Financial Consultation Committee FY23 Meeting #3

Please note that the information presented in this document was developed to enable discussion at the Finance Consultation Committee and is a <u>draft subject to final review.</u>

26 April 2023

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

- Welcome
- Minutes, Actions & Forward Schedule
- FY23 Full Year Forecast
- FY24 - FY26 Budget overview
- Update on public consultation and next steps
- Terms of reference proposed updates
- Wrap up

The financials, outcomes and strategic priorities included in this pack are a draft, and may be influenced by:

- further review and refinement of revenue and costs due to stakeholder engagement, public consultation and internal AEMO reviews; and
- final prioritisation of the FY24 Corporate Plan outcomes and deliverables.

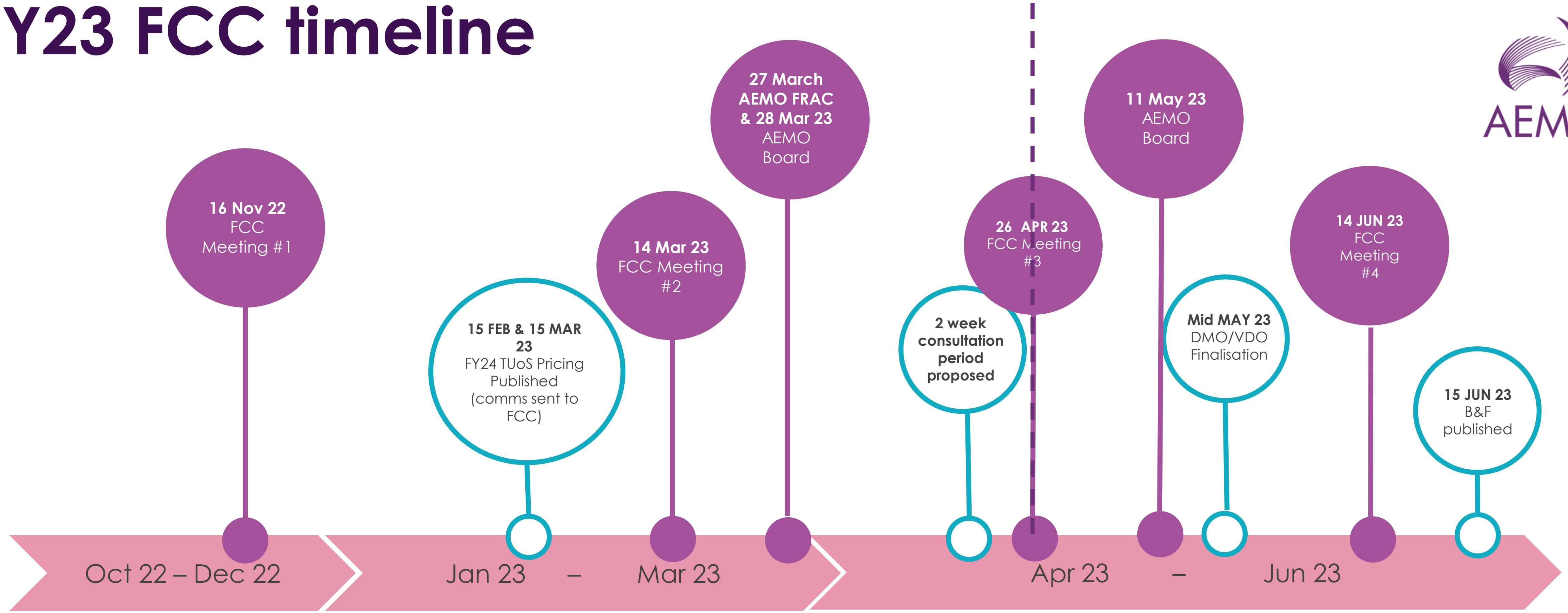
Minutes

Draft minutes from the March 2023 meeting have been circulated to members for any amendments.

Actions

#	Item	Responsibility	Due Date	Status
FY23 2.1	Provide greater clarity about the expected outcomes of AEMO's strategic priority projects and the costs to deliver these outcomes.	AEMO	26 April	Included in pack
FY23 2.2	Provide waterfall charts demonstrating changes to material expenditure categories.	AEMO	26 April	Included in pack

FY23 FCC timeline



Meeting	#1 - Nov 2022	#2 - Mar 2023	#3 - Apr 2023	#4 - Jun 2023
Focus areas	• FY22 Results Update • FY23 Budget Recap • FY23 Forecast Update (3+9) • Meeting Schedule and Focus Areas • FCC Terms of Reference	• Draft Strategy & Corporate Plan Priority Areas • FY23 Results & Forecast (7+5) • Preliminary draft Investment Plan • Preliminary draft FY24 Budget • NEM Deficit Recovery Update	• Draft FY24 Budget & forward plan • Draft Tariff and Fees • Initial public consultation feedback	• Public consultation lessons learnt • FCC Engagement Program reflections

FY23 full year forecast

Caption: Bodangora Wind Farm, Bodangora near Wellington, New South Wales

In FY23 AEMO started a path to full cost recovery over 3 years.

We increased our revenue requirement to achieve this outcome, but also to perform significant reform and change activities, as well as to address material under-resourcing of central functions.

More being asked of AEMO

FY23 required an uplift to AEMO's labour requirements to manage: an increasingly complex system/ market environment; enhanced cyber capabilities (including new industry roles for AEMO) as well as deliver on key initiatives such as: Distributed Energy Resources (DER), NEM2025, Integrated System Planning (ISP's), Connection Reform Initiative (CRI), Connections tool and markets/system development projects across Renewable Energy Zones (REZ) and Victoria New South Wales Interconnector (VNI)-West.

Investment in central functions and people

In 2022 AEMO requested independent benchmarking of our costs against other system operators. The results, shared with the FCC, noted that AEMO's costs were low compared to peers (excluding digital costs). Some central functions were noted as being materially under resourced. The FY23 budget included a step-up in funding for central functions.

Despite strong progress, there are still roles to be filled. While there is a saving vs. budget, we are closing the remaining positions, which will put AEMO in a strong position to deliver on our capability and capacity uplift commitments.

We are ahead of budget in FY23 and expect to repay more of the NEM Core deficit than planned. Factors such as higher settlement residues and gas capacity auctions are uplifting VIC TNSP / ECG segment revenues.

AEMO

	YTD Feb 23 Act	YTD Feb 23 Bud	Var	Full Yr. FY23 F'Cast	Full Yr. FY23 Budget	Var
NEM Core						
Net Revenue	150.2	148.9	1.3	224.0	222.4	1.6
Expenditure	(110.7)	(124.6)	14.0	(185.5)	(188.5)	3.0
Annual Surplus/(Deficit)	**39.5**	**24.2**	**15.3**	**38.5**	**33.9**	**4.7**
NEM Functions						
Net Revenue	56.9	60.6	(3.7)	86.5	92.1	(5.6)
Expenditure	(48.3)	(61.7)	13.4	(81.9)	(93.9)	12.0
Annual Surplus/(Deficit)	**8.6**	**(1.1)**	**9.6**	**4.6**	**(1.9)**	**6.4**
East Coast Gas						
Net Revenue	60.6	31.6	29.0	87.0	47.6	39.4
Expenditure	(31.9)	(34.7)	2.8	(50.4)	(52.7)	2.2
Annual Surplus/(Deficit)	**28.7**	**(3.1)**	**31.9**	**36.6**	**(5.1)**	**41.7**
Western Australia						
Net Revenue	29.6	30.3	(0.8)	43.6	44.9	(1.3)
Expenditure	(27.2)	(30.7)	3.5	(43.6)	(46.2)	2.6
Annual Surplus/(Deficit)	**2.3**	**(0.4)**	**2.7**	**(0.0)**	**(1.3)**	**1.2**
Total AEMO excl Vic TNSP						
Net Revenue	301.0	273.0	28.0	446.5	408.6	37.9
Expenditure	(221.1)	(252.8)	31.8	(367.4)	(382.9)	15.5
Annual Surplus/(Deficit)	**79.9**	**20.2**	**59.7**	**79.1**	**25.7**	**53.4**
Vic TNSP						
Net Revenue	44.8	27.9	16.9	57.5	47.4	10.2
Expenditure	(25.8)	(32.4)	6.7	(49.7)	(50.6)	0.9
Annual Surplus/(Deficit)	**19.0**	**(4.5)**	**23.5**	**7.9**	**(3.2)**	**11.1**
Total AEMO						
Net Revenue	345.8	300.9	44.8	504.0	455.9	48.1
Expenditure	(246.9)	(285.3)	38.4	(417.1)	(433.5)	16.4
Annual Surplus/(Deficit)	**98.9**	**15.6**	**83.3**	**86.9**	**22.4**	**64.5**

