Please note that the information presented in this document was developed to enable discussion at the Finance Consultation Committee and is a working draft subject to further review and change.

Draft FY23 Budget & Fees

Presentation to Finance Consultation Committee

4 March 2022

We acknowledge the Traditional Owners of country throughout Australia and recognise their continuing connection to land, waters and culture.

We pay respect to their Elders past, present and emerging.

Agenda

1. Introduction
2. Draft FY23 Budget & Forecast
3. NEM Core Accumulated Deficit Recovery
4. Forecast Debt Profile

Introduction

- Purpose
- Focus
- Context
- Financial Principles
- Priorities

Purpose

- To seek feedback from committee members on:
  - the AEMO early draft FY23 budget, and following two-year forecast, and
  - the fee and funding outcomes required to improve AEMO's financial position.

Note, in order to reflect the budget and forward estimates that flow to AEMO Tariffs, Fees and charges, this Draft FY23 Budget and Fees overview presents the AEMO financial forecasts pre-consolidation of AEMO Services Ltd (ASL).
The ASL subsidiary has been established to financially break-even each year and is initially funded by the NSW Government.
Services provided by AEMO to ASL are charged at full cost recovery.

Focus

Today's focus is a:

- Review of the draft FY23 budget and estimates for FY24 and FY25 noting these are early numbers that may be influenced by:
  - draft technology roadmaps that will be available in late March as discussed at the 4 February meeting; and
  - final prioritisation of the FY23 Corporate Plan outcomes and deliverables.
- Review of the NEM financial position and possible fee outcomes that address the significant accumulated deficit
- Review of the requirement for AEMO to increase its funding over the short and medium term

Context

- An effective and efficient system operator is critical for energy security and managing the energy transition.
- AEMO has taken, and is continuing to implement actions to identify, quantify and reduce costs and drive effectiveness in operations. At the same time, AEMO needs to invest in core operations to ensure the safe, reliable and affordable energy system Australians expect.
- In benchmarking AEMO, BCG found that AEMO is efficient compared to peers and underinvesting in some critical central functions.
- Continuing to run operating deficits funded by debt is clearly unsustainable.
- Despite significant efficiencies and savings, AEMO is facing escalating costs to maintain core obligations and responsibilities and prepare for future system and market requirements.
- In the NEM, AEMO is also carrying a sizeable deficit that has been accumulated from previous years, impacting AEMO's ability to respond to the challenges it's facing.

Financial Principles

- AEMO's proposed financial principles guide the development of the budget and forecast.
- These principles include:
  - Full recovery of operating expenditures across entities
  - New investment programs require accepted funding pathway prior to proceeding
  - Debt to assets ratio to remain under 100 percent
  - Liquidity ratio to remain above 50 percent
  - Transparent ringfencing of participant and member funds by function
  - No appetite or tolerance for financial/funding risk in relation to contracted activities
  - Estimated annual fees and charges will be shared with the Australian Energy Regulator in time to enable inclusion in the Default Market Offer.

Priorities

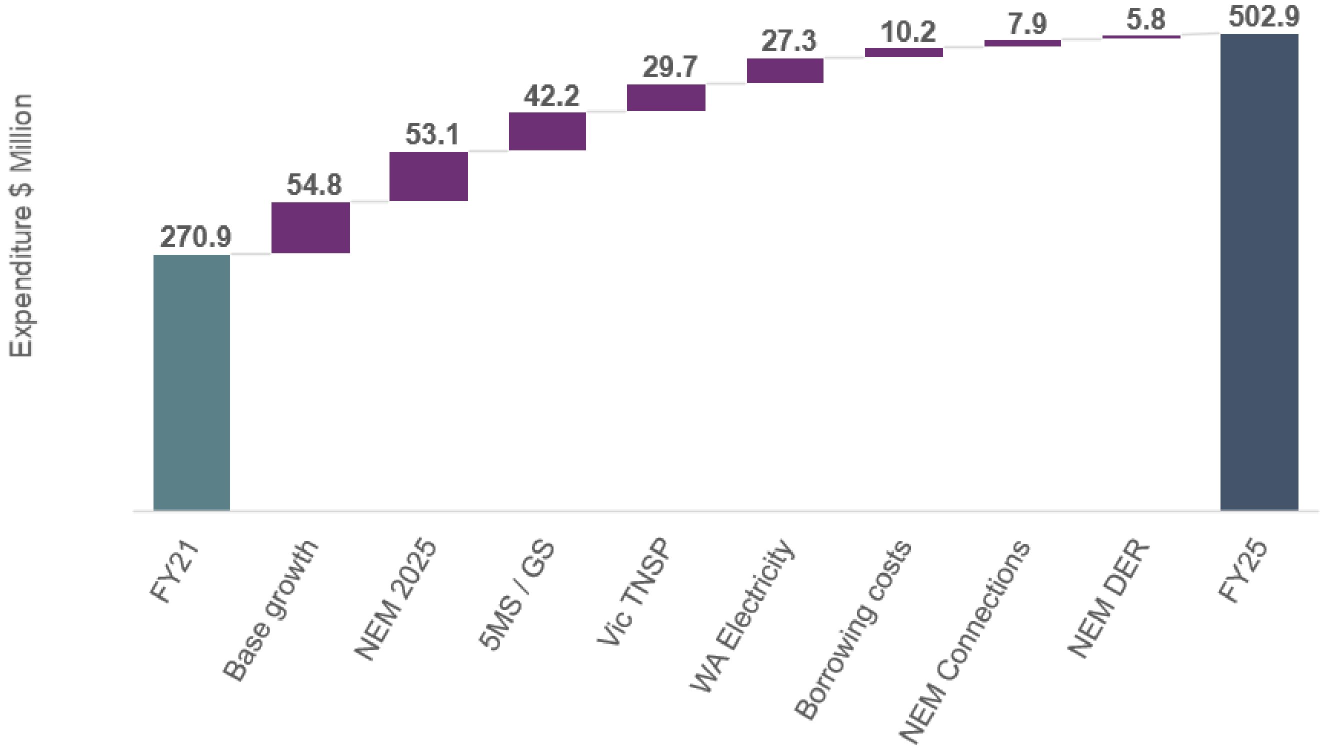
- At the last meeting we presented our key areas of focus for FY23 under four priority areas:
  - Operating today's systems and markets
  - Navigating the energy future
  - Engaging our stakeholders
  - Evolving the way we work.
- To support and deliver the safe, reliable and affordable energy system Australians expect, these key areas of focus include investment in our own core operations and broader market reform including through:
  - *NEM Post 2025 and WA Reform programs*
  - *PSCAD tools and skills uplift*
  - *Cyber security*
  - *Engineering framework - development and implementation*
  - *Progression of the Connection Reform Initiatives program (including simulation tool)*
  - *Uplifting forecasting, planning and operations processes and tools*
  - *Limited central function role increases (consistent with BCG benchmarking)*

AEMO
Draft FY23 Budget & Forecast

- Overview
- FY22 Forecast
- Financial Performance Summary
- AEMO Operating Expenditure
  - Net Labour
  - IT & Telecommunications
  - Amortisation & Depreciation
- Capital Expenditure
- Balance Sheet & Cash Flow

AEMO Overview

- This AEMO FY23 budget and forecast is in draft. Activity is continuing to refine the expenditure and revenue to deliver efficient and valued outcomes.
- AEMO's expenditure profile is influenced by activities to maintain core obligations and responsibilities, the growth in reform implementation programs developed in conjunction with members and initiatives to prepare for future system and market requirements.
- Inflation escalation of 2.5% is applied across the Budget and the forward years. All financials are shown in nominal dollars unless otherwise stated.
- Consistent with AEMO's governance model, investments are debt funded upfront and debt is repaid through fees and charges over the life of the asset via the depreciation and amortisation recovery.



AEMO's Base growth expenditure includes ongoing electricity and gas operations and markets, cyber security and National Transmission Planner, and other

AEMO
FY22 Forecast to Budget Update

AEMO Enterprise ($Million)	Budget 2021/22	Forecast 2021/22	Variance
REVENUE			
Fees and Tariffs	253.1	251.3	(1.8)
PCF Fees	1.0	1.0	0.0
Net TUoS/Network Charges	(75.7)	(72.9)	2.8
Settlement Residue	43.4	31.3	(12.1)
Negotiated Services - Income	49.1	50.2	1.1
Connections Revenue	24.7	33.0	8.3
Other Revenue	6.1	14.6	8.5
NET REVENUE	301.7	308.4	6.7
OPERATING EXPENDITURE			
Labour	(168.3)	(178.5)	(10.2)
Consulting	(21.1)	(15.0)	6.1
IT & Telecommunications	(47.4)	(60.2)	(12.8)
Recoveries	(5.5)	(15.0)	(9.5)
Other expendiure	(25.4)	(24.4)	1.0
Depreciation and Amortisation	(43.9)	(45.8)	(1.9)
Borrowing costs	(2.1)	(1.8)	0.4
TOTAL EXPENDITURE	**(313.6)**	**(340.6)**	**(27.0)**
ANNUAL SURPLUS / (DEFICIT)	**(11.9)**	**(32.2)**	**(20.3)**

Market driven inter regional flows variance*

Inadequate FY22 IT Cloud cost budget – 5MS, cyber, data

Adjusting for above two variances, the forecast is a $4.7m favourable to budget

* Under review

The current FY22 full year forecast results in an unfavourable variance of $20.3m to the budget. Adjusting for the following two key drivers, the variance is favourable by $4.7m:

- an unfavourable market driven Settlement Residue outcome* relating to increased frequency and magnitude of transmission counter-price flows from NSW into Vic, and
- an insufficient cloud costs budget largely associated with 5MS, cyber and data management.

