

2024 WA Financial Report

3 October 2024

Regulatory financial report of AEMO's accounts and expenditure incurred in performing its functions in Western Australia for the year ended 30 June 2024.





Important notice

Purpose

AEMO has published this 2024 WA Financial Report and its accompanying 2024 WA Financial Statements (Attachment 1) to meet the requirements of clause 2.22A.8 of the Wholesale Electricity Market Rules (WEM Rules) and rule 111A(1)(b) of the Gas Services Information Rules (GSI Rules).

Unless otherwise stated, this 2024 WA Financial Report is based on information available to AEMO at 30 June 2024 and has been prepared in accordance with the Regulatory Reporting Guideline issued by the Economic Regulation Authority under clause 2.22A.9 of the WEM Rules and rule 109(7)(a) of the GSI Rules.

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, GSI Rules, or any other applicable laws, procedures or policies. AEMO has made reasonable efforts to ensure the quality of the information in this document but cannot guarantee its accuracy or completeness.

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We acknowledge the Traditional Custodians of the land, seas and waters across Australia. We honour the wisdom of Aboriginal and Torres Strait Islander Elders past and present and embrace future generations.

AEMO Group is proud to have launched its first Reconciliation Action Plan in May 2024 (scan QR code to read).





Introduction

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

Energy transition in WA and AEMO's role

Western Australia (WA) is in the middle of a historic transition of both how energy is produced, and how energy will be consumed. The WA Government's modelling for the development of the South West Interconnected System (SWIS) shows over 90% of electricity in the SWIS may be provided from renewable sources by 2042¹. Energy systems with high renewable penetration are more complex to operate, requiring a suite of new technologies and new ways of working.

Far from being a challenge for the future, the added demands from a system in transition are here today. Since 2021, demand for AEMO's services has grown, with an 18% increase in the number of market participants and 14% increase in the number of generators. Maximum and minimum electricity demand have varied significantly from 2021 assumptions, driven by economic and population growth, electrification, and volumes of rooftop solar increasing by more than 60%.

This transition is happening at pace in a context where energy consumers are facing cost pressures, as reflected in recent increases to the consumer price index, while maintaining an expectation of a reliable supply of the electricity and gas. As a not-for-profit corporation, AEMO strives to perform its functions in a prudent and efficient way, conscious of costs and ensuring they remain appropriate.

FY24 Outcomes

The past financial year has seen the delivery of major energy transition initiatives, namely the Wholesale Electricity Market (WEM) Reform Program with commencement of the new market on 1 October 2023 and the completion of Project Symphony, which is a key initiative of the WA Government's Distributed Energy Resources (DER) Roadmap.

The biggest change in WEM Reform is the design of the real-time market, going from a largely unconstrained gross pool dispatch mechanism to a Security Constrained Economic Dispatch (SCED) mechanism similar to that found in the National Electricity Market. SCED makes dispatch more predictable and transparent, providing incentives for participants to improve operational efficiency and deploy innovative technologies. By enhancing the efficiency of electricity dispatch, the system operates more securely and at lower costs, which should lead to more stable and potentially lower electricity prices over time. The new market design also supports the transition to a cleaner energy system by enabling more renewable energy sources to connect to the system at lower cost, which is expected to reduce the carbon footprint of electricity generation in WA.

¹ WA Government, May 2023, *SWIS Demand Assessment*, at https://www.wa.gov.au/system/files/2023-05/swisda_report.pdf.



In line with the delivery of these key energy transition initiatives, AEMO's operating and investment costs have increased in FY24 beyond the reported budget. In accordance with the regulatory process, this report shows variances to the published FY24 budget, which had to be consistent with the most recent allowable revenue determination, and that these cost increases were included in two in-period adjustment requests that the Economic Regulation Authority (ERA) provided final determinations on during FY24.