NEM Core (includes NEM connections)

- YTD surplus is driven by lower expenditure, specifically labour costs. A higher vacancy rate (due to recruitment challenges) has impacted both labour cost and depreciation & amortisation with lower project activity.
- YTD favourability partially reduced as recruitment picks up to deliver core project work and depreciation expenses catch up.
- Higher interest costs on floating rate debt are impacting more in the second half.

NEM Functions

- Consisting of NEM 2025, National Transmission Planner, FRC, 5MS etc.
- Full year Revenue is lower primarily as a result of Connection Reform related revenue estimates.
- Expenses - YTD and Full Yr. favorability is primarily driven by 5MS lower operating costs.

East Coast Gas

- Revenue higher due to YTD capacity auctions. Other tariff revenue is in line with budget.
- Unexpected surplus to be returned in future periods.

Western Australia

- Minor YTD surplus driven by lower labour costs and timing of consulting spend.

VIC TNSP

- Net revenue favourable due to settlement residue partially offset by AusNet network charges for easement tax for land valuations.

The numbers presented above are prior to the consolidation of AEMO Services Limited (ASL). The Corporate segment has been omitted as it is immaterial and does not impact this analysis. The accumulated Surplus/(Deficit) relates to NEM Core, NEM Functions, ECG, WA and VIC TNSP. Accumulated Surplus/Deficit does not include a Capital contribution relating to VENcorp at commencement of AEMO of $8.7m within DWGM. This is treated as equity for the purposes of the information with this pack.

FY23 YTD surplus is $83M higher than budget, full year forecast is for this higher surplus to be mostly retained

	YTD Feb 23 Act	YTD Feb 23 Bud	Var	Full Yr. FY23 F'Cast	Full Yr. FY23 Budget	Var
Fees & Tariffs	249.4	253.3	(3.9)	375.6	378.5	(2.9)
TUOS	408.3	408.7	(0.4)	623.1	623.9	(0.9)
Other Revenue	149.4	81.9	67.4	202.2	116.8	85.4
Total Revenue	**807.1**	**743.9**	**63.2**	**1200.8**	**1119.2**	**81.6**
Network Charges	(461.3)	(443.0)	(18.3)	(696.8)	(663.3)	(33.5)
Net Revenue	**345.8**	**300.9**	**44.8**	**504.0**	**455.9**	**48.1**
Net Labour	(125.5)	(137.4)	11.9	(195.3)	(209.2)	13.9
Consulting	(11.9)	(21.2)	9.3	(29.6)	(31.8)	2.3
IT & Telecommunications	(41.6)	(47.6)	6.0	(65.0)	(71.5)	6.4
Other Expense	(27.9)	(27.4)	(0.5)	(46.4)	(42.5)	(3.9)
Total Opex	**(206.9)**	**(233.6)**	**26.7**	**(336.3)**	**(355.0)**	**18.8**
EBITDA	**138.9**	**67.4**	**71.6**	**167.7**	**100.9**	**66.8**
Depreciation & Amortisation	(33.3)	(45.4)	12.1	(68.4)	(69.0)	0.6
Financing Costs	(6.7)	(6.3)	(0.4)	(12.4)	(9.4)	(2.9)
D&A and Interest	**(40.0)**	**(51.7)**	**11.7**	**(80.8)**	**(78.5)**	**(2.3)**
Annual Surplus/(Deficit)	**98.9**	**15.6**	**83.3**	**86.9**	**22.4**	**64.5**

The financials above provide a view of AEMO in aggregate. However, the segment view (presented on the previous slide) offers better insights as to how costs are allocated as there are no cross-subsidies between segments.

February 2023 YTD vs. budget +$83m

- Net revenue was ~$45m higher driven by East Coast Gas capacity auctions (~$26m) and Vic TNSP settlement residue surplus (~$30m), partially offset by higher Network charges from easement tax due to land valuation changes.
- Expenses were $38m below budget driven by challenges recruiting the uplift in roles to deliver on reform and transformation implementation. This resulted in lower labour, consulting and D&A expenses, with some projects delayed.

FY23 full year forecast vs. budget

- Net Revenue is forecast to be $48m higher principally driven by YTD favourability, partially offset by higher Network charges ($34m) principally relating to an increase to the easement tax charge from AusNet.
- Expenses are forecast to be $17m favourable with YTD favourability partially reduced as recruitment picks up to deliver core project work and depreciation expenses catch up. Higher interest costs on floating rate debt are impacting more in the second half.

The numbers presented above are prior to the consolidation of AEMO Services Limited (ASL). Occupancy and Leased IT asset related D&A are reflected within Other expenses and IT&T cost categories respectively.

DRAFT FY24 to FY26 budget

Caption: Melbourne

AEMO is being asked to do more, and core functions are becoming more challenging as Australia's energy transition is accelerating

Australia's energy transition is accelerating rapidly and is posing major technical, environmental, economic and social challenges (including our ability to operate systems today)

Navigating these challenges requires collaboration; unlocking the efforts of Australia's large, diverse, and growing ecosystem of organisations focused on the energy transition

AEMO is at the heart of this ecosystem and our partners want us to collaborate more and remove friction[1]

AEMO’s roles of keeping the lights on, highlighting and solving bottlenecks, and helping our partners do their best work means that AEMO is uniquely positioned to set the pace and experience of Australia’s energy transition

AEMO is currently progressing a large (and growing number) of mandated initiatives, with limited ability to grow headcount, and there is a talent shortage in Australia of energy transition capabilities

1. AEMO Stakeholder Reputation Research report

AEMO is enabling the energy transition while also ensuring safe, reliable and affordable energy

Purpose:
To ensure safe, reliable & affordable energy and enable the energy transition for the benefit of all Australians

Vision:
Enable net-zero

Strategic priorities:

1. Operating today's systems & markets
2. Navigating the energy future
3. Engaging our stakeholders
4. Evolving the way we work

Values:

Character Be our best	**Connection** Better together	**Commitment** Make it happen

AEMO's strategic outcomes

Strategic outcomes are supported by a program of specific initiatives, some of which span multiple years and are supported by business as usual activities. AEMO Corporate Plan priorities guide and focus all AEMO activities.

In quantifying estimated FY24 expenditure, judgement has been applied.