AEMO's FY22 budget incorporated a stretch $10m reduction. Around half this stretch target is forecast to be achieved from labour savings, and the remainder from non-labour spend. The forecast labour variance also includes ~$5m lower capitalisation of labour as compared to the budget. The outcome of these two variances is an unfavourable $10m labour expenditure forecast at year end.

Higher than budget revenue of $16.8m from both connections and other revenue activities, has contributed to additional labour and recoveries expenditure during the year. These activities are charged on a full cost recovery basis, including a charge for a fair share of the corporate activities.

AEMO
Financial Performance Summary

Fees and Tariffs real revenue increase of $119.6m in FY23, is the result of expenditure increases in FY23, and a $40m recovery of the NEM Core accumulated deficit.

Continued growth in connections and other revenue is resulting in a real revenue increase of $15.2m in FY23.

The real increase in expenditure of $67.4m in FY23, reflects:

- Labour increases in operational areas, uplifting some critical central functions, and incremental labour associated with new systems in service.
- VicTNSP increased Consulting activities
- Increased Cloud, IT support costs, predominantly for 5MS/GS
- Higher D&A reflecting ongoing movement of systems into service including WEM reform, cyber and digital investments and a full year of amortisation of 5MS/GS assets

AEMO Enterprise ($Million)	Actual 2020/21	Forecast 2021/22	Budget 2022/23	Estimate 2023/24	Estimate 2024/25	2022 to 2023 Change in Real $'s
REVENUE						
Fees and Tariffs	201.4	251.3	377.1	399.2	444.1	119.6
PCF Fees	1.0	1.0	-	-	-	(1.0)
Connections Revenue	24.2	33.0	40.7	41.7	42.8	6.9
Other Revenue	48.0	23.2	32.1	32.4	38.3	8.3
NET REVENUE	274.6	308.4	449.9	473.4	525.1	133.8
OPERATING EXPENDITURE						
Labour	(163.3)	(178.5)	(218.0)	(228.6)	(237.9)	(35.0)
Consulting	(13.1)	(15.0)	(23.9)	(22.4)	(23.0)	(8.5)
IT & Telecommunications	(34.4)	(60.2)	(69.3)	(81.7)	(97.4)	(7.6)
Other expendiure	(30.3)	(39.4)	(37.1)	(38.7)	(38.9)	3.3
Depreciation and Amortisation	(29.3)	(45.8)	(66.0)	(65.0)	(95.1)	(19.1)
Borrowing costs	(0.4)	(1.8)	(2.3)	(6.0)	(10.6)	(0.5)
TOTAL EXPENDITURE	**(270.9)**	**(340.6)**	**(416.5)**	**(442.4)**	**(502.9)**	**(67.4)**
ANNUAL SURPLUS / (DEFICIT)	**3.7**	**(32.2)**	**33.4**	**30.9**	**22.2**	**66.4**
PCF Fees Adjustment	(1.0)	(1.0)	-	-	-	1.0
Land Reserve Adjustment	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	0.0
ACCUMULATED SURPLUS / (DEFICIT)	**(29.1)**	**(62.5)**	**(29.3)**	**1.4**	**23.4**	**34.7**

AEMO Operating Expenditure Net Labour

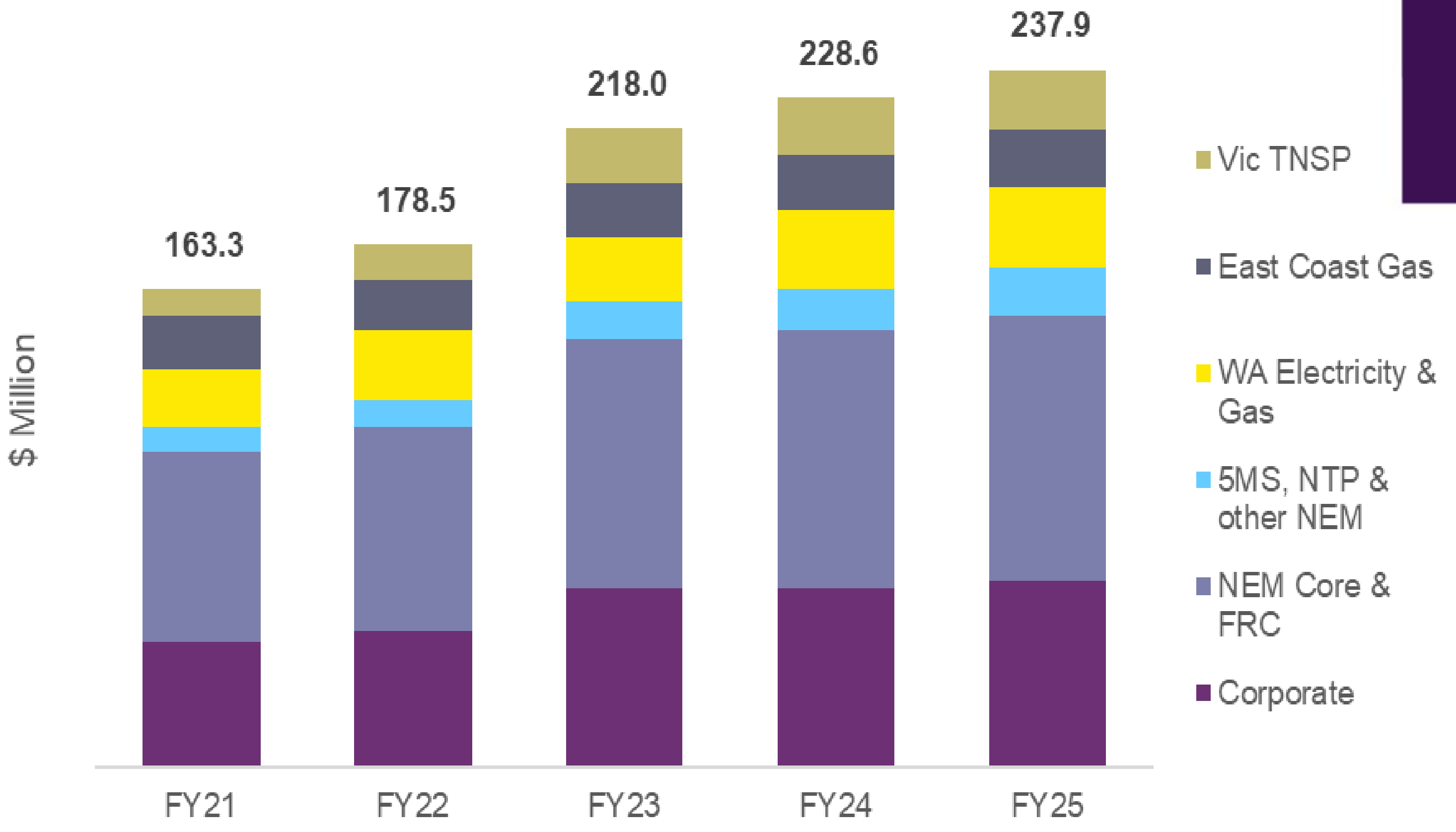
AEMO is experiencing increased employee movement and longer vacancy periods due to the tight labour market. At present AEMO has ~65 vacant roles across the business.

The FY23 Budget assumes these vacancies are largely filled by the commencement of the new financial year.

The key drivers of increased labour expenditure in FY23 v FY22 include:

- the annualised impact of recruitment through FY22
- additional onboarding of corporate capabilities in the areas highlighted in the Boston Consulting Group's review as needing uplift, including in the Enterprise Portfolio Office, Finance, Strategy, Risk and Governance
- increased digital and operations teams required to support new systems and markets, and optimise the use of technology resources (e.g. cloud)
- recruitment of several roles to support both Vic and NEM connections activities, a small number of these roles replacing consultants and contractors currently undertaking connections activities.

The labour expenditure increases in forward years reflect escalation, and a small number of new roles required to support new systems post implementation.



