

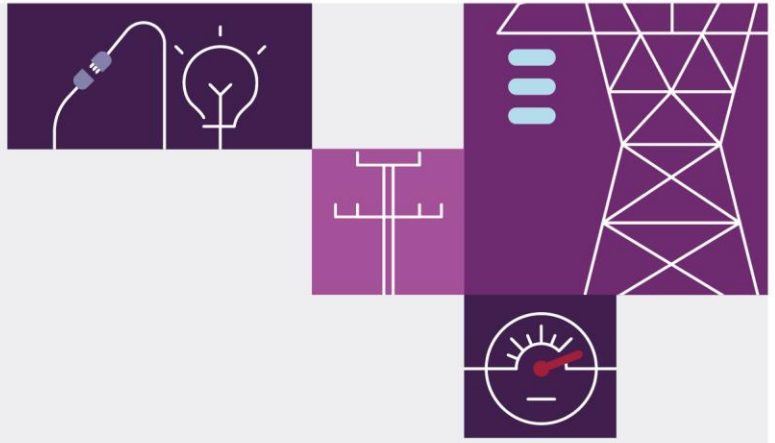


WA Budget and Fees 2024-25

28 June 2024

AEMO's operating and capital expenditure budget for performing its Western Australian WEM and GSI functions for the financial year ending 30 June 2025





Important notice

Purpose

This document (which includes Attachment 1 as a separate spreadsheet in Microsoft Excel format) sets out AEMO's Budget and Fees for the 2024-25 Financial Year in accordance with clauses 2.22A.7 and 2.24.2 of the Wholesale Electricity Market Rules (WEM Rules) and rule 111A(1)(a) of the Gas Services Information Rules (GSI Rules).

This document has been prepared in accordance with the Regulatory Reporting Guideline issued by the Economic Regulation Authority under clause 2.22A.9(b) of the WEM Rules and rule 109(7)(b) of the GSI Rules.

Values used in this submission

The 2024-25 WA Budget and Fees is presented in nominal Australian dollars, excluding goods and services tax and amounts have been rounded to the nearest \$100,000, unless otherwise stated.

Disclaimer

This document or the information in it may be subsequently updated or amended. This document does not constitute legal or business advice and should not be relied on as a substitute for obtaining detailed advice about the WEM Rules, the GSI Rules or any other applicable laws, procedures or policies. AEMO has made every effort to ensure the quality of the information in this document but cannot guarantee its accuracy or completeness.

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Executive summary

This document sets out the 2024-25 (FY25) Budget and Fees for the Australian Energy Market Operator's (AEMO) Wholesale Electricity Market (WEM) and Gas Services Information (GSI) functions.¹ It also includes the Economic Regulation Authority's (ERA) Market Participant Regulator Fee (Regulator Fee), and Energy Policy WA's Market Participant Coordinator Fee (Coordinator Fee).²

AEMO's Budget and Fees

AEMO must publish its Budget and Fees as it relates to its WEM and GSI functions by 30 June of each year, as required under clauses 2.22A.7 and 2.24.2 of the WEM Rules, and rule 111A(1)(a) of the GSI Rules. Additionally, AEMO also publishes its Budget and Fees for all of its Australia-wide functions.³

AEMO's FY25 budget is consistent with the ERA's Allowable Revenue and Forecast Capital Expenditure determination for the 2022 to 2025 period (AR6), including a first in-period adjustments in September 2023 and, most recently, a second in-period adjustment in June 2024.⁴

As Australia's independent system and market operator and system planner, AEMO's purpose is to ensure safe, reliable, and affordable energy, and enable the energy transition for the benefit of all Australians.

As noted in AEMO's recent second in-period adjustment submission, the energy transition in Western Australia (WA), is complex and fast-moving. As a not-for-profit business, AEMO is always focused on the best interests of energy consumers and aims to provide services for the lowest practicably sustainable cost. AEMO is conscious that changes to its costs (and resulting fees) can present challenges for market participants, and that, like AEMO, energy consumers are facing cost pressures. Unfortunately, cost pressures, the timing of recovery of capital costs, and the pace of the transition and associated reforms mean that the impact on WEM fees in the short term is significant.

AEMO's FY25 budget sets out the costs of delivering our core WEM and GSI functions and responsibilities, including the strategic priorities outlined in our Strategic Corporate Plan.⁵ It includes ongoing investment in key capabilities that are essential for the secure and reliable operation of the SWIS and WEM, including substantial investment in digital services and cyber capabilities, continued focus on our long-term planning for both the WEM and the WA gas market, and activities to support the WA Government's Energy Transformation Strategy and enable the energy transition in WA.

AEMO is working to uplift its stakeholder engagement on future budgets and fees to provide stakeholders with greater transparency of proposed costs and more opportunity to provide feedback, before annual budgets are confirmed.

¹ AEMO's budget for the costs AEMO will incur for the coming Financial Year clause 2.22A.7 of the WEM Rules, see [wholesale_electricity_market_rules_-_8_june_2024_0.pdf \(www.wa.gov.au\)](http://www.wa.gov.au/system/files/2024-06/wholesale_electricity_market_rules_-_8_june_2024_0.pdf).

² Determination of Market Fees clause 2.24.1(a) of the WEM Rules, see www.wa.gov.au/system/files/2024-06/wholesale_electricity_market_rules_-_8_june_2024_0.pdf.

³ AEMO Budget and Fees FY25, see <https://aemo.com.au/about/corporate-governance/energy-market-fees-and-charges>.