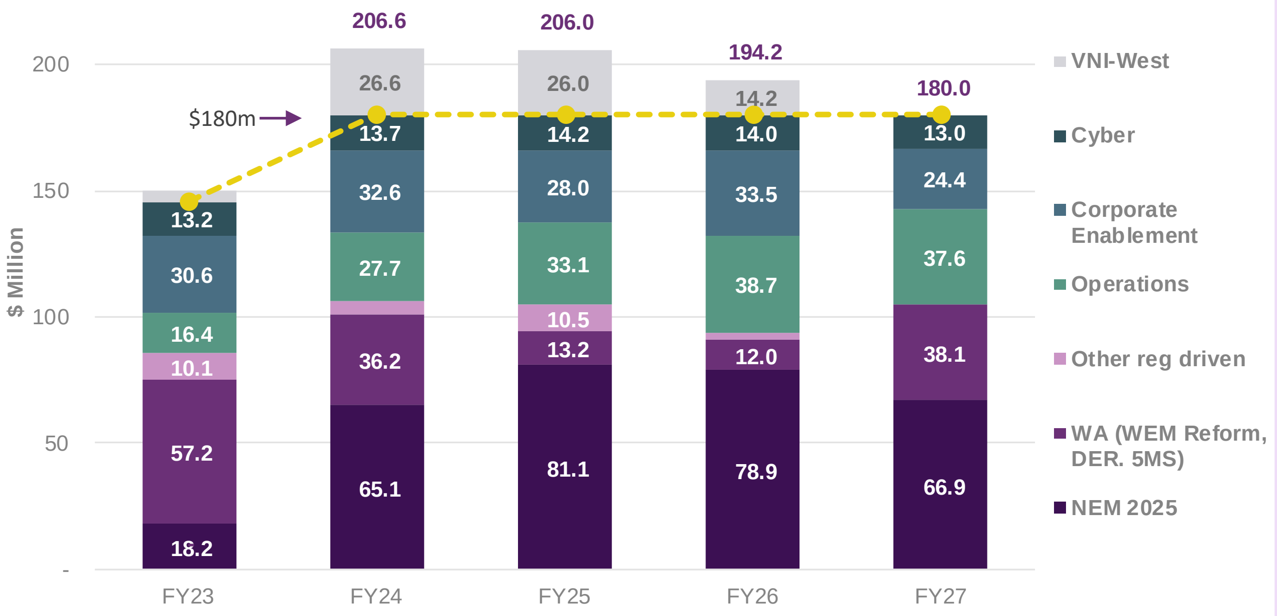
	FY24 targeted strategic outcomes	FY24 Opex & Investment*	Delivery actions
1 Operating today's systems & markets	• Prepared for and managed operational changes for the next 12 months, including embedding market and system changes, and managing increased renewable penetration and scheduled generation retirements. • Strengthened our core systems to be more resilient, including to cyber threats.	**Total ~$65m** ~$16m & ~$29m ~$6m & ~$14m	• Market operations capability uplift and management of operational changes. • Implement engineering roadmap actions. • Strengthen cyber compliance and resilience capabilities.
2 Navigating the energy future	• We've incorporated emissions reductions in the 2024 ISP, enabled infrastructure delivery in our jurisdictional roles, and streamlined the planning process. • We've influenced the design of critical reforms across reliability, firming, transmission, and DER; and helped deliver business and digital solutions in-progress reforms.	**Total ~$126m** ~$4m & nil ~&16m & ~$106m	• Deliver the WEM Reform program and major NEM and Gas market reforms (including NEM2025). • Develop 2024 ISP with an emissions reduction focus • Improved connections processes. • Work with governments, market bodies and industry to progress major reforms.
3 Engaging our stakeholders	• We've enhanced trust by clearly delivering value to consumers, our members and stakeholders, partnered with jurisdictions to achieve positive energy transition outcomes, and helped to build social licence for the energy transition.	**Total ~$2m** ~$2m & nil	• Active stakeholder engagement through a range of forums including FCC, ISP Consumer Panel, Reform Delivery Committee and advisory bodies. • Uplift stakeholder engagement capabilities. • Reconciliation Action Plan.
4 Evolving the way we work	• We've modernised our systems and evolved our culture to make AEMO an even better place to work. • We've reduced our accumulated deficit in NEM Core in line with the agreed fee pathway.	**Total ~$22m** ~$8m & ~$14m Nil & nil	• Core systems modernisation • Melbourne office relocation • Deliver the NEM Core fee pathway • Accelerated talent acquisition • Deliver good value and governance.

The investment spend disclosed above accounts for $163m of the $180m spend (~90%), the remainder is stay in business investment.

The operating spend disclosed above accounts for ~$52m (excluding D&A and borrowing costs) of the incremental $65m spend (~80%).

Investment is aligned to corporate plan priorities. Consistent with FY23, the majority of the future year spend is on regulatory reform programs

Investment spend capped to $180m p.a. to FY27



The investment profile has an expenditure constraint of $180m (excluding VNI West) reflecting the business' delivery capacity, with reform implementation requirements.

- From FY24-FY27 ~$100m p.a. of programs are regulatory driven (purple segment)
- Remaining~ $80m p.a. consists of Cyber related spend, Operations Tools uplift and Corporate Enablement spend including digital projects and lifecycle maintenance.
- For FY23, the forecast spend is ~$145m, being below the cap due to challenges recruiting as new programs commenced. As a result, prioritisation of internal capability to regulatory reform projects has meant business driven projects have been deferred.

Regulatory

Largest element of spend is on the multi-year programs like NEM2025 and the WEM reform program (go live of October 2023). These are key reforms driven by regulation.

Operations

Largest element of investment includes the Operational Technology Roadmap program of work to uplift controls room tools and systems, including replacement of the Short Term Projected Assessment of System Adequacy (ST PASA).

Corporate Enablement

Includes data centre consolidation, investment in operational data storage capability, lifecycle digital spend and web portal refresh for members, employees and consumers.

Cyber

Develop and implement AEMO compliance with Protective Security requirements of the Security of Critical Infrastructure (SOCI) Act. Develop and implement AEMO's new Cyber security roles in the Energy Sector as per the Commonwealth government. Cyber assurance, testing and exercises.

***Note**: Allocations of investment for FY24 and beyond are in the process of being finalised, including through submissions to relevant State regulators. As a result, the numbers are subject to change and will align with final regulatory determinations where relevant.*

Further refinements have been made to the preliminary draft FY24 Budget presented in March, however no material changes noted

Segment Annual Financial	Preliminary	DRAFT	Var
NEM Core			
Revenue	236.3	232.2	(4.1)
Expenditure	(202.0)	(198.1)	3.9
Annual Surplus / (Deficit)	34.3	34.1	(0.2)
Accumulated Surplus/(Deficit)	**(25.1)**	**(25.7)**	**(0.6)**
NEM Functions			
Revenue	94.6	87.2	(7.4)
Expenditure	(106.5)	(103.6)	2.9
Annual Surplus / (Deficit)	(11.9)	(16.4)	(4.5)
Accumulated Surplus/(Deficit)	**(2.1)**	**(3.6)**	**(1.5)**
East Coast Gas			
Revenue	50.5	55.8	5.3
Expenditure	(55.9)	(57.8)	(1.9)
Annual Surplus / (Deficit)	(5.4)	(2.0)	3.4
Accumulated Surplus/(Deficit)	**52.9**	**58.5**	**5.6**
Western Australia			
Revenue	59.6	59.1	(0.5)
Expenditure	(55.8)	(57.9)	(2.1)
Annual Surplus / (Deficit)	3.8	1.3	(2.5)
Accumulated Surplus/(Deficit)	**7.8**	**5.5**	**(2.3)**
Vic TNSP			
Revenue	34.3	33.5	(0.8)
Expenditure	(74.7)	(73.1)	1.6
Annual Surplus / (Deficit)	(40.4)	(39.5)	0.9
Accumulated Surplus/(Deficit)	**2.9**	**5.4**	**2.5**

The numbers presented above are prior to the consolidation of AEMO Services Limited (ASL).

NEM Core

- NEM Core Revenue was updated for latest revisions to consumption volumes estimates ~$3m. The tariff remains at 4.5% increase from FY23 values. Connections revenue (and costs) have been updated to reflect latest expectations ~$1m.
- NEM Core Operating expenses reduced by $3.9m primarily due to reduction of central function costs ~$3.0m and reduced costs related to connections~$1.0m.