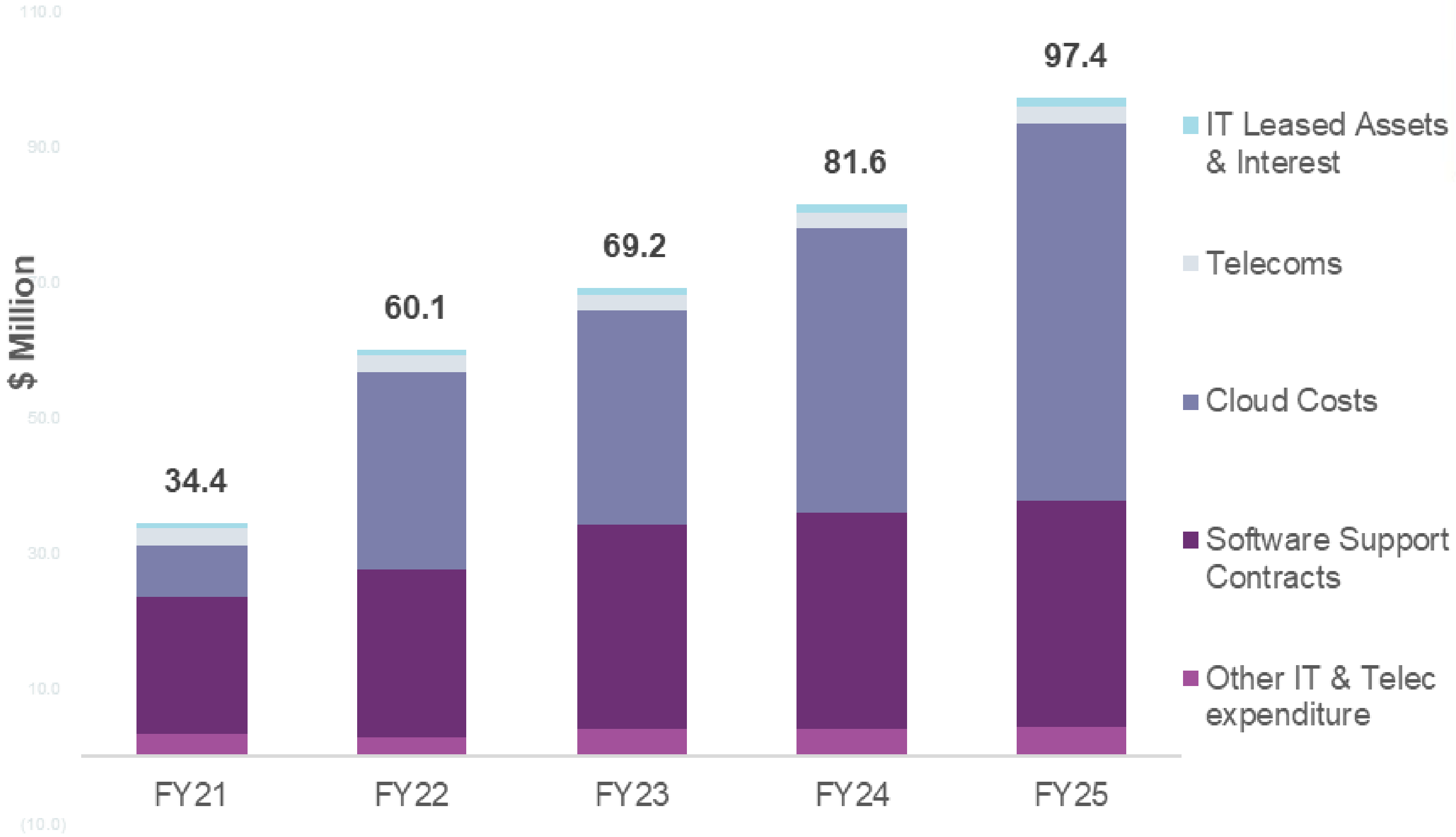
AEMO Operating Expenditure IT & Telecommunications

Expenditure driven by transition to a digital platform and implementation of new systems to support major new reforms.

- FY22 NEM 5MS/GS, customer switching and a wholesale demand response mechanism.
- FY24 Reformed Western Australian electricity markets.
- FY25 NEM 2025.

Cloud costs are forecast to increase $24m from FY21 to FY23, of which $17m is associated with 5MS/GS. The increase in cloud costs with the implementation of 5MS has been greater than expected.

The amount and composition of IT & Telecommunications expenditure associated with implementation of NEM 2025 are uncertain. Forecast cost for FY24 and FY25 are based on high level benchmarks for NEM 2025 II support and cloud costs



AEMO Operating Expenditure
Depreciation & Amortisation

Depreciation & amortisation expense reflects the recovery of previous investments across capital expenditure programs and projects.

Investments are recovered over an asset’s estimated useful life. This is generally 5 to 10 years.

NEM 2025 investments are assumed to have a useful life of 7 years, with assets moving into service in FY24 and FY25.

The five minute settlements and global settlements (5MS&GS) program is substantially complete in FY22. The first full year of depreciation of these systems is FY23.

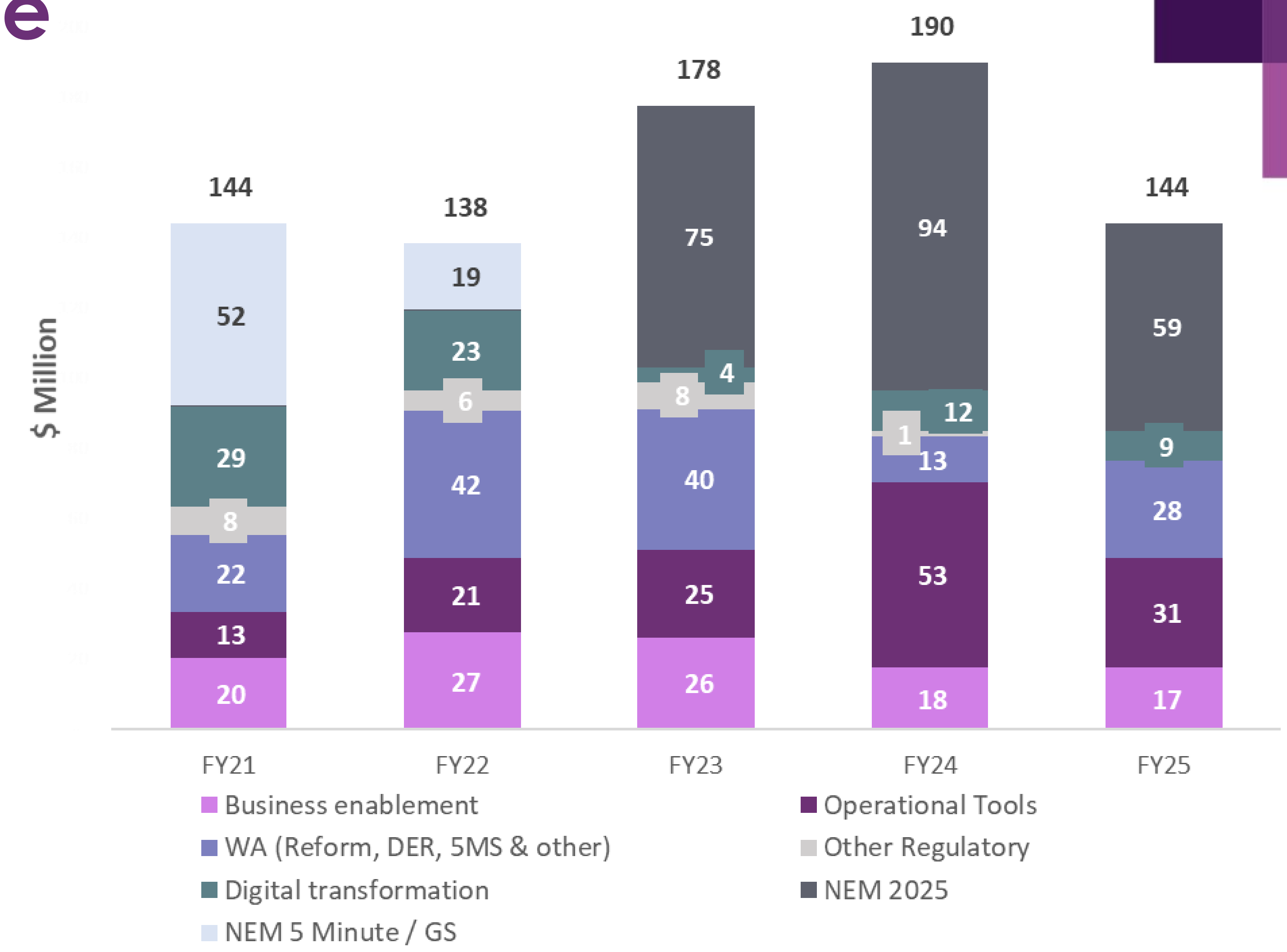
AEMO
Capital expenditure

The capital program is in draft form pending NEM 2025, IT, and Operations Tools technology roadmaps – with updated drafts expected late March 2022. These drafts may result in a change to the current timing and dollar assumptions.

