

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.



NEM Core fee pathway

Presentation to Finance Consultation Committee

25 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. AER Default Market Offer (DMO) and Victorian Default Offer (VDO) Process
3. NEM Core Accumulated Deficit Recovery Pathways
4. General Discussions and Questions
5. Next Meeting and Other Business

Introduction

- Purpose
- Context
- Financial Principles

Purpose

- Provide the Committee with an update on the Australian Energy Regulator (AER) DMO and Essential Services Commissions (ESC) VDO processes.
- To seek views from the Committee on:
 - Deficit recovery fee pathways, and
 - The NEM Core deficit recovery fee pathway to be submitted by AEMO to the DMO and VDO reviews.

Context

- NEM Core is carrying a sizeable deficit that has been accumulated from previous years, impacting AEMO's ability to respond to the challenges it's facing.
- AEMO has been taking steps to improve the financial position of the business:
 - In benchmarking AEMO, BCG found that AEMO is efficient compared to peers and underinvesting in some critical central functions.
 - 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.
 - Despite significant efficiencies and savings, AEMO is facing escalating costs to maintain core obligations and responsibilities and prepare for future system and market requirements.
 - As a not-for-profit entity continuing to run operating deficits funded by debt is clearly unsustainable. The Draft FY23 Budget is based on recovery of the accumulate deficit in NEM core and recovery of operating costs.
- AEMO's Board support the three year deficit recovery fee pathway.

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 and Essential Services Commission in time to enable inclusion in the Default Market Offers.

Default Market Offer Process

- Process timeline

Default Market Offer Process

- The AER and ESC have published Draft Determinations based on AEMO FY22 fees.
- AEMO have requested the AER and ESC include AEMO draft FY23 NEM fee in the final determination of DMO and VDO prices for FY23.



NEM Core Accumulated Deficit Recovery

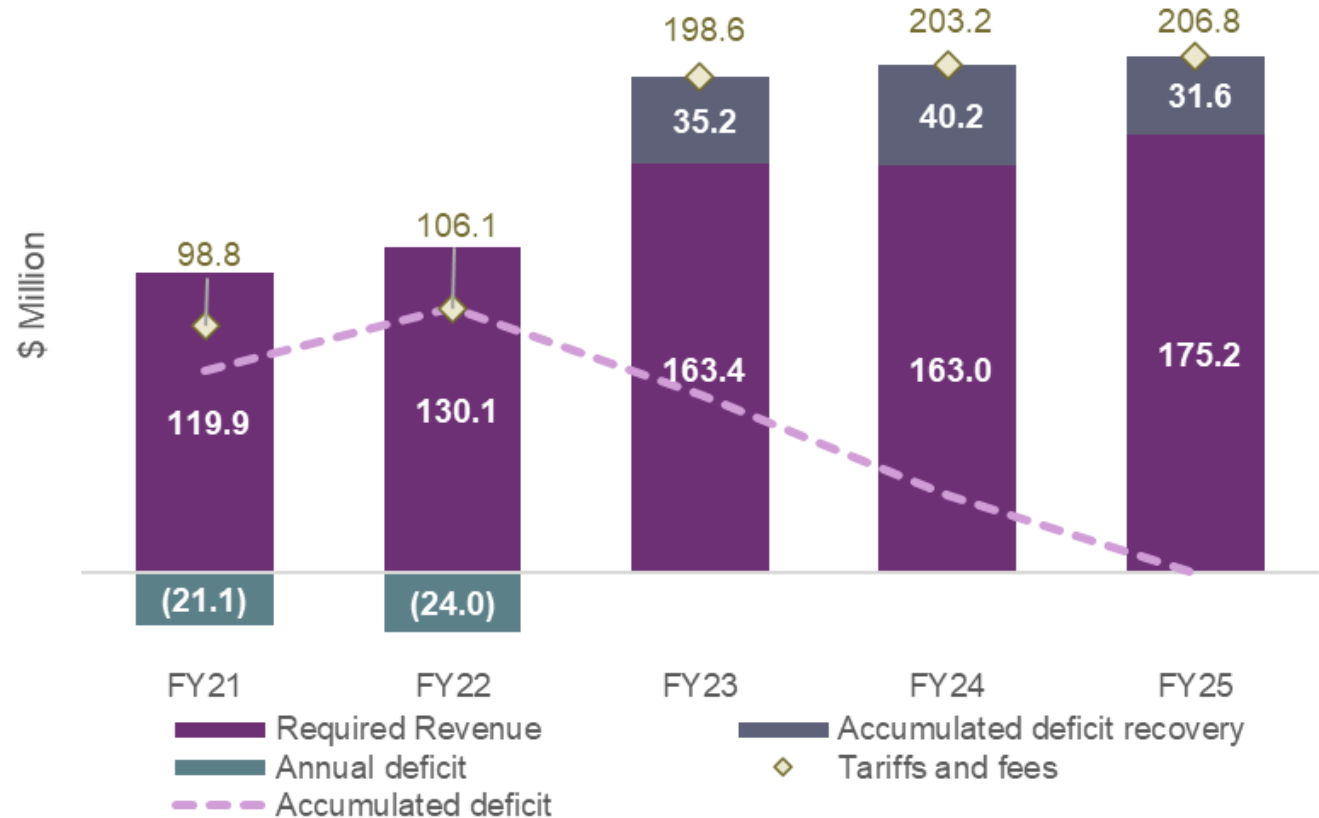
- Tariff & Fees Revenue
- FY23 Revenue Step Changes
- Pathway scenarios and impacts

