

Financial Consultation Committee FY24 Meeting #3

9 April 2024



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 and present.**

Agenda

1. Welcome
2. Minutes & Actions
3. FY24 Update
4. FY25 Draft Budget & Forward estimates
5. Stakeholder Engagement on Budget & Fees
6. Engineering Roadmap Deep-Dive (provided at the meeting)
7. Discussion and Next steps

Note: The strategic priorities and associated plans, investments and operating budgets included in this pack are a draft, and may be influenced by:

- final prioritisation of the FY25 Corporate Plan outcomes and deliverables; and
- further review and refinement of revenue and costs due to stakeholder engagement, public consultation and internal AEMO reviews.

Minutes

Draft minutes from the 21 February 2024 meeting have been circulated to members.

Actions

#	Item	Responsibility	Due Date	Status
FY24 2.1	AEMO to discuss and provide further clarity on slide 13 and Slide 14 of the February pack	AEMO	9 April 24	Verbal Update



FY24 Update



Recap - FY24 strategic priorities



1 Operating today's systems and markets

- Operational capability uplift across people and processes.
- Modernise technology systems and tools.
- Strengthen cyber resilience and recovery capabilities.
- Operationalise new roles and responsibilities under the *Security of Critical Infrastructure Act 2018*.

and more for a total of 14 Initiatives in Priority 1



2 Navigating the energy future

- Deliver and embed WEM reform on 1 October.
- Deliver high quality and timely network planning advice including the 2024 *Integrated System Plan*.
- Deliver and embed NEM reform as per roadmap.
- Progress the Engineering Roadmap to 100% renewables.
- Progress Victorian Transmission projects.
- Deliver improvements to the connection process.

and more for a total of 22 Initiatives in Priority 2



3 Engaging our stakeholders

- Enhance trust with stakeholders through openness and transparency.
- Improve accessibility of AEMO information and publications.
- Improve stakeholder engagement approach and capability.
- Embed consumer and community focus.

and more for a total of 10 initiatives in Priority 3



4 Evolving the way we work

- Deliver outcomes within agreed budget.
- Continue to provide greater financial transparency and demonstrate value for money.
- Continue to attract, empower, develop and retain talent for AEMO's current and future requirements.
- Embed our values and culture.
- Modernise our systems and processes to reduce effort and cost.

And more for a total of 16 initiatives in Priority 4

Business Performance update

AEMO's progress toward key priority areas, as outlined in the FY24 Strategic Corporate Plan, and financial targets.

Strategic Corporate Plan delivery

Priority 1 Operations



Reliability



System security



Prudential obligations



Priority 3 Stakeholder



Improved stakeholder trust and confidence

Results available June 2024

Priority 2 Energy future



High priority reform projects
On time, to scope and to approved budget

Priority 4 The way we work



Future State Architecture policy



Employee engagement (Full results post July 2024)



Safety, health & wellbeing



Expenditure (net of recoveries)



Notes

- Expenditure (net of recoveries) - Although FYTD Expenditure (net of recoveries) is favourable to budget, some key risks are being actively managed.



FY24 operating budget update

AEMO is ahead of budget in FY24 and expects to repay more of the NEM Core deficit than planned. Factors such as negative settlement residues and additional costs associated with WEM reform are affecting other segments.

	YTD Feb 24 Actual	Full Yr FY24 F'cast	Full Yr FY24 Bud	Var
NEM Core				
Revenue	142.5	212.1	207.0	5.1
Expenditure	106.9	165.9	173.6	7.7
Annual Surplus / (Deficit)	35.6	46.2	33.4	12.8
NEM Connections				
Revenue	10.9	25.5	18.9	6.6
Expenditure	10.0	22.3	18.2	(4.1)
Annual Surplus / (Deficit)	1.0	3.2	0.7	2.5
NEM Functions				
Revenue	58.3	95.2	86.4	8.8
Expenditure	72.0	121.3	102.2	(19.1)
Annual Surplus / (Deficit)	(13.6)	(26.1)	(15.7)	(10.3)
East Coast Gas				
Revenue	35.9	54.3	53.1	1.2
Expenditure	33.3	51.6	55.4	3.8
Annual Surplus / (Deficit)	2.6	2.7	(2.3)	5.0
WA				
Revenue	39.0	57.7	59.1	(1.5)
Expenditure	45.1	71.4	66.7	(4.7)
Annual Surplus / (Deficit)	(6.0)	(13.7)	(7.5)	(6.2)
VIC TNSP				
Revenue	(5.6)	0.1	30.1	(29.9)
Expenditure	33.0	60.2	70.2	10.0
Annual Surplus / (Deficit)	(38.6)	(60.1)	(40.1)	(20.0)
ASL				
Revenue	23.9	37.5	35.7	1.8
Expenditure	21.4	38.8	38.4	(0.4)
Annual Surplus / (Deficit)	2.5	(1.4)	(2.7)	1.3

NEM Core

- YTD surplus is driven by lower expenditure, specifically labour costs due to actions taken by management to deliver against FY24 Budget and to pave a pathway to clear the NEM core deficit by FY25.
- Depreciation & amortisation is higher due to projects going live.
- YTD favourability is maintained as recruitment picks up to deliver core project work and depreciation expenses catch up.

NEM Functions

- Consists of NEM Reform, National Transmission Planner, FRC, 5MS etc.
- Expenses unfavourable due to NEM reform initiatives going live and associated ongoing operating costs.

East Coast Gas

- Revenue higher due to gas capacity auctions. Other tariff revenue is in line with budget.

Western Australia

- Higher costs primarily due to D&A relating to successful delivery of WEM reform in Oct 23.

VIC TNSP

- Net revenue unfavourable due to negative inter regional settlement residue partially offset by delays in consulting spend associated with WRL and VNI-W projects. A portion of the consulting spend is expected to be caught up through the remainder of the year.

