Draft FY24 Budget and Fees summary

This fact sheet provides a snapshot of AEMO's FY24 budget and fees.

Key take aways

The energy sector's rapid transition to renewables means AEMO needs to reform the market and operate the grid in response to consumer demand, new technologies, and large-scale capital replacement.

The FY24 budget includes AEMO's core work to run today's market and our work to evolve our systems and the energy market so they are fit for the operating conditions expected by 2025.

AEMO is mindful that we must deliver reforms effectively and efficiently, reduce and remove costs for industry participants where possible and enable consumers to experience the benefits of a renewable energy market as soon as possible.

The FY24 budget demonstrates AEMO's planned expenditure and revenue requirements (realised through fees and charges) in each market segment. In FY24, overall fees and tariffs are marginally higher due to an increase in NEM Core fees of 4.5%.

Budgeted expenditure reflects AEMO's regulatory responsibilities, reform priorities and is consistent with our financial principles.

How AEMO is funded

AEMO is a not-for-profit public company funded by fees and other charges (collectively known as our revenue requirement), applied to energy market participants. These funds enable us to perform our fundamental role, which is to ensure safe, reliable and affordable energy today and enable the energy transition for the benefit of all Australians. We perform this role, conscious of the need to do so with prudence and efficiency, so that we minimise the costs we pass through to participants, and ultimately, consumers.

AEMO is guided by eight financial principles:

AEMO's financial principles

- Efficient and cost-effective delivery
- Balanced and sustainable cost recovery
- Clear, ringfenced participant and member funds
- Funding pathways for new investment
- Low tolerance for funding risk on contracted activities
- Debt-to-assets ratio <100%
- Liquidity ratio >50%
- Timely provision of AEMO budgets to market participants

Our operating environment

The pace and extent of Australia's energy transition means more is being asked of AEMO. From re-engineering the grid and our operations room, to progressing implementation of reforms via the *NEM 2025 Implementation Roadmap*, and to increased cyber security requirements and leadership, our responsibilities and challenges continue to increase.

AEMO's budgeted program reflects our regulatory responsibilities and core work and additional work we need to do to meet the challenges and priorities of our reforming sector.

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Across the sector many Australians and businesses are experiencing increases in electricity and gas costs, which is contributing to cost-of-living stress. Our fees, which are collected through market participants, are ultimately paid by end-use consumers and contribute to overall gas and electricity prices. Given this, we apply prudence to our budgeting process and perform our work efficiently and cost effectively, to minimise the impact on participants and consumers.

More broadly, the economy is impacted by rising interest rates, which are also impacting AEMO's capital debt profile. We are managing this through proactive steps to optimise our capital structure and fund our capital program.

Market segments

AEMO's costs and revenue requirements are structured around these market segments:

National Electricity Market (NEM):

- NEM Core
- NEM Functions

East Coast Gas (ECG)

Western Australia electricity and gas

Victorian Transmission Network Service Provider (VIC TNSP)

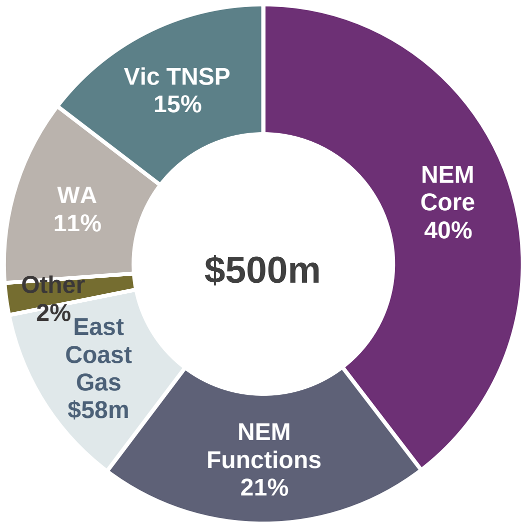
Fees and charges are ringfenced and applied to the costs of the relevant segment.

Segment budget overviews

In FY24 labour increases account for most operating cost increases (compared to FY23 budget) as AEMO builds its capabilities and capacity to resource our programs of work. Wage inflation (reflecting a tight labour market) is also contributing to labour costs.

Higher borrowing costs, due to interest rate rises on floating rate borrowings are another key cost contributor.