The capital profile presented reflects a prioritised program including the WEM reform program, NEM 2025 expenditure, operational tools and continued investment in cyber and digital.

Investment in operations tools and systems is required to for both lifecycle and uplift outcomes. Such investment is needed to ensure regulatory obligations continue to be met in the changing generation and demand landscape.

NEM 2025 expenditure reflects ESB recommendations from its Post-2025 Market Design. Consistent with the ESB's recommendations the expenditure in this forecast excludes the reserve capacity mechanism and congestion management mechanism.



AEMO
Balance Sheet & Cash Flow

Participant Security Deposits and the Participant Compensation Fund cash balances are not available for AEMO operational use.

Non-current asset growth reflects ongoing investment in systems and tools, funded by reinvested operating cash flows and new bank facility borrowings.

Net cash flows from operating improves over the forecast period due to assumed full recovery of all operating expenditures, and forecast recovery of the NEM Core accumulated deficit.

An increase in AEMO's commercial debt facility to support the level of borrowings assumed in the Draft Budget are subject to review and approval by the AEMO Board.

AEMO Financial Statements ($Million)	Actual 2020/21	Forecast 2021/22	Budget 2022/23	Estimate 2023/24	Estimate 2024/25
Balance Sheet					
Cash & Deposits on hand	55.6	14.7	15.0	15.0	15.0
Participant Security Deposits	157.6	171.3	243.7	256.4	284.4
Participant Compensation Fund	9.5	10.5	10.5	10.5	10.5
Other current Assets	112.7	123.9	177.5	186.4	206.3
Non-current Assets	367.5	444.9	546.0	679.9	723.4
Total Assets	**703.0**	**765.3**	**992.8**	**1148.3**	**1239.6**
Participant Security Liabilities	154.1	173.1	252.5	265.7	294.7
Borrowings	358.2	444.7	547.1	642.1	681.1
Other Liabilities	199.6	188.6	200.8	217.2	218.4
Net Assets	**(8.9)**	**(41.1)**	**(7.7)**	**23.2**	**45.5**
Debt / Assets excl deposits & PCF	67%	76%	74%	73%	72%
Cash Flow Statement					
Net cash flows from operating *	53.2	1.5	71.5	96.0	106.2
Net cash flows from investing *	(142.2)	(128.1)	(172.3)	(189.7)	(143.8)
Net cash flows from financing	119.3	85.6	101.1	93.7	37.6
Net increase / (decrease) in cash	**30.2**	**(40.9)**	**0.3**	**0.0**	**0.0**

* Net operating and investing cash flows exlcude Security deposits and PCF

AEMO Segment Financial Summaries

- Segment Financial Performance Summary
- NEM Segment – financial summary & entity revenue
- East Coast Gas – financial summary & entity revenue
- WA Electricity & Gas – financial summary & entity revenue
- VicTNSP – financial summary

AEMO Segment Financial Performance Summary

AEMO consists of four business segments, as follows:

- National Electricity Market (NEM)
- East Coast Gas
- WA Electricity & Gas (WA)
- Victorian TNSP (VicTNSP)

NEM's revenue has been lower than its operating costs in recent years and this has resulted in a large accumulated NEM deficit.

Full recovery of costs has been achieved by the other three segments.

Further detail of each segment's results is provided in the following slides.

Segment Annual Financial Surplus/(Deficit) ($ Million)	Actual 2020/21	Forecast 2021/22	Budget 2022/23	Estimate 2023/24	Estimate 2024/25
NEM					
Revenue	148.9	201.8	316.0	331.6	366.9
Expenditure	(167.9)	(218.9)	(275.3)	(289.0)	(340.7)
Annual Surplus /(Deficit)	**(19.0)**	**(17.1)**	**40.7**	**42.6**	**26.2**
Accumulated Surplus / (Deficit)*	**(84.9)**	**(103.2)**	**(62.7)**	**(20.3)**	**5.7**
East Gas					
Revenue	43.3	43.7	45.4	43.0	41.0
Expenditure	(43.1)	(43.4)	(46.3)	(45.8)	(45.6)
Annual Surplus /(Deficit)	**0.2**	**0.4**	**(1.0)**	**(2.8)**	**(4.7)**
Accumulated Surplus / (Deficit) **	**25.8**	**26.2**	**25.2**	**22.4**	**17.8**
WA					
Revenue	34.6	34.5	42.7	52.3	64.5
Expenditure	(33.9)	(43.3)	(42.5)	(54.5)	(61.4)
Annual Surplus /(Deficit)	**0.7**	**(8.8)**	**0.3**	**(2.2)**	**3.1**
Accumulated Surplus / (Deficit)	**7.6**	**(1.1)**	**(0.9)**	**(3.1)**	**0.0**
VicTNSP					
Revenue	46.8	25.6	45.4	46.0	52.2
Expenditure	(25.0)	(32.3)	(52.0)	(52.6)	(54.7)
Annual Surplus /(Deficit)	**21.8**	**(6.7)**	**(6.6)**	**(6.6)**	**(2.5)**
Accumulated Surplus / (Deficit)*	**22.3**	**15.6**	**9.0**	**2.4**	**(0.1)**

* Incl. Balance Sheet movements

** Incl. DWGM Capital Contribution

NEM
Financial Summary

NEM's revenue budget has been increased to cover operating cost and allow for a three-year recovery of the accumulated NEM deficit.

The real increase in FY23 expenditure of $51m reflects:

- $17.0m increase in labour resourcing driven by:
  - The annualised impact of FY22 recruitment
  - Power system forecasting and simulation capability uplift
  - Increased resourcing in the Operations teams required to support new systems (Power system simulation and forecasting) and markets (NEM 2025)
- Consulting spend increase of $2m in FY23 for the Engineering framework implementation (how to run power system on 100% renewable FY24).
- Increases in IT & Telco, Depreciation and Amortisation and Borrowing costs are associated with 5MS/GS from FY22 and NEM 2025 from FY24.

NEM Segment ($Million)	Actual 2020/21	Forecast 2021/22	Budget 2022/23	Estimate 2023/24	Estimate 2024/25	2022 to 2023 Change in Real $'s
REVENUE						
Fees and Tariffs	126.3	175.4	289.3	304.2	338.8	109.5
PCF Fees	1.0	1.0	-	-	-	(1.0)
Connections	15.4	21.0	22.2	22.8	23.4	0.8
Other Revenue	6.2	4.5	4.5	4.6	4.8	(0.0)
NET REVENUE	148.9	201.8	316.0	331.6	366.9	109.2
OPERATING EXPENDITURE						
Labour	(73.2)	(79.0)	(98.0)	(102.1)	(107.1)	(17.0)
Consulting	(3.4)	(4.4)	(6.7)	(4.7)	(4.8)	(2.1)
IT & Telecommunications	(6.7)	(27.0)	(32.0)	(42.4)	(55.9)	(4.3)
Enterprise Recoveries	(64.4)	(77.3)	(97.7)	(90.3)	(93.9)	(18.5)
Other expenditure	(8.6)	(9.3)	(8.1)	(8.7)	(9.4)	1.4
Depreciation and Amortisation	(11.6)	(21.1)	(31.4)	(36.1)	(61.3)	(9.8)
Borrowing costs	(0.0)	(0.6)	(1.4)	(4.7)	(8.3)	(0.7)
TOTAL EXPENDITURE	**(167.9)**	**(218.9)**	**(275.3)**	**(289.0)**	**(340.7)**	**(51.0)**
ANNUAL SURPLUS / (DEFICIT)	**(19.0)**	**(17.1)**	**40.7**	**42.6**	**26.2**	**58.2**
PCF Fees Adjustment	(1.0)	(1.0)	-	-	-	1.0
Land Reserve Adjustment	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	0.0
ACCUMULATED SURPLUS / (DEFICIT	**(84.9)**	**(103.2)**	**(62.7)**	**(20.3)**	**5.7**	**43.1**

NEM
Summary of Entity Revenue

Tariff and fees revenue is set to recover the operating costs of each entity and over or under recoveries for entities where relevant.

NEM Core FY23 tariff & fees revenue 92% growth reflects a combination of steps to:

- fully recover the FY22 cost base (due to under recovery in FY22),
- recover the increase in FY23 operating costs, and
- recover $40m of the prior years' accumulated deficit.

Five Minute Settlements & Global Settlements (5MS & GS) revenue increase of 78% in FY23 reflects:

- under recovered IT related cloud expenditure in FY22,
- the ongoing impact of increased cloud costs from FY23, and
- onboarding of digital retail solutions support roles.