FY25 draft budget



Scope for FCC & Public consultation

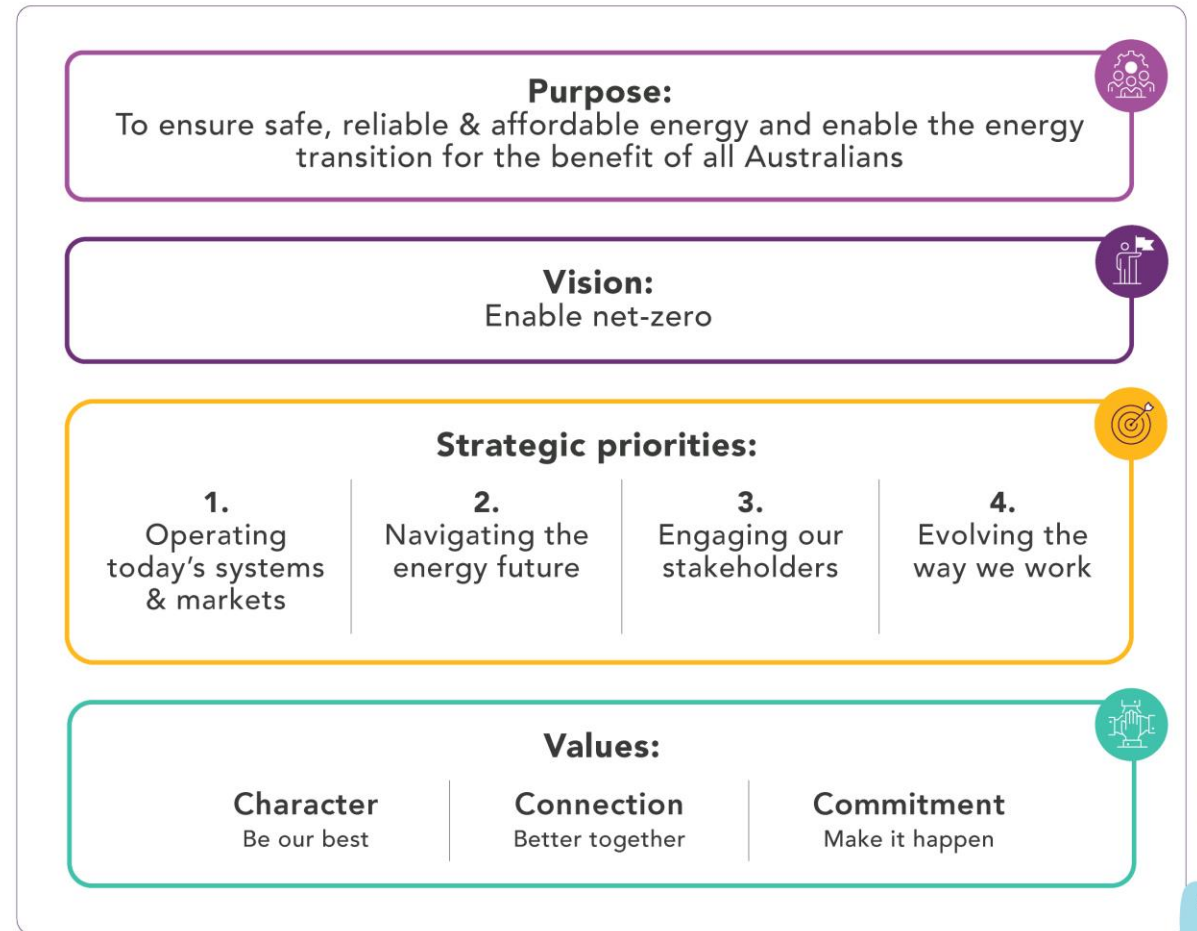
In scope

- AEMO's budgeted revenue requirements and fees for:
 - NEM Core
 - NEM Functions (with the exception of NTP fees)
 - East Coast Gas

Out of scope

- Victoria's Transmission Use of System (TUoS) revenue requirements and fees
- National Transmission Planner (NTP) fees
- Budget for Western Australia's Wholesale Electricity Market (WEM) and Gas Services Information (GSI) functions
- AEMO Services Limited's (ASL's) budget.

AEMO is enabling the energy transition while also ensuring safe, reliable and affordable energy



Draft FY25 strategic priorities (currently being finalised)



1

Operating today's systems and markets

A secure and reliable energy system, every day

- Continue to uplift operational capability in the NEM and WEM
- Continue to modernise technology systems and tools
- Operationalise new *Security of Critical Infrastructure Act 2018* roles and responsibilities
- Strengthen and accelerate AEMO's cyber resilience to ensure continued operations of the energy system
- Mature digital systems for operating the systems and markets efficiently and reliably.



2

Navigating the energy future

AEMO has planned and enabled critical infrastructure delivery and market reforms

- Deliver high quality, timely network planning advice and reliability outlooks
- Continue to progress prioritised initiative under the Engineering Roadmap and SWIS roadmap
- Progress initiatives from the future power system modelling strategy to support the transition to renewables
- Deliver and embed NEM and gas reforms, and commence planning for the next tranche of reforms with industry
- Continue to deliver timely onboarding and connection processes
- Collaborate with industry and government on DER reform
- Support the government to deliver Capacity Investment Scheme tenders



3

Engaging our stakeholders

AEMO has enhanced trust and delivered value to stakeholders

- Uplift AEMO's stakeholder engagement capability and processes
- Improve accessibility of AEMO's information and publications
- Progress delivery of AEMO's Consumer Engagement Plan
- Build greater understanding and awareness of the energy transition with consumers and the community



4

Evolving the way we work

AEMO has modernised its systems, evolved its culture, and improved financial health

- Deliver on the Reflect Reconciliation Action Plan (Reflect RAP)
- Develop and deliver AEMO's Environment, Social & Governance (ESG) Strategy
- Uplift capability for corporate functions, enabled through modern technology and maturing of digital capabilities
- Uplift cyber security posture and defences
- Mature and uplift AEMO's data capabilities.

Australia's energy transition is accelerating and AEMO is being asked to do more



Australia's energy transition is accelerating rapidly and is posing major technical, environmental, economic and social challenges (including our ability to operate systems today and manage risk associated with an ageing system)



Navigating these challenges requires collaboration; unlocking the efforts of Australia's large, diverse, and growing ecosystem of organisations focused on the energy transition

AEMO is at the heart of this ecosystem and our partners want us to collaborate more and remove friction¹



AEMO is currently progressing a large (and growing number) of mandated initiatives. The magnitude of change is creating increasing complexity in scheduling and prioritising initiatives, in an environment where skilled resources are also in high demand



AEMO's complex system architecture requires revamping, with a view to removing risk from ageing systems whilst unlocking efficiencies by consolidating platforms.



Increasing risks around cyber-crime, particularly in relation to critical infrastructure, is significantly increasing demands on the business. Programs to address these risks along with delivering the reform agenda and initiatives to navigate the energy transition are being carefully managed across the business

AEMO's investment plan prioritises delivery of mandated reforms and maturing core systems

A rigorous planning methodology has been implemented to assess and prioritise identified potential projects to produce an integrated investment plan that aligns to the key strategic initiatives.

Further guiding this planning is the capacity to fund these programs via existing fee segments, or the ability to source alternative funding for large, separately identifiable programs of work. A “doability” assessment has been made with respect to required skills and capability. Programs are segmented to optimise delivery timelines and effectiveness.

The integrated investment plan feeds the budget process, with associated capex and project opex reflected in the appropriate segments, as well as the ensuing Depreciation and Amortisation.

The draft FY25 investment plan (inclusive of Capex and Project Opex) comprises:

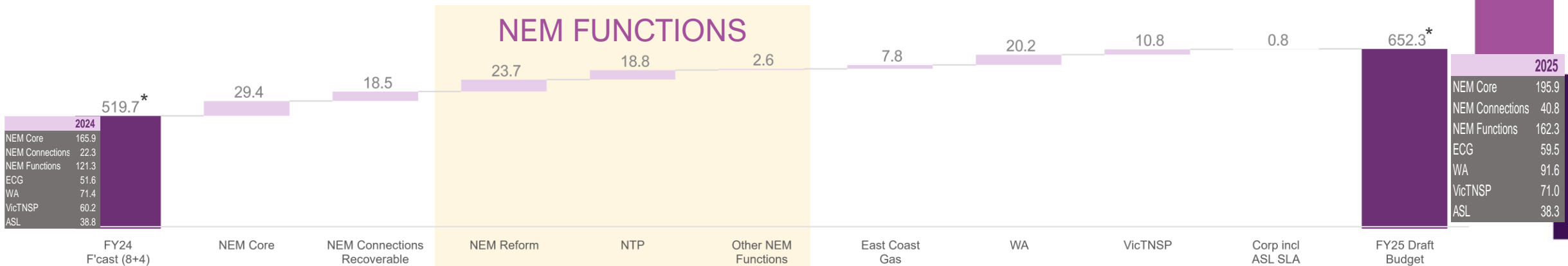
	FY24 Forecast	FY25 Draft Budget
East Coast Reform Delivery	~\$55m	~\$77m
Operational Technology Uplift	~\$31m	~\$49m
Corporate System Enablement	~\$53m	~\$54m
WA Program	~\$39m	~\$36m
System Design	~\$2m	~\$8m

VNI West project investment is incremental to investment program set out above.

