

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 2021/22

Finance Consultation Committee  
28 October 2021

# Welcome

Daniel Westerman, Chief Executive Officer  
Julie Williams, EGM Finance



# Review of Minutes of Previous Meeting and Action Items

Julie Williams, EGM Finance

# Action Items from Meeting 3 (7 June 2021)

Item #	Action	Responsibility	Status
3.1	Information relating to interest rate sensitivity and TUoS required revenue increase will be placed into a separate pack and circulated to committee members following this meeting.	Ms Williams	Closed
3.2	Follow up Committee members whether they have any feedback/comments on the latest draft budget before it goes to the AEMO Board.	Mr Chappel	Closed
3.3	Contact Mr Italiano to discuss issues raised at meeting.	Ms Williams	Closed
3.4	Schedule quarterly meetings for the FCC to review budget progress	Ms Williams	Closed

# Review of FCC Terms of Reference

Tony Chappel, EGM Corporate Affairs

# FCC Terms of Reference

**Objective** – still relevant or do we need to amend it ?

**Function** – do we need to add any or remove some ?

**Participation** – should this Committee be expanded ?

**Meetings** – is the frequency of meetings about right ?

# AEMO Services Role



Tony Chappel, EGM Corporate Affairs



# AEMO Services Role



- ❖ AEMO Services has been created to provide energy and advisory services and is open to all jurisdictions, although its initial mandate is to provide services to our first partner, the New South Wales government, by executing the role of the New South Wales Consumer Trustee.

- ❖ Paul Verschuer has been appointed as the Executive General Manager of AEMO Services while the search for a permanent EGM is undertaken.
- ❖ Paul has a background in global financial markets and has worked at Macquarie Bank, Bankers Trust, Zurich Capital Markets and Westpac. More recently, he served as a deputy secretary of the Commonwealth Treasury and held senior positions in the New South Wales Government.

# AEMO Services Role

AEMO Services has been established to enable the transparent provision of advisory and energy services to AEMO member jurisdictions, aspiring to provide a world's best approach to the transformation of the electricity system. Services include:



AEMO Services' first partnership is with the NSW government to act as the Consumer Trustee.

## \$28 Billion

of electricity infrastructure will be authorised or procured by AEMO Services by 2029.

AEMO services will deliver its inaugural **Infrastructure Investment Objectives** report in November, mapping a development path for the delivery of 12 GW of renewable generation and 2 GW of long duration storage projects.

While still clearly affiliated with AEMO, **AEMO Services will have its own distinct logo** and branding. This will help convey AEMO's core NEM functions and responsibilities are not impacted by the new role and protect both AEMO and AEMO Services from any perceptions of conflict in the potential awarding of contracts to AEMO members.



## Organisation structure

- ❖ AEMO Services has been ringfenced through the creation of a subsidiary with its own board. This will help to ensure independent decision-making in the mandated role of NSW Consumer Trustee.

# Financial Performance 2020/21 & Q1 2021/22 Update

Julie Williams, EGM Finance

# Financial Performance 2020/21

Financial Overview (\$Million)	AEMO Total Enterprise			AEMO Excluding Vic TNSP			Vic TNSP		
	Budget 2020-21	Actual 2020-21	Variance	Budget 2020-21	Actual 2020-21	Variance	Budget 2020-21	Actual 2020-21	Variance
<b>REVENUE</b>									
Fees and Tariffs	205.8	201.4	(4.4)	205.8	201.4	(4.4)			-
TUoS Income	591.5	591.5	(0.0)			-	591.5	591.5	(0.0)
Settlement Residue	52.0	55.8	3.8			-	52.0	55.8	3.8
Other Revenue	75.1	87.4	12.4	14.4	26.5	12.1	60.7	60.9	0.3
Network Charges	(669.9)	(661.5)	8.4			-	(669.9)	(661.5)	8.4
<b>NET REVENUE</b>	<b>254.5</b>	<b>274.6</b>	<b>20.1</b>	<b>220.2</b>	<b>227.8</b>	<b>7.7</b>	<b>34.3</b>	<b>46.8</b>	<b>12.5</b>
<b>OPERATING EXPENDITURE</b>									
Net Labour	163.5	163.3	(0.2)	153.1	149.9	(3.1)	10.4	13.3	2.9
Expenditure	88.2	77.9	(10.4)	67.7	66.9	(0.7)	20.6	10.9	(9.6)
Depreciation and Amortisation	27.4	29.3	2.0	27.4	28.6	1.3	0.0	0.7	0.7
Borrowing costs	0.0	0.4	0.4	0.0	0.4	0.4	-	-	-
<b>TOTAL EXPENDITURE</b>	<b>279.1</b>	<b>270.9</b>	<b>(8.2)</b>	<b>248.1</b>	<b>245.9</b>	<b>(2.2)</b>	<b>31.0</b>	<b>25.0</b>	<b>(6.0)</b>
<b>ANNUAL SURPLUS / (DEFICIT)</b>	<b>(24.6)</b>	<b>3.7</b>	<b>28.3</b>	<b>(27.9)</b>	<b>(18.1)</b>	<b>9.8</b>	<b>3.3</b>	<b>21.8</b>	<b>18.5</b>
Accumulated Surplus / (Deficit)	(56.2)	(29.1)	27.1	(60.0)	(51.4)	8.6	3.8	22.3	18.5

