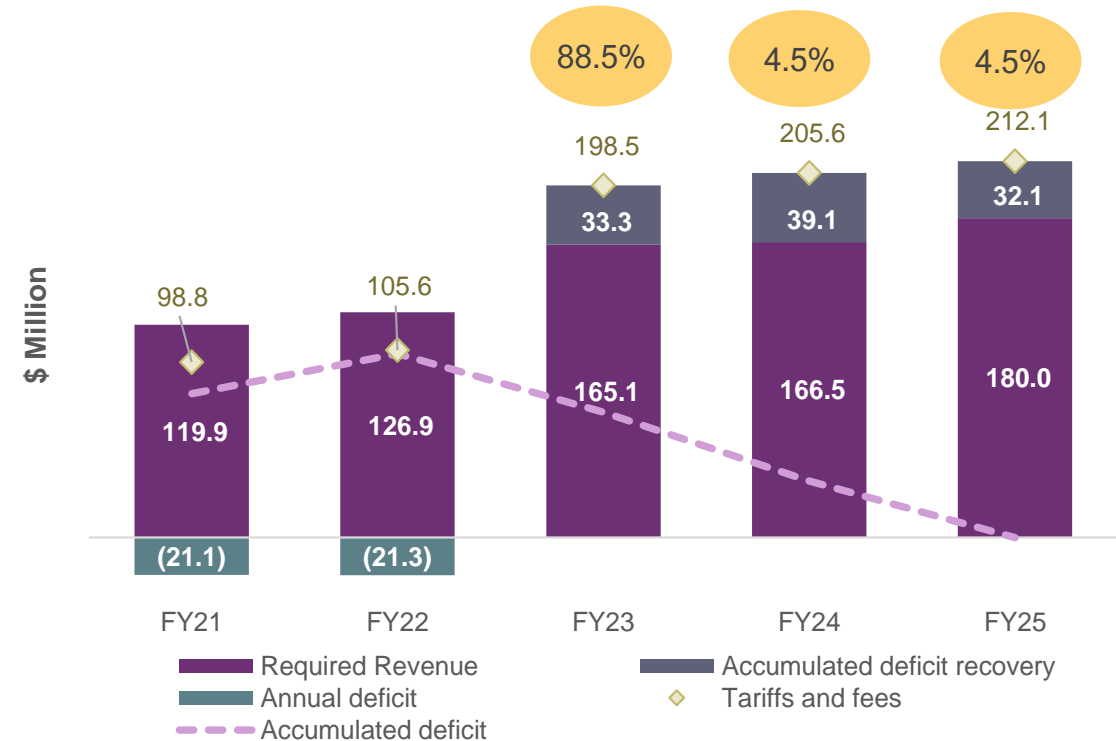
NEM Core deficit - background

- At the end of FY22 AEMO had an accumulated deficit of ~\$100m in the NEM Core market segment.
- This was the outcome of AEMO’s annual required revenue (recovered via participant fees) not keeping pace with its operating costs.
- In 2021 AEMO engaged Boston Consulting Group (BCG) to assess organisational effectiveness and efficiency.
- BCG found that AEMO’s operating costs were at the lower end of its peers but that digital ‘run-the-business’ costs were higher.
- BCG recommended that AEMO:
 - transform the way it governs, funds, and executes reform delivery
 - invest in models/tools and rewire processes to manage increased complexity in core activities
 - build the basics in corporate support functions, in particular Finance and Governance and modernise digital ‘run-the-business’ activities.

AEMO members were consulted on the future direction of AEMO for FY23 and beyond, with the following outcomes:

- Running operating deficits funded by debt is unsustainable;
- Despite significant efficiencies and savings, AEMO is facing escalating costs to maintain core obligations and prepare for future requirements;
- AEMO needed to clear a sizeable deficit accumulated from previous years; and
- This resulted in an 88.5% fee increase for participants in NEM Core in FY23, with a pathway of 4.5% increases agreed for the following two financial years (see Chart 1).