Significant investments during FY24, which continues into FY25 acknowledging the pace of the transition and the need for AEMO as system and market operator to be an enabler of markets. Key investments include:

- WEM Reform delivered in October 2023. With heightened support. Preparing for the next wave of WA reforms including RCM changes, 5MS, and DER items.
- Delivery of Gas Reform for new emergency arrangement, coming into effect July 2023. Preparing for next stage of reform including stage 2 and renewable gas changes to wholesale and retail gas markets.
- Delivery of significant NEM reform programs including, Integrating Energy Storage (ADC) in August; and new Fast Frequency Market, new MT PASA information, load profiling changes, and last tranche of CDR during October/November 2023. Delivered metering exemption changes during March 2024, and on track to deliver IESS on June 2024. A significant pipeline of works during FY25 including delivery of FPP, and planning an executing for a range of reforms. further details can be found at: [AEMO | NEM Reform Executive Forum](#)
- Continued investment in operational tools including ST PASA, forecasting platform and operations data management platform.
- Modernising our corporate systems.

AEMO's Opex FY24 v FY25 reflects delivery of NEM reform & strengthening NEM core operational capability



* The total cost stack includes placeholders for ASL expenditure budget of ~\$39m.

NEM Core (17% increase)

Increase in costs primarily from:

- Depreciation and Amortisation \$8m
- Delivery of strategic Initiatives - \$12m
- Increases in Digital costs primarily from "Propex" ERP of ~\$5m
- Labour cost increase of \$5m primarily driven by 5% wage growth per assumptions and 10 FTE increase as critical vacant roles are filled.

Strategic initiatives reflects planned risk based opex investment requirements within NEM core and Central functions, specifically to meet obligations under Cyber market co-ordination roles and ESG requirements.

Finance System (ERP) was deferred from FY24 to FY25 which results in increased SaaS/Propex expenditure along with critical initiatives that bolster AEMO's cyber defences (Annual Cyber Program).

NEM Functions (33.8% increase) & NEM Connections (82.9% increase)

NEM Connections:

- Increase in NEM connections activity, primarily through labour and other recoverable activity such as NSW REZ work (\$19m or 119%).

NEM Functions

- Increase within NEM reform primarily from
 - D&A increase of \$14m from "go-live" of initiatives
 - Ongoing Tech costs of \$5m
 - Labour and Propex costs (feasibility studies) of \$4m.
- NTP increase is primarily driven by inclusion of cost of delivering the commonwealth initiative "Supercharged ISP at \$11.4m (100% estimate)
- Other NEM functions increase are aligned to wage growth primarily.

East Coast Gas (8% increase)

- Wage growth of 5% ~\$1.5m;
- increase in ongoing digital costs of \$1m;
- Strategic initiatives to support "Gas Safety Case" ~\$1m;
- Increase in D&A of ~\$1m; and
- An allocation of critical support projects (ERP, Cyber).

WA

See the WA segment slide for more information.

- Increased D&A from full impact of WEM reform go live
- Ongoing costs to support the WEM reform as well as costs incurred to support the next stages of the WA reform roadmap primarily through labour
- Increase in an allocation of central costs to support critical projects (ERP, Cyber program).

VIC TNSP

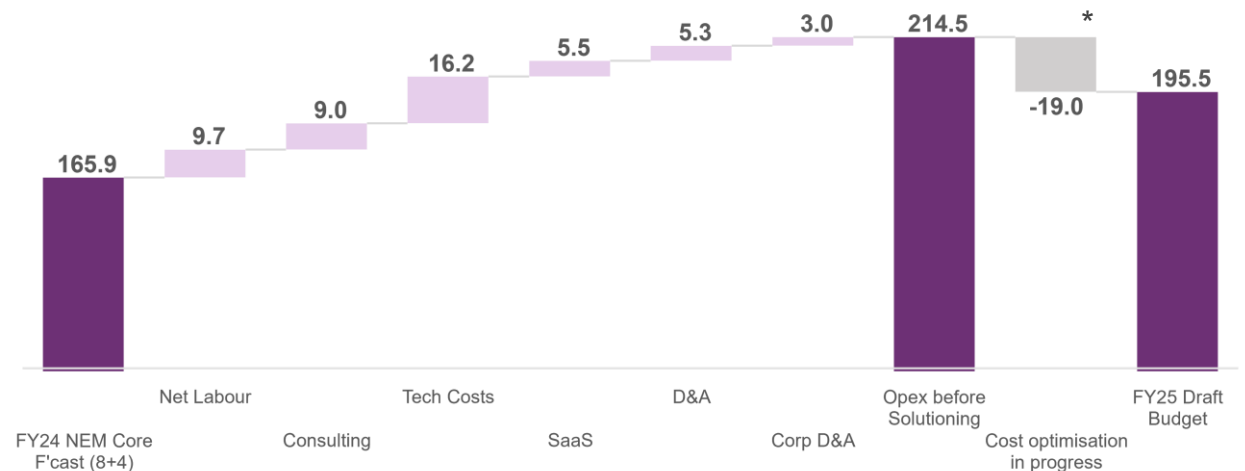
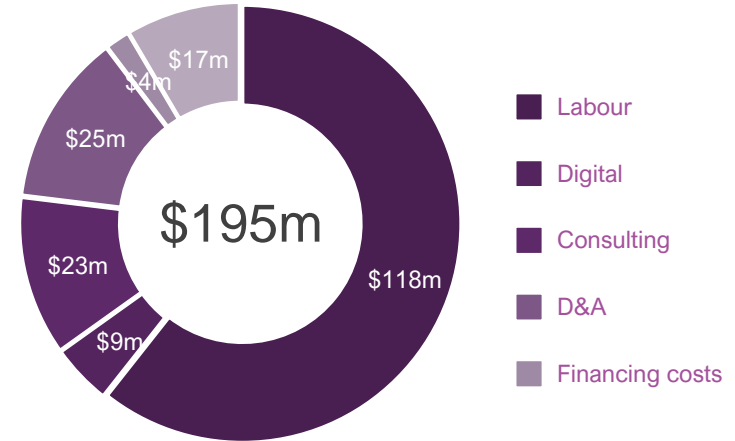
- Increase in prescribed network charges primarily due to a one-off payment relating to STPIS charges associated with VNI East project and associated indexation
- Portion of NTPs costs \$2m; and
- Reduction in VNI-W costs offset by increased costs to support WRL and inflationary growth in costs.

NEM Core

Draft operating budget

- Labour:** Increase of \$9.7m from average wage increase of 5% **\$4.6m**, FTE growth within Operations (average FTE increase of 11) **~\$2.4m** and increased spending on cyber-resilience activities **~\$2.5m**, along with baseline adjustments for wage growth and inflation.
 - Consulting:** Growth in consulting is primarily due to strategic initiatives held within as a placeholder. The strategic initiatives are as follows (a) **\$4.0m** towards system Ops risk related items (b) System Design related items such as access standard review **\$3.0m** (c) 50% allocation of items to be incurred through central functions **~\$5.5m**.
 - Digital & SaaS:** Tech costs increasing primarily from commercial cost increases from vendors, higher Cyber related costs **~ \$8m**, Increased Software as a Service (SaaS) expenditure covers enhanced cyber capabilities and Enterprise Resource Planning (ERP) modules **~\$5.5m**.
 - D&A:** D&A growth primarily from Operations Technology Roadmap and increases in Corp D&A primarily from lifecycle projects. D&A is doubling in two years from FY24 values and reaches a peak in FY28.
- * To investment appropriately to strengthen our operating capability as well as clear the NEM core deficit by end FY25, solutioning of a \$19m gap is required. Efficiency programs are progressing.**

Budgeted operating cost profile for NEM core FY25, \$m



NEM Core Deficit recovery

AEMO is committed to clearing the NEM Core deficit by the end of FY25 within the previously agreed 4.5% fee increase.