This higher expenditure in the WEM was primarily driven by WA reforms and, in FY24, is a result of the higher assets costs and associated financing for the WEM Reform Program and incremental increase in the workforce required to support reform initiatives, AEMO's expanded responsibilities as well as managing the complexity of operating the new market. Current external economic conditions have also placed upward price pressures on AEMO's costs with annual inflation increasing to 6.0 per cent in June 2023 and 3.8 per cent in the June 2024 quarter². Annual wage price indexation has also averaged over 4 per cent for the past two years³.

AEMO's approach to governance and financial transparency

AEMO is a not-for-profit organisation with a cost recovery business model, funded predominantly by fees it charges market participants, and is committed to strong financial governance and transparency to stakeholders. AEMO's executive and Board provide oversight and challenge the development of divisional budgets including the WA allowable revenue submission and any in-period adjustment requests. AEMO publishes an annual corporate plan and engages with stakeholders in the development of its annual budget and fees publication. AEMO publishes an annual report which outlines its business and financial performance. For WA, this financial report is published annually in accordance with the ERA Regulatory Reporting Guidelines.

² [Consumer Price Index, Australia, June Quarter 2024 | Australian Bureau of Statistics \(abs.gov.au\)](https://www.abs.gov.au)

³ [Wage Price Index, Australia, June 2024 | Australian Bureau of Statistics \(abs.gov.au\)](https://www.abs.gov.au)



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1 Background

This report outlines the financial performance of AEMO's regulated services in WA for FY24. This includes the operation of the South West Interconnected System (SWIS) and the underpinning electricity markets, as well as operational and long-term planning for the security and reliability of the SWIS and the implementation of energy reforms. AEMO is also responsible for operating and maintaining the WA Gas Bulletin Board, administering the registration process for gas market participants, and publishing the WA Gas Statement of Opportunities. AEMO recovers the costs of performing these functions from market participants through WEM and Gas Services Information (GSI) market fees.

AEMO's funding requirements are determined by the Economic Regulation Authority (ERA) through the allowable revenue process outlined under section 2.22A of the WEM Rules and rules 108A and 111 of the GSI Rules. The 2023-24 Financial Year (FY24) falls within the sixth allowable revenue period (AR6), which includes assessments by the ERA under AEMO's AR6 submission in December 2022⁴, as well as in-period submissions in April 2023⁵, and March 2024 (discussed further below).^{6,7}

The WEM Rules and the GSI Rules require AEMO to publish a financial report by 31 October each year, showing its actual financial performance against its budget for the previous Financial Year.⁸

1.1 AEMO's AR6 in-period adjustments

In April 2023 AEMO made an in-period adjustment request for \$47.11 million in capital expenditure, with the ERA approving \$46.94 million. The increase in funding was sought primarily to account for additional costs in delivering the WEM Reform Program, with a smaller proportion (\$2.09 million sought, with \$1.92 million approved) for other capital projects including \$0.13 million (\$0.12 million approved) for GSI projects. As the in-period proposal relates solely to capital expenditure, costs are depreciated and recovered over the useful life of the asset (ranging from 3 to 10 years), rather than being fully expensed in the year they are incurred. At the time of AEMO's submission, AEMO advised the ERA that a further in-period proposal would be required to address shortfalls in operational expenditure which could not form part of the first in-period proposal due to timing limitations under the WEM Rules.


The ERA's Final Determination was made in September 2023, meaning the approved values applicable to FY24 could not be included in AEMO's FY24 Budget, which is required to be published by 30 June 2023 and must be

⁴ AEMO allowable revenue and forecast capital expenditure for the period 1 July 2022 to 30 June 2024 Final Determination at <https://www.erawa.com.au/cproot/22675/2/-AR.6---Final-Determination.PDF>.

⁵ AEMO AR6 in-period forecast capital expenditure adjustment Final Determination at <https://www.erawa.com.au/cproot/23579/2/-AR.6---In-Period-CapEx---Final-determination.PDF>.

⁶ AEMO AR6 second in-period allowable revenue and forecast capital expenditure proposal at <https://www.erawa.com.au/cproot/24147/2/AR-6-2nd-In-period-CapEx-and-OpEx-submission-Final-determination.PDF>.