AEMO's annual financial surplus of \$3.7m is the result of a Vic TNSP annual surplus (over recovery that is passed back to participants) of \$21.8m, offset by a net deficit of \$18.1m from the remaining AEMO functions

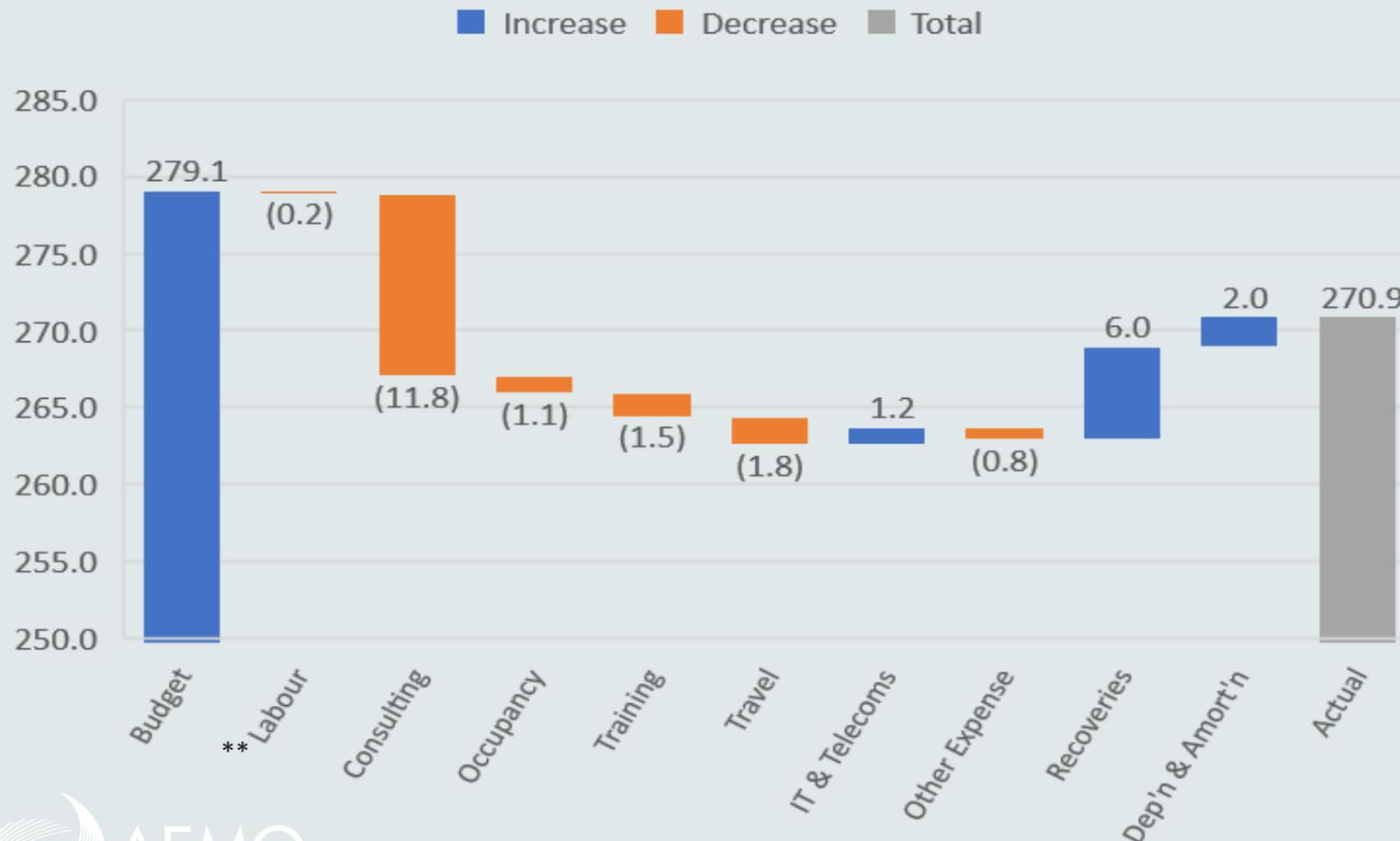
Excluding Vic TNSP the accumulated deficit as at 30 June 2021 was \$51.4m.