AEMO has a plan to achieve this despite significant additional AEMO roles and responsibilities (and associated complexities and cost) being asked of us.

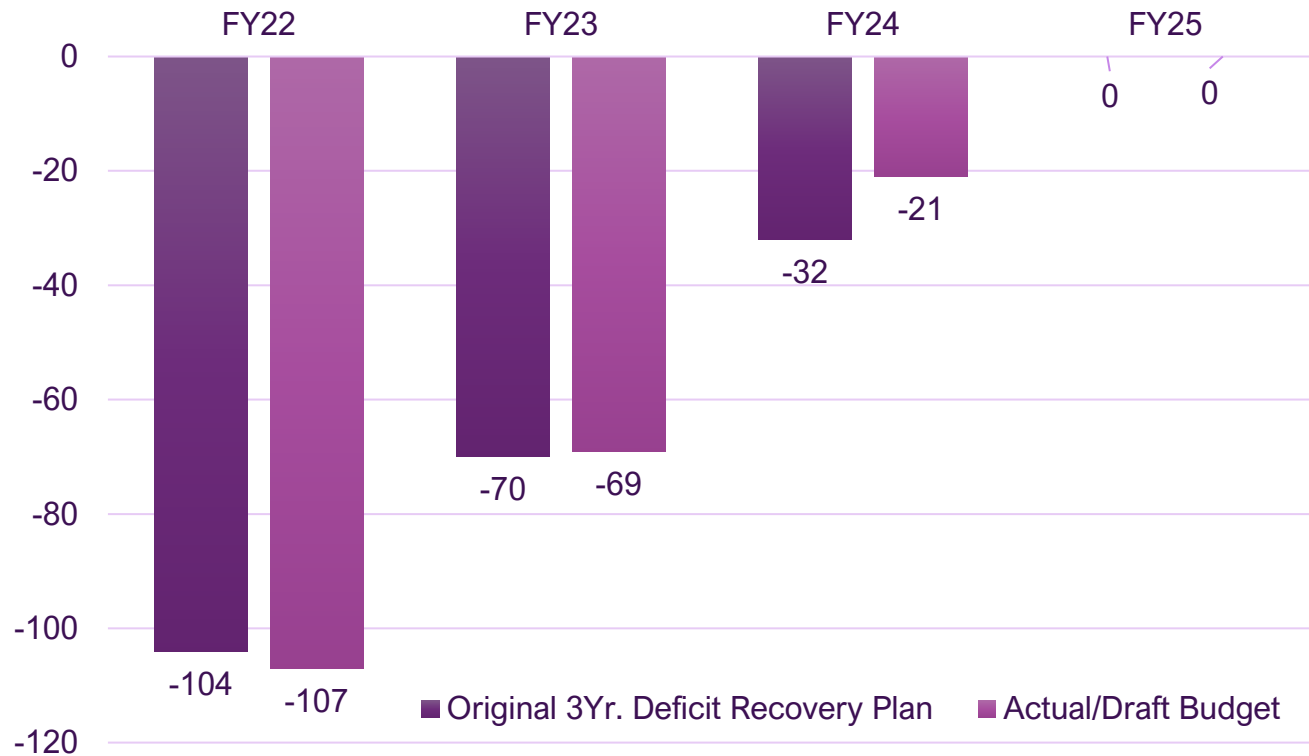
Additionally, unforeseen headwinds of ~\$43m primarily relating to SaaS and increasing cyber responsibilities have created challenges in managing operating costs to remain within the three-year fee pathway.

Significant effort and progress has been made to find underlying efficiencies to counteract these additional costs. This has resulted in the deficit reduction remaining on track despite the additional costs unforeseen when the 3-year fee pathway was set.

The FY25 draft budget has identified some key opportunity areas which are being progressed to ensure the deficit clearance goal is achieved.

We are committed to demonstrating sound financial management and ensuring the trust of stakeholders, particularly as we head into a period of rapid organisational growth and change to meet our responsibilities with regards to the energy transition.

NEM Core accumulated deficit recovery pathway, \$m



NEM Connections

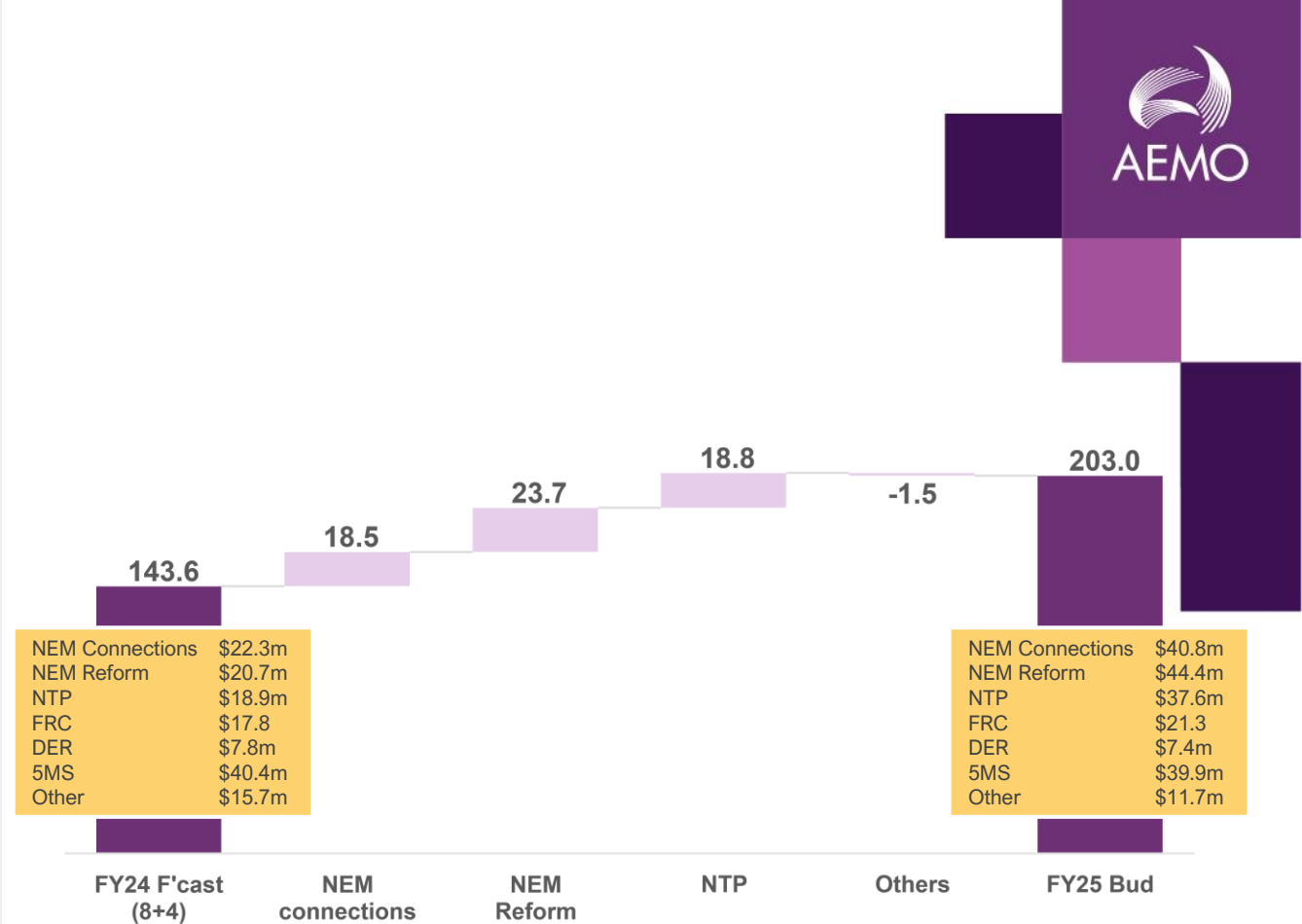
Draft operating budget

Increases within Connections and registrations are fully recovered through specific fees and aligned to removing connection bottlenecks and speeding up the energy transition.

