

Please note that the information presented in this document were developed to enable discussion at the Financial Consultation Committee and are draft only and subject to change.

Financial Update 2020/21

Finance Consultation Committee
7 June 2021

Welcome

Julie Williams, Chief Financial Officer



Review of Minutes of Previous Meeting and Action Items

Julie Williams, Chief Financial Officer

Action Items from Meeting 2 – 14 May 2021

Item #	Action	Responsibility	Due Date	Action to Date
2.1	Discussions to be held with Mr Italiano on interest rate hedging.	Ms Williams	Before next meeting on 7 June 2021	Interest rate sensitivity to be circulated separately
2.2	Discussions to be held with Mr Italiano on where TNSP fees land with AEMO fees and what the consumer will see.	Ms Williams	Before next meeting on 7 June 2021	Discussion held and a follow up meeting scheduled with TransGrid
2.3	Discussion to be held with Mr McKeown on DMO and VDO price methodology re AEMO fees.	Mr Chappel	Before next meeting on 7 June 2021	Complete in phone discussion
2.4	Circulate information provided to industry members on the TUoS required revenue increase.	Ms Williams	Before next meeting on 7 June 2021	To be circulated separately
2.5	Update from the AEMO Board on budget and fee position to be provided to attendees.	Ms Williams	Next meeting on 7 June 2021	Agenda item in 14 May meeting

Update on AEMO Board Feedback

Tony Chappel, Chief External Affairs Officer

2021/22 Budget & Corporate Plan

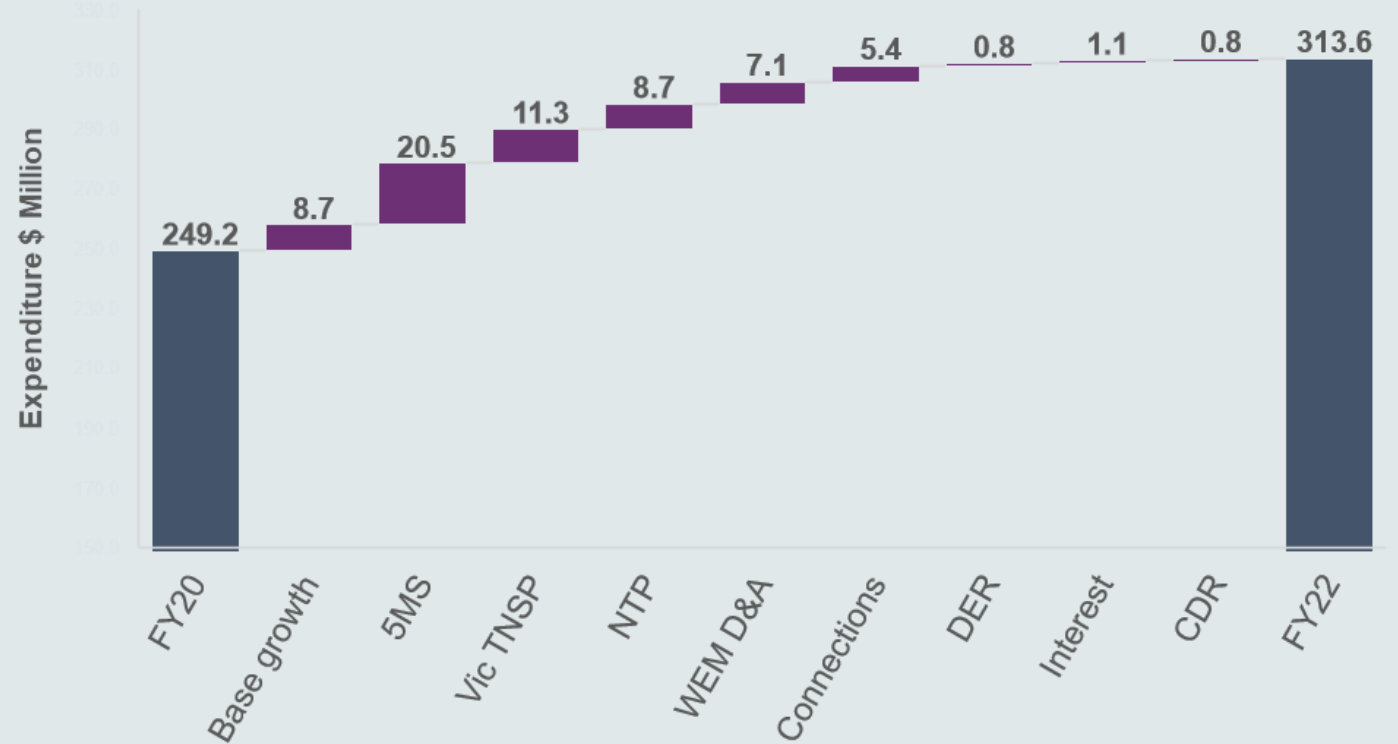
- The board is appreciative of member participation in the FCC committee and feedback provided by committee members on the 2021/22 Draft Corporate Plan Priorities and Draft Budget.
- The Board discussed a requirement for the Final 2021/22 Corporate Plan to:
 - adequately reflect AEMO's collaboration with members in regards to the transition to a renewable energy future
 - ensure transparency regarding AEMO's debt balance and member awareness of AEMO's reliance on debt funding to deliver market investments
- In relation to the 2021/22 Budget and financial forecasts, the Board noted AEMO's requirement for:
 - continued transparency of revenues and costs
 - understanding the activity and costs that are driving changes in price paths
 - the need to better track IT benefits and costs
 - a continued focus on delivering efficient cost outcomes