NEM Core Tariff & Fees Revenue Profile

The three year fee pathway has been amended to incorporate a 2.5% fee increase in FY24 and FY25. A zero price increase was assumed previously.

This lowers FY23 revenue from \$203.5m to \$198.6m and results in a more even distribution of deficit recovery.

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



NEM Core FY23 Revenue step changes

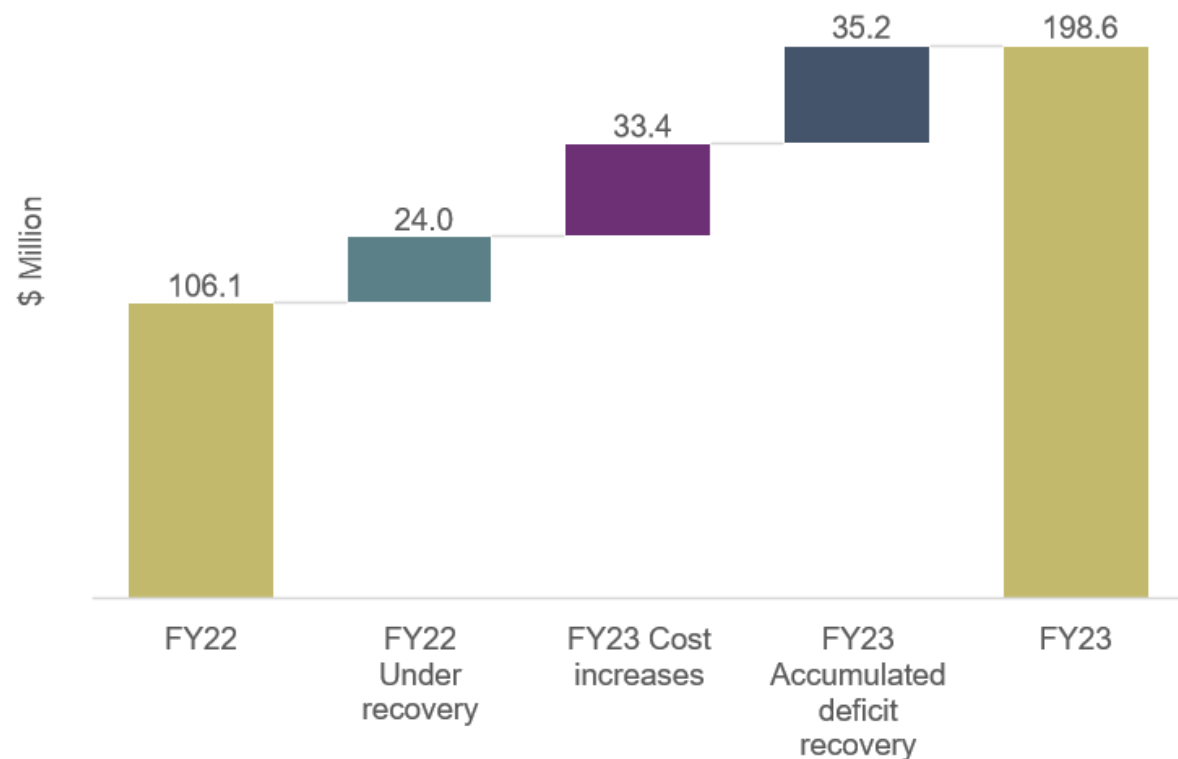
The waterfall chart presents the three step increases in NEM Core FY23 revenue:

- off-set the forecast FY22 \$24m annual deficit,
- fully recover operational expenditure in FY23 being an increase of \$33.4m on the FY22 forecast, and
- recover \$35.2m of the NEM Core accumulated deficit in FY23, and the remainder of the accumulated deficit over the following two years.

Noting the FY22 under recovery is based on the current full year forecast and is subject to change.

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 year 1 recovery (\$m)



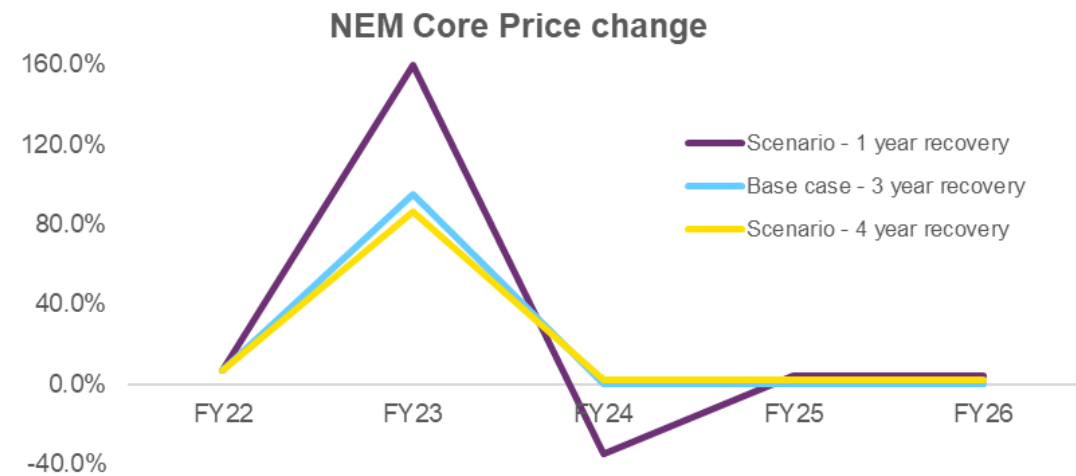