NEM Functions

Draft operating budget

- **NEM Reform (Declared project):** Revenue commences in FY25. Expenditure prior to FY25 is recouped over FY25 and FY26. Higher D&A and operating costs reflecting the go-live of capital projects in FY24 and FY25
- **NTP:** additional labour and consulting services and employees to support the development of a broader scope ISP, driven by recommendations from a Commonwealth Review.



East Coast Gas

Draft operating budget

The East Coast Gas segment recovers the costs of operating the East Coast Gas markets, which include (not full list):

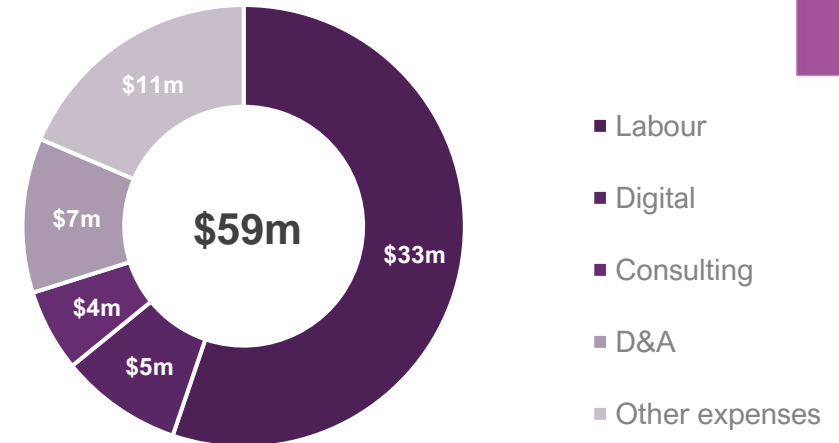
- Day Ahead Auction (DAA)
- Declared Wholesale Gas Market (DWGM)
- Gas Supply Hub (GSH)
- Retails Markets for NSW, QLD, VIC and SA
- Short-Term Trading Market (STTM)

This segment also Plans, implements and operates the integration of East Coast Gas System Reforms.

Cost increases of 8% in East Coast Gas are primarily due to:

- Wage growth of 5% ~\$1.5m;
- increase in ongoing digital costs of \$1m;
- Strategic initiatives to support “Gas Safety Case” ~\$1m;
- Increase in D&A of ~\$1m; and
- An allocation of SaaS costs from central support function of ~\$1.5m representing investment into Cyber and ERP.

Budgeted operating cost profile for East Coast Gas FY25, \$m



In August 2022, Energy Ministers agreed to make a [range of reforms](#) to support a more secure, resilient and flexible east coast gas market. These actions are designed to enable AEMO to better manage gas supply adequacy and reliability risks to minimise, as far as practicable, the hazards and risks to safety of the public and customers arising from gas supply. Stage 1 of the changes are being delivered in FY23 and in FY24 AEMO will progress stage 2 of the changes. The extension of AEMO’s regulatory functions and powers to manage east coast gas supply adequacy is reflected in our labour budget. In FY24 the costs are budgeted to be ~\$1.7m.

The FY25 impact is spend at FY24 levels and further investment is primarily capex in nature for Stage 2 (FY26 ~\$12m).

AEMO consulted on a [separate fee mechanism](#) for the ongoing recovery of Stage 1 costs and comes into effect from 1 July 2024 over a two-year period.

WA

Draft operating budget

- The ERA's AR6 determination, published on 31 May 2022, provided for AEMO to recover \$142.3 million of costs via fees across the three years FY23 to FY25. The May 2022 determination, plus the subsequent September 2023 in-period capex adjustment approved by the ERA, estimated a total capex requirement of \$108.6 million.
- AEMO has worked within these allowances to deliver the WEM Reform Program and operate the power system and market in the SWIS over the first two years of the AR6 period. A number of factors were not accounted for. As a result AEMO has proposed an adjustment to AR6 Fee revenue - refer table to the right

Summary of proposed adjustments to WEM allowable revenue and forecast capex, \$ million nominal

	WEM allowable revenue (opex)	WEM forecast capex
Approved AR6	142.3	108.2
1. Recover approved WEM Reform Program depreciation and financing costs	13.2	-
2. External cost pressures (e.g. inflation, labour cost escalation)	7.6	-
3. Critical AEMO enterprise-wide capability uplifts (e.g., cybersecurity, corporate systems)	4.9	-
4. Proposal for new reform and energy transition activities (labour and capex projects)	33.5	39.0
Total proposed adjustment*	59.2	39.0
Revised AR6	201.5	147.3*

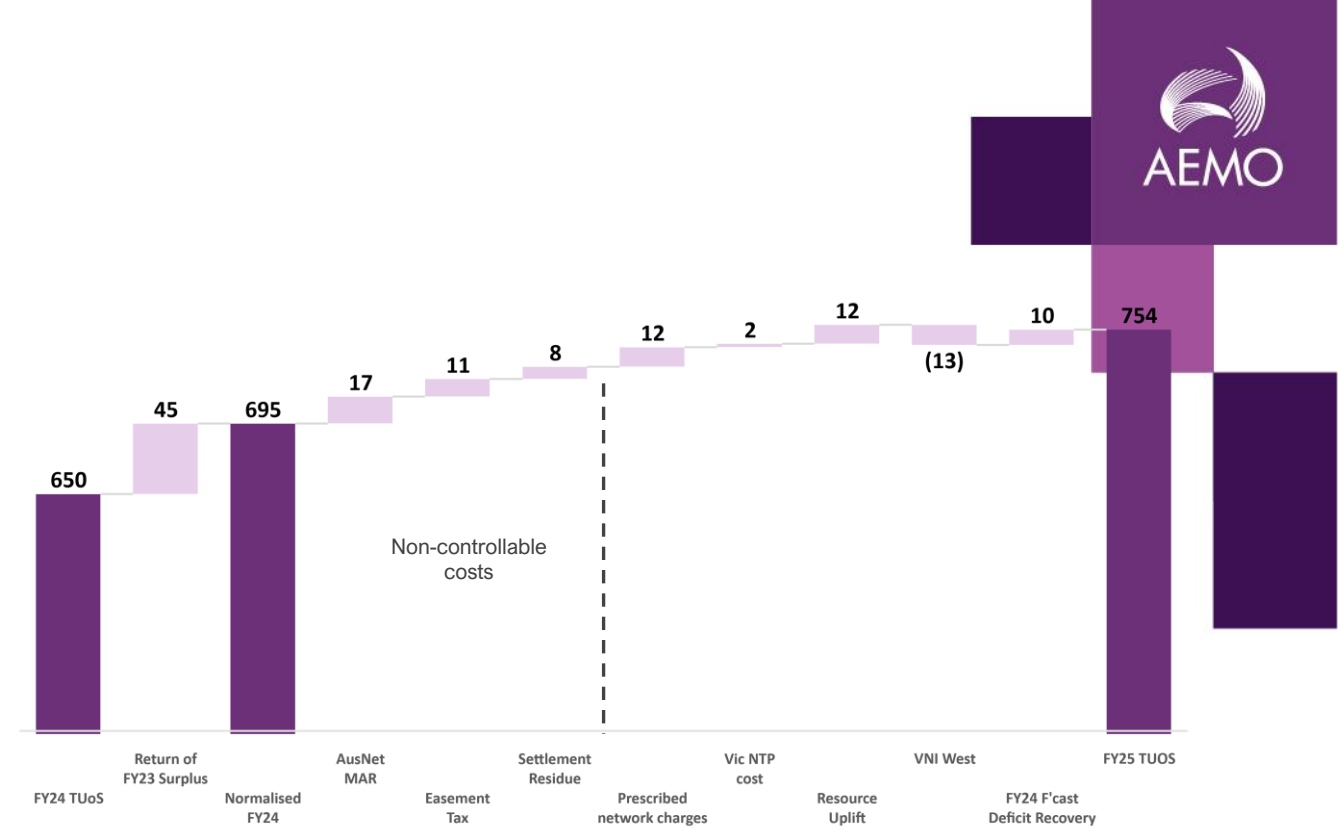
Subject to final determination by WA's Economic Regulation Authority.