The **National Transmission Planner** (NTP) revenue fall in FY23 reflects the end of the transitional arrangement whereby six months of FY21 revenue was recovered in FY22. This fall in revenue is partly offset by an expected onboarding of employees in roles that have been vacant for a portion of FY22.

NEM Entities - Revenue ($ Million)	Actual 2020/21	Forecast 2021/22	Budget 2022/23	Estimate 2023/24	Estimate 2024/25
NEM Core					
Tariff & Fees Revenue	98.8	106.1	203.5	203.2	201.7
Growth	*8%*	*7%*	*92%*	*0%*	*-1%*
Other Revenue	21.3	25.5	25.9	26.6	27.2
Growth	*49%*	*20%*	*2%*	*3%*	*2%*
FRC					
Tariff & Fees Revenue	13.8	14.2	13.5	12.8	12.2
Growth	*1%*	*3%*	*-5%*	*-5%*	*-5%*
5MS & GS					
Tariff & Fees Revenue	-	24.8	44.2	43.8	43.4
Growth			*78%*	*-1%*	*-1%*
DER					
Tariff & Fees Revenue	-	5.7	5.5	5.4	5.3
Growth			*-4%*	*-3%*	*-2%*
NTP					
Tariff & Fees Revenue	12.2	23.0	19.0	19.0	19.8
Growth	*124%*	*88%*	*-17%*	*0%*	*4%*
NEM 2025					
Tariff & Fees Revenue	-	-	-	16.6	53.1
Growth					*220%*
Other					
Tariff & Fees Revenue	1.5	1.6	3.6	3.3	3.3
Growth	*-10%*	*5%*	*126%*	*-7%*	*0%*

East Coast Gas Financial Summary

Fees and tariffs revenue increase of $1.8m in FY23 to offset revenue under-recovery in the Short-Term Trading Market and Vic Wholesale Gas in FY22.

Revenue is expected to decline in following years reflecting real cost movements and the return of accumulated surpluses.

Increased labour reflects the onboarding of two roles in DWGM and filling of roles currently vacant.

Expenditure from FY24 largely reflects escalation and growth in the business resulting in a lower allocation of recoveries to the gas functions.

East Coast Gas Segment ($Million)	Actual 2020/21	Forecast 2021/22	Budget 2022/23	Estimate 2023/24	Estimate 2024/25	2022 to 2023 Change in Real $'s
REVENUE						
Fees and Tariffs	40.5	41.3	43.1	40.7	38.7	0.8
Other Revenue	2.8	2.4	2.2	2.3	2.3	(0.3)
NET REVENUE	43.3	43.7	45.4	43.0	41.0	0.5
OPERATING EXPENDITURE						
Labour	(18.1)	(17.2)	(18.0)	(18.6)	(19.2)	(0.4)
Consulting	(0.1)	(0.4)	(0.3)	(0.3)	(0.3)	0.1
IT & Telecommunications	(3.3)	(4.4)	(4.9)	(5.0)	(5.2)	(0.4)
Enterprise Recoveries	(16.8)	(17.0)	(17.9)	(15.5)	(15.9)	(0.5)
Other expenditure	(1.1)	(1.5)	(2.1)	(2.2)	(1.2)	(0.6)
Depreciation and Amortisation	(3.6)	(3.0)	(3.1)	(4.2)	(3.7)	(0.1)
Borrowing costs	(0.0)	(0.0)	-	(0.0)	(0.1)	0.0
TOTAL EXPENDITURE	**(43.1)**	**(43.4)**	**(46.3)**	**(45.8)**	**(45.6)**	**(1.8)**
ANNUAL SURPLUS / (DEFICIT)	**0.2**	**0.4**	**(1.0)**	**(2.8)**	**(4.7)**	**(1.3)**
ACCUMULATED SURPLUS / (DEFICIT	**25.8**	**26.2**	**25.2**	**22.4**	**17.8**	**(1.6)**

East Coast Gas
Summary of Entity Revenue

DWGM Tariff and fees revenue is set to recover the operating costs and return accumulated surplus to members

Small annual movement in tariffs and fees and revenue are expected in FRC, GBB and GSOO entities reflecting underlying cost escalation

STMM revenue is increasing in FY23 from a under-recover in FY22 within a downward trend in revenue from FY21 driven by reductions in accumulated surpluses.

East Coast Gas Entities - Revenue ($ Million)	Actual 2020/21	Forecast 2021/22	Budget 2022/23	Estimate 2023/24	Estimate 2024/25
DWGM					
Tariff & Fees Revenue	23.2	25.5	26.2	24.5	23.0
Growth	*0%*	*10%*	*3%*	*-6%*	*-6%*
FRC					
Tariff & Fees Revenue	6.6	6.6	6.8	6.9	7.1
Growth	*-3%*	*0%*	*3%*	*2%*	*2%*
GBB					
Other revenue	2.0	2.0	2.0	2.0	2.0
Growth			*-1%*	*1%*	*-1%*
GSOO					
Tariff & Fees Revenue	2.1	2.2	2.2	2.2	2.1
Growth			*0%*	*0%*	*-1%*
STTM					
Tariff & Fees Revenue	5.3	3.7	4.5	3.7	3.1
Growth	*-11%*	*-31%*	*24%*	*-18%*	*-16%*
Other					
Tariff & Fees Revenue	3.2	3.4	3.5	3.4	3.4
Growth	*11%*	*6%*	*2%*	*-3%*	*-1%*
Other Revenue	0.9	0.4	0.2	0.3	0.3
Growth	*-75%*	*-55%*	*-47%*	*24%*	*1%*

WA
Financial Summary

In support of the WA energy market transformation strategy AEMO will implement new market systems and enable greater DER participation.

Recovery of the up-front and ongoing costs of these reforms drives the $30m increase in revenue from $34.5m this year to $64.5m in FY25.

The impact of implementation of reform investments is reflected in higher IT & telco support depreciation and amortisation, and borrowing costs

Labour costs provide for operation reformed markets, new obligations arising from the energy reforms, and continued support for further energy transformation initiatives.

WA Segment ($Million)	Actual 2020/21	Forecast 2021/22	Budget 2022/23	Estimate 2023/24	Estimate 2024/25	2022 to 2023 Change in Real $'s
REVENUE						
Fees and Tariffs	34.5	34.5	42.7	52.3	64.5	7.3
Other Revenue	0.1	0.0	0.0	0.0	0.0	(0.0)
NET REVENUE	34.6	34.5	42.7	52.3	64.5	7.3
OPERATING EXPENDITURE						
Labour	(19.8)	(23.6)	(22.1)	(26.9)	(27.8)	2.1
Consulting	(2.4)	(1.4)	(1.6)	(1.7)	(1.7)	(0.1)
IT & Telecommunications	(2.0)	(2.7)	(3.1)	(4.4)	(5.8)	(0.3)
Enterprise Recoveries	(1.2)	(1.8)	(1.5)	(1.8)	(1.9)	0.3
Other expenditure	(1.7)	(3.0)	(3.6)	(3.8)	(4.3)	(0.6)
Depreciation and Amortisation	(6.8)	(10.8)	(10.6)	(14.7)	(18.0)	0.5
Borrowing costs	(0.0)	(0.0)	(0.0)	(1.2)	(2.0)	(0.0)
TOTAL EXPENDITURE	**(33.9)**	**(43.3)**	**(42.5)**	**(54.5)**	**(61.4)**	**1.9**
ANNUAL SURPLUS / (DEFICIT)	**0.7**	**(8.8)**	**0.3**	**(2.2)**	**3.1**	**9.2**
ACCUMULATED SURPLUS / (DEFICIT)	**7.6**	**(1.1)**	**(0.9)**	**(3.1)**	**0.0**	**0.3**

AEMO AR6 Proposal was prepared prior to the development of these draft budget estimates.

WA
Summary of Entity Revenue

Tariff and fees revenue is set to recover allowable revenue adjusted for any accumulated position over a three year period. The AR6 period commences 1 July 2022.

WEM Market Operator and System Management tariff and fee revenues increase by 24% to 26% per annum over the AR6 period.

The WEM revenue increase is driven by depreciation and amortisation of system investments and an uplift in resources to service new markets and operate the power system securely.

FRC revenues increases are driven by higher IT support costs and cost escalation.

GSI revenue is expect to remain at or below the FY22 forecast.

