

2023 WA Financial Report

31 October 2023

Regulatory financial report of
AEMO's accounts and expenditure
incurred in performing its functions
in Western Australia for the year
ended 30 June 2023





Important notice

Purpose

AEMO publishes this regulatory financial report (financial report) and its accompanying Microsoft Excel financial statements (Attachment 1) on AEMO's website to meet the requirements of clause 2.22A.8 of the Wholesale Electricity Market Rules (WEM Rules) and subrule 111A(a)(b) of the Gas Services Information Rules (GSI Rules).

This financial report has been prepared in accordance with the Regulatory Reporting Guideline issued by the Economic Regulation Authority under clause 2.22A.9 of the WEM Rules and subrule 109(7)(a) of the GSI Rules.

Unless otherwise indicated, this financial report is based on information available to AEMO as at 30 June 2023.

Disclaimer

This document or the information in it may be subsequently updated or amended. This document does not constitute legal or business advice and should not be relied on as a substitute for obtaining detailed advice about the WEM Rules, GSI Rules, or any other applicable laws, procedures or policies. AEMO has made reasonable efforts to ensure the quality of the information in this document but cannot guarantee its accuracy or completeness.

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1 Background

AEMO is a not-for-profit organisation with functions in Western Australia (**WA**) under the Wholesale Electricity Market Rules (**WEM Rules**) and the Gas Services Information Rules (**GSI Rules**).

WA's energy sector is in a period of rapid transition, with significant increases in penetration of renewable inverter-based generation and growing complexity in dispatch, network constraints and market participation. To aid and manage this transition, the WA State Government is progressing a suite of reforms under the Energy Transformation Strategy (**ETS**)¹, including extensive changes to the Wholesale Electricity Market (**WEM**). AEMO is implementing many of these changes through the WEM Reform Program², which went live on 1 October 2023.

The ERA is responsible for determining AEMO's Allowable Revenue and Forecast Capital Expenditure for AEMO's WA functions.

Consistent with AEMO's recent in-period proposal for additional capital expenditure to the Economic Regulation Authority (**ERA**)³, the WEM Reform Program is the major driver of the increase in expenditure for AEMO's WA operations, including additional labour resources and IT systems required to operate the new, more sophisticated market, and to manage the system security risks posed by inverter-based generation.

AEMO recovers the costs for performing its WA functions from Market Participants through Market Fees and System Operation Fees and from Registered Shippers and Registered Production Facility Operators (Gas Market Participants) through Gas Service Information (**GSI**) Fees.

The WEM Rules and the GSI Rules require AEMO to publish a financial report by 31 October each year, showing its actual financial performance against its budget for the previous Financial Year.

This document relates to the 2022-23 Financial Year (**FY23**).

1.1 AEMO Regulatory Reporting Guideline

The AEMO Regulatory Reporting Guideline (**Guideline**)⁴ issued by the ERA on 21 September 2022 sets out AEMO's annual reporting obligations to meet the requirements of the WEM Rules and GSI Rules.⁵ This is the second year AEMO has prepared a WA financial report in accordance with the Guideline. The Guideline requires AEMO to provide the following reports to meet its annual reporting obligations.

- Financial statements consistent with Australian Accounting Standards Board (**AASB**) standards including:
 - A statement of profit or loss and other comprehensive income.
 - A statement of cash flows.
 - A statement of financial position.

¹ See <https://www.wa.gov.au/organisation/energy-policy-wa/new-market-implementation>.

² See <https://www.aemo.com.au/initiatives/major-programs/wem-reform-program>.

³ See <https://www.erawa.com.au/electricity/wholesale-electricity-market/price-setting/allowable-revenue-and-forecast-capital-expenditure-determinations>

⁴ ERA, *AEMO Regulatory Reporting Guideline* at <https://www.erawa.com.au/cproot/22887/2/D251941-AR.6---Final-regulatory-reporting-guideline.pdf>.

⁵ Clause 2.22A.8 of the WEM Rules and rule 111A(1)(b) of the GSI Rules.

- A statement of changes in equity.
- A statement of project expenditure and contingency.
- An asset depreciation schedule.
- A qualitative report describing the methods used in the preparation of the financial report.

The ERA published a Microsoft Excel template on its website to guide the content of AEMO’s WA financial report in accordance with the requirements of the Guideline. AEMO has populated this template and published it separately on AEMO’s website as 2023 WA Financial Statements.⁶

1.2 Statement of profit and loss and comprehensive income

Western Australian Operations

The financial performance of AEMO WA’s Operations is summarised in Table 1 below. AEMO WA’s functions realised an operating deficit in FY23 of \$2.9m compared to the FY23 budget deficit of \$1.09m. The operating deficit exceeded the budget because of higher labour and software costs associated with the WEM Reform Program. The higher-than-expected labour and software costs have been partially offset by underspends in financing and training costs (by \$1.3m) because of delayed WEM Reform Program capitalisation and power system operator training on the new systems.

