

Allowable Revenue and Forecast Expenditure (AR5) - July 2019-June 2022

Presented to WA Electricity Consultative Forum
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Introduction

Background and Objectives

It has now been almost 18 months since the commencement of the AR5 period. Over this time AEMO has continued to focus on our obligations and commitments:

- Market Operator and System Management functions:
 - Core BAU activities
 - Capital projects to ensure ongoing operations (e.g. time critical IT system replacement/renewal, new capabilities required for a changing power system)
 - Rule and procedure change implementation
- Obligation to prepare for and implement constrained access and WEM reform; and having input into WA DER Roadmap development and implementation planning
- Propose and support Rule Change modifications

AEMO is seeking to provide an update on how we are tracking against the ERA AR5 approved Allowable Revenue and Capital Allowance.

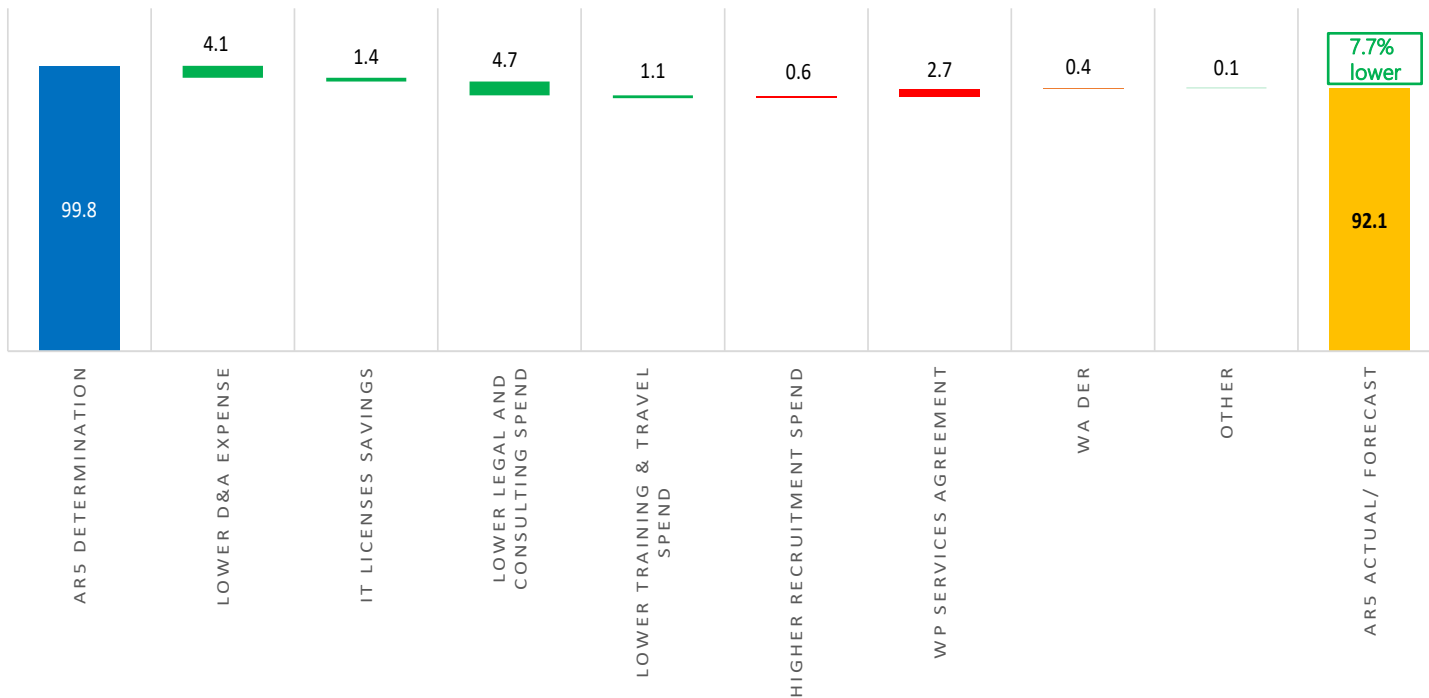
Overview

- Past 18 months has been challenging operationally due to:
 - COVID-19: impacting working arrangements, demand, participant revenues
 - Energy transition: increasing small and large scale renewables penetration resulting in increasing variability of supply and demand side.
- Significant AEMO capex program is being delivered:
 - Majority of projects completed within AR5 original estimate, however some resourcing challenges have resulted in internally driven project slippages.
 - Significant support provided to ETIU on Energy Transformation Strategy
 - Resourcing challenges due to scale of increase in capex works whilst also responding to the operational challenges
- What we set out to achieve in AR5 is largely being delivered to the original plan as well as navigating the operational challenges outlined above.
 - AEMO presently forecasting that it may go slightly over from an overall funding perspective (opex under, capex over) noting AEMO still reviewing its FY22 budget and ERA did not approve allowance for some AEMO requested capex expenditure due to inability at time of AR5 submission to justify (eg uncertainty of scope of future rule changes, Digital Program scope yet to be defined at the time).

AR5 Expenditure Forecast

WEM Allowable Revenue overview

AR5 DETERMINATION VS ACTUAL/ FORECAST (\$'M)



- The approved WEM AR5 Allowable Revenue was \$99.8m.
- The current AR5 OPEX spend is forecast to be **\$7.7m lower** at \$92.1m, due to:
 - Lower D&A expenses from delayed completion of the following projects:
 - Power System Operations (PSO)
 - System Management Systems Transition (SMST)
 - Reduction of Prudential Exposure (RoPE)
 - Cyber Identity and Access Management
 - Delay in project completion resulting in IT license savings (IT Digital, PSO Software license and Java license).
 - Lower than expected Legal, Consulting, Travel and Training spend, partially due to deliberate costs savings to offset potential COVID19 revenue declines, COVID19 priorities requiring ramp down of activities