NEM Functions

- NEM functions revenue reduced as a result of return of accumulated surplus within 5MS and DER.
- Reduction in Operating expenditure within NEM functions primarily as a result of capitalisation of costs pertaining to NEM2025.

East Coast Gas

- Increase in revenue primarily relates to update of revenue for recovery of storage costs associated with DLNG partially offset by return of surplus.
- Increase in Operating expenditure is aligned to increase in revenue.

Western Australia

- Changes to revenue reflect alignment to AR6 outcomes. Changes in operating costs reflect increased labour requirements to support WEM reform post go live.

Vic TNSP

- No material changes.

AEMO Segment –DRAFT Operational Budget

AEMO's budget is structured around the following market segments:

- National Electricity Market (NEM):
  - NEM Core
  - NEM Functions
- East Coast Gas
- WA Electricity & Gas (WA)
- Victorian TNSP (Vic TNSP)
- AEMO Services Limited (ASL)*

Key take aways

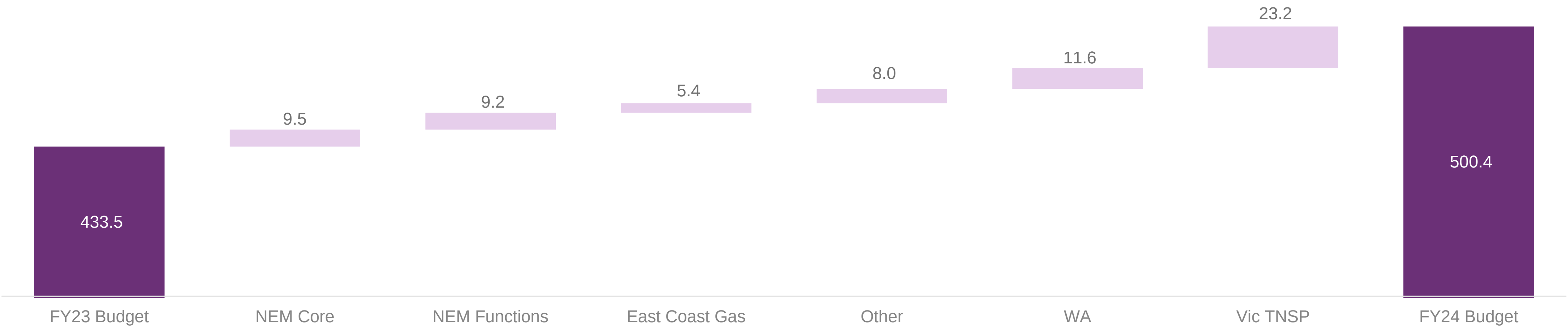
- NEM Core fee pathway is on track for recovery of accumulated deficit in FY25.
- Full recovery of costs has been achieved (with the exception of NEM Functions). Annual deficits are caused by the return of surpluses, most significantly in VIC TNSP.
- NEM Functions does not fully recover costs in FY24 as a result of NEM2025 costs incurred in FY24 will be billed in FY25, post consultation on fee structure.

Segment Annual Financial Surplus / Deficit ($m)	Actual 2022	Budget 2023	Forecast 2023	Draft Budget 2024	Estimate 2025	Estimate 2026
NEM Core ^						
Revenue	130.8	222.4	224.0	232.2	244.4	250.9
Expenditure	(146.4)	(188.6)	(185.5)	(198.1)	(212.3)	(235.2)
Annual Surplus / (Deficit)	(15.6)	33.8	38.5	34.1	32.1	15.7
Accumulated Surplus/(Deficit)	**(97.9)**	**(70.1)**	**(59.6)**	**(25.7)**	**6.1**	**21.6**
NEM Functions						
Revenue	71.1	92.8	87.2	87.2	146.4	161.7
Expenditure	(59.3)	(94.3)	(82.6)	(103.6)	(138.2)	(171.2)
Annual Surplus / (Deficit)	11.7	(1.5)	4.5	(16.4)	8.2	(9.5)
Accumulated Surplus/(Deficit)	**8.3**	**1.6**	**12.8**	**(3.6)**	**4.6**	**(5.0)**
East Coast Gas						
Revenue	49.2	47.6	87.0	55.8	50.0	54.0
Expenditure	(42.5)	(52.5)	(50.4)	(57.8)	(63.9)	(70.9)
Annual Surplus / (Deficit)	6.7	(4.9)	36.6	(2.0)	(13.9)	(16.8)
Accumulated Surplus/(Deficit)	**23.9**	**22.6**	**60.5**	**58.5**	**44.6**	**27.8**
Western Australia						
Revenue	35.8	44.9	43.6	59.1	60.8	93.5
Expenditure	(39.3)	(46.2)	(43.6)	(57.9)	(79.6)	(83.5)
Annual Surplus / (Deficit)	(3.4)	(1.3)	(0.0)	1.3	(18.8)	10.0
Accumulated Surplus/(Deficit)	**4.2**	**(0.7)**	**4.2**	**5.5**	**(13.3)**	**(3.3)**
Vic TNSP						
Revenue	45.2	46.6	56.9	33.5	71.9	74.2
Expenditure	(30.5)	(49.9)	(48.9)	(73.1)	(77.3)	(74.5)
Annual Surplus / (Deficit)	14.7	(3.3)	7.9	(39.5)	(5.4)	(0.3)
Accumulated Surplus/(Deficit)	**37.0**	**3.6**	**44.9**	**5.4**	**0.0**	**(0.3)**

**ASL/Corp not disclosed in this pack. ^ NEM Core includes NEM and NEM Connections. Accumulated Surplus/Deficit does not include a Capital contribution relating to VENCorp commencement of $8.7m within DWGM. This is treated as equity for the purposes of the information with this pack.*

Costs are carefully managed, moderate and in line with planned programs of work.

Majority of operating cost increases are in VIC TNSP and in the regulated WA market, driven by mandated initiatives. Cost increases in NEM and East Coast Gas are driven by wage inflation, investment in central functions or mandated tasks (e.g. Dandenong LNG)



NEM Core 5% increase	NEM Functions (10% increase)	East Coast Gas (10% increase)	Other	WA (25% increase)	VIC TNSP (46% increase)
Increase in NEM Core of **5%** is primarily due to: • Labour increases across the Operations and System Design teams to meet increasing complexity in managing the energy transition and to support connection activities • increases within Central functions as part of capability uplift and to supports investment into key programs such as Cyber. • increased Financing cost as a result of interest rate environment Partially offset by lower D&A costs and underlying IT savings.	Increase in NEM Functions opex reflects: • Increased Financing cost as a result of interest rate environment, specifically with 5MS due to large debt-financed capital cost • Additional consulting & FTE to support the Supercharged ISP within National Transmission Planner role • Increased operating cost to support NEM 2025 activities ~$5m	Increase in East Coast Gas is largely driven from: • Storage costs ~$7.8m associated with Dandenong LNG rule change that requires AEMO to hold additional capacity (140TJ to 420 TJ). • Finance costs allocations are ~$2.6m lower as a result of higher cash holding from exogenous factors in FY23, within this segment.	AEMO provides services under a SLA to ASL. These services related to system design, digital, legal, HR, transactional support. Year on year difference relates to a change from net to gross cost presentation.	WA reform program drives majority of the changes with: • Increased labour ~$4.5m & consulting ~$2.4m required to manage the transition to new market design • Increased depreciation and amortisation associated with WEM reform ~$2.2m • Development, and deployment of IT systems and interfaces required to implement the WEM Reform Program ~$1.9m	Key increases across labour and consulting to support: • VNI West ~$10m • WRL and Renewable Energy Zone Development Plan ~$7m • Other increases to support Vic connection related activities ~$2m.