Table 1 Operational expenditure – Western Australian Operations statement of profit and loss and comprehensive income

	FY23 Actuals \$000	FY23 Budget \$000	Variance %
Revenue electricity market	41,883	41,899	0%
Revenue gas market	1,600	1,559	3%
Revenue	43,483	43,459	0%
Labour expenses electricity market	24,904	22,896	-9%
Labour expenses gas market	887	1,012	13%
Operating expenditure electricity market	19,945	19,646	-2%
Operating expenditure gas market	595	991	40%
Expenses	46,331	44,545	-4%
Surplus / (Deficit)	-2,848	-1,086	-162%

Wholesale Electricity Market

Revenue was received from WEM Market Fees, which was in line with AEMO’s WA budget. Although October 2022 to March 2023 saw a reduction in operational demand due to increased photovoltaic generation, while the cooler temperatures in the July to September 2022 quarter and the April to June 2023 quarter resulted in higher

⁶ See AEMO’s Western Australian Financials at <https://aemo.com.au/energy-systems/electricity/wholesale-electricity-market-wem/wa-allowable-revenue/western-australian-financials>.

operational demand due to heating requirements. The overall slight decrease in operational demand for the year is reflected in AEMO's WEM Market Fee recovery being fractionally lower than the budgeted.^{7, 8, 9, 10}

Expenses incurred to fulfill AEMO's WA functions include activities to ensure safe and secure system operation, registration of new participants, provision of adequate reserve capacity, provision of information to the market and community and recovery of the costs of past investments in market systems. Total expenses were 5% above budget driven by higher labour expenses, software costs and depreciation and amortisation.

Operational labour expenditure was higher than budgeted due to a combination of increased volume and the complexity of activities required to implement the new market while balancing the growth in operational and planning activities associated with the ongoing energy transition.

An 11% higher than budgeted depreciation and amortisation expense was associated with higher WEM Reform Program costs than planned (\$0.5m) and higher depreciation on the occupancy leases because of the effects of changes in valuation for right of use assets (\$0.7m).

IT and Telecommunications expenses were 30% higher than those budgeted due to an increase in IT platform and software costs associated with the new market. These expenses include hosting, software licensing and software maintenance and support costs.

Table 2 Operational expenditure – WEM statement of profit and loss and comprehensive income – (template table 16)

	FY23 Actuals \$000	FY23 Budget \$000	Variance \$000	Variance %
Electricity Market Fees	41,555	41,899	-344	-1%
Other revenue	327	-	327	N/A
Total revenue	41,883	41,899	-17	0%
Internal labour	24,793	22,896	1,897	-8%
External contractors	111	-	111	N/A
Consultants	1,507	1,306	201	-15%
Training	146	705	-560	79%
Accommodation	82	193	-110	57%
Depreciation and amortisation	12,450	11,235	1,214	-11%
Finance costs	901	1,656	-755	46%
Cloud and distributed computing costs	10	51	-41	80%
Software	2,567	1,605	962	-60%
Computer hardware	72	321	-250	78%
Other IT	59	109	-51	47%
Other expenditure	2,151	2,463	-312	13%
Total expenditure	44,849	42,542	2,307	-5%
Surplus / (Deficit)	-2,966	-642	-2,324	-362%
EPWA Coordinator fees	2,584	2,579	-5	0%

⁷ See Quarterly Energy Dynamics Q2 2023 at <https://aemo.com.au/-/media/files/major-publications/qed/2023/qed-q2-2023-report.pdf?la=en>.

⁸ See Quarterly Energy Dynamics Q1 2023 at <https://aemo.com.au/-/media/files/major-publications/qed/2023/qed-q1-2023-report.pdf?la=en>.

⁹ See Quarterly Energy Dynamics Q4 2022 at <https://aemo.com.au/-/media/files/major-publications/qed/2022/qed-q4-2022.pdf?la=en>.

¹⁰ See Quarterly Energy Dynamics Q3 2022 at <https://aemo.com.au/-/media/files/major-publications/qed/2022/qed-q3-2022.pdf?la=en>.

	FY23 Actuals \$000	FY23 Budget \$000	Variance \$000	Variance %
ERA Regulator fees	6,214	6,200	-14	0%
Total fees collected on behalf of other entities	8,798	8,779	-19	0%

Gas Services Information

The GSI functions have completed the year with an operational surplus compared to the budgeted deficit. While revenue remained in line with the budget, the surplus was achieved through savings in most of the operational costs due to cost saving initiatives during the year.