AEMO's total \$28.3m favourable variance to budget largely reflects:

- Strong connections revenue
- Lower than budget network charges and favourable settlement residue
- VicTNSP VNI West consulting expenditure deferral

# Expenditure Variance 2020/21

AEMO 2020-21 Expenditure Budget to Actual



Total expenditure was \$8.2m favourable to Budget largely as a result of:

- VicTNSP VNI West consulting expenditure deferral & a general focus on reducing consulting spend
- COVID-19 favourable variances predominantly in travel & accommodation, training and other expenses
- Occupancy was favourable due to a higher than budget allocation to capital projects

Partially offsetting these variances were:

- Above budget recoverable expenditure (that is passed through via other revenue) related to connections and other ancillary activities
- Increased depreciation & amortisation related to the timing of projects moving into service

# AEMO Entity Financial Contributions

Surplus / (Deficit) by Entity	Budget 2020-21	Actual 2020-21	Variance
NEM Core	(23.3)	(21.1)	2.2
FRC - Electricity	0.6	0.0	(0.6)
VIC TNSP	3.3	21.8	18.5
DER	(0.2)	2.4	2.6
5MS	(2.3)	3.4	5.7
VIC Wholesale Gas	(0.7)	(0.2)	0.6
Gas FRC	(0.1)	0.1	0.2
Gas Trading & Other	(0.3)	0.6	0.8
National Transmission Planner	4.4	(3.0)	(7.4)
WEM	(0.3)	1.3	1.6
WA GSI	(0.7)	(0.5)	0.2
WA Gas FRC	(0.3)	(0.1)	0.1
Other entities	(4.7)	(0.9)	3.9
<b>AEMO</b>	<b>(24.6)</b>	<b>3.7</b>	<b>28.3</b>

AEMO completed the year with a surplus of \$3.7m which reduced the accumulated deficit to \$29.1m as at 30 June 2021.

- While NEM Core's under recovery continues to be the main contributor to the AEMO annual deficit, it was \$2.2m favourable to budget due to the benefit of higher connections revenue
- DER and 5MS variances reflect a reversal to the prior year allocation of corporate overheads to these entities that were in the project stage
- VIC TNSP actual surplus reflects \$12.5m additional revenue and \$6m lower expenditure. [refer slide 11 for VicTNSP financial result]
- National Transmission Planner deficit and unfavourable variance to budget reflects 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

# NEM Core Financial Performance 2020/21

NEM Core (\$Million)	Budget 2020-21	Actual 2020-21	Variance
<b>REVENUE</b>			
Fees and Tariffs	98.5	98.8	0.3
Other Revenue	10.4	21.3	11.0
<b>NET REVENUE</b>	<b>108.9</b>	<b>120.1</b>	<b>11.2</b>
<b>OPERATING EXPENDITURE</b>			
Net Labour	85.4	87.2	1.9
Consulting	5.9	4.9	(0.9)
IT & Telecommunications	15.3	18.8	3.5
Depreciation and Amortisation	10.8	12.2	1.5
Other expenses	14.9	18.0	3.1
<b>TOTAL EXPENDITURE</b>	<b>132.2</b>	<b>141.2</b>	<b>9.0</b>
<b>ANNUAL SURPLUS / (DEFICIT)</b>	<b>(23.3)</b>	<b>(21.1)</b>	<b>2.2</b>
Accumulated Surplus / (Deficit)	(82.1)	(79.9)	2.2

NEM Core entity annual deficit of \$21.1m was marginally favourable to budget as a result of increased connections activity. At 30 June 2021 the accumulated NEM Core deficit was ~\$80m. This is not a sustainable position and consideration is being given to options that support the financial position of the NEM Core entity.