WA Electricity & Gas Entities - Revenue ($ Million)	Actual 2020/21	Forecast 2021/22	Budget 2022/23	Estimate 2023/24	Estimate 2024/25
Market Operator					
Tariff & Fees Revenue	13.6	13.3	16.8	21.0	26.1
Growth	*5%*	*-2%*	*26%*	*25%*	*24%*
System Management					
Tariff & Fees Revenue	18.4	18.0	22.8	28.3	35.2
Growth	*3%*	*-2%*	*26%*	*25%*	*24%*
FRC					
Tariff & Fees Revenue	1.4	1.4	1.4	1.5	1.6
Growth			*3%*	*4%*	*4%*
GSI					
Tariff & Fees Revenue	1.1	1.8	1.7	1.5	1.7
Growth			*-5%*	*-8%*	*8%*

VicTNSP
Financial Summary

Operating expenditure movements between FY22 and FY23 include:

- Onboarding of headcount to service forecast increased Vic connections ~20 FTE, and Vic planning activities ~10 FTE.
- Consulting expenditure deferred from FY22 to FY23 for VNI West, and estimated consulting expenditure related to the Future Energy Systems engineering framework activity.
- Higher enterprise cost recovery reflects both an increase in corporate costs and an increased allocation to VicTNSP based on the growth in the function.
- Lower external cost recoveries are due to fewer forecast consultant engagements associated with other revenue activities in FY23.

Vic TNSP ($Million)	Actual 2020/21	Forecast 2021/22	Budget 2022/23	Estimate 2023/24	Estimate 2024/25	2022 to 2023 Change in Real $'s
REVENUE						
TUOS	591.5	603.0	642.3	661.5	687.5	24.2
Settlement Residue	55.8	31.3	32.1	32.9	33.7	-
Network Charges	(661.5)	(675.9)	(699.6)	(720.8)	(743.2)	(6.8)
Negotiated Services - Income	49.6	50.2	52.0	53.3	54.7	0.6
Connections Revenue	8.8	11.9	18.2	18.6	19.1	6.0
Other Revenue	2.5	5.2	0.4	0.4	0.4	(4.9)
NET REVENUE	46.8	25.6	45.4	46.0	52.2	19.1
OPERATING EXPENDITURE						
Labour	(9.4)	(12.4)	(19.1)	(20.0)	(20.6)	(6.4)
Consulting	(3.2)	(2.7)	(10.7)	(11.0)	(11.2)	(7.9)
Enterprise Recoveries	(8.5)	(11.5)	(18.2)	(17.0)	(17.6)	(6.4)
Recoveries	(3.7)	(5.5)	(3.8)	(4.4)	(4.9)	1.9
Other expenditure	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.1)
TOTAL EXPENDITURE	**(25.0)**	**(32.3)**	**(52.0)**	**(52.6)**	**(54.7)**	**(18.9)**
ANNUAL SURPLUS / (DEFICIT)	**21.8**	**(6.7)**	**(6.6)**	**(6.6)**	**(2.5)**	**0.2**
ACCUMULATED SURPLUS / (DEFICIT	**22.3**	**15.6**	**9.0**	**2.4**	**(0.1)**	**(7.0)**

Note VIC TNSP TUoS prices and Settlement Residue forecasts are under review. AEMO is working to publish the FY23 Budget TUoS Revenue requirement by 15th March.

NEM Core
Accumulated Deficit Recovery

- Financial Summary
- Tariff & Fees Revenue
- FY23 Revenue Step Changes

NEM Core Financial Summary

NEM Core is the National Electricity Market operations and systems including wholesale metering, settlements, supervision and planning

NEM Core does not include, 5MS/GS or NEM 2025

The key driver of labour increase between FY23 and FY22 is filling of vacancies and new roles in System Design for the Engineering Framework, connections and process improvements and establishment of the EPO.

Enterprise recoveries labour primarily reflects uplift in Corporate functions noted earlier.

NEM Core ($Million)	Actual 2020/21	Forecast 2021/22	Budget 2022/23	Estimate 2023/24	Estimate 2024/25	2022 to 2023 Change in Real $'s
REVENUE						
Fees and Tariffs	98.8	106.1	203.5	203.2	201.7	94.8
PCF Fees	1.0	1.0	-	-	-	(1.0)
Connections	15.4	21.0	22.2	22.8	23.4	0.8
Other Revenue	4.9	3.5	3.7	3.8	3.9	0.1
NET REVENUE	120.1	131.6	229.4	229.8	228.9	94.6
OPERATING EXPENDITURE						
Labour	(60.2)	(65.2)	(80.4)	(82.9)	(85.7)	(13.5)
Consulting	(2.4)	(3.5)	(5.4)	(3.4)	(3.4)	(1.8)
IT & Telecommunications	(4.8)	(6.9)	(9.0)	(9.3)	(9.5)	(1.9)
Enterprise Recoveries	(57.8)	(62.8)	(77.7)	(73.3)	(75.2)	(13.3)
Other expenditure	(8.4)	(9.0)	(7.9)	(8.5)	(9.1)	1.4
Depreciation and Amortisation	(7.6)	(8.1)	(9.0)	(10.1)	(16.1)	(0.7)
Borrowing costs	(0.0)	(0.0)	(0.0)	(2.1)	(3.4)	0.0
TOTAL EXPENDITURE	**(141.2)**	**(155.6)**	**(189.3)**	**(189.5)**	**(202.4)**	**(29.9)**
ANNUAL SURPLUS / (DEFICIT)	**(21.1)**	**(24.0)**	**40.1**	**40.3**	**26.5**	**64.7**
PCF Fees Adjustment	(1.0)	(1.0)	-	-	-	1.0
Land Reserve Adjustment	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	0.0
ACCUMULATED SURPLUS / (DEFICIT)	**(81.1)**	**(106.3)**	**(66.4)**	**(26.4)**	**(0.1)**	**42.5**

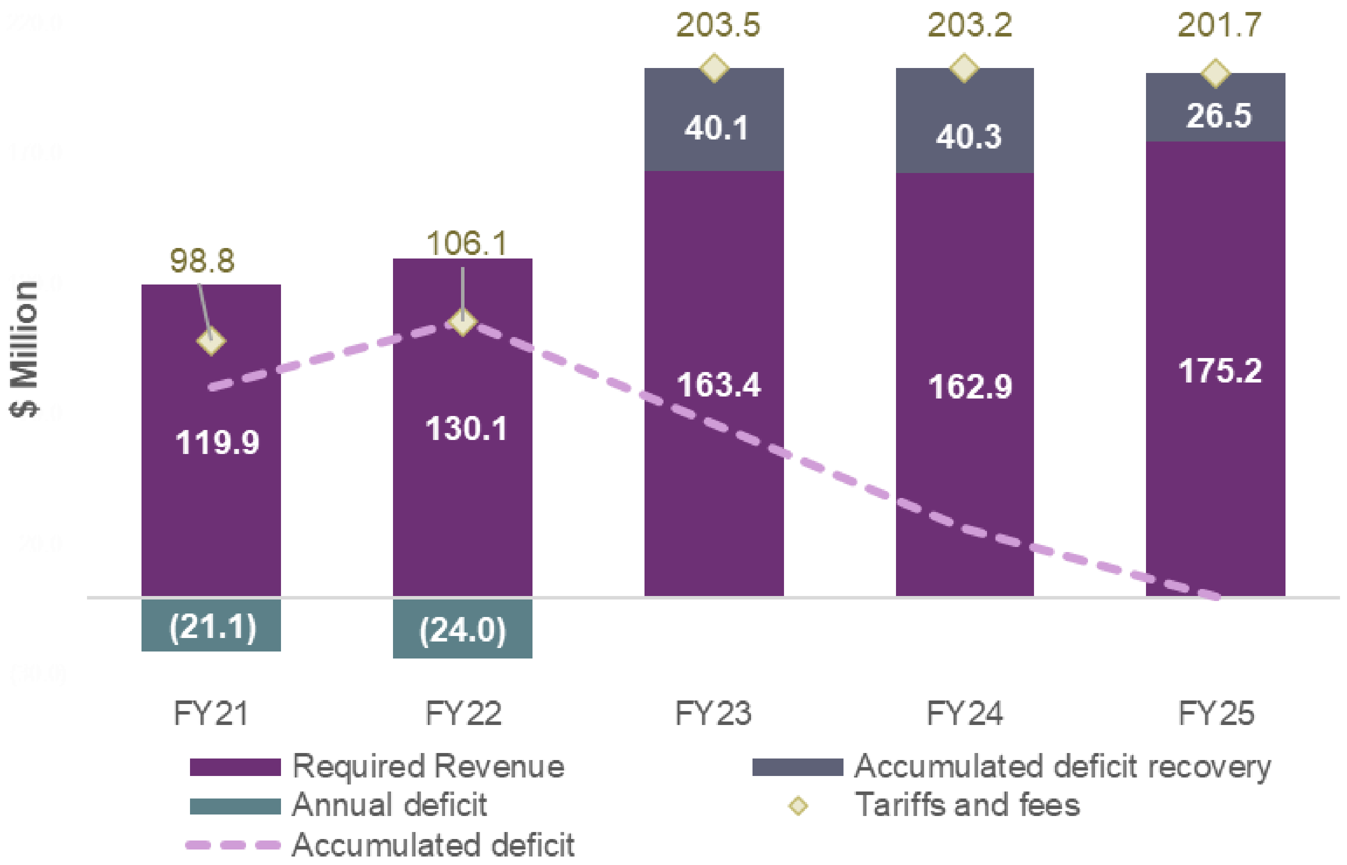
Enterprise Recoveries						
Labour	(27.3)	(27.0)	(34.9)	(36.0)	(36.7)	(7.2)
Other expenditure	(25.9)	(29.4)	(30.8)	(31.6)	(31.6)	(0.6)
Depreciation and Amortisation	(4.6)	(6.3)	(12.0)	(5.7)	(6.9)	(5.5)
	(57.8)	**(62.8)**	**(77.7)**	**(73.3)**	**(75.2)**	**(13.3)**

