

AEMO's 2022-2025 Forecast Capital Expenditure proposal

3 May 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

1. Purpose of today
2. AEMO's Capex Adjustment Proposal
3. WEM Reform
 1. Governance
 2. Labour Costs
 3. Contingency
4. WEM sustaining capex
5. GSI sustaining capex
6. Impact on market fees
7. Timelines

Purpose of today

- AEMO has submitted its proposal to the ERA. At today's information session we will:
 - Provide an overview of our proposal.
 - Share our approach to governance, forecasting, labour and contingency costs for WEM Reform.
 - Provide an opportunity for questions.
 - Respond to queries and take on board stakeholder feedback*.

*Please note, the ERA has advised that it will undertake a formal consultation process.

AEMO's Capex Adjustment Proposal

AEMO is seeking \$47.11 million in additional funding in the AR6 period (1 July 2022 to 30 June 2025) for:

- WEM reform implementation program (\$45.02M additional) from \$44.02M to \$89.04M
- WEM sustaining capex projects (\$1.95M additional) from \$12.6M to \$14.55M
- GSI sustaining capex projects (\$0.14M additional) from \$0.34M to \$0.48M
- Approx. a 37% increase to the overall WEM Reform capex budget: from \$93.3M to \$128.6M (these numbers exclude opex).

Key Points

- AEMO forecasts capex funding will be exhausted by the end of 2023, leaving insufficient capital to support existing and new projects.
- Despite actions taken to improve delivery efficiency, and ensure solutions are fit-for-purpose, AEMO's estimate of the funding required to complete the WEM Reform Program has increased due to:
 - Significant under-estimation of the scope and scale of effort required
 - Delays and additional effort due to staff attrition and labour market tightness affecting recruitment
 - Input cost inflation including services contracts, wages and borrowing costs
 - Incorrect planning assumptions about the maturity of technology platforms and
 - Evolving scope and some rework arising from progressive development of WEM rule changes.
- Substantial effort is required to implement the new market and power system arrangements and unlock the benefits of the new market to industry and consumers.
- AEMO now has strong program governance in place and an effective delivery model for the work to be completed and is committed to the 1 October 2023 go-live date.