Review of Latest Draft 2021/22 Budget

Julie Williams, Chief Financial Officer

2021-22 Budget Context

- Consistent with the Draft 2021-22 Budget presented to the Committee on 14 May 2021, the financial profile reflects market reform that is underway. ESB Post 2025 NEM reforms are not captured in the 2021-22 draft budget or financial forecasts.
- Cost increases largely reflect the broader energy transition impacting AEMO's obligations and operational activities
- The 2020-21 forecast has been updated and applied as the base for the 2021-22 Budget
- Cost escalation of 2% is applied and all financials are shown in nominal dollars unless otherwise stated



2020/21 Forecast Update

AEMO Financial Overview (\$Million)	2020-21 Forecast Meeting 3	2020-21 Forecast Meeting 2	Variance
REVENUE			
Fees and Tariffs	199.5	197.4	2.1
Other Revenue	24.5	19.6	4.9
Net Vic TNSP	37.2	35.2	2.0
NET REVENUE	261.2	252.1	9.0
OPERATING EXPENDITURE			
Net Labour	162.8	159.5	3.3
Consulting	13.7	17.4	(3.7)
IT & Telecommunications	32.3	31.9	0.4
Depreciation and Amortisation	29.3	27.1	2.2
Other expenses	31.1	30.7	0.4
TOTAL OPERATING EXPENDITURE	269.1	266.5	2.7
ANNUAL SURPLUS / (DEFICIT)	(8.0)	(14.4)	6.4
Accumulated Surplus / (Deficit)	(40.6)	(47.0)	6.4
Net Capital Expenditure	155.7	156.9	(1.3)
Borrowing	358.2	373.8	(15.6)

- The 2020/21 forecast has been updated to reflect the following:

Revenue:

- higher connections revenue, a reimbursement of FCAS services and increased ancillary services recovery

Expenditure:

- higher gross labour to deliver externally recovered services
- lower internal labour allocated to capital expenditure projects
- lower consulting costs associated with VicTNSP and corporate activities
- lower travel & accommodation and training costs due to the continued impact of COVID
- higher depreciation and amortisation expense for projects cleared from work in progress

2021/22 Draft Budget Update

AEMO Financial Overview (\$Million)	2020-21 Budget Meeting 3	2020-21 Budget Meeting 2	Variance
REVENUE			
Fees and Tariffs	255.4	244.7	10.7
Other Revenue	20.5	20.5	(0.0)
Net Vic TNSP	24.4	27.1	(2.7)
NET REVENUE	300.3	292.3	8.0
OPERATING EXPENDITURE			
Net Labour	168.3	167.2	1.1
Consulting	21.1	19.6	1.5
IT & Telecommunications	47.4	47.0	0.4
Depreciation and Amortisation	43.9	43.8	0.1
Other expenses	33.0	31.1	1.9
TOTAL OPERATING EXPENDITURE	313.6	308.7	4.9
ANNUAL SURPLUS / (DEFICIT)	(13.3)	(16.3)	3.0
	(54.9)	(64.3)	9.4
Net Capital Expenditure	140.3	128.9	11.4
Borrowing	470.0	475.4	(5.4)