NEM Core
Tariff & Fees Revenue Profile

Consistent with AEMO's financial principles presented on slide 8, the FY23 budget has been set to increase fees & tariff revenue to:

- off-set the forecast FY22 $24m annual deficit,
- fully recover operational expenditure in FY23 being an increase of $33.3m on the FY22 forecast, and
- recover $40.1m of the NEM Core accumulated deficit in FY23, and the remainder of the accumulated deficit over the following two years.

This revenue pathway provides for the progressive recovery of the accumulated deficit out to the end of FY25.

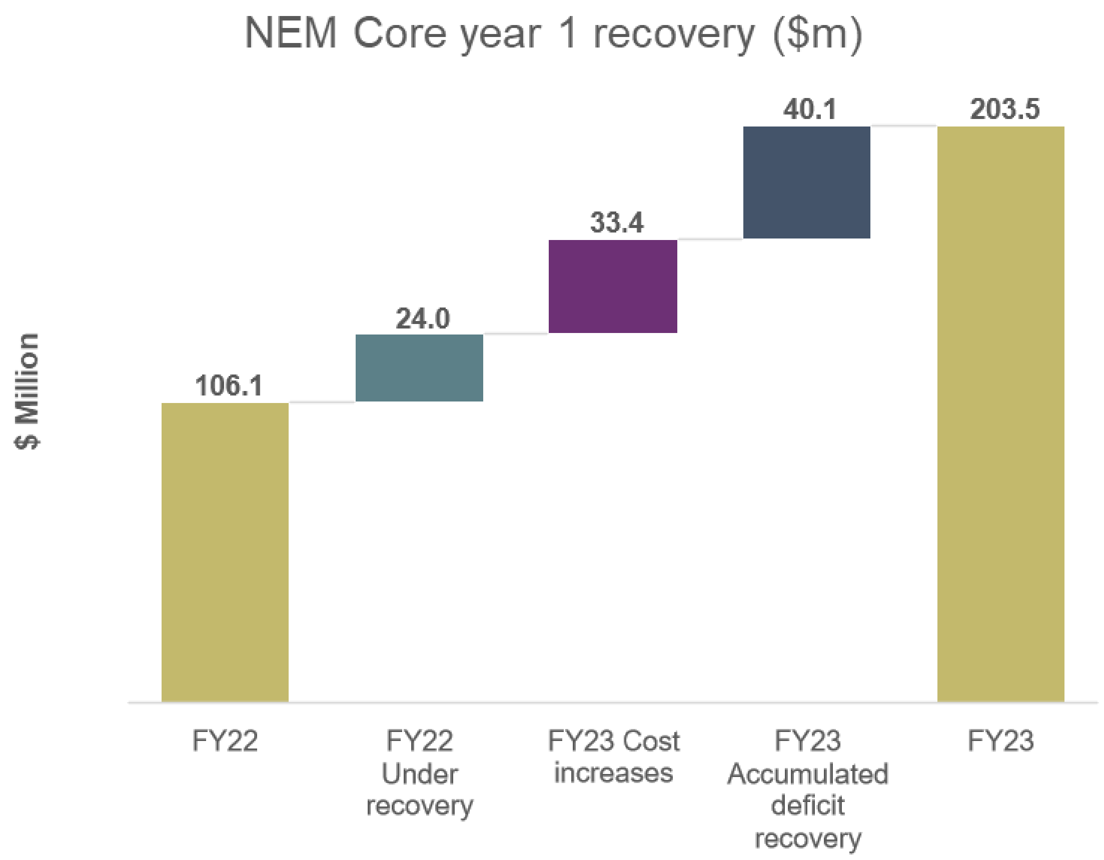


NEM Core
FY23 Revenue step changes

The waterfall chart presents the three step increases in NEM Core FY23 revenue as discussed on the prior slide. Noting the FY22 under recovery is based on the current full year forecast and is subject to change.

As mentioned, the FY23 accumulated deficit recovery is carried over three years. However, a number of recovery pathways may be considered.

For comparison, alternate accumulated deficit pathways of one year and four years have been modelled with the recovery pathway presented on the following slide.

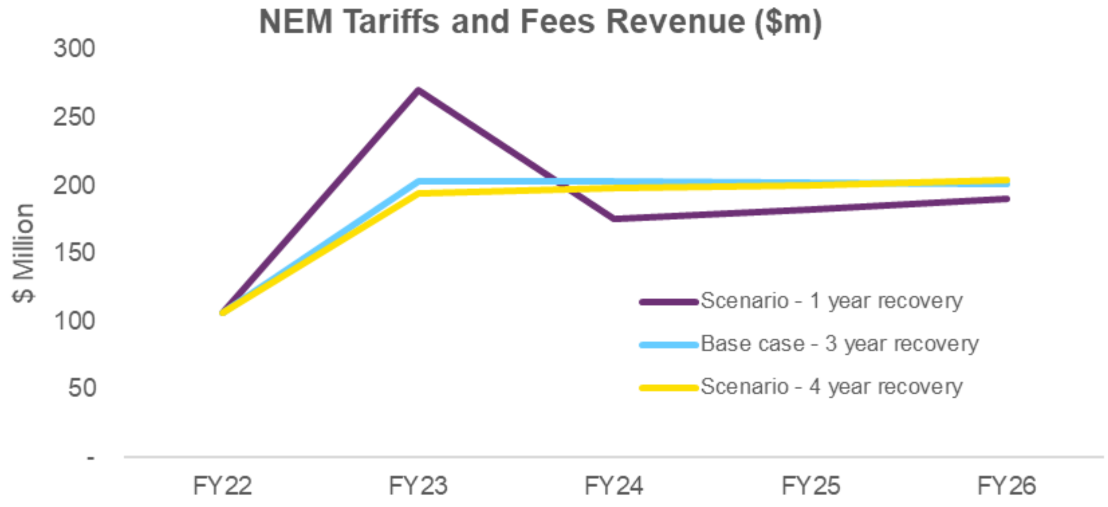


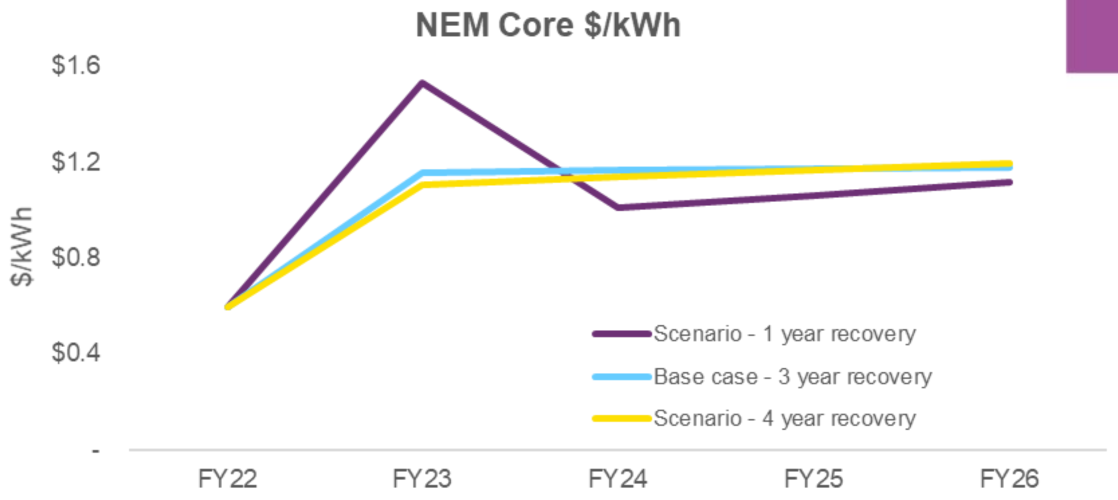
NEM Core Entity
Accumulated deficit alternate recovery paths