⁷ While the March 2024 in-period submission requests funding solely for the 2024-25 Financial Year, the funding is required to address higher than expected expenditure in prior AR6 periods, and is therefore relevant to the FY24 WA Financial Report.



consistent with the most recent allowable revenue determination. This accounts for some of the variation between AEMO's FY24 Budget and this 2024 WA Financial Report, as discussed under the relevant sections below.

In March 2024 AEMO made its second in-period adjustment request, primarily to address revenue needs associated with the ongoing energy reform agenda, which could not be estimated with sufficient certainty as part of the original AR6 process during FY22. In June 2024 the ERA approved an additional \$58.29 million in operational expenditure and \$37.9 million in forecast capital expenditure.

While the second in-period adjustment allows AEMO to recover the additional costs in the final year of the AR6 period (FY25), the funding was required due to higher costs in prior years of the AR6 period, including FY24. As with the first in-period adjustment, this accounts for some of the variation between AEMO's FY24 Budget and this 2024 WA Financial Report.

1.2 AEMO Regulatory Reporting Guideline

AEMO's financial reports must comply with the Regulatory Reporting Guideline (Guideline) issued by the ERA⁹, which specifies the provision of the following financial statements:

- A statement of profit or loss and other comprehensive income.
- A statement of cash flows.
- A statement of financial position.
- A statement of changes in equity.
- A statement of project expenditure and contingency.
- An asset depreciation schedule.
- A qualitative report describing the methods used in the preparation of the financial report.

As outlined in AEMO's response to consultation on the Guideline, AEMO's finance systems do not produce an annual statement of cash flows or a statement of financial position for AEMO's WA operations and, as a result, AEMO is not able to comply fully 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 ERA has published a WA Financial Statements template in Microsoft Excel format to guide the content of AEMO's WA financial report in accordance with the requirements of the Guideline. While the 2024 WA Financial Statements template forms part of this financial report, AEMO has published the template separately to ensure it can be maintained in Microsoft Excel format, as per the Guideline requirements.¹⁰ Where relevant, tables in this 2024 WA Financial Report include applicable template table numbers for ease of referencing.

⁹ AEMO Regulatory Reporting Guideline at <https://www.erawa.com.au/cproot/22887/2/D251941-AR.6---Final-regulatory-reporting-guideline.pdf>.

¹⁰ See AEMO's 2024 WA Financial Statements at <https://aemo.com.au/energy-systems/electricity/wholesale-electricity-market-wem/wa-allowable-revenue/western-australian-financials>.

2 Financial Statements

2.1 Statement of profit and loss and comprehensive income

Table 1 below summarises the financial performance of AEMO's WA functions, with total WA Operations recording an operating deficit in FY24 of \$11.5 million compared to a surplus of \$1.2 million in the FY24 budget. The majority of the deficit is associated with the WEM, as discussed in the following section.

Table 1 Operational expenditure – Western Australian Operations statement of profit and loss and comprehensive income

	FY24 Actuals \$000	FY24 Budget \$000	Variance %
Revenue electricity market	55,788	56,083	(1)
Revenue gas market	1,621	1,606	1
Revenue	57,409	57,689	0
Labour expenses electricity market	34,090	27,344	25
Labour expenses gas market	1,058	825	28
Operating expenditure electricity market	33,260	27,700	20
Operating expenditure gas market	434	620	(30)
Expenses	68,842	56,489	22
Surplus / (Deficit)	(11,433)	1,200	(1,053)

Wholesale Electricity Market

The operating deficit exceeded the budgeted surplus due to higher costs for internal labour, external contractors, depreciation and amortisation, financing and software. The majority of these higher costs are associated with new reform and energy transition activities and addressed in AEMO's recent second in-period submission to the ERA.

As shown in table 2 below, revenue from WEM market fees was \$0.4 million lower than AEMO's FY24 budget, due to lower operational demand with energy consumption down 100 GWh against a budget of 17,948 GWh.

