

# Response to Australian Energy Council (AEC) submission on AEMO's draft FY25 budget and fees

A response to the written submission from the Australian Energy Council's (AEC) submission to AEMO's draft FY25 budget and fees. Feedback and questions are summarised by topic and responses are provided below.

## NEM Core fees from FY26 onwards

**The currently proposed fee structure maintains the 89 per cent increase above the FY22 fee structure with fees remain significantly higher than pre FY22 levels. We request AEMO to provide clarity if fees will significantly reduce in FY26 following clearing of the accumulated deficit or are expected to remain at the current high levels.**

AEMO is pleased to anticipate a full recovery from the accumulated deficit in NEM Core by the end of FY25, within the previously agreed 4.5% fee increase. This has been a challenging recovery as we have taken on additional functions over the past two years as the energy transition progresses and at the request of energy ministers. The transition has also significantly increased the complexity, and associated costs, of the energy system and markets AEMO operates.

Cyber security coordination and industry maturity uplift responsibilities conferred on us by the energy ministers in late 2022 are examples of additional activities AEMO must also now account and budget for. It is likely that the volume, scope, and complexity of AEMO's role will continue to grow.

It is essential that AEMO's annual revenue requirements accurately reflect the costs of the work we are required to perform, and therefore we do not expect our revenue requirement to fall from FY26 and in further years.

It is also worth noting that the deficit was accumulated as a result of AEMO's revenue requirement not previously keeping pace with costs – a situation which is not financially prudent and which ultimately increases costs by incurring interest on debt. AEMO has committed to stakeholders this will not occur again.

The deficit recovery over the last two years and anticipated in the year ahead, is the outcome of AEMO's maturing financial management and a focus on prudence and efficiency. Stakeholders can be assured that this approach will be a continued focus for AEMO in coming years.

## Increases in fees and revenue requirement

**Also of some concern for the AEC, is the large increase in both fees and tariff revenues and labour costs. Fees and tariff revenue are expected to increase by 36 per cent. Furthermore, this increase appears to be predicated on non-core NEM fees and charges, which may or not actually eventuate.**

The overall budgeted increase in fees (36%) across the total budget for FY25 is for all segments, including Western Australia (WA), Victorian Transmission Network System Planning (VIC TNSP), and AEMO Services Limited (ASL), which are set through other budget setting processes but included in the document for completeness and transparency. The revenue and fee requirement for each segment varies, and while the

increase in NEM Core is limited, increases in other segments are greater and in line with AEMO's required work and priorities. To summarise, the main increases across the segments are in:

- NEM Connections, reflecting the increasing work AEMO does to connect new assets to the NEM and the large increases in connection applications as DER, renewable and storage assets come online. These costs are directly passed through to connecting proponents.
- NEM Functions, East Coast Gas and WA, driven by depreciation and amortisation for reform projects that have been delivered or are planned to be delivered in the next year and an increase in fees for the national transmission planning function.
- Vic TNSP, driven by increased Transmission Use of System charges, which are passed through costs external to AEMO, which AEMO has no control over.
- ASL, reflecting the increased functions, supported by discrete funding to recover the cost of activities performed by this subsidiary entity.

### Labour costs

**With respect to the 16 per cent increase in labour costs, we acknowledge that it has been a high inflation tight labour market environment. However, the AEC believes it would be helpful for stakeholders to better understand the composition of AEMO's headcount and costs by business area.**

AEMO does not publicly report or publish its workforce numbers. AEMO's labour costs reflect both employees and contractors, the composition of which flexes in response to the demands of project-based work. Due to the dynamic nature of AEMO's workforce composition, publishing total workforce numbers would not provide a useful year-on-year comparison for labour costs.

In setting employee remuneration, AEMO uses the Hay Grade evaluation methodology and external salary surveys to develop pay ranges that are aligned to the energy sector and considered fair and reasonable. Our analysis shows that AEMO pays, on average, at the median of this sector by role level and overall.

### Debt management and interest rate exposure

**We note that AEMO appears to be managing its growing debt and interest exposure in a more sophisticated manner when compared with previous years. It would be useful to understand how AEMO's cost of debt is so low.**

Capital management is a developing capability at AEMO. AEMO's right to recovery and high investment grade rating means we are able to access favourable debt interest rates. In addition, AEMO's cost of debt benefits from lower interest rates due to legacy pricing on existing debt, which was established during the COVID-19 pandemic.

As per our financial principles, AEMO is committed to achieving a debt to assets ratio of less than 100% and maintaining a liquidity ratio above 50%.

The calculation of an implied interest rate is also not representative, as the average debt number between years assumes a linear drawdown of debt, which may not be representative of project financing. Further, this calculation does not factor in interest capitalised into projects in line with generally accepted accounting principles, resulting in a far lower calculated implied interest rate.

### Provision of tables and figures

**It would be very helpful for stakeholders (and improve engagement) if AEMO could provide all the numbers in the tables and figures in MS Excel format as it already does for many of its other consultations.**

AEMO continues to mature its financial management and improve its financial transparency, including through the Financial Consultation Committee. We agree that providing the numbers detailed in the draft budget in Excel format will improve support stakeholders in their review the document, and will implement this suggestion for consultation on the FY26 budget. We will also include a spreadsheet with relevant details for FY25 when we publish the final document.