⁴ Economic Regulation Authority website, see <https://www.erawa.com.au/electricity/wholesale-electricity-market/price-setting/allowable-revenue-and-forecast-capital-expenditure-determinations>.

⁵ AEMO FY25 Strategic Corporate Plan, see <https://www.aemo.com.au/about/corporate-governance/corporate-plan>.

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WEM budget

AEMO performs a range of functions under the WEM Rules, including the operation of the South West Interconnected System (SWIS) and the underpinning electricity markets, such as the Reserve Capacity Mechanism (RCM), the Short Term Energy Market, the Real-Time Market, and Essential System Services (ESS) markets. In addition to system and market operation, AEMO's functions include operational and long-term planning for the security and reliability of the SWIS, the implementation of reforms and a range of market administration activities including participant registration and the provision of information. AEMO recovers its costs for performing its functions under the WEM Rules from Market Participants through Market Fees.

AEMO's operating expenditure is increasing in FY25, driven largely by costs related to the energy transition, including the implementation of Government-led energy reforms. Some of these projects have a significant capital expenditure (capex) cost component, which is recovered as operational expenditure (depreciation and amortisation) over the useful life of the assets.

Of particular note, in FY24 AEMO completed the implementation of the new security constrained, co-optimised energy and ESS markets for the WEM, with the new market commencing on 1 October 2023. This was the culmination of a multi-year program of work, which saw the most substantial changes to the WEM since the market commenced in 2006. In FY25, depreciation and amortisation resulting from the commencement of the new WEM is a key contributor to the growth in operating expenditure, including recovery of around nine months of approved WEM Reform Program costs incurred in FY24 but not able to be recovered until FY25.

In FY25 AEMO expects to commence and progress a range of projects to continue to enable the energy transition in the WEM, including:

- Changes to the RCM under the RCM Review.⁶
- Significant changes to AEMO's metering systems to accommodate large volumes of meter data resulting from Western Power's Advanced metering infrastructure roll-out and to support several upcoming WEM reforms.
- Development of arrangements to enable participation in the market by aggregated Distributed Energy Resources (DER), as outlined in the WA Government's DER Roadmap⁷ and enabled by the *Electricity Industry Amendment (Distributed Energy Resources) Act 2024*.
- Assisting Energy Policy WA in the development and implementation of the Power System Security and Reliability Standards (PSSR) Project.⁸
- Undertaking feasibility and planning to implement the outcomes of the WEM Investment Certainty and Demand Side Response Reviews.⁹
- Continuing to enhance AEMO's long-term planning for the secure and reliable operation of the SWIS, including new WEM Electricity Statement of Opportunities requirements and activities to identify the engineering solutions to operate the SWIS at high levels of renewable generation.

⁶ Energy Policy WA website, see <https://www.wa.gov.au/government/document-collections/reserve-capacity-mechanism-review>.

⁷ Energy Policy WA website, see <https://www.wa.gov.au/government/distributed-energy-resources-roadmap>.

⁸ Energy Policy WA website, see [Power System Security and Reliability Standards Review \(www.wa.gov.au\)](https://www.wa.gov.au/government/document-collections/power-system-security-and-reliability-standards-review).

⁹ Energy Policy WA website, see <https://www.wa.gov.au/government/document-collections/wholesale-electricity-market-investment-certainty-review> and <https://www.wa.gov.au/government/document-collections/demand-side-response-review>, respectively.

Executive summary

While much of these costs will be capital in nature and therefore recovered over time via depreciation and amortisation, all projects include operational expenditure that is recovered in the year the expense is incurred, and some projects (such as the PSSR Standards Project) are entirely operational expenditure. AEMO's core operational resources are also required to support the energy transition, with AEMO's activities increasing in scale and complexity to support the secure and reliable operation of the WEM and the SWIS and ongoing reform to enable the energy transition.

Current external economic conditions have also placed upwards price pressures on AEMO's FY25 budget.

Further information on AEMO's WEM budget is provided in section 2.1 below.

Summary of WEM Market Fees

The fee for AEMO's WEM functions for FY25 is \$2.6717/megawatt hour (MWh), reflecting an increase of 75% from FY24.

AEMO is an agent for the collection of the Regulator Fee, and the Coordinator Fee under the WEM Rules. The Regulator Fee has decreased by 13%, while the Coordinator Fee has increased by 12%, as shown in Table 1 below.

Table 1 Summary of WEM Market Fees

Fee type	Budget FY24 (\$/MWh)	Budget FY25 (\$/MWh)	Variance (\$/MWh)	Variance (%)
AEMO Market Fee	1.5263	2.6717	1.1454	75%
Regulator Fee	0.2063	0.1792	-0.0271	-13%
Coordinator Fee	0.0779	0.0872	0.0093	12%
Total WEM Fees	1.8105	2.9381	1.1276	62%

GSI budget

AEMO's functions under the GSI Rules, include operating and maintaining the WA Gas Bulletin Board, administering the registration process for Gas Market Participants, and publishing the Gas Statement of Opportunities (GSOO). AEMO recovers its costs for performing its functions under the GSI Rules from Gas Market Participants through GSI Fees.

Operating expenditure for AEMO's GSI functions is budgeted to increase in FY25 (see Table 5 in section 2.1 below), driven largely by predicted cost impacts arising from the continued evolution of the WA GSOO, through which AEMO, in response to stakeholder feedback, is seeking to provide further information on the role of gas in WA's energy transition and the opportunities for investment in gas supply or supporting infrastructure.

As GSI revenue from FY24 was higher than costs for FY24, the adjustment means that AEMO will increase its operating revenue by only \$1,200 in FY25 which results in a minor variance in GSI Fees (0.06%, rounded to 0% in Table 2 below).