NEM Core – DRAFT operating budget

Draft budget & forward estimates FY24-FY26

Revenue: The FY24 and FY25 draft NEM Core Fee & Tariffs budget is consistent with 3-year fee pathway, which is a 4.5% tariff increase compared to prior year. Volume assumptions have been revised in line with latest views on "Step Change Scenario" highlighted as part of 2022 ESOO.

Other revenue has increased for anticipated connections volume growth +$4.5m (fully offset within costs).

FY26 onwards fees are aligned to inflation assumptions.

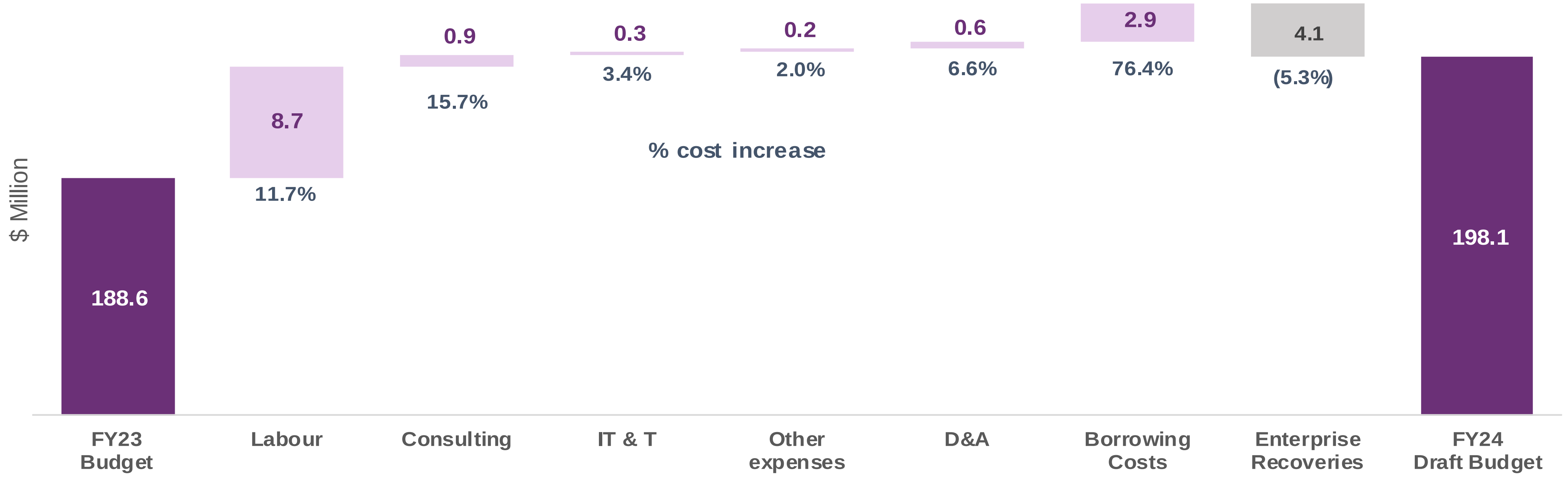
In FY25 there is a step change in D&A of $6m with various investments starting to amortise. As these investments go live (e.g. Ops Tools Roadmap), there is an increase to ongoing IT&T costs in FY25 and another step change in FY26. The anticipated costs are largely in relation to subscription based (SaaS).

NEM Core ($Million)	Actual 2022	Budget 2023	Forecast 2023	Draft Budget 2024	Estimate 2025	Estimate 2026
REVENUE						
Fees and Tariffs	106.7	198.6	197.3	204.1	215.5	221.4
Other Revenue	24.1	23.7	26.7	28.1	28.8	29.5
NET REVENUE	**130.8**	**222.4**	**224.0**	**232.2**	**244.4**	**250.9**
OPERATING EXPENDITURE						
Net Labour	(62.2)	(74.6)	(66.9)	(83.3)	(87.3)	(91.5)
Consulting	(2.1)	(5.9)	(4.9)	(6.8)	(7.0)	(7.2)
IT & Telecommunications	(6.0)	(8.0)	(6.5)	(8.2)	(8.6)	(16.3)
Enterprise Recoveries	(60.6)	(78.3)	(76.2)	(74.1)	(82.0)	(88.3)
Other expenses	(8.4)	(9.0)	(8.8)	(9.2)	(10.1)	(10.8)
Depreciation and Amortisation	(7.1)	(9.0)	(19.5)	(9.6)	(12.9)	(17.3)
Borrowing costs	(0.0)	(3.8)	(2.6)	(6.8)	(4.4)	(3.9)
TOTAL EXPENDITURE	**(146.4)**	**(188.6)**	**(185.5)**	**(198.1)**	**(212.3)**	**(235.2)**
SURPLUS / (DEFICIT)						
Annual Surplus / (Deficit)	(15.6)	33.8	38.5	34.1	32.1	15.7
ACCUMULATED SURPLUS / (DEFICIT)	**(97.9)**	**(70.1)**	**(59.6)**	**(25.7)**	**6.1**	**21.6**

The FY24 NEM 'Core' Benchmark Fee of $1.16225 per MWh, represents $6.43 (~0.32%) to average Residential bill and $9.99 (~0.16%) to a Small Business (SME) bill per annum respectively.

NEM Core includes NEM and NEM Connections

Labour (wage inflation, capability uplift and FTE increases) is the major contributor to 5% operating cost increases in NEM Core



Labour	Consulting	Borrowing costs	Enterprise recoveries
Key increases across labour related to increased complexity in supporting the energy transition: • Increased labour to support NEM connection activities and 100% Renewable Engineering Roadmap ~ $5.0m • Operational teams that provide modelling and engineering services, market management and operational support ~$4.7m. • Wage inflation amounts to ~$3m in FY24	Increased consulting primarily related to access reviews which occurs every 5 years & grid firming standards development being a new obligation for which we are completing consulting work.	Higher borrowing costs within NEM Core results from: • Interest rate impact (FY24 5.2% v FY23 of 3.5% ,all in) • Partially offset by lower allocated debt as a result of lower deficit balance.	Reduction in Enterprise recovery is due to the following: • Reductions in central function related amortisation; • Savings within underlying IT costs; Partially offset by increases pertaining to: • Cyber related investments • Capability uplift in central functions such as P&C, Finance & Governance.

Deficit recovery within NEM Core by FY25 is on track with the agreed fee pathway of 4.5% in FY24 and FY25