Vic TNSP

Draft operating budget

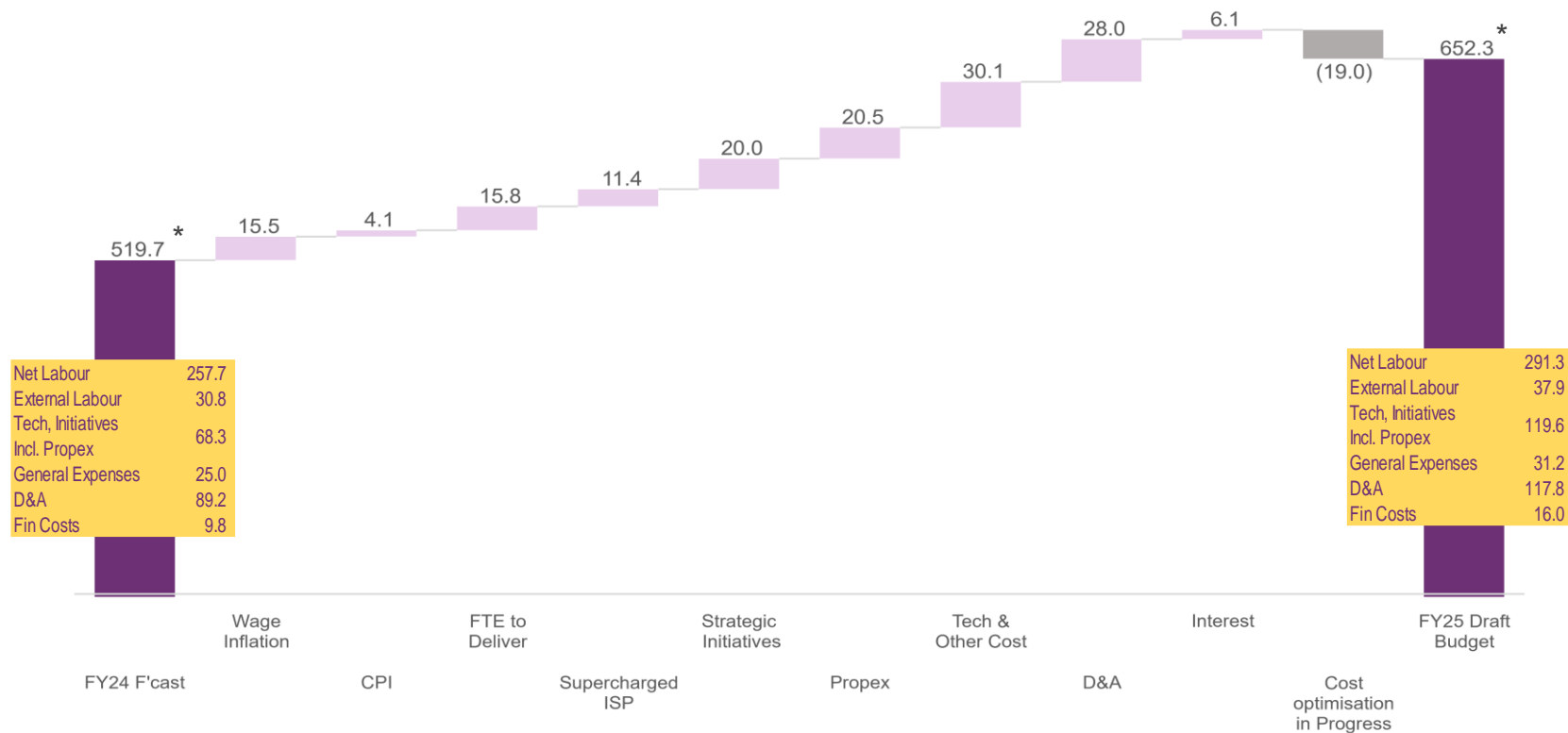
The increased FY25 revenue requirement is primarily driven by:

- Increase in AusNet’s Maximum Allowed Revenue (MAR) and easement tax payment, which is consistent with AER approved operating expenditure and higher indexation due to inflation.
- Reduction in settlement residue collection FY25 is due to higher anticipated negative inter-regional settlement residue payments associated with network congestion in southern region of NSW
- Increase in prescribed network charges primarily due to a one-off payment relating to STPIS charges associated with VNI East project and associated indexation
- Increase in AEMO’s cost of performing VicTNSP functions, primarily driven by labour FTE increases coupled with wage inflation at 4.5%. Moderate increases in central support costs reflecting the need for investment in cyber and related activities
- The recovery of FY24 forecast deficit primarily driven by higher than anticipated negative settlement residue payments as noted above. This deficit is recovered in FY25 TUOS charges through an annual true-up mechanism



(\$ Million)	FY24	FY25	Var	Notes
Non-controllable	592	628	36	
Regulated network charge	368	385	18	AER approved AusNet' and Murraylink's MAR
Easement tax	250	261	11	Victorian State Revenue Office
Settlement residue	(26)	(18)	8	Electricity spot price and auction clearance price
Controllable	103	116	13	
AEMO cost	51	54	3	Cost associated with transmission planning for Victoria
NTP- portion to Vic	5	7	2	AEMO's National Transmission Planner (NTP) charges
Non-regulated network charge	47	55	8	Network investment following RIT-T process
Total TUoS related Costs	695	744	49	
Prior Yr (Surplus)/ Deficit	(45)	10	54	Revenue Methodlogy requires 1 Yr. smoothing. FY24: Inter-negative residue.
TUOS	650	754	104	

FY24 v FY25 Opex movements reflect people-oriented service delivery (primarily in recoverable functions) and D&A flowing from step up in reform delivery.



* The total cost stack includes placeholders for ASL expenditure budget of ~\$39m.

Key overall drivers:

- Wage inflation of \$15.5m reflects 5% uplift on current FTE wages and the \$15.8m net labour costs represents ~120 full-time employees (FTEs) by June 2025 to deliver on priorities. Majority of the increases are within fully recoverable activities such as Connections, WRL delivery and WA reform which is approved through a Regulatory Process.
- Initial budgeting for the "Supercharged ISP" reflects 100% of anticipated costs. Revenue requirement factors in only 50% which balances future price increases against meeting AEMO's obligations and external expectations. NEM reform revenue commences in FY25 and reflects costs recovery associated with go-live of reform initiatives.
- Strategic initiatives & Tech costs reflects planned risk based opex investment requirements within NEM core and Central functions, specifically to meet obligations under Cyber market co-ordination roles and ESG requirements.
- Finance System (ERP) was deferred from FY24 to FY25 which results in increased SaaS/Propex expenditure along with critical initiatives that bolster AEMO's cyber defences (Annual Cyber Program). Total SaaS in the Preliminary Draft FY25 budget is \$38m.
- Depreciation and amortisation (D&A) step change \$28m related ramp up in investment program in recent years specifically for WEM reform, NEM reform and Operations Technology Roadmap.
- Higher interest expense related to higher debt funded investment program. Investment Program maintained to a \$180m cap.