Chart 1. NEM Core Revenue and Cost profile (\$M) as at Q3 FY22

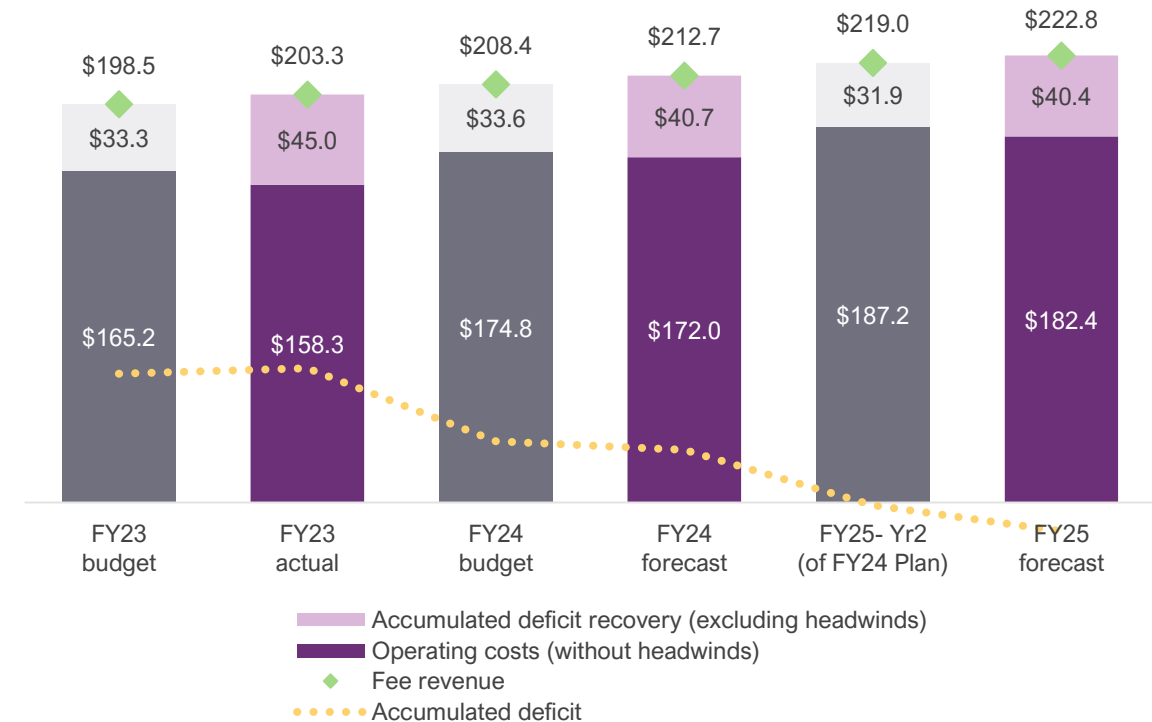


Note: Actual FY22 outcome marginally favourable to forecast.
 Note: Accumulated deficit is plotted on an inverted axis.

AEMO's underlying business performance has been strong. We are working to clear the deficit despite additional headwinds

- AEMO has made significant headway into recovering the ~\$100m NEM Core deficit, as shown on chart 2.
- We are continuing to invest in core capabilities and fulfil the new roles and functions asked of us (e.g. Cyber, ESG, SOCI etc), whilst driving cost efficiency to remain within the three-year fee pathway.
- Additionally, unforeseen headwinds (refer slide 14) have created new challenges in managing operating costs to remain within the three-year fee pathway. AEMO is actively working to find further efficiencies to accommodate these headwinds.
- But for these headwinds, AEMO's cost efficiency measures would have resulted in earlier repayment of the deficit, as shown in chart 2.