- Key movements in the 2021/22 Draft Budget reflect:

Revenue:

- higher forecast NEM electricity volumes due to revised COVID impact and weather assumptions
- higher forecast connections revenue

Expenditure:

- an earlier in service date for 5MS dispatch and settlements assets – impacting depreciation and IT & Telco costs
 - a forecast gas supply security related expense
 - increased consultancy expenditure funding corporate plan priority programs
 - an increase in the insurance expense
 - reduced hardware depreciation expense
- The increase in net capital expenditure largely reflects an increase in 5MS project expenditure

AEMO Financial Summary

AEMO Financial Overview (\$Million)	Actual 2019-20	Forecast 2020-21	Budget 2021-22	Estimate 2022-23	Estimate 2023-24	2021-22 Growth (Real \$M)
REVENUE						
Fees and Tariffs	187.6	199.5	255.4	265.0	281.6	51.9
Other Revenue	37.1	61.7	44.9	58.4	60.1	(18.0)
NET REVENUE	224.7	261.2	300.3	323.5	341.7	33.9
OPERATING EXPENDITURE						
Expenditure	225.7	239.3	267.6	276.4	286.9	23.5
Depreciation and Amortisation	22.5	29.3	43.9	68.3	69.1	14.0
Borrowing costs	1.0	0.5	2.1	3.1	3.9	1.6
TOTAL EXPENDITURE	249.2	269.1	313.6	347.7	359.9	39.1
ANNUAL SURPLUS / (DEFICIT)	(24.5)	(8.0)	(13.3)	(24.3)	(18.2)	(5.1)
Accumulated Surplus / (Deficit)	(31.6)	(40.6)	(54.9)	(79.2)	(97.4)	
Net Capital Expenditure	129.8	155.7	140.3	60.0	41.1	(18.5)
Borrowing	238.2	358.2	470.0	493.8	487.8	104.7

- Expenditure and hence the revenue requirement is growing as AEMO delivers energy market transition reforms and manages operations with increasing external threats
- As AEMO's programs are implemented market participants and consumers benefit from the industry reform and the increased operational security
- AEMO investments are also establishing platforms to support future energy market transition activities

AEMO Entity Financial Contributions

Surplus / (Deficit) by Entity	Actual 2019-20	Forecast 2020-21	Budget 2021-22	Estimate 2022-23	Estimate 2023-24	2021-22 Growth (Real \$M)
NEM Core	(20.7)	(19.9)	(11.0)	(16.9)	(12.6)	9.3
FRC - Electricity	1.0	(0.4)	(0.9)	(0.0)	1.0	(0.6)
VIC TNSP	(3.3)	12.5	(11.3)	(0.0)	(0.0)	(24.0)
DER	(3.2)	2.4	4.3	0.0	(0.9)	1.8
5MS	(3.4)	3.4	2.6	(1.3)	(0.6)	(0.9)
VIC Wholesale Gas	2.2	(1.2)	(0.0)	(0.7)	(2.3)	1.2
Gas FRC	(0.3)	0.1	0.4	(0.0)	(0.2)	0.2
Gas Trading & Other	2.0	(0.0)	0.5	(0.3)	(0.4)	0.5
National Transmission Planner	(2.8)	(3.5)	6.3	(0.1)	(0.0)	9.8
WEM	4.0	(0.0)	(4.9)	(5.0)	(2.5)	(4.8)
WA GSI	0.2	(0.6)	(0.0)	(0.0)	(0.0)	0.6
WA Gas FRC	(0.4)	(0.1)	(0.2)	0.1	0.0	(0.0)
Other entities	0.1	(0.7)	1.1	(0.0)	0.1	1.8
AEMO	(24.5)	(8.0)	(13.3)	(24.3)	(18.2)	(5.1)