While severe heatwaves between November 2023 and March 2024 set several new high demand records, the impact on operational demand over the year was offset by higher-than-normal temperatures over the traditionally colder months (July - September 2023 and March - June 2024), which reduced heating requirements. Growing distributed photovoltaic generation was also a contributing factor to reducing operational demand.^{11,12,13,14}

External contractor costs were unfavourable to the budget due to non-capital related project activities such as WEM Reform Program decommissioning and training, early phase planning for the next round of Reserve Capacity

¹¹ Quarterly Energy Dynamics Q2 2024 at <https://aemo.com.au/-/media/files/major-publications/qed/2024/qed-q2-2024.pdf?la=en>.

¹² Quarterly Energy Dynamics Q1 2024 at <https://aemo.com.au/-/media/files/major-publications/qed/2024/qed-q1-2024.pdf?la=en>.

¹³ Quarterly Energy Dynamics Q4 2023 at <https://aemo.com.au/-/media/files/major-publications/qed/2023/quarterly-energy-dynamics-q4-2023.pdf?la=en>.

¹⁴ Quarterly Energy Dynamics Q3 2023 at <https://aemo.com.au/-/media/files/major-publications/qed/2023/qed-q3-2023-report.pdf?la=en>.

Mechanism (RCM) reforms and Distributed Energy Resources (DER) regulatory planning and roadmap works. These costs were offset by a lower reliance on consultants.

Higher depreciation and amortisation and financing costs for FY24 are largely attributed to WEM Reform Program costs associated with AEMO's first in-period submission in April 2023. WEM Reform Program assets began entering service from August 2023 onwards. These costs could not be included in AEMO's FY24 Budget as the final ERA determination was not made until after the 30 June cut off period for publishing AEMO's budget and fees. The ERA published its final determination in September 2023.

IT & Telecommunication costs (cloud, software, hardware & other IT) were overall favourable to budget with a number of maintenance and support contracts incurring lower costs compared to when the budgets were set.

Table 2 Operational expenditure – WEM statement of profit and loss and comprehensive income¹⁵

	FY24 Actuals	FY24 Budget	Variance	Variance
	\$000	\$000	\$000	%
WEM market fee revenue	55,685	56,083	(398)	(1)
Other revenue	103	0	103	0
Total revenue	55,788	56,083	(295)	(1)
Internal labour	32,854	27,315	5,539	20
External contractors	1,236	29	1,207	4162
Consultants	1,467	3,684	(2,217)	(60)
Training	119	606	(487)	(80)
Accommodation	111	322	(211)	(66)
Depreciation and amortisation	21,103	14,674	6,429	44
Finance costs	5,474	2,492	2,982	120
Cloud and distributed computing costs	425	1,209	(784)	(65)
Software	255	24	231	963
Computer hardware	1,729	2,663	(934)	(35)
Other IT	4	55	(51)	(93)
Other expenditure	2,573	1,971	602	31
Total expenditure	67,350	55,044	12,306	22
Surplus / (Deficit)	(11,562)	1,039	(12,601)	(1,213)

Table 3 Regulator Fees for WEM

	FY24 Actuals	FY24 Budget	Variance	Variance
	\$000	\$000	\$000	%
EPWA Coordinator fees	2,829	2,861	(32)	(1)
ERA Regulator fees	7,493	7,580	(87)	(1)
Total fees collected on behalf of other entities	10,322	10,441	(119)	(1)

¹⁵ Information contained in the 2024 WA Financial Statements (Attachment 1) - Table 16

Gas Services Information

Table 4 below shows the GSI functions recorded an operating surplus for FY24. Items of note include:

- GSI fee revenue received was marginally higher than the FY24 Budget.
- Internal labour costs for GSI functions were higher than budgeted primarily due to labour cost escalation.
- Financing costs reflect the interest income GSI received for carrying a surplus. Interest income was favourable to the budget due to higher interest rates.