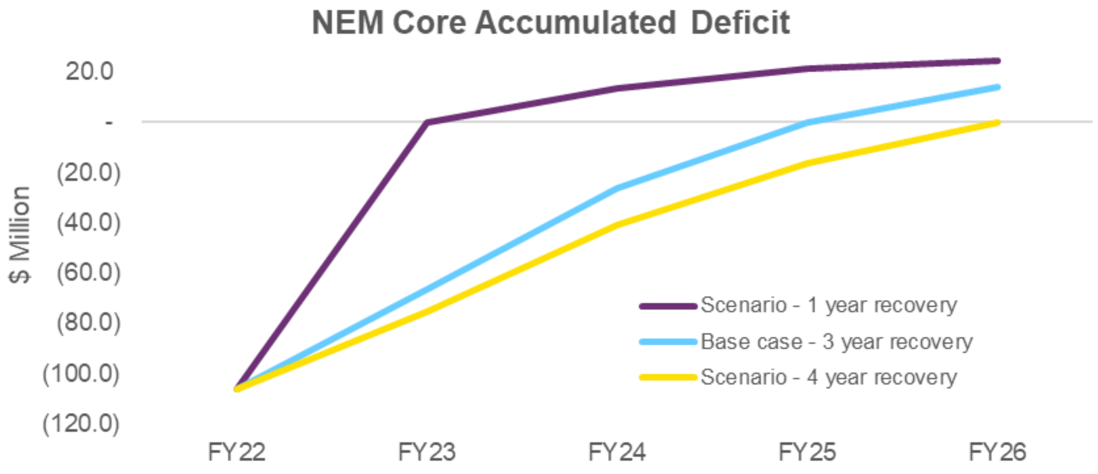
The Draft FY23 Budget assumes a 3-year recovery of the accumulated deficit. Two alternate pathways for recovery of the accumulated deficit are provided below, and on the next slide.

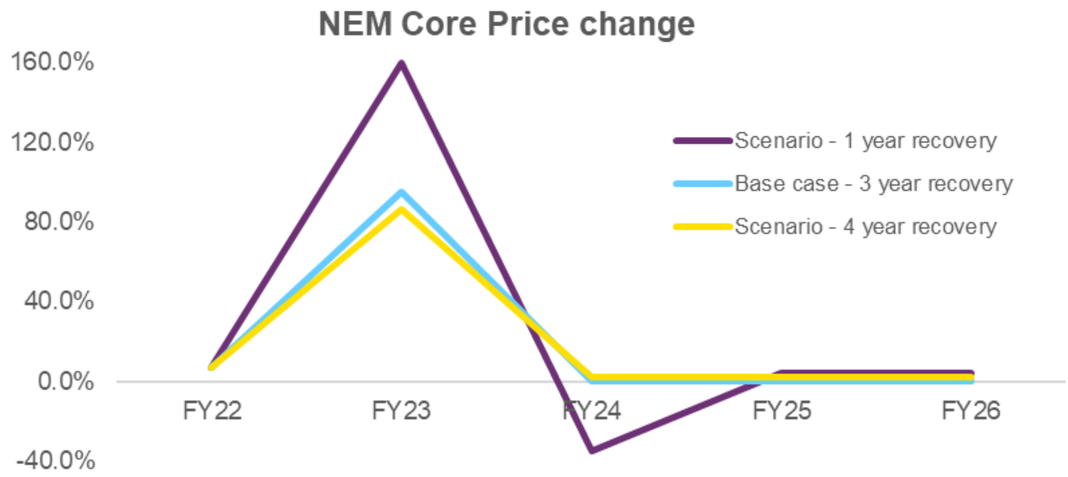
NEM Core Deficit Recovery Pathways	3 year recovery (per FY23 draft budget)	1 year recovery scenario	4 year recovery scenario
	Step change in FY23 to eliminate annual deficit, and recover the accumulated deficit within 3 years	Step change in FY23 to eliminate annual and accumulated deficit in FY23	Step change in FY23 to eliminate annual deficit, and recover the accumulated deficit within 4 years
Annual deficit	Eliminated in FY23	Eliminated in FY23	Eliminated in FY23
Accumulated deficit	Full recovery by end of FY25	Full recovery by end of FY23	Full recovery by end of FY26
Accumulated deficit balance			
FY22	$106m	$106m	$106m
FY23	$66m	$0m	$76m
FY24	$26m		$41m
FY25	$0m		$16m
FY26			$0m

NEM Core
Fee pathways and impacts









Debt Financing Requirement

- Forecast debt profile

AEMO
Forecast Debt profile

AEMO's governance model requires:

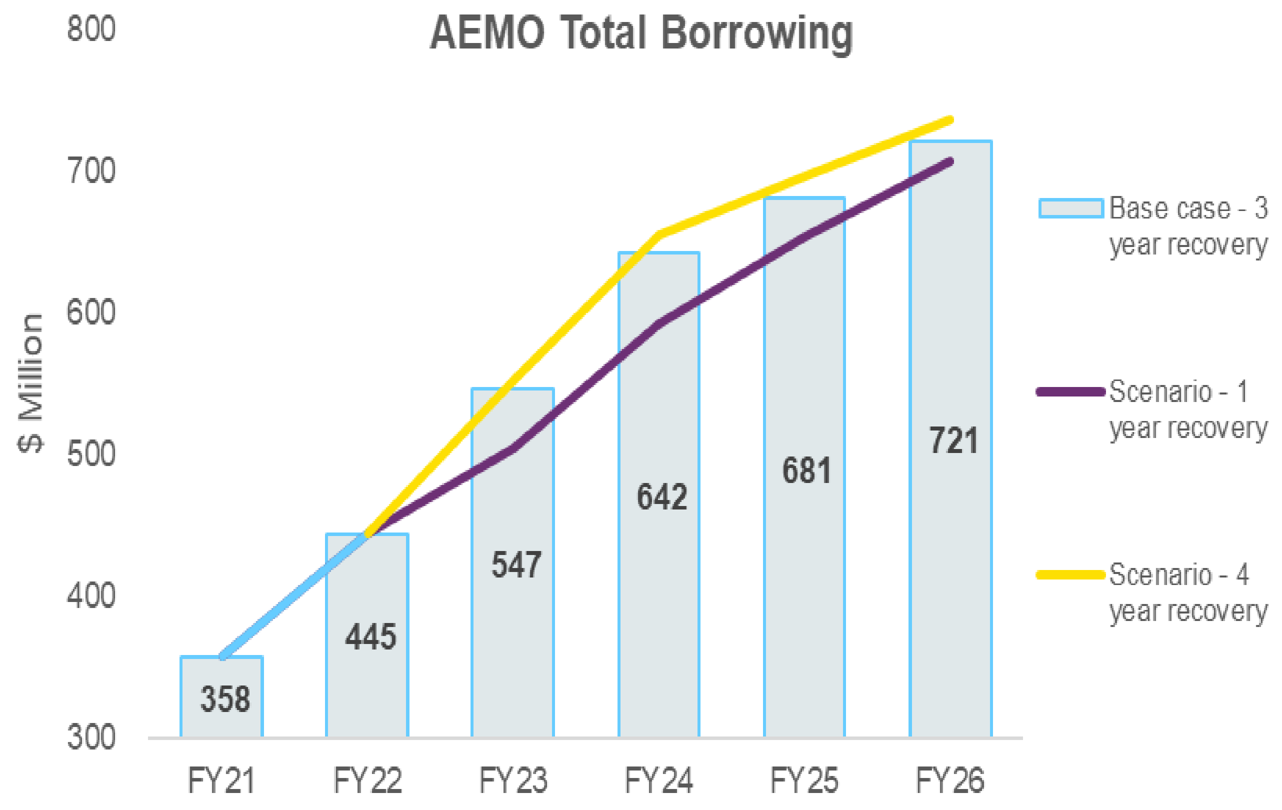
- capital asset investments to be debt financed upfront by AEMO, which allows participants to pay over the life of the assets through tariffs and fees, and
- operating costs to be recovered annually.

A portion of AEMO's current debt is funding prior years' operating cost under recoveries and the FY22 forecast deficit, in addition to AEMO's 'in use' capital assets.

As illustrated in the chart, AEMO's debt is forecast to increase reflecting continued investment in assets to enable the energy transition. The FY23 Budget base case whereby the NEM Core accumulated deficit is recovered over three years, debt will peak in FY26 at $721m.

The one year and three year accumulated deficit recovery scenarios are also illustrated in the chart. Under these the debt peaks in FY26 in the range of $707m to $736m. Debt is expected to gradually decline from FY27.

These profiles are based on the current draft budget and capital profile as discussed through the presentation and are therefore subject to change.



Note increases in debt facilities required to support the debt levels assumed in the Draft Budget are subject to review and approval by the AEMO Board

AEMO

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