Further information is provided on AEMO's GSI budget is provided in section 2.1 below.

Executive summary

Summary of GSI Fees

As noted above, AEMO's GSI fee will remain unchanged for FY25.

As with WEM Market Fees, AEMO is an agent for the collection of the Regulator Fee, and the Coordinator Fee under the GSI Rules. The revenue requirement for each fee type is outlined in Table 2 below.

Table 2 Summary of GSI revenue requirement

Revenue requirement	Budget FY24 (\$'000)	Budget FY25 (\$'000)	Variance (\$'000)	Variance (%)
AEMO GSI revenue requirement	1,606	1,607	1	0%
Regulator revenue requirement	0	149	149	n.a.
Coordinator revenue requirement	155	145	-10	-6%
Total GSI revenue requirement	1,761	1,901	140	8%



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1 Background

AEMO is a not-for-profit company with functions in Western Australia (WA) under the Wholesale Electricity Market (WEM) Rules and the Gas Services Information (GSI) Rules.

AEMO performs a range of functions under the WEM Rules, including the operation of the South West Interconnected System (SWIS) and the underpinning electricity markets, such as the Reserve Capacity Mechanism (RCM), the Short Term Energy Market, the Real-Time Market, and Essential System Services (ESS) markets. In addition to system and market operation, AEMO's functions include operational and long-term planning for the security and reliability of the SWIS, the implementation of reforms and a range of market administration activities including participant registration and the provision of information. AEMO recovers its costs for performing its functions under the WEM Rules from Market Participants through Market Fees.

AEMO has several functions under the GSI Rules, including operating and maintaining the WA Gas Bulletin Board, administering the registration process for Gas Market Participants, and publishing the WA Gas Statement of Opportunities (GSOO). AEMO recovers its costs for performing its functions under the GSI Rules from Gas Market Participants through GSI Fees.

The Economic Regulation Authority (ERA) is responsible for setting AEMO's funding over a three-year review period, including any in-period adjustment proposals. The current review period, the sixth Allowable Revenue period (AR6), covers July 2022 until June 2025.

The WEM Rules and the GSI Rules¹⁰ require AEMO to publish its annual budget for the upcoming financial year by 30 June. AEMO's Budget and Fees must be consistent with the ERA's assessment of AEMO's funding for the relevant review period (including any reassessment under in-period funding proposals) and must also comply with the AEMO Regulatory Reporting Guideline,¹¹ discussed further in section 1.2 below.

AEMO's FY25 budget is consistent with the ERA's Allowable Revenue and Forecast Capital Expenditure determination for AR6 period, including in-period adjustments in September 2023 and June 2024.¹²

1.1 AEMO's recent WEM in-period adjustment

On 18 March 2024, AEMO made its second AR6 in-period submission to the ERA, seeking an increase of \$59.2 million in allowable revenue and \$39.0 million in forecast capital expenditure for its WEM functions. Following consultation on a draft determination, in June 2024, the ERA made its final determination, which approved an additional \$58.29 million in allowable revenue and \$37.9 million in forecast capital expenditure for the AR6 period.¹³

¹⁰ Clause 2.22A.7 of the WEM Rules and rule 111A(1)(a) of the GSI Rules.

¹¹ ERA's AEMO Regulatory Reporting Guideline, see <https://www.erawa.com.au/cproot/22887/2/D251941-AR.6---Final-regulatory-reporting-guideline.pdf>.

¹² AEMO Second In-Period Funding Proposal, ERA website, see <https://www.erawa.com.au/electricity/wholesale-electricity-market/price-setting/allowable-revenue-and-forecast-capital-expenditure-determinations>.

¹³ AEMO's submission, the ERA's determination and stakeholder submissions are all available on the ERA website, see <https://www.erawa.com.au/electricity/wholesale-electricity-market/price-setting/allowable-revenue-and-forecast-capital-expenditure-determinations>.

This increase reflects cost pressures, the timing of recovery of capital costs, and the pace of the transition in WA and associated WEM reforms. AEMO acknowledges this results in a substantial and unwelcome increase in its WEM Fees for FY25. AEMO continues to strive to operate efficiently while also seeking to ensure it is adequately funded to deliver its core purpose to ensure safe, reliable and affordable energy, and enable the energy transition for the benefit of Australian consumers.

AEMO is also uplifting its stakeholder engagement on future budgets and fees to provide stakeholders with greater transparency of proposed costs and more opportunity to provide feedback, before annual budgets are confirmed. This includes more explicitly including WA budgets within the remit of AEMO's Financial Consultation Committee, in addition to engagement with AEMO's WA Strategic Energy and Electricity Consultative Forums.

1.2 AEMO Regulatory Reporting Guidelines

The ERA produces AEMO's Regulatory Reporting Guidelines (Guidelines), which sets out requirements for AEMO's reporting of Budget and Fees, as well as annual expenditure reporting against AEMO's budget. The Guidelines include a range of requirements, including:

- A budget statement of profit and loss and comprehensive income grouped by business function and operating reporting category.
- Operating revenues and fees for both the WEM and GSI sectors.
- A statement of risks associated with the operational and capital expenditure.
- A forecast statement of cash flows.
- A forecast statement of financial position.
- A capital expenditure budget and accompanying project-level detail.