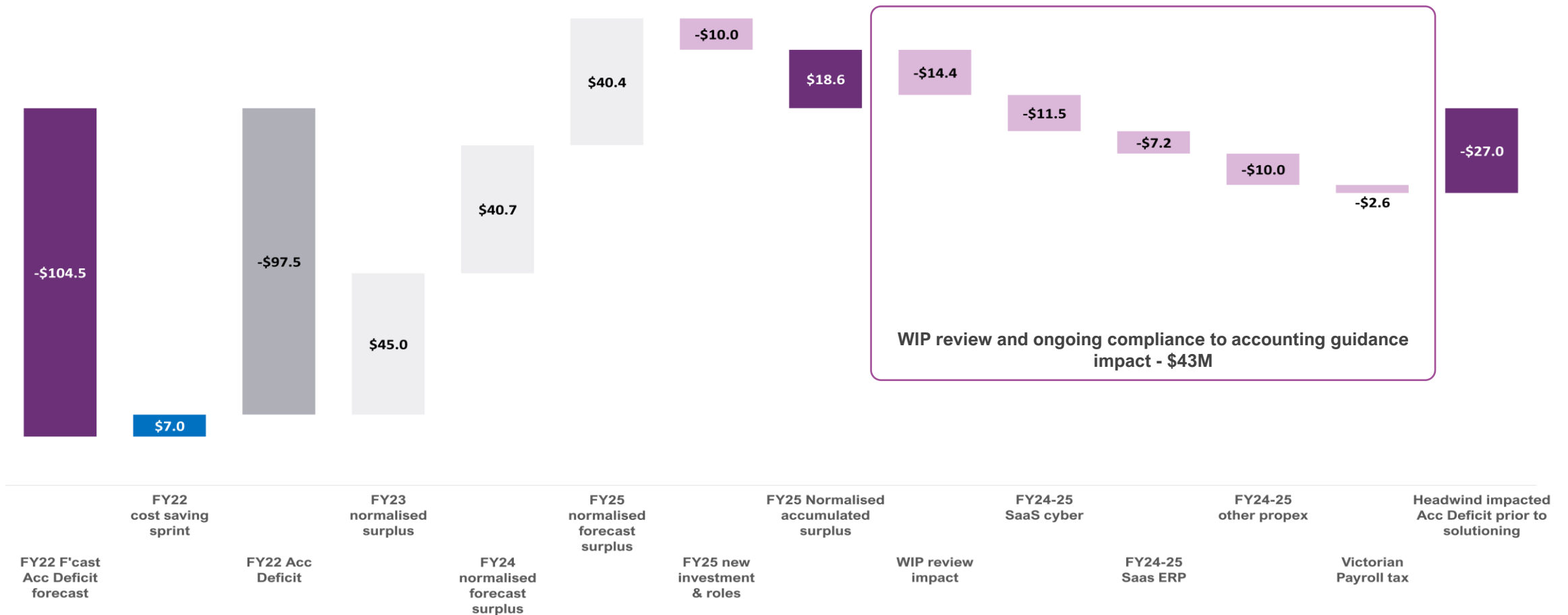
Chart 2. NEM Core deficit recovery performance (\$M) - normalised



AEMO is actively working to clear the deficit despite unforeseen headwinds. Further solutioning is underway



Chart 4. Headwinds impacting NEM Core deficit recovery profile



FY25 Fees – February/March publications

Background

- AEMO is required to notify the Coordinating Network Service Providers (CNSP's), by **15 February** every year, of:
 - their allocation of fees for the **NEM Core revenue requirement** (12.25% of the total revenue requirement) – refer slide 17
 - their allocation of fees in relation to the **NTP function** which include the Integrated System Planning (ISP) function – refer slide 18
 - **Modified Load Export Charge (MLEC)** for the use of the **Victorian Transmission network** (this is a portion of total Transmission Use of System (TUoS) fees – refer below.
- As the CNSP for Victoria, AEMO uses the relevant portion of the above information + the cost of delivering the Vic TNSP function + regulatory cost pass-through from AusNet Services and Murraylink to formulate and publish its TUoS prices by **15 March** every year. Further details next FCC meeting.

FY25 NEM Core fee allocation to CNSPs

Forecast revenue requirement in line with three-year fee pathway

- FY25 represents the final year of the NEM core deficit recovery fee pathway, which commenced in FY23.
- The increase in FY25 forecast revenue for NEM Core is driven by:
 - A planned fee increase of 4.5%, consistent with the three-year fee pathway and
 - 1.5% increase in consumption forecast to 175,934 GWh, consistent with the central scenario of the FY23 Electricity Statement of Opportunities (ESOO).
- These increases mean the benchmark NEM Core tariff increases to ~\$1.22/MWh.
- CNSP 12.25% portion equates to \$25.8m (incl. FY24 true up of \$0.4m).