Key variances to budget include:

- Revenue above budget due to higher connections, a FCAS refund related to a prior financial year, CDR Platform funding and higher data request revenues
- IT & Telecom and D&A expenditures reflect costs associated with recent year investments in technology
- Other expenses variance reflects recoverable costs associated with earning the higher connections revenue

# WA Financial Performance 2020/21

Western Australia (\$Million)	Mkt Operation & System Managem't			Gas Services Information			Gas FRC		
	Budget 2020-21	Actual 2020-21	Variance	Budget 2020-21	Actual 2020-21	Variance	Budget 2020-21	Actual 2020-21	Variance
<b>REVENUE</b>	31.7	32.0	0.3	1.1	1.1	0.0	1.3	1.4	0.1
<b>OPERATING EXPENDITURE</b>									
Net Labour	17.2	18.7	1.5	1.0	1.1	0.1	0.3	0.5	0.2
Depreciation and Amortisation	6.9	6.6	(0.3)	0.1	0.1	0.0	0.1	0.2	0.0
Other expenses	9.3	5.5	(3.8)	0.7	0.4	(0.3)	1.2	0.9	(0.3)
<b>TOTAL EXPENDITURE</b>	<b>33.3</b>	<b>30.8</b>	<b>(2.6)</b>	<b>1.8</b>	<b>1.6</b>	<b>(0.2)</b>	<b>1.6</b>	<b>1.5</b>	<b>(0.1)</b>
<b>ANNUAL SURPLUS / (DEFICIT)</b>	<b>(1.6)</b>	<b>1.3</b>	<b>2.9</b>	<b>(0.7)</b>	<b>(0.5)</b>	<b>0.2</b>	<b>(0.3)</b>	<b>(0.1)</b>	<b>0.2</b>

- Net labour in the WEM largely reflects lower capitalisation of labour than assumed in the budget.
- Other expenses larger cost items includes IT & telecommunications, consulting and occupancy costs.
  - A focus on optimising consultancy expenditure has contributed to the favourable variance
  - Also COVID-19 impacts resulted in lower training, travel and accommodation costs.

# Capital Expenditure 2020/21

Capital Expenditure	Actual 2020-21
<b>MAJOR PROGRAMS</b>	
5 Minute Settlements	51.9
Wholesale Electricity Market Reform	9.6
Western Australia Distributed Energy Resources	3.8
Australian Energy Simulation Centre	2.1
<b>TOTAL MAJOR PROGRAMS</b>	<b>67.4</b>
<b>OTHER PROGRAMS</b>	
Regulatory Projects	15.7
Digital Projects	42.5
Emerging Markets	8.3
Business Enablement	10.1
<b>TOTAL OTHER PROGRAMS</b>	<b>76.6</b>
External Funding	(0.9)
<b>TOTAL ANNUAL CAPITAL EXPENDITURE</b>	<b>143.1</b>

Through 2020-21 significant progress was made on delivering major energy reforms in the NEM and the WEM:

- The Distributed Energy Resources (DER) program supports the effective integration of DER into the wholesale markets and systems.
- Five minute settlements (5MS) reducing the wholesale electricity spot market settlement period from 30 minutes to 5 minutes, matching the electricity dispatch periods.
- Wholesale demand response (WDR) enabling large commercial and industrial businesses to bid and schedule a reduction in electricity consumption for payment.
- Improved customer retail switching reducing the time taken for consumers to change electricity retailers from up to three months to a two-day transfer.

Investment in digital investment continued post a review of, and re-prioritisation of the program at the beginning of the year. These digital platforms support ongoing delivery of the energy transition reform investments.

# Financial Position – 2020/21 Change

AEMO Balance Sheet (\$Million)	Actual 2019-20	Actual 2020-21	YoY Variance
<b>ASSETS</b>			
Cash	25.5	55.6	30.1
Security Deposits and PCF	37.3	167.2	129.9
Trade and other receivables	102.8	112.7	9.9
PPE & Intangibles	234.5	347.4	112.9
Other Assets	27.1	20.2	(6.9)
<b>TOTAL ASSETS</b>	<b>427.1</b>	<b>703.0</b>	<b>275.9</b>
<b>LIABILITIES</b>			
Borrowing	238.2	358.2	120.0
Other liabilities	201.6	353.8	152.2
<b>TOTAL LIABILITIES</b>	<b>439.8</b>	<b>711.9</b>	<b>272.2</b>
<b>NET ASSETS</b>	<b>(12.7)</b>	<b>(8.9)</b>	<b>3.7</b>

Financial Overview (\$Million)	Budget 2020-21	Actual 2020-21	Variance
Net Capital Expenditure	164.0	144.0	20.0
Borrowing	469.0	358.2	110.8