Table 4 Operational expenditure – GSI statement of profit and loss and comprehensive income¹⁶

	FY24 Actuals \$000	FY24 Budget \$000	Variance \$000	Variance %
GSI fee revenue	1,621	1,606	15	1
Other revenue	0	0	0	0
Total revenue	1,621	1,606	15	1
Internal labour	1,053	825	228	28
External contractors	5	0	5	0
Consultants	146	183	(37)	(20)
Training	0	7	(7)	(100)
Accommodation	1	16	(15)	(94)
Depreciation and amortisation	203	196	7	4
Finance costs	(37)	(25)	(12)	48
Cloud and distributed computing costs	28	0	28	0
Software	0	0	0	0
Computer hardware	0	41	(41)	(100)
Other IT	0	5	(5)	(100)
Other expenditure	3	197	(104)	(53)
Total expenditure	1,492	1,445	47	3
Surplus / (Deficit)	130	161	(31)	(19)

Table 5 Regulator Fees for GSI

	FY24 Actuals \$000	FY24 Budget \$000	Variance \$000	Variance %
EPWA Coordinator fees	155	155	0	0
ERA Regulator fees	0	0	0	0
Total fees collected on behalf of other entities	155	155	0	0

¹⁶ Information contained in the 2024 WA Financial Statements (Attachment 1) - Table 17

2.2 Statement of cash flows

As noted in section 1.2, AEMO's financial management system is currently unable to provide the statement of cashflow for its WA-specific operations. AEMO is undertaking significant upgrades to its finance systems to comply with this requirement in the future.

2.3 Statement of financial position

As noted in section 1.2, AEMO's financial management system is currently unable to provide the statement of financial position for its WA-specific operations. AEMO is undertaking significant upgrades to its finance systems to comply with this requirement in the future.

2.4 Statement of changes in equity

Table 6 below shows the statement of changes in equity for AEMO's WA functions. AEMO's WA functions have moved from an overall surplus to an accumulated deficit position as a result of the significant operating deficit for WEM in FY24.

Table 6 Statement of changes in equity¹⁷

	Actuals \$000
Opening Surplus / (Deficit) as at 1 July 2023	3,471
Net operating Surplus / (Deficit)	(11,433)
Total comprehensive Surplus / (Deficit) as at 30 June 2024	(7,962)

¹⁷ Information contained in the 2024 WA Financial Statements (Attachment 1) - Table 19

3 Projects

3.1 Statement of project expenditure and contingency

Capital projects create assets that provide further benefits to the WEM and GSI. These assets are generally internally created software and IT infrastructure assets that support the operations required under the WEM Rules.

Major projects undertaken during FY24 included:

- A range of projects under the WEM Reform program, such as replacing the WEM Dispatch Engine, upgrading the Real Time Market Submissions system, and changes to the settlements system to facilitate the commencement of the new market on 1 October 2023. As discussed in section 1.1, this included additional costs for projects approved under AEMO's first in-period adjustment request.
- DER projects including Project Symphony, DER Register updates and Virtual Power Plant enablement, which were completed in FY24.
- The RCM Review which extends the suite of product offerings under the RCM to provide incentives for peak and flexible capacity to meet projected future needs.

A summary of project costs for AEMO's WA functions is shown in table 7, with a breakout of expenditure by asset class provided in tables 8 and 9 below.

Table 7 Statement of project expenditure and contingency

	WEM \$000	GSI \$000	Total \$000
Capitalised projects with expenditure <\$0.5 million	1,058	733	1,791
Capitalised projects with expenditure >\$0.5 million	43,314	0	43,314
Non-capitalised projects with expenditure <\$0.5 million	1,193	7	1,187
Non-capitalised projects with expenditure >\$0.5	0	0	0
Contingency budget	0	0	0
Contingency expenditure	9,234	0	9,234
Remaining contingency budget	0	0	0

Table 8 Statement of project expenditure and contingency (Project budget <\$0.5 million)

Project expenditure by Asset Class	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	1,058	1,193	2,251
Corporate	0	0	0