- While NEM Core's under recovery continues to be the main contributor to the AEMO annual deficit, it has improved in 2021-22 by \$3.9m as compared to the Draft Budget presented on 14 May
- VIC TNSP 2021-22 deficit reflects an over recovery in 2020-21 largely due to lower network payments and higher connections revenue
- National Transmission Planner surplus in 2021-22 includes recovery of the 2020-21 under recovery arising from a transitional rule change that has resulted in a deferred recovery of some fees from TNSP's (excluding Vic TNSP) until FY22

AEMO Revenue

AEMO Revenue (\$Million)	Actual 2019-20	Forecast 2020-21	Budget 2021-22	Estimate 2022-23	Estimate 2023-24	2021-22 Growth (Real \$M)
FEES AND TARIFFS						
NEM Fees	91.8	98.2	106.2	113.8	122.6	6.0
NEM DER	-	-	5.8	5.5	5.3	5.8
5MS	-	-	24.8	25.1	25.6	24.8
FRC Tariffs	13.6	13.8	14.2	14.6	15.0	0.1
Gas Tariffs	41.1	39.7	43.4	45.9	46.1	2.9
WA Tariffs	34.0	34.0	34.4	38.8	43.6	(0.3)
Other Tariffs	7.2	13.8	26.7	21.4	23.3	12.7
Total Fees and Tariffs	187.6	199.5	255.4	265.0	281.6	51.9
OTHER REVENUE						
TUOS	549.6	591.5	601.2	633.8	650.7	(2.1)
Settlement Residue	59.4	51.5	43.4	44.3	45.2	(9.1)
Negotiated Services	46.4	50.2	49.1	50.0	51.0	(2.1)
Connections	16.5	22.4	24.7	25.2	25.7	1.8
Other revenue	11.4	11.7	5.2	4.2	4.3	(6.8)
Network Charges	(646.0)	(665.7)	(678.7)	(699.1)	(716.8)	0.3
Total - Other	37.1	61.7	44.9	58.4	60.1	(18.0)
TOTAL REVENUE	224.7	261.2	300.3	323.5	341.7	33.9
Change	41.9%	16.2%	15.0%	7.7%	5.6%	13.0%

- AEMO's revenue requirement continues to grow largely reflected in increased fees and tariffs revenue
- 59% of growth in real 2021-22 Fees and Tariffs revenue results from 5MS and NEM DER projects going live in the financial year
- The 5MS 2021-22 Budget revenue requirement has increased by \$4.6m as compared to the 14 May 2021 budget presentation. This is due to the dispatch and settlements components of the program being recognised as in service earlier than previously assumed, however in line with accounting standards. As a result, depreciation and operating costs are being expensed as opposed to capitalised.

AEMO Expenditure

AEMO Expenditure (\$Million)	Actual 2019-20	Forecast 2020-21	Budget 2021-22	Estimate 2022-23	Estimate 2023-24	2021-22 Growth (Real \$M)
Labour	192.6	210.0	204.0	188.9	190.1	(10.2)
Capex Labour	(38.9)	(47.2)	(35.8)	(16.3)	(11.6)	12.4
Net Labour	153.7	162.8	168.3	172.6	178.5	2.2
Consulting	16.8	13.7	21.1	21.5	21.9	7.1
Financing Costs	1.0	0.5	2.1	3.1	3.9	1.6
IT & Telecommunications	26.3	32.3	47.4	50.8	54.2	14.5
Occupancy	7.9	8.3	7.7	7.6	7.5	(0.8)
Insurance	1.9	2.9	3.6	3.7	3.7	0.6
Recoveries	6.1	9.2	5.5	6.0	6.5	(3.9)
Training & Education	1.7	0.8	2.6	2.2	2.3	1.8
Travel & Accommodation	2.4	0.3	1.9	1.8	1.9	1.6
Other Expense	8.8	9.0	9.6	10.1	10.3	0.3
Cash Non-Labour	72.9	77.1	101.5	106.9	112.3	22.8
Depreciation & Amortisation	22.5	29.3	43.9	68.3	69.1	14.0
TOTAL EXPENDITURE	249.2	269.1	313.6	347.7	359.9	39.1
<i>Change</i>	11.2%	8.0%	16.5%	10.9%	3.5%	14.5%