5-year forward estimates



Base case key assumptions – FY25 & beyond



Macro-economic	
Inflation	CPI inflation based on RBA Feb-24 forecast of 3.1% (FY25)
Labour inflation	<ul style="list-style-type: none"> Award & Non-award employees – commensurate with market Superannuation guarantee – FY25: 11.5%, FY26+: 12% Labour cost includes allowances for Payroll tax (state based), work cover and overtime where relevant).
Debt and Financing costs	FY25+: 6.1% (all in rate). Investment program is funded through debt in accordance with capital management strategy.
NEM Core	
Benchmark Fee (p.a.)	FY25+: 4.5%, consistent with 3yr Plan FY26 onwards: 6% to 8% guidance used Electricity consumption: Budget reflects the <i>Step Change</i> scenario outlined in the 2023 NEM Electricity Statement of Opportunities (ESOO) , updated to reflect the latest input assumptions including large industrial loads, electrification, electric vehicles, and rooftop photovoltaic (PV).
Segments (other)	
NEM Functions	NEM Reform to smooth recovery of LTD Deficit over two years which manages tariff increases.
East Coast Gas	Return of surplus over smoothed 5yr period and volumes reflect reflects the <i>Orchestrated Step Change (1.8°C)</i> scenario from the 2023 Gas Statement of Opportunities (GSOO)
Vic TNSP	Delivery associated with WRL continues in FY25 & beyond.
WA	In line with AR6 in period submissions (1 st and 2 nd)

Investment program	
Capex	<ul style="list-style-type: none"> FY25 contains ~\$110m capex from projects currently in flight (Feb-24). A further ~\$70m has been included for prioritised projects within WA, NEM Reform and OTR. ~\$180m cap continues to FY27.
Propex	<ul style="list-style-type: none"> \$38m in FY25 comprising of \$11.8m ERP + \$13m Annual Cyber ask + \$13.2m Other.
Major programs	
VNI West	<ul style="list-style-type: none"> Early works investment not part of the corporate investment program Assumed to be fully debt funded by concessional loan facility.
Cyber Program	<ul style="list-style-type: none"> BAU cyber initiatives continue in FY25
Engineering Roadmap	<ul style="list-style-type: none"> \$26.5m over 18 months (Jan-24 to Jun-25)
NTP	Budget includes: <ul style="list-style-type: none"> “Supercharged” ISP (\$11.4m) with only 50% factored into FY25 revenue Other function enhancements (\$2.5m)
WA:	<ul style="list-style-type: none"> Budget aligns with Proposed Second In Period Submission (SIPS)
Other	
Strategic initiatives	\$20m included in FY25, growing by CPI annually
ASL	Placeholder based on the Yr2 of FY24 Approved Plan

5Yr Forward estimates

	2023	2024	2025	2026	2027	2028	2029
	Actual	Forecast	Draft Budget	Estimate	Estimate	Estimate	Estimate
NEM Core							
Revenue	226.9	212.1	216.6	224.0	237.4	251.5	266.0
Expenditure	186.7	165.9	195.9	213.8	232.2	248.0	261.1
Annual Surplus / (Deficit)	40.1	46.2	20.7	10.2	5.1	3.5	4.8
Accumulated Surplus / (Deficit)	(66.9)	(20.7)	0.0	10.3	15.4	18.9	23.7
NEM Connections							
Revenue	-	25.5	44.5	44.7	46.5	48.7	53.0
Expenditure	-	22.3	40.8	47.0	48.8	51.0	53.0
Annual Surplus / (Deficit)	-	3.2	3.8	(2.3)	(2.3)	(2.3)	(0.0)
Accumulated Surplus / (Deficit)	-	3.2	6.9	4.6	2.3	(0.0)	(0.0)
NEM Functions							
Revenue	87.1	95.2	157.0	182.9	193.8	210.4	207.0
Expenditure	80.2	121.3	162.3	171.7	189.5	205.6	206.8
Annual Surplus / (Deficit)	6.8	(26.1)	(5.2)	11.2	4.2	4.8	0.2
Accumulated Surplus / (Deficit)	12.5	(13.5)	(18.8)	(7.6)	(3.3)	1.4	1.6
East Coast Gas							
Revenue	82.9	54.3	49.8	53.1	54.3	57.7	59.9
Expenditure	49.9	51.6	59.5	62.9	64.2	67.7	70.0
Annual Surplus / (Deficit)	33.0	2.7	(9.7)	(9.8)	(9.9)	(10.0)	(10.1)
Accumulated Surplus / (Deficit)	54.2	56.9	47.2	37.5	27.6	17.6	7.5
WA							
Revenue	44.5	57.7	108.8	92.1	100.2	108.5	106.8
Expenditure	47.4	71.4	91.6	99.1	100.2	108.5	106.8
Annual Surplus / (Deficit)	(2.9)	(13.7)	17.1	(7.0)	-	-	-
Accumulated Surplus / (Deficit)	3.6	(10.2)	7.0	(0.0)	(0.0)	(0.0)	(0.0)
VIC TNSP							
Net Revenue	62.3	0.1	88.0	75.2	78.8	84.0	89.6
Expenditure	49.5	60.2	71.0	76.9	80.4	85.7	89.6
Annual Surplus / (Deficit)	12.9	(60.1)	17.0	(1.7)	(1.7)	(1.7)	(0.0)
Accumulated Surplus / (Deficit)	48.1	(11.9)	5.1	3.4	1.7	(0.0)	(0.0)
ASL							
Revenue	24.2	37.5	38.3	39.2	40.2	41.2	42.3
Expenditure	28.2	38.8	38.3	39.2	40.2	41.2	42.3
Annual Surplus / (Deficit)	(4.0)	(1.4)	-	-	-	-	-
Accumulated Surplus / (Deficit)	6.1	4.7	4.7	4.7	4.7	4.7	4.7

*NEM Connections is included within NEM Functions for the purposes of FY24 F'cast and FY25 Budget. In FY23 NEM connections was included within NEM Core. This has not a material impact to accumulated surplus deficit position of NEM core.