Chart 1. Operating expenditure by segment FY24, $m



NEM core

Cost increases of approximately 5% are budgeted in NEM Core. This is primarily due to:

- labour cost increases as we build our capability and capacity to manage the increasing complexity of the energy transition
- increased financing costs as a result of interest rate environment.

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NEM Functions

Cost increases of 10% in NEM Functions are primarily due to:

- higher operating cost with the go live of NEM2025 functionality in FY24*
- higher interest costs, specifically related to 5 Minute Settlements
- additional consulting services and employees to support the development of the 'supercharged ISP'.

*The budget captures the forecast operating costs for the NEM2025 Reform Program but has no corresponding forecast revenue until FY25. AEMO is consulting with industry participants on a fee structure for NEM2025, which is expected to be finalised in late August 2023, subsequent to which costs incurred will be recovered. To stay informed, visit AEMO's website.

East Coast Gas

Cost increases of 10% in East Coast Gas are largely driven by additional storage costs due to Dandenong LNG rule changes that require AEMO to hold more capacity (140TJ to 420 TJ). These are offset by lower financing costs due to higher cash holdings due to FY23 surplus.

WA

The Wholesale Energy Market (WEM) Reform Program drives the majority of the 25% cost increases, due to:

- increased labour and consulting fees to manage the transition to the new market design
- increased depreciation and amortisation
- development and deployment of IT systems and interfaces to implement the program.

VIC TNSP

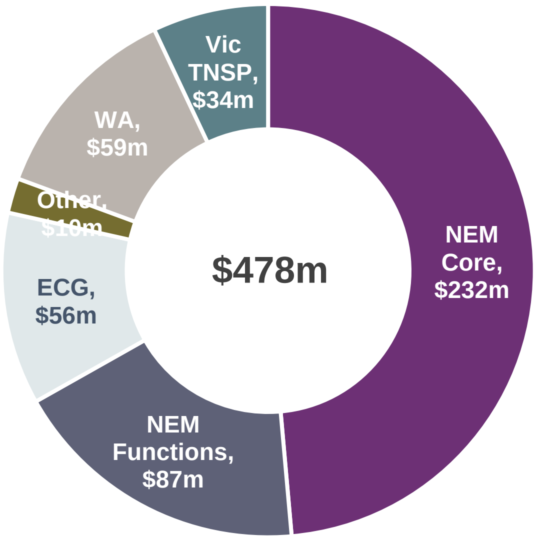
VIC TNSP costs increase 46% across labour and consulting to support:

- initial works related to the VNI West project
- the development of WRL and Renewable Energy Zone Development Plan
- other increases to support Victorian connection-related activities.

Revenue requirements

The operating costs of each segment determine the revenue requirement for each segment, which is then applied (with an appropriate allocation of the cost of central corporate functions) to the segment through existing fee structures.

Chart 2. Revenue requirement by segment FY24, $m



In FY24, overall fees and tariffs are marginally higher due to an increase in NEM Core fees of 4.5% and increased connections activity.

East Coast Gas tariffs reduce materially in the Declared Wholesale Gas Market (DWGM) (energy tariff down 50%) and STTM (activity fee down 21%) due to the return of accumulated surpluses. This is partially offset by Dandenong LNG storage and liquefaction costs, directly recovered from DWGM market customers and capacity auction revenue.

WEM revenue is higher, consistent with Economic Regulation Authority-approved allowable revenue.

Within VIC TNSP, TUoS fees are increasing by 4.2% in FY24.

Investment program

AEMO's major investment programs are focused on:

- reform in the NEM and gas markets ($70m)
- WA market reforms ($36m)
- modernising our market operations systems, to meet the evolving energy market needs and to reduce operational risks ($28m)
- evolving our business operating systems to improve delivery and efficiencies ($41m).

Investment program costs do not directly contribute to segment costs and revenue requirements, until they (or parts of them) are in operation.

Our engagement on budget and fees

AEMO has opened its draft *FY24 Budget and Fees* to stakeholders to review and provide comment.

20 April 23	AEMO consultation opens
26 April 23	Financial Consultation Committee reviews draft budget
4 May 23	AEMO consultation closes
11 May 23	AEMO's board considers feedback and approves budget
May 23	ESC and AER publish final default market offers
June 23	Publish final document

See AEMO's website for the full budget and fees for FY2024.