Total Project costs	1,058	1,193	2,251
Contingency	0	0	0
WEM total	1,058	1,193	2,251
GSI			
Growth	0	0	0
Asset replacement and renewal	0	0	0
Improvement in service	0	0	0
Compliance	733	0	733
Corporate	0	0	0
Total Project costs	733	0	733
Contingency	0	0	0
GSI total	733	0	733

Table 9 Statement of project expenditure and contingency (Project budget >\$0.5 million)

Project expenditure by Asset Class	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	43,314	0	43,314
Corporate	0	0	0
Project costs	43,314	0	43,314
Contingency	9,234	0	9,234
WEM total	52,548	0	52,548
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
Total Project costs	0	0	0
Contingency	0	0	0
GSI total	0	0	0



3.2 End of year project list

As noted in section 1.2, AEMO is required to provide detailed project level reporting under the Guideline. AEMO has produced this information in accordance with the ERA's template which has been included in the 2024 WA Financial Statements (Attachment 1), published alongside this report on AEMO's website.

3.3 Asset depreciation schedule

AEMO has projected the future year depreciation using:

- Approved project expenses under the three AR6 final determinations.
- The status of inflight projects.
- Existing assets as of 30 June 2023.

More information on the schedule can be found in the 2024 WA Financial Statements (Attachment 1), published alongside this report on AEMO's website.

4 Accompanying notes of preparation

4.1 Description of methods

AEMO has prepared this 2024 WA Financial Report and accompanying 2024 WA Financial Statements (Attachment 1) based on the AEMO consolidated financial statements for FY24. Therefore, any notes included and published in the AEMO consolidated financial statements are also applicable to these financial statements.^{18,19} AEMO has included additional notes below relating to the information that is required in this report, such as project expenditure and an asset depreciation schedule.

4.2 Basis of preparation

Project information presented here is current as of 30 June 2024 and shows project budget, project contingency, opening and closing percentages. These are not subject to AEMO financial audit and therefore AEMO has undertaken internal reviews of the inputs to ensure they are consistent with project reporting data and approvals documentation.

4.3 Functional and presentation currency

Items included in the 2024 WA Financial Report and accompanying 2024 WA Financial Statements are presented in Australian Dollars, the currency of the primary economic environment in which AEMO operates (the functional currency).

4.4 Goods and Services Tax (GST)

All transactions are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

4.5 Verifiability

AEMO has included actuals from the financial system which can be supported through the ledger listing or list of transaction listings. AEMO tracks project-level information in a combination of corporate systems and documents stored in a control document management system. The Guideline requires AEMO to report on aspects of project execution that were not explicitly captured during FY24. As such, there is the potential for non-material differences

¹⁸ See AEMO's annual reports at <https://aemo.com.au/about/corporate-governance/annual-reports>.

¹⁹ Please note that the consolidated financial statements relate to AEMO Group. This report refers to 'AEMO', rather than AEMO Group, as it includes only costs for AEMO's functions in WA.



between these documents. However, as noted in our public submission on the Guideline, AEMO has endeavoured to provide accurate information as much as possible.

4.6 Corporate cost allocation

AEMO WA receives a corporate cost allocation in the profit and loss statement via enterprise recoveries line which is part of the 'Other expenditure' in the profit and loss statement provided. Cost allocation is based on AEMO's internal corporate cost allocation policy, which was shared with the ERA during the AR6 determination process.



A1. 2024 WA Financial Statements

The AEMO Regulatory Reporting Guideline (the Guideline) requires the preparation of detailed financial reports using Microsoft Excel templates provided by the ERA. These completed templates are referred to here as the *2024 WA Financial Statements*.

While the 2024 WA Financial Statements form part of this 2024 WA Financial Report (as Attachment 1), due to Guideline requirements for publishing in Microsoft Excel format, the spreadsheets can be found alongside this PDF document on AEMO's website at <https://aemo.com.au/energy-systems/electricity/wholesale-electricity-market-wem/wa-allowable-revenue/western-australian-financials>.