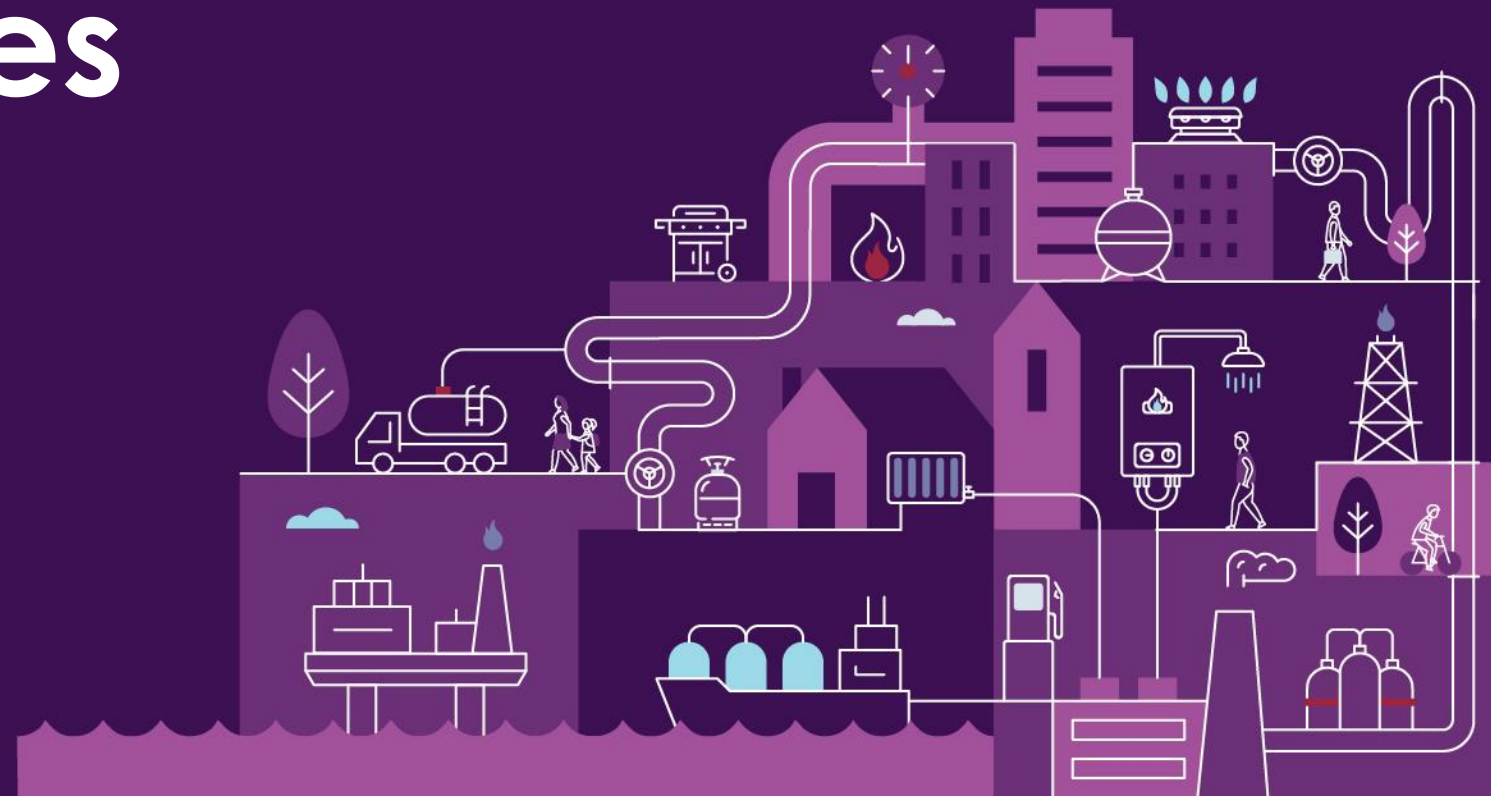
NEM Core

- The forward outlook for NEM Core is based on FY25 as base cost and adjusted to reflect the following:
 - An incremental \$10m p.a. of investment to fund engineering roadmap and enact the energy transition.
 - \$10m of incremental Digital investment specifically geared towards lifting ongoing cyber capability and associated digital infrastructure needs; and
 - Depreciation and Amortisation rises in-line with the indicative forward investment plan and nearly doubles by FY28 from FY25 (\$24.8m) levels.
- After the 3 Yr. deficit recovery period management are orientating towards a forward fee guidance of 6% to 8% increases to support the ongoing cost investment in the energy transition.

Other segments

- NEM Functions:** Growth in costs is associated with when components of the NEM reform program go live.
- NEM Connections:** Continued growth reflecting the increased demand associated with energy transition infrastructure build.
- East Coast Gas:** Accumulated surplus is integrated into the forward pricing.
- VicTNSP:** AEMO direct cost increases primarily in relation to delivery of WRL related activities.
- WA:** AR7 period commences in FY26. The forward estimates are placeholders.
- ASL:** Reflects a placeholder given the budget is under development.

Stakeholder Engagement on Budget & Fees



Listening to our stakeholders

Why consult?

- Hear stakeholders' views about AEMO's Corporate Plan priorities and projects, AEMO's financial governance and financial management
- Invite feedback on FY25 fees
- Demonstrate AEMO's commitment to being open and transparent
- Build mutual understanding and cooperation towards shared objectives.

Focus areas

- NEM
- East Coast Gas
- Cost drivers
- Cost recovery mechanisms
- Financial status/health
- Budget process and financial governance

Out of scope

- TUoS fees
- NTP fees
- Budget for WA
- ASL

Who we are engaging

- FCC
- Consumers
- Market participants

How we are engaging

- FCC
- Via AEMO newsletter and website
- Consumer forum (inform)
- Emails to energy industry associations

Timeline of Budget & Fee consultation and publication

Engagement activity	Date
FCC meeting	9 April
Consultation opens	15 April
Consumer forum	17 April
Public webinar	18 April
Written and verbal responses to queries	Throughout consultation
Consultation closes	26 April
Review and consider feedback	Post consultation
Budget and Fees approval process	May
DMO/VDO final numbers provided	May
FCC meeting	June
Final budget and fees published	by 30 June

Engineering Roadmap Briefing - provided at the meeting



Discussion and Next Steps



Reference slides

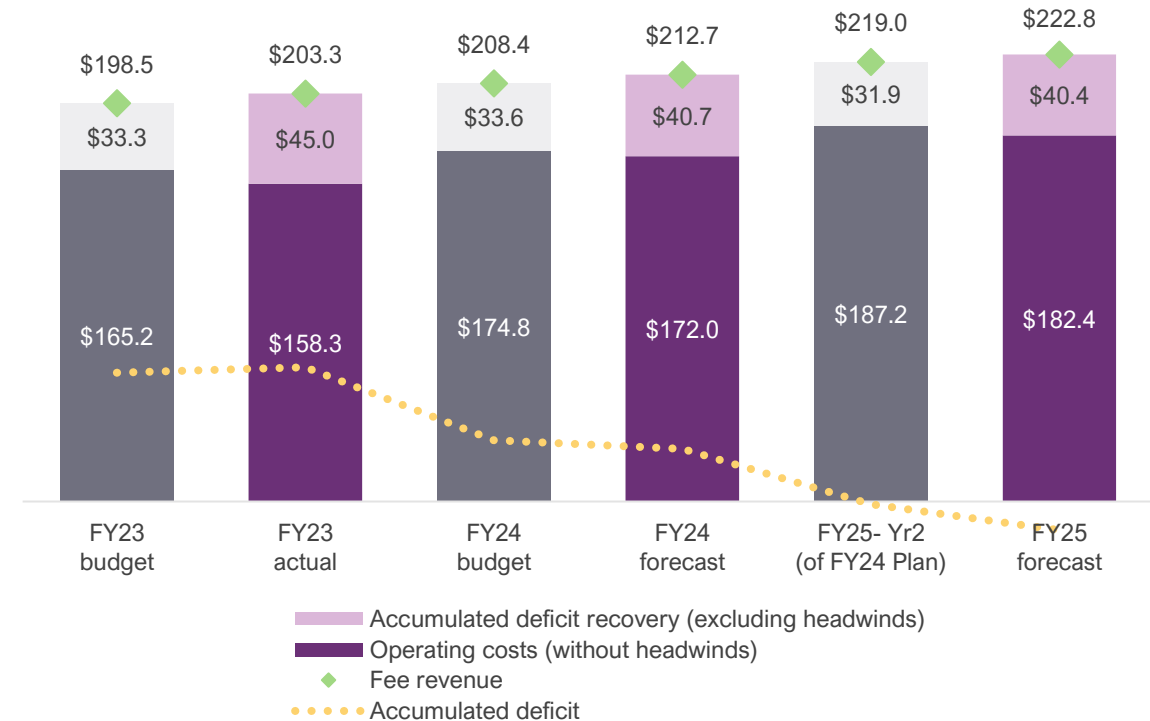


AEMO's underlying business performance has been strong. We are working to clear the deficit despite additional headwinds

Recap from Feb 24 FCC

- 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 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

Recap from Feb 24 FCC

Chart 4. Headwinds impacting NEM Core deficit recovery profile