Under clause 2.22A.7(b) of the WEM Rules and rule 111A(2)(b) of the GSI Rules, AEMO's Budget and Fees must be reported in accordance with the ERA's Regulatory Reporting Guidelines.¹⁴ As outlined in AEMO's response to the Regulatory Reporting Guidelines consultation,¹⁵ AEMO's finance systems do not produce an annual statement of cash flows or a statement of financial position for AEMO's WA operations. AEMO's finance system is also not capable of producing a forecast statement of cash flows or a forecast statement of financial position for AEMO's WA operations, and as a result, AEMO is not able to fully comply with sections 4.3 and 4.4 of the Guidelines. AEMO has commenced a project to replace its finance systems and expects to be compliant with this obligation in the future.

The remainder of this 2024-25 WA Budget and Fees document outlines the costs AEMO will incur in performing its functions under the WEM Rules and GSI Rules. The Guidelines include AEMO's requirement to complete and publish a reporting template produced by the ERA. The template must be published in Microsoft Excel format, which AEMO has provided in Appendix 1, WA Financial Statements 2024-25.¹⁶

¹⁴ The ERA's AEMO Regulatory Reporting Guidelines, see: <https://www.erawa.com.au/cproot/22887/2/D251941-AR.6---Final-regulatory-reporting-guideline.pdf>.

¹⁵ AEMO's submission to the Regulatory Reporting Guidelines, see: <https://www.erawa.com.au/cproot/22865/2/Submission-from-AEMO.pdf>

¹⁶ AEMO website, see <https://aemo.com.au/en/energy-systems/electricity/wholesale-electricity-market-wem/participate-in-the-market/fees-and-charges>.

2 AEMO WA Budget and Fees

2.1 Statement of profit and loss and comprehensive income

WA's energy transition continues to be the main driver of increases to AEMO's WEM budget in FY25, with substantial new and ongoing energy reform initiatives responding to decarbonisation goals, and increasing scale and complexity of AEMO's operational and planning functions to enable power system security and reliability arising from changes in generation technologies and consumer demand. The drivers of AEMO's FY25 WEM budget are outlined in future detail in the recent in-period adjustment process.¹⁷

The operating expenditure for AEMO's GSI functions has increased in FY25 (see Table 5 below), driven largely by costs associated with the continued evolution of the WA GSOO. Notwithstanding, as actual GSI revenue from FY24 was higher than costs for FY24, the adjustment from FY24 to FY25 effectively offsets the increase in costs meaning AEMO's GSI Revenue and the resultant GSI Fees will not change in FY25.

The AEMO WA budget is summarised in Table 3 below, alongside AEMO's FY24 budget for comparison.

Table 3 WA statement of profit and loss and comprehensive income

AEMO WA P&L and CI	Comparison budget: FY24 (\$'000)			Budget: FY25 (\$'000)		
	WEM	GSI	Total	WEM	GSI	Total
Revenue	56,083	1,606	57,689	99,456	1,607	101,063
Labour	27,344	825	28,168	36,471	976	37,447
Operating expenditure	27,700	620	28,320	52,543	1,652	54,195
Total expenditure	55,043	1,445	56,488	89,015	2,627	91,642
Surplus/deficit for the year	1,040	161	1,201	10,441	-1,020	9,421

Totals may not sum due to rounding.

Wholesale Electricity Market

Table 4 below provides a breakdown of WEM operating expenditure by cost category for FY25, with FY24 budget figures provided for comparison.

¹⁷ AEMO's submission, the ERA's determination and stakeholder submissions are all available on the ERA website, see <https://www.erawa.com.au/electricity/wholesale-electricity-market/price-setting/allowable-revenue-and-forecast-capital-expenditure-determinations>.

Table 4 Operating expenditure – WEM statement of profit and loss and comprehensive income

WEM P&L and CI	Budget FY24 (\$'000)	Budget FY25 (\$'000)	Variance (\$'000)	Variance (%)
REVENUE				
WEM revenue requirement	56,083	99,456	43,372	77%
Other revenue	0	0	0	0%
Total revenue	56,083	99,456	43,372	77%
OPERATING EXPENDITURE				
Labour	27,314	34,775	7,460	27%
External contractors	29	1,697	1,667	5653%
Consultants	3,684	5,395	1,711	46%
Depreciation and amortisation	14,674	26,912	12,238	83%
Finance costs	2,492	8,376	5,884	236%
IT and telecommunications	3,950	8,829	4,879	124%
Other expenditure	2,899	3,032	132	5%
Total expenditure	55,043	89,015	33,971	62%
SURPLUS / DEFICIT				
Annual surplus / deficit	1,040	10,441	9,401	904%

Totals may not sum due to rounding.

The ongoing energy transition drives the majority of expenditure increases in the WEM in the FY25 budget, impacting all expenditure categories.

In FY24 AEMO completed the implementation of the new security constrained, co-optimised energy and ESS markets for the WEM, with the new market commencing on 1 October 2023. This was the culmination of a multi-year program of work, which saw the most substantial changes to the WEM since the market commenced in 2006. In FY25, depreciation and amortisation resulting from the commencement of the new WEM is a key contributor to the growth in operating expenditure, including recovery of around nine months of approved WEM Reform Program costs incurred in FY24 but not able to be recovered until FY25.

In FY25 AEMO expects to commence and progress a range of projects to continue to enable the energy transition in the WEM, including:

- Changes to the RCM under the RCM Review.¹⁸
- Significant changes to AEMO's metering systems to accommodate large volumes of meter data resulting from Western Power's Advanced metering infrastructure roll-out and to support several upcoming WEM reforms.
- Development of arrangements to enable participation in the market by aggregated Distributed Energy Resources (DER), as outlined in the WA Government's DER Roadmap¹⁹ and enabled by the *Electricity Industry Amendment (Distributed Energy Resources) Act 2024*.