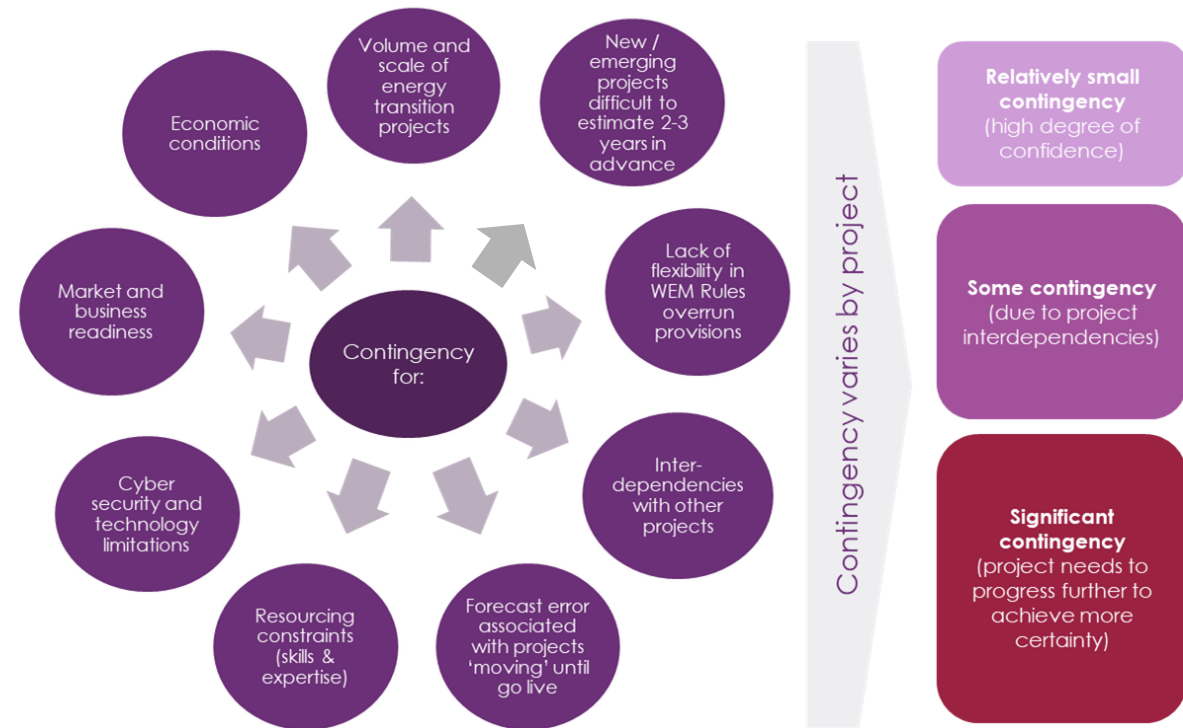
WEM Reform Governance

- In response to stakeholder feedback from previous AR6 process, AEMO has:
 - Improved internal verification processes for all financial inputs
 - Established Enterprise Portfolio Office to provide greater oversight
 - Implemented a panel of suppliers for digital/IT delivery services
 - Embedded an assurance partner in WEM Reform implementation program
 - Strengthened program leadership and increased transparent reporting to AEMO Board

Labour Costs

- For AEMO's proposal, labour (incl consultants) represents approximately 73% of the WEM Reform costs and 72% costs overall
- The majority of labour costs relate to the design, build, testing and implementation of new systems. AR6 forecasts significantly underestimated the effort required and the program has needed to both scale up the size of the team and run the program longer.
- Estimated split of internal/external resources assumed for AR6 forecast was 73/27. In practice, it has been approximately 32/68, which has increased labour costs.
- With the need for a bigger team and the longer timeframes, AEMO also has had to rely heavily on external resources due to the specialist nature of market systems and the current tight labour market.