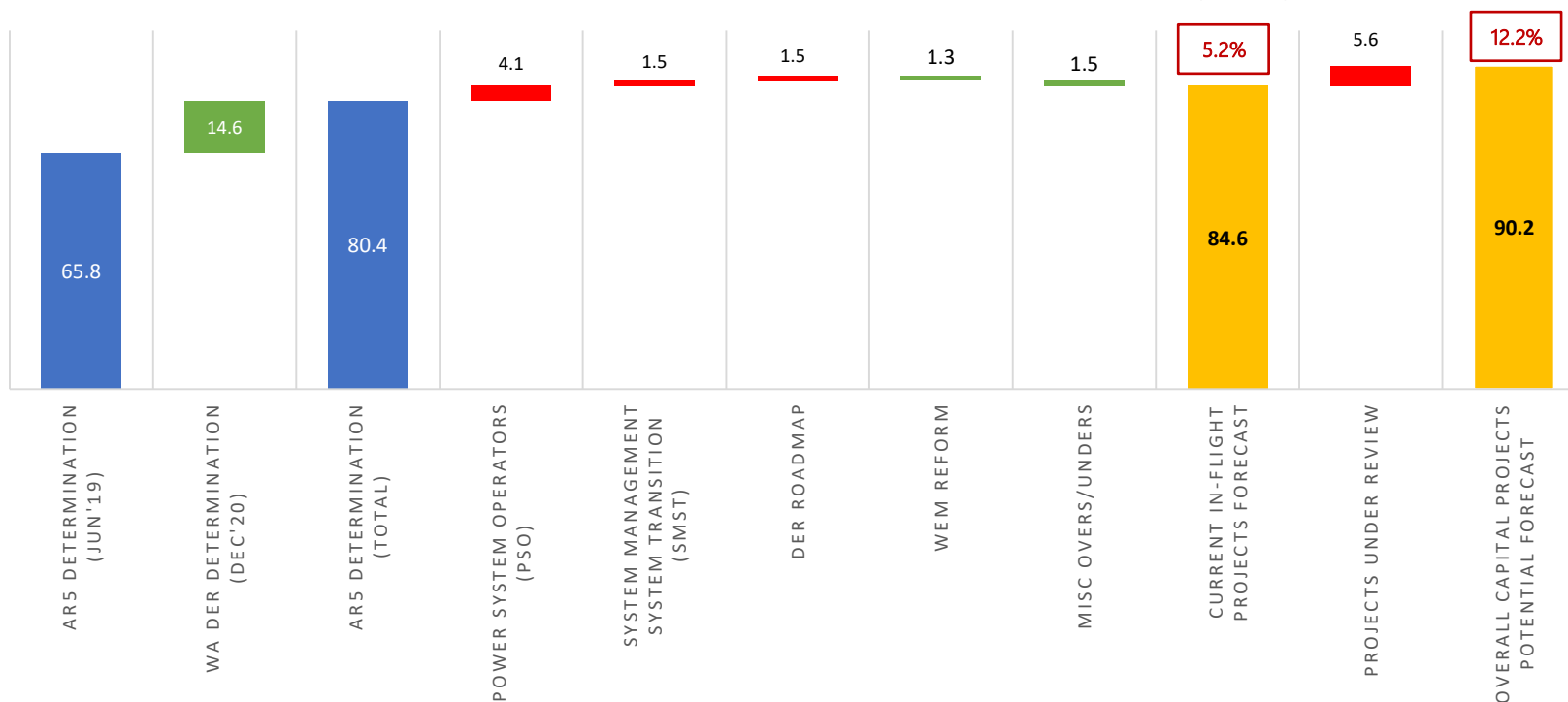
This is offset by

- Higher IT costs due to extension of Western Power Services agreement due to delays in project completion
- Higher recruitment spend for WEM Reform due to a change in staff mix (contractors were recruited instead of consultants)
- WA DER OPEX and D&A spend not allowed for in AR5 Allowable Revenue determination.