¹⁸ Energy Policy WA website, see <https://www.wa.gov.au/government/document-collections/reserve-capacity-mechanism-review>.

¹⁹ Energy Policy WA website, see <https://www.wa.gov.au/government/distributed-energy-resources-roadmap>.



- Assisting Energy Policy WA in the development and implementation of the Power System Security and Reliability Standards (PSSR) Project.²⁰
- Undertaking feasibility and planning to implement the outcomes of the WEM Investment Certainty and Demand Side Response Reviews.²¹
- Continuing to enhance AEMO's long-term planning for the secure and reliable operation of the SWIS, including new WEM Electricity Statement of Opportunities (ESOO) requirements and activities to identify the engineering solutions to operate the SWIS at high levels of renewable generation.

While much of these costs are capital in nature and will be recovered over time under future funding cycles, all projects include operational expenditure that is recovered in the year the expense is incurred, and some projects (such as the PSSR Standards Project) are entirely operational expenditure.

Non-reform projects with expenditure in FY25 include organisation-wide programs, such as investment in cyber security and changes to AEMO's finance systems. As these systems are implemented at a national level, AEMO WA benefits from reduced costs compared to implementing these systems as a stand-alone business.

AEMO's core operational resources are also required to support the energy transition, with AEMO's activities increasing in scale and complexity to support the secure and reliable operation of the WEM and the SWIS and ongoing reform to enable the energy transition.

In the transition to a low-emissions energy system, the SWIS is experiencing rapid changes in customer demand and in the electricity supply sources to meet that demand. This is leading to increased volatility – seven of the past 10 peak days occurred in the 2023-24 Summer and new minimum demand records are being set each Spring. Operating the SWIS in increasingly challenging conditions increases costs associated with power system planning and forecasting, including procurement of capacity outside of the RCM. AEMO's activities in the WEM have increased significantly during the AR6 period, including many new or expanded roles since the commencement of the new market on 1 October 2023. Appendix 2 provides a summary of these new and expanded roles, as well as the challenges in navigating the tighter reliability outlook and operating conditions in the WEM.

A brief summary of key variances between the revenue and operating expenditure in the FY25 and FY24 budgets by cost category are:

- Revenue – WEM Market Fee revenue is set to recover the budgeted costs of providing WEM functions in FY25, which is consistent with the ERA's determination of allowable revenue for this AR6 regulatory period, including the in-period adjustments.
- Labour – Reform activity and operational needs associated with the energy transition are major drivers of higher labour costs for FY25. Other drivers include wage price pressures resulting in higher employment costs for new starters and AEMO enterprise agreement employees receiving fixed salary increases, along with changes in classification resulting in a greater proportion of labour being expensed instead of capitalised.

²⁰ Energy Policy WA website, see <https://www.wa.gov.au/government/document-collections/power-system-security-and-reliability-standards-review>.

²¹ Energy Policy WA website, see <https://www.wa.gov.au/government/document-collections/wholesale-electricity-market-investment-certainty-review> and <https://www.wa.gov.au/government/document-collections/demand-side-response-review>, respectively.

- External contractors and consultants – Higher costs associated with assisting in the development and delivery of reform projects such as the PSSR Project and additional complexity and requirements associated with activities such as long-term reliability planning.
- Depreciation and amortisation – This increase is largely due to recovery of WEM Reform Program costs.
- Finance costs – This increase is due to higher debt from significant capital investments in reform projects, predominantly the WEM Reform Program.
- IT and telecommunications – This increase is largely driven by non-capitalised projects needed to ensure critical cyber security and uplift enterprise systems.

Gas Services Information

Operating expenditure for AEMO's GSI functions is budgeted to increase in FY25 by 82% compared with the prior year's budget, as reflected in Table 5 below. This increase is driven largely by predicted cost impacts arising from the continued evolution of the WA GSOO, through which AEMO, in response to stakeholder feedback, is seeking to provide further information on the role of gas in WA's energy transition and the opportunities for investment in gas supply or supporting infrastructure.

As GSI revenue from FY24 was higher than costs for FY24, the adjustment means AEMO's revenue requirement will increase by only \$1,200 in FY25, resulting in a negligible variance in GSI Fees (0.06%, rounded to 0% in Table 5).

Table 5 Operating expenditure – GSI statement of profit and loss

GSI P&L and CI	Budget FY24 (\$'000)	Budget FY25 (\$'000)	Variance (\$'000)	Variance (%)
REVENUE				
GSI requirement	1,606	1,607	1	0%
Other revenue	0	0	0	0%
Total revenue	1,606	1,607	1	0%
OPERATING EXPENDITURE				
Labour	825	976	151	18%
External contractors	0	0	0	0%
Consultants	183	629	446	243%
Depreciation and amortisation	196	262	67	34%
Finance costs	-25	31	56	-226%
IT and telecommunications	46	551	505	1102%
Other expenditure	220	178	-42	-19%
Total expenditure	1,445	2,627	1,182	82%
SURPLUS / DEFICIT				
Annual surplus / deficit	161	-1,020	-1,181	-733%

Totals may not sum due to rounding.

A brief summary of key variances between the revenue and operating expenditure in the FY25 and FY24 budgets by cost category are:

- Labour – increases mainly due to labour cost escalation and changes in the amount of labour resource costs being expensed versus capitalised.
- Consultants – increases required to enable the continued evolution of the WA GSOO (discussed above).
- Depreciation and amortisation – increases resulting from upgrades and replacement of data centre applications, platforms, and infrastructure.
- Finance costs – increases required to fund fixed asset investment and planned operating deficit.
- IT and telecommunications – increase is driven by the implementation of non-capitalised projects delivering critical cyber security services and new finance system.
- Other expenditure – decrease resulting from lower subscription costs for information services.