NEM Core deficit recovery

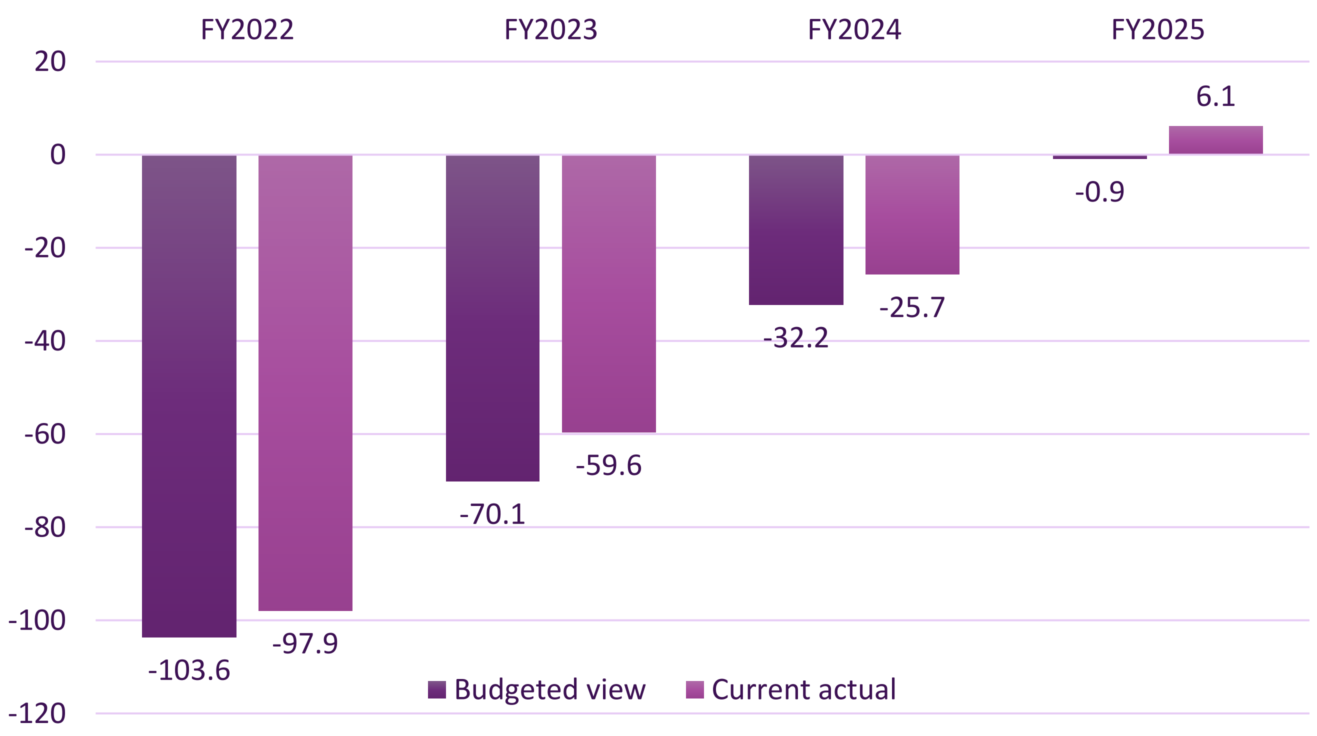
The budget reflects remediation of the accumulated budget deficit for NEM Core, which will put AEMO on a sustainable financial footing for the future.

The remediation comes after significant stakeholder consultation in 2022 which led to an increase in NEM Core fees to recover the accumulated deficit.

In FY23 we forecast reducing the accumulated deficit by more than planned, primarily due to a challenging job market that is likely to affect recruitment.

Deficit recovery in FY25 is on track.

NEM Core accumulated deficit recovery pathway, $m



AEMO – DRAFT Operating Budget

	Actual 2022	Budget 2023	Forecast 2023	Draft Budget 2024	Estimate 2025	Estimate 2026
REVENUE						
Fees & Tariffs	258.5	378.5	373.5	380.3	449.4	503.9
TUOS	603.0	623.9	623.1	650.2	733.8	839.0
PCF Fees	1.0	0.1	0.1	-	-	-
Settlement Residue	45.9	20.0	56.5	25.6	25.5	29.1
Other Revenue	104.2	96.8	147.7	155.6	156.6	160.5
Network Charges	(672.8)	(663.3)	(696.8)	(733.8)	(782.8)	(888.8)
NET REVENUE	**339.8**	**455.9**	**504.0**	**477.9**	**582.4**	**643.7**
OPERATING EXPENDITURE						
Labour	(170.3)	(209.2)	(195.3)	(245.8)	(265.2)	(278.2)
Consulting	(14.2)	(31.8)	(29.6)	(47.9)	(46.9)	(41.2)
IT & Telecommunications	(53.4)	(71.5)	(65.0)	(74.9)	(88.2)	(110.4)
Other expenses	(40.4)	(42.5)	(46.4)	(55.5)	(58.1)	(60.9)
Depreciation & Amortisation	(45.5)	(69.0)	(68.4)	(61.9)	(104.4)	(132.1)
Borrowing Costs	(1.7)	(9.4)	(12.4)	(14.4)	(17.2)	(21.8)
TOTAL EXPENDITURE	**(325.5)**	**(433.5)**	**(417.1)**	**(500.4)**	**(580.2)**	**(644.6)**
SURPLUS / (DEFICIT)						
Annual Surplus/(Deficit)	14.3	22.4	86.9	(22.5)	2.3	(0.9)
ACCUMULATED SURPLUS / (DEFICIT)	**(24.7)**	**(43.9)**	**61.9**	**39.2**	**41.3**	**40.1**

The financials above provide a view of AEMO in aggregate. However, the segment view (presented on previous slides) offers better insights to how costs are allocated as there are no cross-subsidies between segments.

FY24 draft budget V FY23 budget

- Fees and tariffs are marginally higher due to NEM Core tariff increases of 4.5%
- WEM revenue is higher consistent with AR6 outcomes, partially offset by the return of surpluses within the East Coast gas segment ~$10m.
- TUoS revenue and network charges are higher due to higher AusNet easement tax, and partially offset by return of accumulated surplus.
- Other revenue is higher primarily due to increased connections revenue within NEM (+$4.5m), Higher Negotiated & Renewable energy Zones (REZ) related revenue within VicTNSP (+$23m), higher Capacity auction revenue (+$9m) in DWGM and higher interest income from higher cash holding.
- The key drivers of operating cost increases are:
  - Labour increases of $36.6m resulting from wages inflation and higher FTE due to greater operational and planning responsibilities activities, increased connection activities, gas reforms, and uplift to our corporate capability to support the energy transition, including VNI West, cyber security and digital.
  - Consulting increase in VicTNSP activities including VNI West $7m and cyber security related expenses $2m, WEM reform activities $2m and other projects such as ISP etc ~$5m.
  - Higher borrowing costs due to rise in interest rates on floating rate borrowings.
- The group accumulated surplus is expected to be ~$39m at the end of FY24.

**ASL not disclosed in this pack.*

Balance sheet and cash flow

Current assets: The fall in wholesale energy prices from FY22 to FY23 has released participant security deposits held to safeguard AEMO from financial exposure (offset within Current Liabilities).

Non-current assets: growth reflects ongoing investment in systems and tools including the major NEM2025 and WEM reform programs. As the programs are delivered, the depreciation and amortisation of these assets commences.

Other liabilities: include Participant Security Deposits and Prepayments, Easement tax payable and other working capital items. Easement tax is forecasted to increase significantly in FY23 and FY24, hence increasing the liability at year end.

Borrowings: AEMOs investment spend is debt funded and borrowing arise in line with investments and repayment are aligned with the depreciation profile. VNI West initial works assumed to complete in FY26.

AEMO Financial Statements ($Million)	Actual 2022	Budget 2023	Forecast 2023	Draft Budget 2024	Estimate 2025	Estimate 2026
Balance Sheet						
Current Assets	1400.7	342.4	351.9	278.6	319.6	349.4
Non current Assets	417.0	530.7	504.7	656.6	746.2	737.0
Total Assets	**1817.7**	**873.1**	**856.5**	**935.2**	**1065.8**	**1086.4**
Current Liabilities	(1361.8)	(351.9)	(277.6)	(306.8)	(347.9)	(377.6)
Borrowings	(433.2)	(529.6)	(461.9)	(527.1)	(623.0)	(612.0)
Other Non-current Liabilities	(17.4)	(13.8)	(24.7)	(31.6)	(22.8)	(25.7)
Total Liabilities	**(1812.4)**	**(895.3)**	**(764.3)**	**(865.4)**	**(993.8)**	**(1015.3)**
Net Assets	**5.3**	**(22.2)**	**92.3**	**69.8**	**72.1**	**71.2**
Debt / Assets	24%	61%	54%	56%	58%	56%
Current Assets / Current Liabilities	102.9%	96.9%	126.1%	90.6%	91.7%	92.4%
Cash Flow Statement						
Net cashflows from operating	1093.3	84.7	(938.5)	60.5	124.7	142.5
Net cashflows from investing	(104.1)	(166.7)	(149.9)	(200.4)	(200.8)	(118.3)
Net cashflows from financing	68.1	26.1	28.6	59.9	95.4	(11.4)
Net increase/decrease in cash	**1057.3**	**(55.9)**	**(1059.8)**	**(80.0)**	**19.3**	**12.8**
Cash at the beginning	222.8	254.1	1269.1	209.3	129.2	148.6
Cash at the end of the period	1280.1	198.2	209.3	129.2	148.6	161.4
AEMO Cash and Deposits	44.7	15.0	96.7	21.9	20.1	20.5
Participant Security Deposits	1224.8	172.6	102.0	96.7	117.8	130.2
Participant Compensation Fund	10.6	10.6	10.6	10.6	10.6	10.6
Cash balance	**1280.1**	**198.2**	**209.3**	**129.2**	**148.6**	**161.4**