AR5 Expenditure Forecast

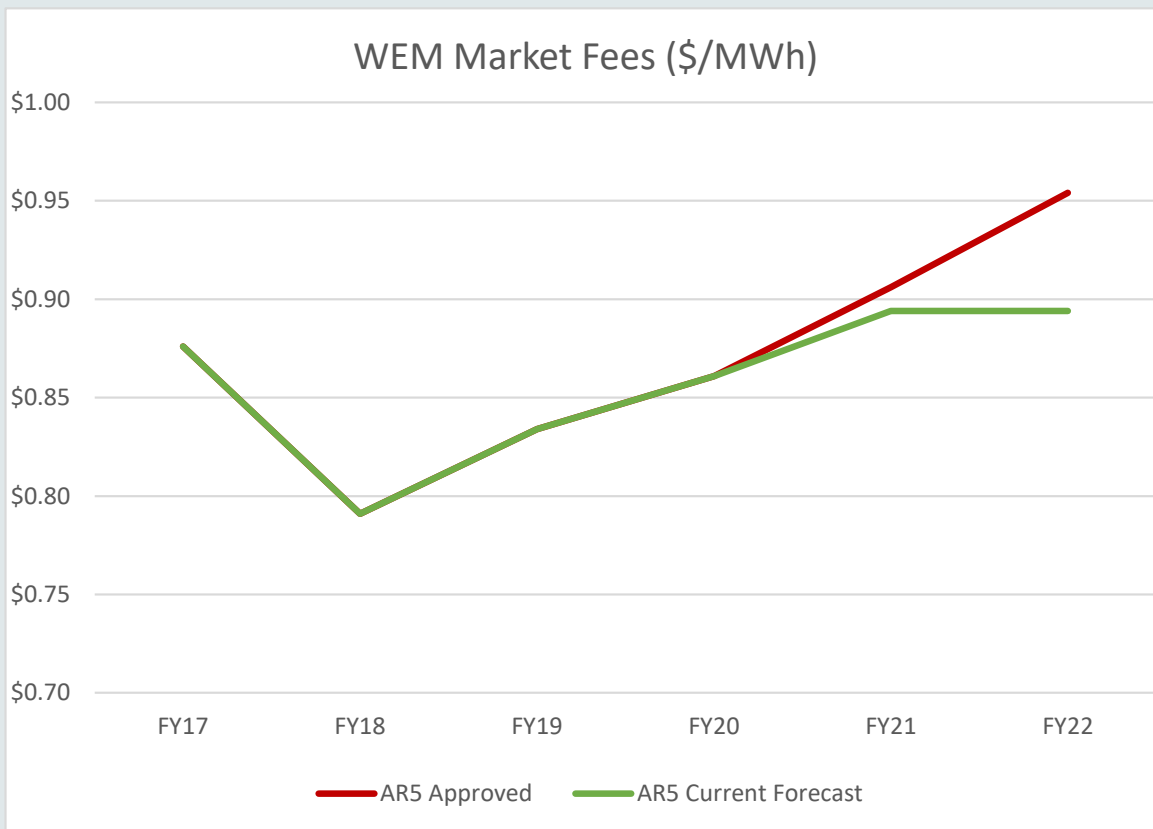
WEM Capital Expenditure overview

AR5 DETERMINATION VS ACTUAL/ FORECAST (\$'M)



- WA DER Roadmap funding determination was finalised in Dec'2020, taking total AR5 forecast capital expenditure to **\$80.4m**.
- AEMO current completed and in-flight capital projects forecast for AR5 is **\$84.6m** (5.2% over AR5 final determination of \$80.4m).
- Key drivers are:
 - Flow in of costs from AR4 from AR5 of \$4.5m (AR4 actual spend was \$27.6m versus determination of \$32.1m).
 - PSO and SMST (\$5.6m additional spend in AR5 due to project delays from implementation complexities, new requirements and resourcing challenges)
 - DER Roadmap (\$14.6m was approved, this is \$3.3m less than the funding request of \$17.9m. AEMO forecast remains at \$17.9m in order to meet our obligations on time and on target – to be further assessed pending ARENA funding outcomes.
 - WEM Reform spend expected to be marginally below AR5 budget including contingency, of which a significant component is uncertain and will be reviewed on an ongoing basis.
- Projects under review (worst case) – includes Digital projects, rule changes, minor enhancements – undergoing prioritisation review for FY22 budget, taking into consideration CAPEX constraints.

AR5 WEM Market Fees overview



WEM Fees (excl ERA fees) \$/MWh						
	AR4 Avg	AR5 Approved AR5 Avg	Current Forecast			AR5 Avg
			2019-20	2020-21	2021-22*	
MO	0.404	0.388	0.362	0.380	0.380	0.374