- Lower than budget capital expenditure, a favourable operating result, and the timing of some supplier payments has resulted in lower debt for the year as compared to budget
- Security deposits and early settlement proceeds are received from market participants and are held on behalf of participants. These funds are not available for AEMO's operational use. The 2021 balance reflects higher prices and demand in the later part of 2021
- The \$3.7m favourable net assets compared to 2019-20 reflects the 2020-21 operational surplus result
- Despite the 2020-21 annual financial surplus, overall AEMO has a negative net asset balance of \$8.9 million at 30 June 2021

# Q1 2021/22 Financial Update

## Income Statement Summary - September 2021 Year to Date

	Total AEMO - YTD			AEMO excl. Vic TNSP - YTD			Vic TNSP - YTD		
	Actual \$'000	Budget \$'000	Variance \$'000	Actual \$'000	Budget \$'000	Variance \$'000	Actual \$'000	Budget \$'000	Variance \$'000
Fees and Tariffs	67.3	67.4	(0.1)	67.3	67.4	(0.1)	-	-	-
TUOS Income	161.4	161.4	0.0	-	-	-	161.4	161.4	0.0
PCF Fees	0.3	0.2	0.0	0.3	0.2	0.0	-	-	-
Settlement Residue	9.0	8.6	0.4	-	0.0	(0.0)	9.0	8.5	0.5
Other Revenue	23.6	19.5	4.1	7.4	4.9	2.5	16.2	14.6	1.6
<b>Total Revenue</b>	<b>261.6</b>	<b>257.1</b>	<b>4.5</b>	<b>74.9</b>	<b>72.6</b>	<b>2.4</b>	<b>186.7</b>	<b>184.6</b>	<b>2.1</b>
Network Charges	(167.4)	(168.7)	1.2	(0.1)	-	(0.1)	(167.4)	(168.7)	1.3
<b>Net Revenue</b>	<b>94.1</b>	<b>88.4</b>	<b>5.7</b>	<b>74.8</b>	<b>72.6</b>	<b>2.3</b>	<b>19.3</b>	<b>15.9</b>	<b>3.4</b>
Net Labour & Contractors	42.7	42.5	(0.1)	40.1	39.3	(0.7)	2.6	3.2	0.6
Consulting	4.1	6.4	2.3	3.8	3.8	0.0	0.3	2.6	2.3
Recoveries	3.7	1.4	(2.4)	2.4	0.9	(1.5)	1.4	0.5	(0.9)
Corporate Overheads	-	-	-	(2.5)	(2.7)	(0.2)	2.5	2.7	0.2
IT & Telecommunications	14.5	11.4	(3.1)	14.5	11.4	(3.1)	-	0.0	0.0
Occupancy	2.5	1.9	(0.6)	2.5	1.9	(0.6)	-	-	-
Other Expenses	2.8	4.4	1.6	2.8	4.4	1.6	0.0	0.0	0.0
Depreciation & Amortisation	9.1	8.9	(0.2)	9.1	8.9	(0.1)	0.0	0.0	(0.0)
Financing Costs	0.4	0.5	0.2	0.4	0.5	0.2	0.0	-	(0.0)
<b>Total Expenditure</b>	<b>79.8</b>	<b>77.5</b>	<b>(2.3)</b>	<b>72.9</b>	<b>68.5</b>	<b>(4.4)</b>	<b>6.8</b>	<b>9.0</b>	<b>2.2</b>
<b>SURPLUS/(DEFICIT)</b>	<b>14.4</b>	<b>11.0</b>	<b>3.4</b>	<b>1.9</b>	<b>4.0</b>	<b>(2.1)</b>	<b>12.5</b>	<b>6.9</b>	<b>5.6</b>

Favourable other revenue mainly reflects higher VicTNSP and NEM connections (\$2m) and jurisdictional activities largely in Vic and NSW (\$1.8m). These activities are the driver of higher recoveries spend (\$2.4m)

IT & Telecoms unfavourable variance of \$3.1m is substantially driven by higher than expected cloud costs – both usage and storage mainly relating to 5MS and corporate related activities. A team has been set up to impact change to reduce ongoing cloud related costs

# Update on AEMO Review and Benchmarking

Philip Hirschhorn, Boston Consulting Group

# Questions & Comments

Tony Chappel, EGM Corporate Affairs



# Next meeting and any other business

Julie Williams, EGM Finance





**AEMO**

AUSTRALIAN ENERGY MARKET OPERATOR