		% allocation (MWh)	% allocation of charge	Draft FY25 fees including true up (\$M)	Final FY24 fees (\$M)	% change
VIC - AusNet Services	VIC	22.5%	1.7%	2.49	2.38	4.6%
TransGrid	NSW	36.7%	7.5%	11.04	10.49	5.2%
PowerLink	QLD	28.4%	5.8%	8.53	8.28	3.0%
ElectraNet	SA	6.4%	1.3%	1.92	1.84	4.6%
TasNetwork	TAS	6.0%	1.2%	1.80	1.72	4.4%
Total		100%	17.5%	25.78	24.71	4.3%

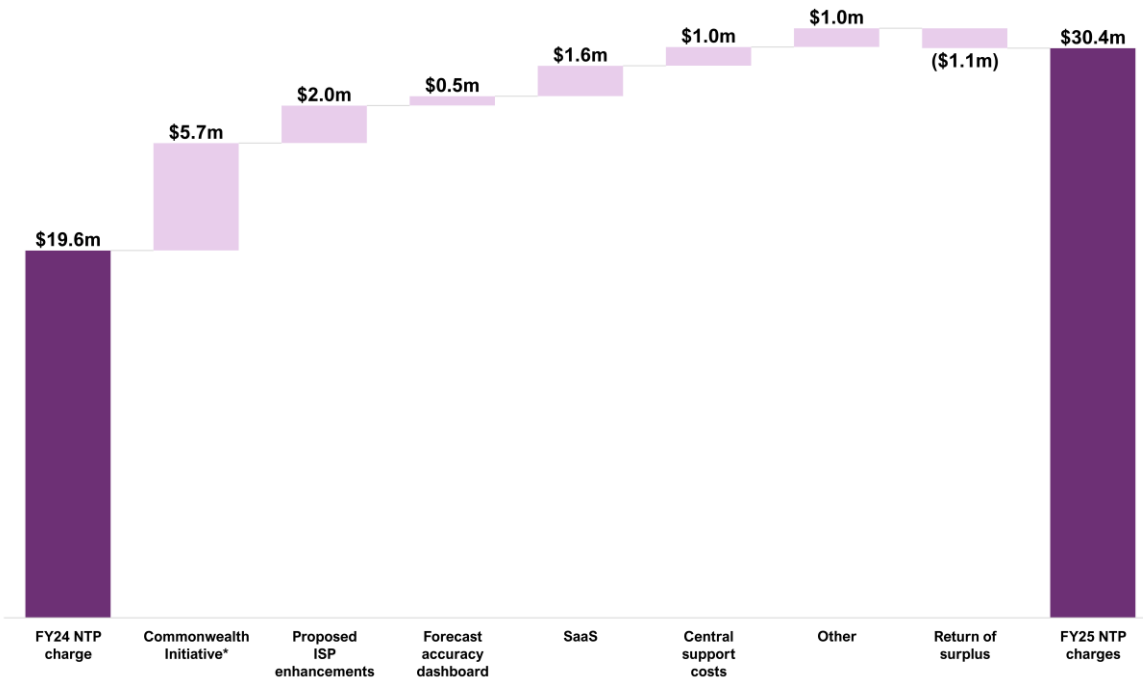
FY25 includes \$0.4m true-up of FY24 difference between draft and final

FY25 Network Transmission Planner (NTP) fees

NTP fee increases will support ISP and cyber security costs



Chart 5: FY25 NTP charges



* Commonwealth Initiative (commonly referred to as Supercharged ISP).

The FY25 preliminary draft budget revenue requirement for NTP is \$30.4m, an increase from \$19.6m in FY24. The increase in revenue requirement reflects:

- An initial estimate of the cost of implementing the Commonwealth Review of the ISP - approximately half the FY25 estimate has been included which is \$5.7 million. This will assist in avoiding a larger change in future years. Additional engagement with TNSP CFOs and Planning Executives has occurred.
- The resourcing costs of enhancements to AEMO's existing ISP scope (subject to consultation) e.g. community sentiment mapping and consumer risk preferences
- Investment in reporting on the progress of the transition against the ISP's forecast in a way that can inform industry, support continued investment and other actions required for the energy transition
- Increase in Software as a Service (SaaS) investment in enhanced cyber capabilities and delivering the Enterprise Resource Planning (ERP) modules
- Increase in central support function costs primarily related to enhanced cyber-resilience related activities, and underlying wage growth and CPI related increases.

Energy Market Cyber Briefing - provided at the meeting



Discussion and Next Steps





For more information visit

aemo.com.au