SM	0.430	0.519	0.499	0.514	0.514	0.509
WEM	0.834	0.907	0.861	0.894	0.894	0.883
Increase on AR4 Avg		8.8%			5.9%	

* Estimate based on current consumption forecast and estimated spend.

- AEMO's WEM Fee was proposed to move from \$0.834/MWh over the AR4 period to \$0.907/MWh in the AR5 period (8.8% average increase over 3 years).
- The current AR5 forecast expects a 5.9% increase (2.9% saving from AR5 determination) due to lower operating expenses expected in the AR5 period (as shown on slide 3).
- Current consumption forecast, incorporating COVID impacts is 5% lower than AR5 forecast. This has been incorporated into the fee estimates above.
- Final FY22 Market Fees still to be determined in line with AEMO's budget process and timeline.

Next steps

- FY22 Budget – Currently working on FY22 budgets, with a plan to present to the AEMO Board in Mar'21. In this process, AEMO will continue to review AR5 Capital Expenditure to determine if a further in-period submission is required – we will share this at a WAECF once we get a view.
- Planning for AR6 submission
 - Once FY22 Budgets are completed, we will work on extrapolating into AR6 years (FY23-FY25)
 - Post Reform world – what would it look like?
 - Engage with ERA ahead of submission
 - Broader industry and Government stakeholder engagement (via WAECF and other forums)
 - Working towards AEMO Board Approval in September 2021
 - AR6 submission to ERA by 30th November 2021.

Questions and Feedback