2.2 Statement of cash flows and financial position

Limitations in AEMO's current financial system mean AEMO is not able to comply with the requirement to provide a statement of cash flows or a statement of financial position for AEMO's WA operations for the FY25 budget. As discussed in section 1.2 above, AEMO is undertaking significant changes to its financial systems to meet these requirements in the future.

2.3 Three-year AEMO Market Fee forecasts

Under the Guidelines, AEMO's budget must include a three-year forecast of Market Fees, with associated forecast assumptions (Table 6). Since AEMO's budget must be consistent with the ERA's allowable revenue determination, the revenue forecasts for FY24 and FY25 are based on the ERA's final determinations for under the AR6 period, including in-period adjustments. For FY26 and FY27, AEMO has applied an inflation rate of 3.2% and 2.6% respectively, consistent with the Reserve Bank of Australia's expectation of forecast inflation²².

AEMO cautions that the values in Table 6 should not be relied upon in decision-making. While AEMO is required to include Table 6, the forecast of AEMO Market Fees over the next three years cannot factor in the outcomes of AEMO's future AR7 submission (FY26 – FY28), or the outcomes from any reassessment of the allowable revenue and forecast capital expenditure via in-period funding proposals. AEMO expects that the Market Fees forecast beyond the current budget year will change.

The energy consumption forecast used in the calculation of AEMO Market Fees is based on the expected scenario from the 2024 WEM ESOO.²³ For FY25, the energy consumption forecast is 18,018 GWh, or 18,613 GWh after applying the WEM loss factor (1.033).

²² Reserve Bank of Australia, May 2024, see: <https://www.rba.gov.au/publications/smp/2024/may/overview.html>.

²³ Electricity Statement of Opportunities, see <https://aemo.com.au/energy-systems/electricity/wholesale-electricity-market-wem/wem-forecasting-and-planning/wem-electricity-statement-of-opportunities-wem-esoo>.

In the WEM, AEMO is required to collect the funding for the AEMO Market Fees from WEM Market Participants based on their scheduled meter readings (MWh) (consumption and/or generation) at the applicable rate for the AEMO WA Market Fees.

For the GSI, AEMO is required to collect its revenue requirement from registered shippers and production facility operators based on the delivery quantities (terajoules (TJ)) or actual flow data respectively (TJ) for the settled period.

Table 6 AEMO Market Fees and energy consumption forecasts

AEMO WA Market Fees (\$'000)	FY24	FY25	FY26	FY27
WEM				
AEMO WEM Fees (\$/MWh)	1,5263	2,6717	2,2682	2,2955
Energy consumption (gigawatt hours (GWh))	17,948	18,018	18,082	18,287
GSI				
GSI revenue requirement (\$'000)	1,606	1,607	1,788	1,829

2.4 AEMO WA forecast capital project expenditure and contingency

Aggregated forecast project expenditure is set out in Table 7 below. The majority of budgeted project expenditure relates to the WA Government's Energy Transformation Strategy initiatives, primarily the RCM Review and the Metering System Upgrade and Cost Allocation Review.

As discussed earlier, AEMO sought upward adjustments to its forecast capital expenditure for the AR6 period in September 2023 and June 2024, primarily to support energy transition activities, including new government-driven projects. Forecasts presented below are consistent with the additional funding requests approved by the ERA.

Corporate capital expenditure includes AEMO WA's share of investment to maintain critical enterprise-wide systems that AEMO's WEM and GSI functions rely on. This expenditure is necessary for AEMO to perform market system operations functions as required by the Rules. Corporate projects included in FY25 are cyber security, upgrades to enterprise finance and risks systems, which are non-capitalised expenditure and include an allocation of costs across the WEM and GSI but are not included in Table 7 below.

Table 7 FY25 Statement of forecast capitalised project expenditure and contingency

Statement of project expenditure and contingency	Capitalised (\$'000)	Non-capitalised (\$'000)	Total expenditure (\$'000)
WEM			
Growth	0	0	0
Asset replacement and renewal	0	0	0
Improvement in service	0	0	0
Compliance	30,838	6,437	37,275
Corporate	0	0	0
Project costs (sub-total ex-contingency)	30,838	6,437	37,275

Statement of project expenditure and contingency	Capitalised (\$'000)	Non-capitalised (\$'000)	Total expenditure (\$'000)
Contingency	5,627	978	6,605
WEM total	36,465	7,415	43,880
GSI			
Growth	0	0	0
Asset replacement and renewal	0	0	0
Improvement in service	0	0	0
Compliance	0	0	0
Corporate	0	0	0
Project costs	0	0	0
Contingency	0	0	0
GSI total	0	0	0

Totals may not sum due to rounding.

2.5 Statement of risks

AEMO has identified specific current and emerging risks which may have a financial impact on the revenue and expenditure budget estimates. Changes in the operational environment, general economic conditions and compliance obligations may result in higher or lower revenue and expenditure. AEMO actively manages expenditure through the year and, where possible, operates at or below budgeted expenditure.