**ASL not disclosed in this pack. Included within the Cash Balances are Participant Security Deposits and the Participant Compensation Fund balances which are not available for AEMO operational use.*

Key assumptions

Macro Assumtpions	Budget 2023	Draft Budget 2024	Estimate 2025	Estimate 2026	Estimate 2027	Estimate 2028
Volume						
Electricity consumption pa (GWh) - NEM	176,022	173,560	174,823	174,513	175,423	176,758
Electricity consumption pa (GWh) - WEM	35,900	35,896	36,390	36,742	38,602	40,138
Electricity Connection Points ('000) - NEM	10,593	10,696	10,825	10,955	11,088	11,221
Total Gas Demand TJ's (STTM & DWGM)	385,317	366,897	366,620	360,503	351,568	339,466
Inflation						
Inflation	4.5%	3.5%	3.3%	2.5%	2.5%	2.5%
Interest rates						
All in Finance Rate	3.59%	5.1%	5.3%	5.8%	5.6%	5.6%
Labour Assumptions						
Average employee escalation	3.0%	3.0%	4.5%	4.5%	4.5%	3.5%

- **Inflation**: Medium term inflation consistent with RBA's latest economic outlook and long term inflation consistent with the mid-point of the RBA inflation target of 2% to 3%.
- **Interest Rates:** Variable interest rates based on the current ANZ forward interest rate curve plus credit margins based on current lending term.
- **Electricity consumption:** Budget reflects the *Step Change* scenario outlined in the 2022 NEM Electricity Statement of Opportunities (ESOO), updated to reflect the latest input assumptions including large industrial loads, electrification, electric vehicles, and rooftop photovoltaic (PV).
- **Gas consumption:** Budget reflects the *Orchestrated Step Change (1.8°C)* scenario from the 2023 Gas Statement of Opportunities (GSOO)

Listening to our stakeholders

Why consult?

- Hear stakeholders' views about AEMO's Corporate Plan priorities and projects, AEMO's financial governance and financial management
- Invite feedback on FY24 fees (with the exception of NTP, TUoS, WEM and Gas Supply Hub)
- Demonstrate AEMO's commitment to being open and transparent
- Build mutual understanding and cooperation towards share objectives.

Focus areas

- NEM
- East Coast Gas
- Cost drivers
- Cost recovery mechanisms
- Financial status/health
- Budget process and financial governance

Out of scope

- TUoS fees
- NTP fees
- Budget for WA

Who we are engaging

- FCC
- Consumers
- Market participants

How we are engaging

- FCC
- Via AEMO newsletter and website
- Consumer forum (inform)
- Emails to energy industry associations

FCC terms of reference proposed updates

- Made consistent with other, more recent terms of reference for other committees
- Key proposed changes:
  - scope of the committee’s work refined
  - updates to the committee composition, including an additional consumer representative
  - updates to how members are appointed
  - updates to meetings governance
  - clarity around conflicts of interest and confidentiality.

Additional Supporting Slides

NEM Functions – DRAFT operating budget

NEM Functions FRC, 5MS, DER, NTP, NEM 2025 etc

Budget & Forward Estimates FY24 to FY26

Revenue

Revenue reduction in FY24 compared to FY23 Budget is primarily driven by revised estimates of revenue associated with Connection Reform Initiatives and Connection Simulation tool.

FY25 onwards: As parts of the NEM2025 program goes live, it is anticipated that revenue recovery commences. AEMO is consulting with industry partners on NEM2025 Fee structure.

Operating expenditure

The increase in FY24 expenditure compared to VY23 Budget reflects:

- Increases in D&A and borrowing costs are associated primarily with 5MS. Increases in D&A are due to allocation of corporate assets associated in supporting 5MS.
- Reduction in IT & Telco primarily as a result of timing of NEM 2025 project requirements and other strategies to reduce cloud costs.
- Other operating expenditure increases include labour and consulting costs within NTP to support supercharged ISP-related activities.

FY25 onwards: Increases in operating expenditure are largely due to NEM 2025 related costs within Labour, IT&T and D&A. Enterprise recoveries include Corporate D&A which has been allocated directly in FY24. Corporate D&A grows as a result of investment into enablement/lifecycle related projects.

NEM Functions ($Million)	Actual 2022	Budget 2023	Forecast 2023	Draft Budget 2024	Estimate 2025	Estimate 2026
REVENUE						
Fees and Tariffs	69.5	90.1	84.4	86.1	145.3	160.6
Other Revenue	1.5	2.7	2.7	1.0	1.1	1.1
NET REVENUE	**71.1**	**92.8**	**87.2**	**87.2**	**146.4**	**161.7**
OPERATING EXPENDITURE						
Net Labour	(12.2)	(19.0)	(16.1)	(18.6)	(23.0)	(24.2)
Consulting	(0.5)	(2.9)	(2.1)	(2.9)	(3.0)	(3.1)
IT & Telecommunications	(18.4)	(26.0)	(18.3)	(17.8)	(25.5)	(33.7)
Enterprise Recoveries	(14.5)	(19.9)	(20.6)	(23.8)	(52.6)	(59.2)
Other expenses	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)	(0.4)
Depreciation and Amortisation	(13.4)	(23.0)	(21.4)	(31.6)	(26.3)	(39.0)
Borrowing costs	-	(3.3)	(3.9)	(8.6)	(7.5)	(11.6)
TOTAL EXPENDITURE	**(59.3)**	**(94.3)**	**(82.6)**	**(103.6)**	**(138.2)**	**(171.2)**
SURPLUS / (DEFICIT)						
Annual Surplus / (Deficit)	11.7	(1.5)	4.5	(16.4)	8.2	(9.5)
ACCUMULATED SURPLUS / (DEFICIT	**8.3**	**1.6**	**12.8**	**(3.6)**	**4.6**	**(5.0)**

East Coast Gas – DRAFT Operating Budget

Draft budget & forward estimates FY24 to FY26

DWGM: :

FY24: Fees and Tariff revenue reduces by $14m (return of surplus), however, is partially offset from expected capacity auction outcomes and higher interest from participant related cash holdings (within other revenue).

Operating expenditure increases are largely driven from DLNG Liquefaction storage costs of ~$11m (fully recovered within other Revenue).

FY25 onwards, cost remain stable. Enterprise recoveries include Corporate D&A which has been allocated directly in FY24.

GSOO: FY24 :There is an increase in revenue to recoup additional expenditure to manage complexities in producing the statement of opportunities.

Other markets such as DAA, STTM:

Higher interest revenue from higher cash holding related to market dynamics and higher service revenue as a result of higher volumes.

Operating expenditure:

STTM FY25 onwards: Higher Indirect and Direct D&A as a result of increased spend on corporate enablement projects and lifecycle replacement programs. Borrowing costs are lower due to higher cash holding. Accumulated surplus to be gradually returned by FY26.