Table 3 Operational expenditure – GSI statement of profit and loss and comprehensive income – (template table 17)

	FY23 Actuals \$000	FY23 Budget \$000	Variance \$000	Variance %
GSI fees	1,554	1,559	-6	0%
Other revenue	47	-	47	N/A
Total revenue	1,600	1,559	41	3%
Internal labour	887	1,012	-125	12%
External contractors	-	-	-	N/A
Consultants	154	293	-139	47%
Training	-	9	-9	100%
Accommodation	-	48	-48	100%
Depreciation and amortisation	251	441	-190	43%
Finance costs	24	-	24	N/A
Cloud and distributed computing costs	26	3	24	-833%
Software	1	24	-24	98%
Computer hardware	-	2	-2	100%
Other IT	1	18	-17	97%
Other expenditure	139	153	-14	9%
Total expenditure	1,483	2,003	-521	26%
Surplus / (Deficit)	118	-444	562	127%
EPWA Coordinator fees	160	160	-	0%
ERA Regulator fees	154	154	-	0%
Total fees collected on behalf of other entities	314	314	-	0%

1.3 Statement of cash flows

AEMO's financial management system is currently unable to provide the statement of cashflow for its WA-specific operations.

1.4 Statement of financial position

AEMO's financial management system is currently unable to provide the statement of financial position for its WA-specific operations.

1.5 Statement of changes in equity

For AEMO's WA functions, fees, tariffs and other charges are set so that there is sufficient revenue generated to recover the anticipated operating expenditure for the financial year. Any surplus or deficit that is realised at year end will be applied as an adjustment in the following year's budget in the accumulated surplus during the recovery process¹¹.

At the beginning of FY23, WA Operations had a \$4.7 million accumulated surplus. This was considered in the setting of Market Fees to under-recover the costs during the financial year and pay down the surplus.

Other changes impacting accumulated surplus related to adjustments to recognise additional right of use assets associated with AASB 16 Leases.

Table 4 Statement of changes in equity – (template table 19)

	Actuals \$000
Opening Surplus / (Deficit) as at 1 July 2022	4,645
Net operating Surplus / (Deficit)	(2,848)
Correction of right of use asset valuation	1,674
Total comprehensive Surplus / (Deficit) as at 30 June 2023	3,471

1.6 Statement of project expenditure and contingency

An overview of the relevant projects for the WEM during the FY23 program is shown in Table 5 below, where a capital project creates a physical or intangible asset, that provides further benefit to the WEM. These assets are generally internally created software and infrastructure asset that support the operations of the WEM Rules. During the period AEMO did not undertake any non-capitalised projects.

Table 5 Statement of project expenditure and contingency

	WEM \$000	GSI \$000	Total \$000
Capitalised projects with expenditure >\$0.5 million	54,465	-	54,465
Capitalised projects with expenditure <\$0.5 million	119	44	163
Contingency budget	12,746	-	12,746
Contingency expenditure	3,032	-	3,032
Remaining contingency budget	9,714	-	9,714

¹¹ Clause 2.22A.11 of the WEM Rules.

Delivery of the WEM Reform Program continued to prove challenging during FY23 due to:

- The unavailability of ready-made solutions to buy or adapt for the majority of the requirements, leading to the need to design and build new systems in addition to making extensive modifications to existing systems.
- Higher than expected input cost inflation requiring the use of program contingency (e.g., increasing costs such as labour, services, infrastructure, and borrowing).
- The overall scale and complexity of the undertaking, requiring significant capability/capacity uplifts during a period of high competition for skilled resources in a tight labour market.

While AEMO remains confident and committed to meeting the planned dates for market trials and market launch, the financial forecast remains under significant pressure. Summaries of AEMO's WEM and GSI capitalised projects are set out in Tables 6, 7 and 8 below.

Table 6 WEM capitalised projects with a budget <\$0.5 million (template table 12)

	Growth	Asset replacement and renewal	Improvement in service	Compliance	Corporate	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Number of projects	-	-	-	7	-	7
Forecast project expenditure	-	-	-	119	-	119
Total project expenditure						
Internal labour	-	-	-	41	-	41
External contractors	-	-	-	-31	-	-31
Consultants	-	-	-	-	-	-
Labour	-	-	-	10	-	10
Training	-	-	-	-	-	-
Cloud and distributed computing costs	-	-	-	-	-	-
Software	-	-	-	-	-	-
Computer hardware	-	-	-	40	-	40
Other IT	-	-	-	-	-	-
Other expenditure	-	-	-	68	-	68
IT and Telecommunications	-	-	-	40	-	40
Contingency budget	-	-	-	-	-	-
Contingency expenditure during the year	-	-	-	-	-	-

Table 7 WEM capitalised projects with a budget >\$0.5 million (template table 12)