Factors affecting contingency estimates

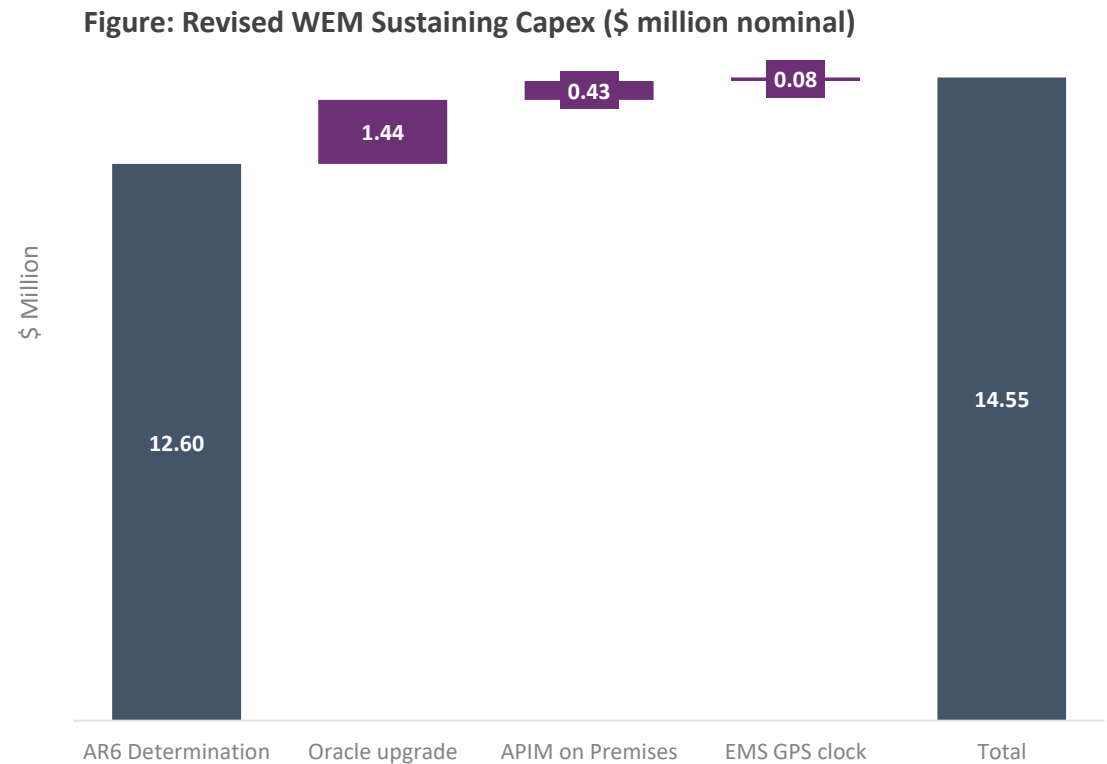


- AEMO now has greater understanding of technical specifications, user requirements and Rules. This has allowed AEMO to identify costs that were underestimated or omitted from previous forecasts, which has changed contingency costs.
- Considerable remaining risk relating to issues likely to emerge during system testing and market trials, compressed schedule and hard go-live date, and on-going emerging complexity, combine to warrant a contingency provision higher than typical at this stage of a program.
- Contingency funding is a reserve and AEMO's intent is to not use contingency where possible. Any contingency drawdown decisions will require Steering Committee approval.

For this proposal, contingency allowance is \$12.45m.

WEM Sustaining Capex

- WA Technology upgrades – WEM specific IT replacements/upgrades
- Enterprise Systems – national systems/projects implemented by AEMO with AEMO WA uses.
- Three new projects are required:
 - EMS GPS
 - APIM on-premises
 - Oracle upgrade

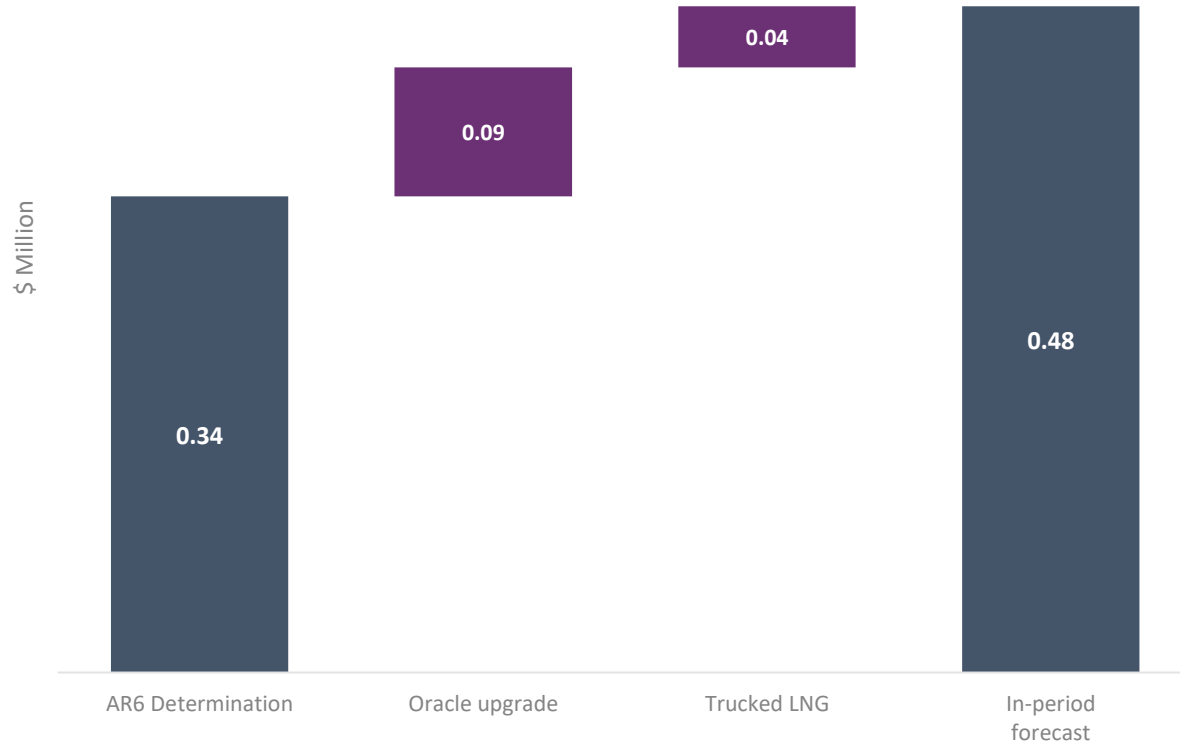


GSI Sustaining Capex

Proposed changes are due to:

- A GSI Rule change relating to trucked liquified natural gas (LNG) requiring additional expenditure on the Gas Bulletin Board
- GSI allocation of expenditure on upgrades to enterprise (AEMO wide) systems used by or to support the GSI function.