East Coast Gas ($Million)	Actual 2022	Budget 2023	Forecast 2023	Draft Budget 2024	Estimate 2025	Estimate 2026
REVENUE						
Fees and Tariffs	46.5	44.8	48.3	30.9	27.6	28.1
Other Revenue	2.8	2.7	38.7	24.8	22.4	25.9
NET REVENUE	**49.2**	**47.6**	**87.0**	**55.8**	**50.0**	**54.0**
OPERATING EXPENDITURE						
Net Labour	(17.4)	(18.25)	(17.9)	(19.7)	(20.9)	(21.9)
Consulting	(0.3)	(0.25)	(0.4)	(0.3)	(0.3)	(0.3)
IT & Telecommunications	(3.2)	(4.93)	(3.4)	(4.7)	(4.9)	(5.0)
Enterprise Recoveries	(17.3)	(21.55)	(19.0)	(17.1)	(23.8)	(26.1)
Other expenses	(1.3)	(4.12)	(5.1)	(11.9)	(11.2)	(11.5)
Depreciation and Amortisation	(3.0)	(3.17)	(5.8)	(6.6)	(3.6)	(6.2)
Borrowing costs	(0.0)	(0.24)	1.2	2.6	0.9	0.2
TOTAL EXPENDITURE	**(42.5)**	**(52.5)**	**(50.4)**	**(57.8)**	**(63.9)**	**(70.9)**
SURPLUS / (DEFICIT)						
Annual Surplus / (Deficit)	6.7	(4.9)	36.6	(2.0)	(13.9)	(16.8)
ACCUMULATED SURPLUS / (DEFICIT	**23.9**	**22.6**	**60.5**	**58.5**	**44.6**	**27.8**

Accumulated surplus/deficit does not include a Capital contribution relating to VENcorp contributed capital at commencement of AEMO of $8.7m within DWGM. This is treated as equity for the purposes of the information with this pack.

WA – DRAFT Operating Budget

Draft budget & forward estimates FY24 to FY26

In Western Australia, the fees and charges are approved by the Economic Regulation Authority (ERA).

ERA AR6 allowance covers periods FY23-FY25. WA Electricity Market revenue for FY24 ($56m) reflects ~50% of the remainder of the allowed revenue.

FY24 to FY26 Operating Expenditure Increases reflect

- labour required to manage the transition to new market design
- development, and deployment of IT systems and interfaces required to implement the WEM Reform Program
- increased depreciation and amortisation associated with WEM reform.

FY26 revenue has been set to recover cost and any accumulated deficit.

Note: amounts included within FY24 for Depreciation and Amortisation and borrowing costs reflect the final AR6 determination by the ERA.

WA - WEM & GSI ($Million)	Actual 2022	Budget 2023	Forecast 2023	Draft Budget 2024	Estimate 2025	Estimate 2026
REVENUE						
Fees and Tariffs	35.8	44.9	43.5	59.1	60.8	93.5
Other Revenue	0.0	0.0	0.1	-	-	-
NET REVENUE	**35.8**	**44.9**	**43.6**	**59.1**	**60.8**	**93.5**
OPERATING EXPENDITURE						
Net Labour	(21.5)	(24.2)	(24.6)	(28.4)	(30.7)	(32.2)
Consulting	(1.2)	(1.6)	(1.7)	(3.9)	(4.0)	(4.1)
IT & Telecommunications	(2.0)	(3.2)	(1.7)	(4.9)	(6.4)	(6.5)
Enterprise Recoveries	(1.6)	(1.5)	(1.5)	(0.9)	(1.3)	(1.3)
Other expenses	(2.1)	(3.6)	(2.4)	(3.5)	(4.1)	(4.2)
Depreciation and Amortisation	(10.8)	(10.4)	(10.2)	(13.7)	(24.9)	(26.5)
Borrowing costs	(0.0)	(1.7)	(1.6)	(2.4)	(8.2)	(8.6)
TOTAL EXPENDITURE	**(39.3)**	**(46.2)**	**(43.6)**	**(57.9)**	**(79.6)**	**(83.5)**
SURPLUS / (DEFICIT)						
Annual Surplus / (Deficit)	(3.4)	(1.26)	(0.0)	1.3	(18.8)	10.0
ACCUMULATED SURPLUS / (DEFICIT	**4.2**	**(0.7)**	**4.2**	**5.5**	**(13.3)**	**(3.3)**

AEMO anticipates making an in-period submission to ERA in relation to WEM reform, which could impact the FY24 Budget and forward estimates. As a result, the WA budget figures are subject to change based on the outcome of the ERA submission process.

VIC TNSP – Draft Operating budget

Budget & Forward Estimates FY24 to FY26

Network charges:

Key increase in FY24 Network charges from FY23 Budget is primarily driven by higher easement tax ~$57m. Other increases are for negotiated services* of $18m (fully offset in other Revenue). Included within Network charges is a net Modified Load Export Charge (MLEC) movement of ~$16m.

FY25 onwards: Increases in FY25 and FY26 are due to increases within Prescribed excluded services pertaining primarily to System strength services and network projects such as Mortlake turn in and WRL going live.

Other revenue

- FY24 includes negotiated services income* of $18m and cost recoupment towards REZ Stage 1 ~$8m. It remains stable from FY24 onwards.

TUoS

- Increase in TUoS revenue is 4.2% in FY24 due to return of surpluses from prior periods (FY22 & FY23).
- FY25 onwards TUoS increases in line with Prescribed Excluded Services (WRL, Mortlake, System Strength etc).

Operating expenditure

- FY24 Budget has increased by $23m in FY24 primarily as a result of VNI West and REZ related projects (offset in Other rev).
- FY25 onwards costs remain stable.

Vic TNSP ($Million)	Actual 2022	Budget 2023	Forecast 2023	Draft Budget 2024	Estimate 2025	Estimate 2026
REVENUE						
TUOS	603.0	623.9	623.1	650.2	733.8	839.0
Settlement residue	45.9	20.0	56.5	25.6	26.4	27.1
Other Revenue	69.1	66.0	74.1	91.5	94.5	96.9
Network Charges	(672.8)	(663.3)	(696.8)	(733.8)	(782.8)	(888.8)
NET REVENUE	**45.2**	**46.6**	**56.9**	**33.5**	**71.9**	**74.2**
OPERATING EXPENDITURE						
Net Labour	(11.7)	(17.8)	(17.2)	(26.8)	(28.2)	(29.6)
Consulting	(1.5)	(10.7)	(8.9)	(21.3)	(19.5)	(13.0)
IT & Telecommunications	(0.0)	(0.0)	(0.0)	(0.3)	(0.3)	(0.3)
Enterprise Recoveries	(11.4)	(18.0)	(18.0)	(22.3)	(23.8)	(25.5)
Other expenses	(5.9)	(3.3)	(2.8)	(5.2)	(5.7)	(6.1)
Depreciation and Amortisation	(0.0)	(0.1)	(3.4)	(0.3)	(0.0)	(0.0)
Borrowing costs	(0.0)	-	1.4	3.2	0.3	0.1
TOTAL EXPENDITURE	**(30.5)**	**(49.9)**	**(48.9)**	**(73.1)**	**(77.3)**	**(74.5)**
SURPLUS / (DEFICIT)						
Annual Surplus / (Deficit)	14.7	(3.3)	7.9	(39.5)	(5.4)	(0.3)
ACCUMULATED SURPLUS / (DEFICIT	**37.0**	**3.6**	**44.9**	**5.4**	**0.0**	**(0.3)**

**Negotiated services are provided to single network users or a small group of network users. Typically, this will be for a new generator or large loads connecting to the transmission system. The costs incurred to provide negotiated services will be recovered directly from that user. TUoS is discussed in more detail as part of a broader consultation process.*