- 73% of growth in AEMO's real 2021-22 expenditure relates to higher IT & Telco costs and depreciation & amortisation expense, both reflecting increased digital and market reform assets in service
- Gross Labour expense incorporates ~\$8m of delivered/identified OEP saving and assumes a further ~\$10m reduction in 2021-22 to be delivered under Phase 3 of the OEP program
- Financing costs are capitalised during project development. Once projects are in service interest is expensed.

Change in AEMO Expenditure

AEMO Expenditure (\$Million)	Actual 2019-20	Forecast 2020-21	Budget 2021-22	Estimate 2022-23	Estimate 2023-24	2021-22 Growth (Real \$M)
Growth in Deliverables						
VIC TNSP	15.4	18.1	26.7	29.1	30.1	8.2
Distributed Energy Resources	1.4	1.1	2.3	5.6	7.9	1.2
5 Minute Settlements	0.2	0.3	20.7	25.0	24.8	20.4
Connections	12.2	14.4	17.6	18.3	18.8	2.9
GROWTH EXPENDITURE	29.2	33.9	67.3	78.0	81.5	32.6
Change	9.1	4.7	33.3	10.7	3.5	
Underlying Expenditure						
NEM Core	120.2	130.7	127.8	140.5	145.3	(5.5)
WA - excl WA DER	30.7	34.7	39.6	43.8	46.0	4.2
Other	69.0	69.8	79.0	85.5	87.1	7.7
UNDERLYING EXPENDITURE	219.9	235.2	246.3	269.7	278.4	6.4
Change	16.0	15.3	11.1	23.4	8.7	
TOTAL EXPENDITURE	249.2	269.1	313.6	347.7	359.9	39.1
Change in total expenditure	25.2	20.0	44.5	34.1	12.2	

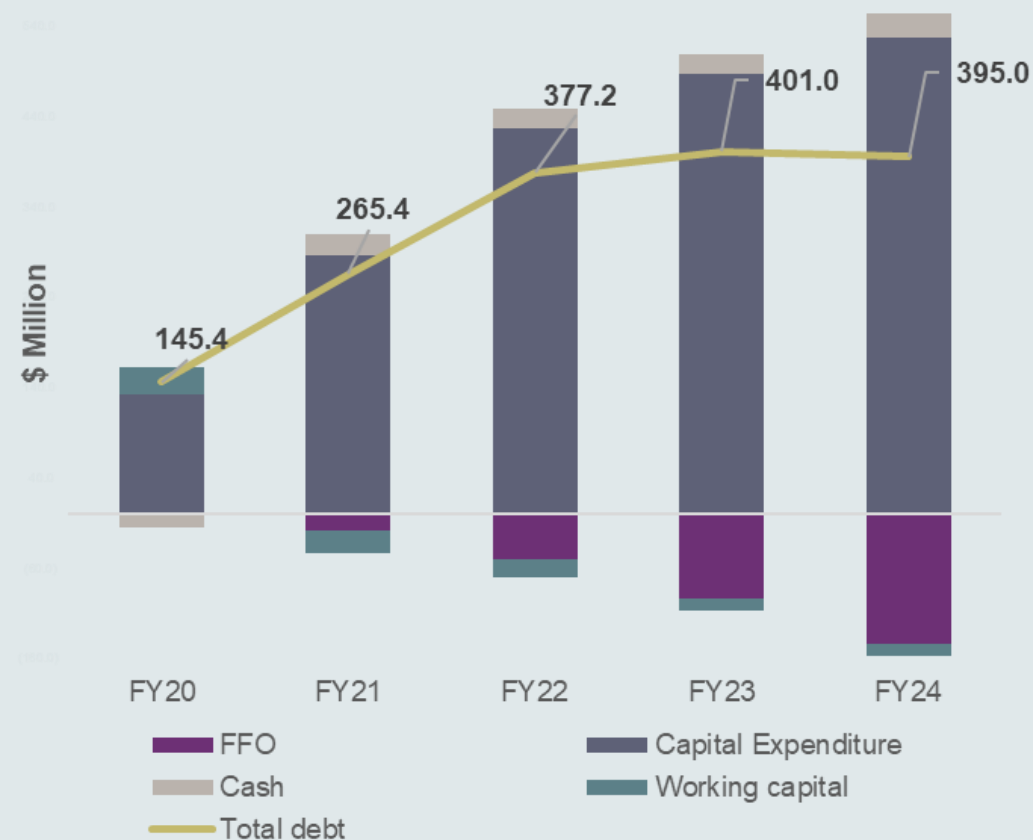
- 84% of real growth in expenditure relates to reform projects going into service, as well as growth in business activity recovered through non tariff revenue – connections and Vic TNSP
- Under AEMO's Operational Excellence Program, work is commencing to assess the effort required to complete activities and identify efficiency opportunities in order to optimise our cost structures.