	Growth	Asset replacement and renewal	Improvement in service	Compliance	Corporate	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Number of projects	-	-	-	20	2	22
Total project budget	-	-	-	129,021	1,725	130,746
Total project expenditure						
Internal labour	-	-	-	14,606	3	14,610

	Growth	Asset replacement and renewal	Improvement in service	Compliance	Corporate	Total
External contractors	-	-	-	32,388	386	32,775
Consultants	-	-	-	-	-	-
Labour	-	-	-	46,995	389	47,384
Training	-	-	-	-	-	-
Cloud and distributed computing costs	-	-	-	-	-	-
Software	-	-	-	2,734	30	2,764
Computer hardware	-	-	-	1,180	1,046	2,226
Other IT	-	-	-	-	-	-
IT and Telecommunications	-	-	-	3,915	1,076	4,991
Other expenditure	-	-	-	2,090	-	2,090
Contingency budget	-	-	-	12,434	312	12,746
Contingency expenditure during the year	-	-	-	3,032	-	3,032

Table 8 GSI capitalised projects with a budget <\$0.5 million (template table 14)

	Growth	Asset replacement and renewal	Improvement in service	Compliance	Corporate	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Number of projects	-	-	-	1	-	1
Total project budget	-	-	-	-	-	-
Total project expenditure						
Internal labour	-	-	-	44	-	44
External contractors	-	-	-	-	-	-
Consultants	-	-	-	-	-	-
Labour	-	-	-	44	-	44
Training	-	-	-	-	-	-
Cloud and distributed computing costs	-	-	-	-	-	-
Software	-	-	-	-	-	-
Computer hardware	-	-	-	-	-	-
Other IT	-	-	-	-	-	-
IT and Telecommunications	-	-	-	-	-	-
Other expenditure	-	-	-	-	-	-
Contingency budget	-	-	-	-	-	-
Contingency expenditure during the year	-	-	-	-	-	-



1.7 End of year project list – project expenditure

As noted in Section 1.1, AEMO is required to provide detailed project level reporting under the Guideline. AEMO has produced this information in accordance with the ERA's template which has been included in the 2023 WA Financial Statements published on AEMO's website.

1.8 Asset depreciation schedule

AEMO has projected the future year depreciation using the AR6 approved project amounts, work in progress from the inflight projects and existing assets as of 30 June 2022. More information on the schedule can be found in the 2023 WA Financial Statements on AEMO's website.

2 Accompanying notes of preparation

2.1 Description of methods used

AEMO WA has prepared the WA financial statements based on the AEMO consolidated financial statements for FY23. Therefore, any notes included and published in the AEMO consolidated financial statements are also applicable to these financial statements.^{12,13}

AEMO has included additional notes below relating to the information that is required by regulation in this report, such as project expenditure and an asset depreciation schedule.

Basis of preparation

Project information presented here is current as of 30 June 2023 and shows project budget, project contingency, opening and closing percentages. These are not subject to AEMO financial audit and therefore AEMO has undertaken internal reviews of the inputs to ensure they are consistent with project reporting data and approvals documentation.

Functional and presentation currency

Items included in this report are measured using the currency of the primary economic environment in which AEMO operates (the functional currency). These financial statements are presented in Australian Dollars, which is AEMO's functional currency.

Goods and Services Tax (GST)

All transactions are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Verifiability

AEMO WA has included actuals from the financial system which can be supported through the ledger listing or list of transaction listings.

AEMO tracks project-level information in a combination of corporate systems and documents stored in a control document management system. The Guideline requires AEMO to report on aspects of project execution that were not explicitly captured during FY23. As such, there is the potential for non-material differences between these documents. However, as noted in our public submission on the Guideline, AEMO WA has endeavoured to provide accurate information as much as possible.

¹² See AEMO's annual reports at <https://aemo.com.au/about/corporate-governance/annual-reports>.

¹³ Please note that the consolidated financial statements relate to AEMO Group. This report refers to 'AEMO', rather than AEMO Group, as it includes only costs for AEMO's functions in WA.



Corporate cost allocation

AEMO WA receives a corporate cost allocation in the profit and loss statement via enterprise recoveries line which is part of the 'Other expenditure' line in the profit and loss statement included.

Enterprise cost allocation is based on AEMO's internal corporate cost allocation policy, which has been shared with the ERA during the AR6 submission process.

A1. AEMO detailed financial reports

The AEMO Regulatory Reporting Guideline requires the preparation of its detailed financial reports using the Microsoft Excel template provided by the ERA. This is attached as a separate attachment to this paper and can be found on AEMO's website at <https://aemo.com.au/energy-systems/electricity/wholesale-electricity-market-wem/wa-allowable-revenue/western-australian-financials>.