Key risks to the FY25 revenue and expenditure are:

- WEM electricity consumption – Fluctuations in annual electricity consumption represents a risk to cost recovery, as electricity consumption is a key input in the calculation of Market Fees. Weather largely drives electricity consumption, with variations beyond seasonal differences being challenging to predict. The impact of a +/-1% variation from the budget assumptions is shown in Table 8 below.
- Labour cost escalation – Market-driven escalation has resulted in higher total employment costs for new starters and employees. The impact of +/-1% variation from the budget assumptions is shown in Table 8 below.
- Resourcing requirements and availability – Resourcing requirements to deliver ongoing sectoral reforms will continue to represent a risk as WA transitions to net-zero by 2050. The impact of a +/-5% variation from the budget assumptions is shown in Table 8 below.
- Interest rates – AEMO utilises debt to fund investment in fixed assets and systems. Conditions of financial markets may also result in AEMO's cost of debt to be higher or lower than forecast. AEMO considers +/- 1% represents a reasonable range of expected outcomes assuming normal market conditions, as shown in Table 8 below.
- Other costs – There are many factors which may contribute to higher or lower than expected other expenditure. A general sensitivity represents the range of +/-5% variation on expected outcomes has been included in Table 8 below.

Table 8 Quantification of operational risks

Identified materials risks	Risk (%)	Potential upside (\$'000)	Potential downside (\$'000)
REVENUE			
Electricity volumes	+/-1%	1,005	-1,005
EXPENDITURE			
Labour escalation	+/-1%	-374	374
Resourcing requirements	+/-5%	-1,872	1,872
Interest rates	+/-1%	-1,382	1,382
Other expenditure (excl depreciation)	+/-5%	-931	931

How AEMO identifies and manages risk

The Guidelines require AEMO to disclose how it identifies and manages revenue and expenditure risks. The following information, when read in conjunction with the Statement of Risk in the WA FY25 Budget Reporting templates, explains how AEMO manages budget risks that might affect AEMO's revenue and expenditure in FY25²⁴.

Revenue and non-project expenditure risks

As mentioned above, changes in AEMO's revenue are affected by changes in electricity demand. AEMO's annual ESOO report is derived from complex electricity demand forecasting, which reduces uncertainty of modelling electricity demand for the year ahead.

As discussed earlier, AEMO seeks approval for its funding under the Allowable Revenue process, which is governed by requirements under the WEM Rules and GSI Rules, as well as the Guidelines to Inform the Australian Energy Market Operator's Funding Proposal.²⁵ AEMO's funding requests include reasonable estimations for costs associated with the above risks. Where funding is insufficient to meet costs, the WEM Rules and GSI Rules require AEMO to seek additional funding via an in-period proposal, with two in-period funding proposals sought during AR6 to date. Given the pace of change in the energy transition, and the sensitivity of WEM and GSI fees to key variables, forecasting future costs is a challenge.

²⁴ ERA's AEMO Regulatory Reporting Guideline (section 4) at: <https://www.erawa.com.au/cproot/22887/2/D251941-AR.6---Final-regulatory-reporting-guideline.pdf>.

²⁵ ERA's Guideline to inform the Australian Energy Market Operator's funding proposal at: <https://www.erawa.com.au/cproot/22925/2/-AR.6---Final-funding-proposal-guideline.PDF>



Project expenditure risks

AEMO manages project risks throughout the project life-cycle under an investment prioritisation and planning framework overseen by AEMO's Enterprise Portfolio Office (EPO). In WA, the WA Reform Steering Committee, supported by the WA Reform Office, coordinates internal project development, investment and implementation activities in alignment with the EPO framework. As noted in AEMO's submission in response to the ERA's draft determination as part of the AR6 second in-period adjustment process, AEMO also proposes the establishment of a Reform Delivery Working Group for the WEM to enable market participants and key stakeholders to have greater visibility of, and provide additional governance with respect to, the sequencing and delivery of reforms and other key initiatives in the WEM.²⁶

AEMO's project risk management framework is an iterative process that commences prior to project initiation and involves identification and assessment of risks; planning and implementation of risk mitigation activities; and monitoring. In developing investment briefs for each phase of a project, a range of 'execution' and 'delivered' risks are identified and assessed for their potential impact on schedule, quality, scope and project expenditure.

AEMO quantifies project expenditure risk through a probabilistic contingency framework that forms an important element of internal project development and governance processes. Project contingency is calculated and used as a funding reserve to cover and alleviate the impact of exposure to identified risks and to address inherent uncertainties in estimation. AEMO's approach to calculating contingency considers the project lifecycle, the level of detail known about a project and the project's risk profile to enable contingency quantification specific to the project's size, complexity and circumstances. AEMO's approach to calculating contingency is a reflection of industry models and standards.^{27,28,29}

A risk to project expenditure also includes the development of new projects, or tasks associated with reform. While many larger projects are associated with formal reviews, and therefore have some element of advanced notice, there are smaller projects that require more immediate implementation. As most reform projects do not include a cost benefit analysis in the design phase, the costs of implementation cannot be known with certainty until AEMO has undertaken feasibility and planning phases. As such, project expenditure can differ from forecasts under the budget and Allowable Revenue process. As discussed above, where funding is insufficient to meet costs, the WEM Rules and GSI Rules require AEMO to seek additional funding via an in-period proposal.

²⁶ AEMO, Submission to the Economic Regulation Authority's Draft Determination, see <https://www.erawa.com.au/cproot/24074/2/AR-6-2nd-in-period-CapEx-Pub-sub-on-AR-6-Draft-determination-AEMO.PDF>, section 4.2.

²⁷ The Government of UK Green Book (section 5.5 unintended consequences), see <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government/the-green-book-2020>.

²⁸ The Australian Government Department of Finance – Contingency, see <https://www.finance.gov.au/government/commonwealth-investment-framework/commonwealth-investments-toolkit/cost-estimation>.

²⁹ Fingers in the air: a Gentle Introduction to Software Estimation, see <https://www.methodsandtools.com/archive/archive.php?id=79>.