Balance sheet

AEMO Balance Sheet (\$Million)	Actual 2019-20	Forecast 2020-21	Budget 2021-22	Estimate 2022-23	Estimate 2023-24
ASSETS					
Cash	25.5	22.7	14.7	15.0	15.0
Security Deposits and PCF	37.3	80.0	85.8	85.4	89.6
Trade and other receivables	102.8	104.1	119.9	128.7	135.4
PPE & Intangibles	234.5	355.4	447.5	438.7	410.4
Other Assets	27.1	20.2	14.9	9.5	19.0
TOTAL ASSETS	427.1	582.5	682.8	677.3	669.4
LIABILITIES					
Borrowing	238.2	358.2	470.0	493.8	487.8
Other liabilities	201.6	244.9	246.7	241.8	258.0
TOTAL LIABILITIES	439.8	603.1	716.7	735.6	745.8
NET ASSETS	(12.7)	(20.7)	(34.0)	(58.2)	(76.4)
Borrowings / Assets	56%	61%	69%	73%	73%

- Debt funding is used to fund capital investments, manage working capital balances and to fund an income deficit
- AEMO's debt funding is a syndicated bank facility of \$485m consisting of a 2 year and 4 year tranche, and a \$50m 365 working capital tranche

Movement in Borrowings



NEM Core Financial Summary

NEM Core (\$Million)	Actual 2019-20	Forecast 2020-21	Budget 2021-22	Estimate 2022-23	Estimate 2023-24	2021-22 Growth (Real \$M)
REVENUE						
Fees and Tariffs	91.8	98.2	106.2	113.8	122.6	6.0
Other Revenue	14.3	20.4	19.2	18.6	18.9	(1.6)
NET REVENUE	106.0	118.6	125.4	132.4	141.6	4.4
OPERATING EXPENDITURE						
Net Labour	82.5	87.3	84.7	86.3	89.7	(4.3)
Consulting	6.2	4.7	5.0	5.1	5.3	0.3
IT & Telecommunications	12.3	16.8	17.9	19.4	21.5	0.7
Depreciation and Amortisation	9.0	12.2	13.1	21.7	20.0	0.7
Other expenses	16.6	17.5	15.7	16.7	17.8	(2.2)
TOTAL EXPENDITURE	126.7	138.5	136.4	149.2	154.2	(4.9)
ANNUAL SURPLUS / (DEFICIT)	(20.7)	(19.9)	(11.0)	(16.9)	(12.6)	9.3
Accumulated Surplus / (Deficit)	(58.8)	(79.7)	(91.7)	(108.5)	(121.2)	(10.4)

- Revenue continues to reflect an 8.3% p.a. price path from 2021-22
- NEM Core volumes has been revised to reflect updated COVID impact assumptions and revised weather assumptions. The result is an increase in MWh volumes that has translated to marginally higher revenue.
- Overall the NEM Core accumulated deficit is \$5.4m lower at the end of 2021-22 as compared to the Draft Budget presented on 14 May 2021.

Questions & Comments

Tony Chappel, Chief External Affairs Officer



Next meeting and any other business

Julie Williams, Chief Financial Officer





AEMO

AUSTRALIAN ENERGY MARKET OPERATOR