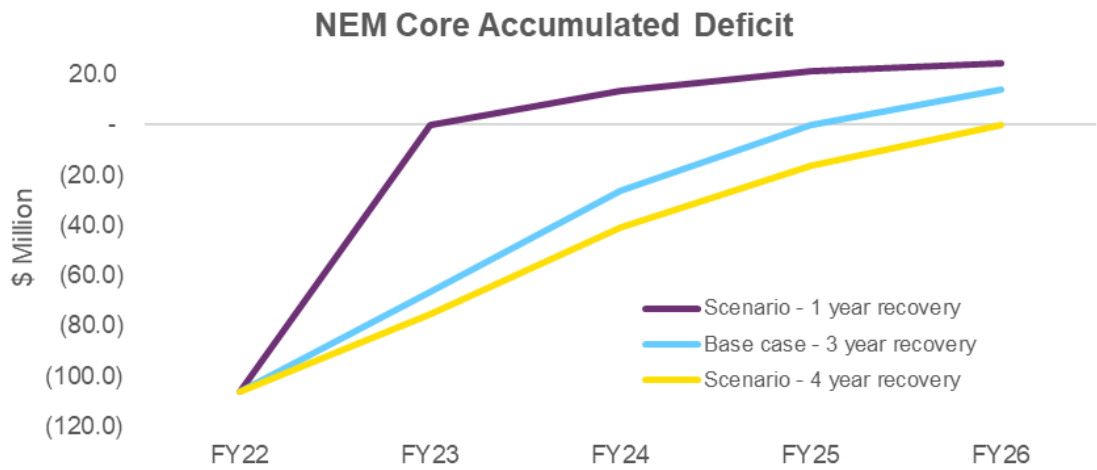
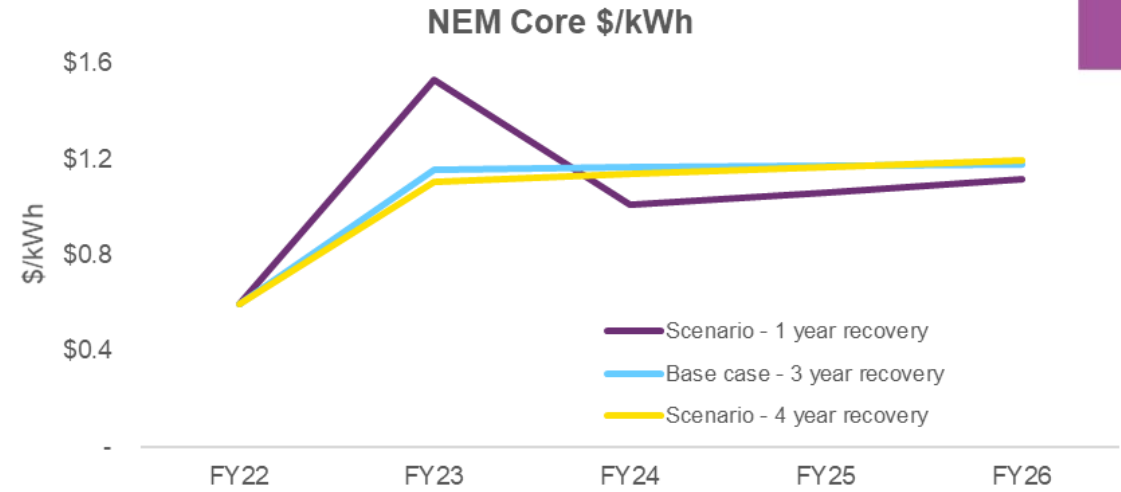
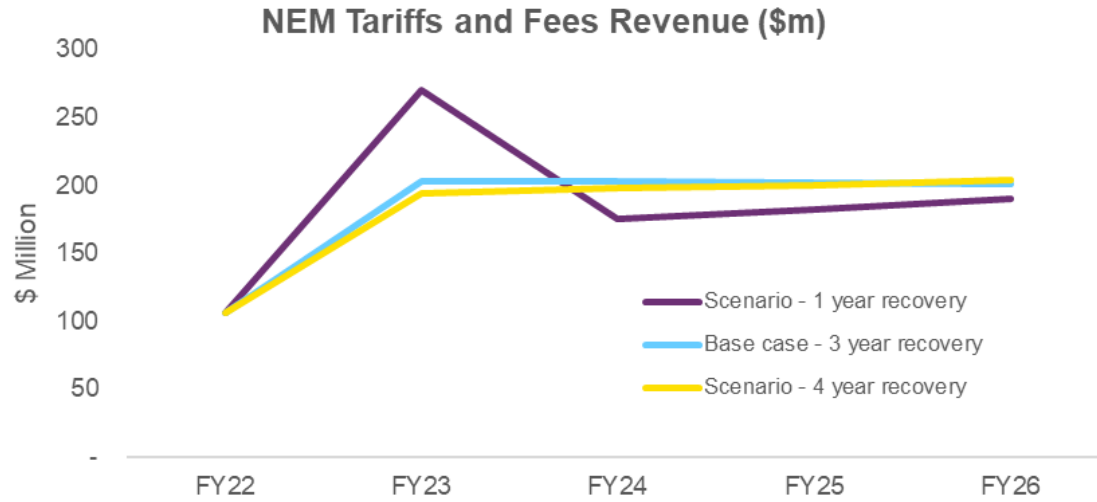
NEM Core Entity

Accumulated deficit alternate recovery paths

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	\$71m	\$0m	\$76m
FY24	\$31m		\$41m
FY25	\$0m		\$16m
FY26			\$0m

NEM Core Fee pathways and impacts



Discussion and other business

- General Discussion
- Other Business



For more information visit

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