Figure: Revised GSI Sustaining Capex (\$ million nominal)



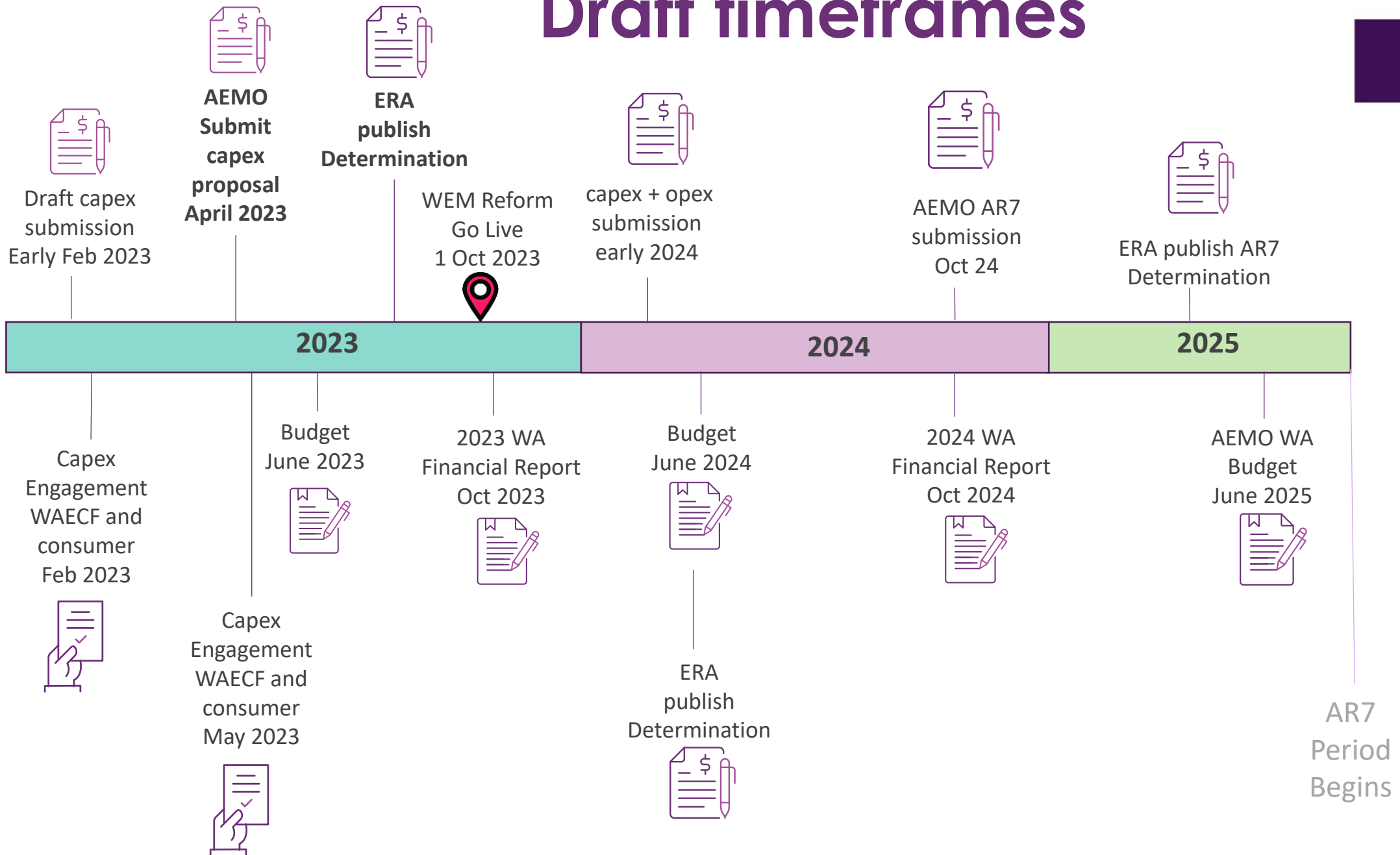
Impact on WEM and GSI fees

AEMO recovers capex via depreciation and amortisation of assets commencing during the year following project completion and/or assets being placed in service.

The timing of the recovery of this expenditure means there will be small impact on WEM and GSI fees during the AR6 period.

Market fees for this capex adjustment will not be updated until 30 June 2024 with an estimated increase of ~\$0.30MWh for FY25.

Draft timeframes





For more information visit

aemo.com.au