3 Regulator Fees

3.1 Regulator Fee schedule for WEM

Functions conferred on the ERA under the WEM Rules include undertaking compliance monitoring, carrying out investigations and initiating enforcement actions under the WEM Regulations and the WEM Rules. AEMO is required to collect the funding for the ERA from WEM Market Participants based on the meter readings (MWh) of either consumption or generation in a trading interval at the applicable rate for the Regulator Fee.

Table 9 below provides the ERA's revenue requirement and Regulator Fees for the WEM in FY25, alongside FY24 for comparison. The energy consumption forecast used in the calculation of the Regulator Fee is based on the expected scenario from the 2024 WEM ES00. For FY25, this is 18,018 GWh, after which a loss factor of 1.033 is applied to produce a value of 18,613 GWh.

Table 9 ERA revenue requirements for WEM

Revenue requirement	Budget FY24	Budget FY25	Variance	Variance (%)
WEM regulator requirement (\$'000)	7,580	6,669	-911	-12%
Regulator Fee (\$/MWh)	0.2063	0.1792	-0.0271	-13%

3.2 Regulator Fee schedule for GSI

The ERA undertakes compliance monitoring and enforcement for the WA GSI. AEMO is required to collect revenue on behalf of the ERA from registered shippers and production facility operators based on the delivery quantities (TJ) or actual flow data respectively (TJ) for the settled period.

Table 10 below provides the ERA's revenue requirements for the GSI in FY25, alongside FY24 for comparison.

Table 10 ERA revenue requirements for GSI

Revenue requirement	Budget FY24 (\$'000)	Budget FY25 (\$'000)	Variance (\$'000)	Variance (%)
Regulator revenue requirement	0	149	149	n.a.

4 Coordinator Fees

4.1 Coordinator Fee schedule for WEM

The Coordinator of Energy, supported by Energy Policy WA, undertakes policy, market development, strategic planning and overall coordination for the WEM, including administration of the WEM Rules, market development for the WEM, the provision of Market Advisory Committee secretariat services, and development of the Whole of System Plan.

AEMO is required to collect revenue on behalf of the Coordinator of Energy from Market Participants based on the meter readings (MWh) of either consumption or generation in a trading interval at the applicable rate for the Coordinator Fee.

Table 11 below provides the Coordinator of Energy's revenue requirement and Coordinator Fees for the WEM in FY25, alongside FY24 for comparison. The energy consumption forecast used in the calculation of the Coordinator Fee is based on the expected scenario from the 2024 WEM ESOO. For FY25, this is 18,018 GWh, after which a loss factor of 1.033 is applied to produce a value of 18,613 GWh.

Table 11 Coordinator of Energy's revenue requirements for WEM

Revenue requirement	Budget FY24	Budget FY25	Variance	Variance (%)
WEM Coordinator revenue requirement (\$'000)	2,861	3,247	386	13%
Coordinator Fee (\$/MWh)	0.0779	0.0872	0.0093	12%

4.2 Coordinator Fee schedule for GSI

The Coordinator of Energy, supported by Energy Policy WA, undertakes rule making and development, provision of Gas Advisory Board Secretariat services, procedure making, and information gathering for the WA gas markets, including the administration of the GSI Rules.

AEMO is required to recover revenue on behalf of Energy Policy WA from registered shippers and production facility operators based on the delivery quantities (TJ) or actual flow data respectively (TJ) for the settled period.

Table 12 below provides the Coordinator of Energy's revenue requirement for the GSI for FY25, alongside FY24 for comparison.

Table 12 EPWA revenue requirements for GSI

Revenue requirement	Budget FY24 (\$'000)	Budget FY25 (\$'000)	Variance (\$'000)	Variance (%)
GSI Coordinator revenue requirement	155	145	-10	6%

5 Other fees and charges

5.1 Fee schedule of new WEM registrations

In addition to the above fees and charges prescribed under the associated rules, AEMO provides a range of services to Market Participants under the WEM Rules, which are charged to recover AEMO's costs of those services (Application Fees and Reassessment Fees). These are set out in Table 13 below for FY25, alongside FY24 for comparison. Labour escalation is the main driver of the fee increases.

Table 13 Fee schedule of new WEM registrations (\$ per registration)

Application type	Budget FY24 (\$)	Budget FY25 (\$)	Variance (\$)	Variance (%)
Rule participant registration application fee	2,650	2,800	150	6%
Facility registration application fee	4,900	5,150	250	5%
Facility transfer application fee	2,650	2,800	150	6%
Conditional certification of reserved capacity	1,350	1,450	100	7%
Resubmission - application for early certified reserved capacity	12,050	12,700	650	5%
Consumption deviation application reassessment application fee for non-temperature dependent loads and for relevant demand (Clause 4.26.2CC and 4.28.9B of the WEM Rules)	600	650	50	8%



A1. AEMO reporting templates

The AEMO Regulatory Reporting Guidelines require AEMO to prepare its detailed financial reports using the Microsoft Excel template provided by the ERA. This is attached as a separate Attachment 1 to this paper and can be found on AEMO's website at <https://aemo.com.au/en/energy-systems/electricity/wholesale-electricity-market-wem/participate-in-the-market/fees-and-charges>.

A2. AEMO's new and expanded roles and responsibilities

Figure 1 below provides an overview of the new and expanded roles and responsibilities AEMO has undertaken since the commencement of AR6, including new obligations arising from the commencement of the new market on 1 October 2023.

Figure 1 New and expanded roles and responsibilities since the commencement of AR6

