AUSTRALIAN ENERGY COUNCIL

Australian Energy Market Operator

Submitted via email: stakeholderrelations@aemo.com.au

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Submission to AEMO Draft FY25 Budget and Fees

The Australian Energy Council welcomes the opportunity to make a submission to the AEMO Draft FY25 Budget and Fees.

The Australian Energy Council (AEC) is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

The AEC is pleased to see that AEMO's FY25 budget is expected to eliminate the long-standing accumulated deficit as shown in Figure 1. In 2022 the deficit was circa $100 million and a deficit reduction plan was implemented that saw fees increase by 89 per cent in FY23 and then return to a more moderate growth rate of 4.5 per cent increases planned for FY24 and FY25. We note however that the currently proposed fee structure maintains the 89 per cent increase above the FY22 fee structure with fees remain significantly higher than pre FY22 levels. We request AEMO to provide clarity if fees will significantly reduce in FY26 following clearing of the accumulated deficit or are expected to remain at the current high levels.

Figure 1

Table 1 NEM Core profit and loss summary FY25

	Budget FY24* $m	Budget FY25 $m	Variance $m	Variance %
Revenue#	204.6	216.2	11.6	5.7
Operating costs	171.2	194.7	23.5	13.8
Annual surplus/(deficit)	33.4	21.5	(11.9)	N/A
Accumulated surplus/(deficit)	**(26.4)**	**0.0**	**26.4**	**N/A**

* FY24 financials have be adjusted to remove NEM registration costs and revenue from the above table for comparative purposes.

consists of NEM Core revenue requirement and other revenue

Source: AEMO Draft FY25 Budget and Fees

Also of some concern for the AEC, is the large increase in both fees and tariff revenues and labour costs. Fees and tariff revenue are expected to increase by 36 per cent. Furthermore, this increase appears to be predicated on non-core NEM fees and charges, which may or not actually eventuate.

With respect to the 16 per cent increase in labour costs, we acknowledge that it has been a high inflation tight labour market environment. However, the AEC believes it would be helpful for stakeholders to better understand the composition of AEMO's headcount and costs by business area. Anecdotally we are hearing that staffing and succession planning in the operations area of AEMO is an issue. If this is the case then it

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needs to be addressed because as VRE increases and dispatchable retires, it is likely to become increasingly challenging to manage the NEM in operational timeframes.

Figure 2

Table 8 AEMO Group consolidated profit and loss summary

	Budget FY24 $m	Budget FY25 $m	Variance $m
Revenue			
Fees and tariffs	391.1	532.2	141.1
TUoS income	650.2	754.2	104.0
Settlement residue	25.6	17.9	(7.7)
Other revenue	173.9	202.5	28.6
Network charges	(733.8)	(797.7)	(63.9)
Net revenue	507.0	709.0	202.0
Operating expenditure			
Labour	262.2	308.9	46.7
Consulting	57.6	45.8	(11.8)
IT & telecommunications	76.0	120.9	44.9
Occupancy	13.0	14.1	1.1
Other expenses	46.0	45.1	(0.9)
Depreciation and amortisation	66.7	108.5	41.8
Financing costs	18.7	15.0	(3.7)
Total operating expenditure	540.2	658.2	118.0
Annual surplus / (deficit)	(33.2)	50.9	84.1
Accumulated surplus / (deficit)	**41.0**	**75.2**	**34.2**

Source: AEMO Draft FY25 Budget and Fees

We note that AEMO appears to be managing its growing debt and interest rate exposure in a more sophisticated manner when compared with previous years.

"Due to extensive market reform driving increased capital investment, AEMO's debt has increased over recent years. AEMO is optimising the risk and cost of its capital structure by:

- *ensuring adequate working capital and standby liquidity*
- *undertaking debt refinancing well in advance of maturity to provide optionality*
- *seeking to diversify tenor and funding sources, as observed through the recent MTN issue*
- *seeking concessional debt facilities for specific initiatives"*[1]

Figure 3 sets out the closing non-current liabilities on the balance sheet and net financing costs. From this we have derived an implied interest rate. As can be seen the rates are incredibly low. It would be useful to understand how AEMO's cost of debt is so low.

[1] AEMO Draft FY25 Budget and Fees, p24.

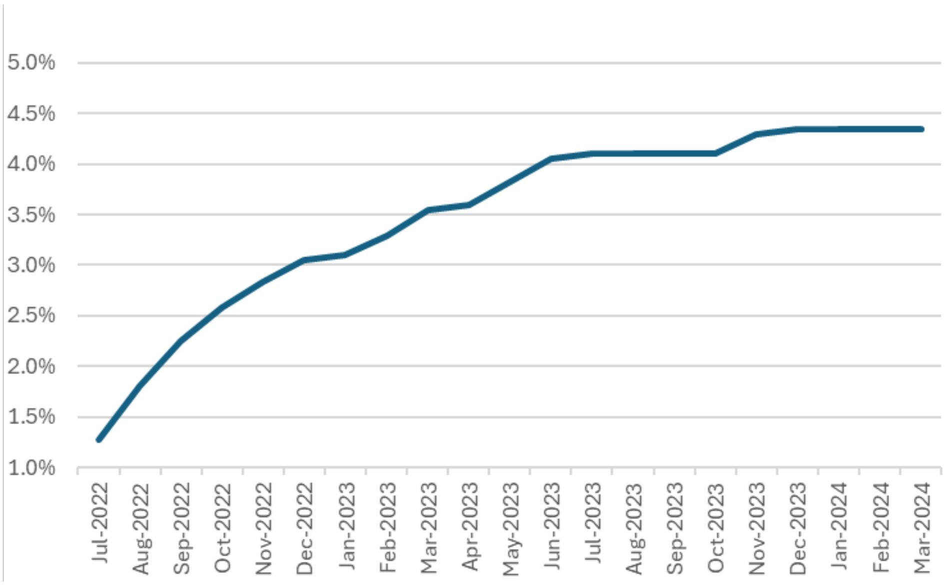
Figure 3: Non-current liability financing costs

	Net financing costs	Non-current liabilities	Average debt[2]	Implied interest rate[3]
FY23	9	530		
FY24	7	527	529	1.29%
FY25 budget	16	687	607	2.36%
FY25 increase on FY24	138%	30%		

Source: AEMO Draft FY25 Budget and Fees, AEMO FY24 Budget and Fees and AEC analysis

Nevertheless, it is worth noting that the FY25 implied interest rate is substantially higher than that for FY24, yet overnight cash rates have ranged between 4.1 per cent in June 2023 and 4.4 per cent in March 2024. This is displayed in Figure 4.

Figure 4: Overnight cash rate



Source: RBA

Finally, it would be very helpful for stakeholders (and improve engagement) if AEMO could provide all the numbers in the tables and figures in MS Excel format as it already does for many of its other consultations.

Questions can be addressed by e-mail to either David.Feeney@energycouncil.com.au or peter.brook@energycouncil.com.au.

Yours sincerely,

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2 Average of prior and previous year closing debt.
3 Net financing costs from cash flow statement divided by average debt.