

MINUTES

MEETING: Financial Consultative Committee 2021 – Meeting 2
 DATE: Friday, 14 May 2021
 TIME: 2.00pm to 4.00pm (AEST)
 LOCATION: By Teams

ATTENDEES:

NAME	COMPANY
Julie Williams (Chair)	AEMO
Tony Chappel	AEMO
Antara Mascarenhas	AEMO
Paul Italiano	TransGrid
Mike Hutchens	Energy Queensland
Jonathan Spink	Pacific Hydro
Ian Brooksbank	Hydro Tasmania
Michael O'Rourke	Stanwell
Alastair McKeown	Energy Australia
Katrina Porteus	Energy Consumers Australia
Raif Sarcich	Victorian Department of Environment, Land, Water and Planning
Jonathan Wills	NSW Department of Planning, Industry and Environment

GUESTS:

NAME	COMPANY
Joe Locandro	AEMO
Violette Mouchaileh	AEMO
Paul Johnson	AEMO
Paul Marotta	AEMO

Welcome

Julie Williams, AEMO's Chief Financial Officer, welcomed the attendees to the meeting and outlined that at today's meeting we would be discussing the draft AEMO budget before the AEMO Board considers it. Ms Williams emphasised that AEMO is seeking feedback and welcome any comments, either at this meeting or following the meeting and emphasised that this is a collaborative process.

The agenda for the meeting included a review of AEMO's Corporate Plan and priorities, the draft budget and a deeper dive into our digital program costs and projects.

Review of minutes of previous meeting and action items

Ms Williams asked if there are any corrections or comments on the previous meeting Minutes. There were no comments and the Minutes of the previous meeting held on Friday 16 April 2021 were accepted. There were no outstanding action items from the first meeting and the meeting proceeded with a review of AEMO Corporate Plan priorities for 2021/22.

Review of Corporate Plan priorities 2021/22

Tony Chappel, AEMO's Chief External Affairs Officer, presented background on the current Australian energy landscape including the increased reliance on weather dependent power generation and large volumes of new renewable generation connecting to the grid.

Mr Chappel then explored the resulting AEMO costs, functions and operating landscape including a 75% increase in AEMC rule changes impacting AEMO over the past four years, new mandated workstreams such as ISP, DER and WDR, significant increase in data points per customer and increase in secure system operating directions.

AEMO's strategic response to embrace the challenges and opportunities of the advancing energy system were outlined in our proposed four corporate plan priorities for FY2022:

- 1) Energy System and Market Operations.
- 2) Energy Transformation.
- 3) Customers, Stakeholders and Members.
- 4) Organisational Excellence.

Each of the four AEMO corporate priorities were further explored outlining the portfolio of work associated with each priority for 2021/22.

Alistair McKeown, Energy Australia, asked how AEMO considered costs as it works on maintaining secure and reliable operation of energy systems and markets, while maximising benefits in the interest of consumers, how does that value come to life.

Mr Chappel replied that AEMO's present focus as the energy transformation unfolds is on earlier and deeper collaboration around system changes and capital requirements for new regulatory and market settings. This applies to AEMO's direct costs but also to costs imposed on market participants and ultimately on consumers.

The new Markets Committee AEMO has established, which the AEMC will also attend, will enable collaboration and transparency on the sequence of system changes and operational model choices for debate and discussion. The objective is to minimise cost across the entire value chain of market reforms.

Review of draft 2021/22 budget

Ms Williams introduced the budget as draft, noting some of the numbers will likely change. Ms Williams indicated that the financial profile is looking at 2021/22 plus an additional two years and reflects market reform that is underway - as such, the ESB Post 2025 NEM reforms are not captured in the 2021-22 draft budget or financial forecasts.

An overview of AEMO financial summary including revenue and expenditure was presented for 2021/22 to 2023/24. In summary, revenue and expenditure continue to grow as AEMO delivers against energy market transition reforms.

A breakdown of AEMO financial entity contributions was discussed noting that the NEM Core entity results continue to run at a deficit.

AEMO's revenue requirement continues to grow largely reflected in increased fees, tariffs revenue and revenue results from 5MS and NEM DER projects going live in 2021/22.

Mr McKeown asked what is driving the increase in "other tariff" revenue.

Paul Marotta, Manager Finance Business Partnering, responded that it was mostly related to National Transmission Planner (NTP) revenue noting the step change between FY21 and

FY22 was driven by an under collection of 6 months revenue in FY21 from most TNSP's that will be recouped in FY22 (driven by a rule change).

It was explained that 83% of growth in AEMO's real 2021-22 expenditure related to higher IT and Telco costs and depreciation and amortisation expenses, both reflecting increased digital and market reform assets moving into service.

Ian Brooksbank, Hydro Tasmania asked for clarification on what OEP stands for.

Ms Williams replied that it stood for Organisational Excellence Program, AEMO's program to enable transformation and excellence across the organisation that will contribute to delivering an efficient cost base.

Mr Brooksbank also asked what happens to the backfilling costs associated with staff working on Capex projects and should such costs end once the internal staff return to their business-as-usual work.

Ms Williams replied that we have not backfilled most of the internal positions. The majority of staff are working on Capex projects part time and the additional workload has been absorbed by themselves and other staff.

The change in AEMO expenditure was discussed, including a breakdown of the expenditure to illustrate cost increases in the underlying business, that is, excluding expenditure arising from new activity such as DER and 5MS. Ms Williams also presented that the cost structure in the NEM Core entity will be a key focus under the OEP program with the objective of improving that entity's financial deficit.

Mr McKeown asked when the end date for phase three of the OEP will be.

Ms Williams replied that while the current OEP project will end in 12 to 18 months, AEMO will continue to explore cost savings as part of our business-as-usual and continuous improvement processes.

Mr Raif Sarcich, Victorian Department of Environment, Land, Water and Planning asked what is driving the increase in Victorian TNSP costs.

Mr Marotta replied that TUOS income is around 90% is driven by AusNet and Murraylink costs with some assumptions made on the likely future increases. This includes easement taxes that AEMO pays.

Operating expenditure in relation to IT, telecommunication, depreciation, and amortisation was broken down into segments and discussed. The balance sheet including debt facilities and structure was discussed and Ms Williams commented on AEMO's reliance on funding new investment via debt with recovery over the life of the assets.

Mike Hutchens, Energy Queensland, asked how we are paying for debt and whether this is with additional fees.

Ms Williams responded that debt also funds the NEM deficit.

Paul Italiano, TransGrid, asked whether our borrowing costs are government interest rates through Treasury.

Ms Williams responded that AEMO has a debt facility through a syndicate of banks at competitive borrowing rates.

Mr Italiano further asked what happens if interest rates increase from current levels, what exposure do we have and if AEMO has a hedging policy.

Ms Williams indicated that managing debt is relatively new for AEMO and at this time AEMO does not have a hedging policy but welcomed input from those in the meeting. She also indicated that AEMO is considering an opportunity to lock in the interest rate via a fixed rate amortising loan for the 5MS project debt. She welcomed views on that strategy and offered to talk further about the hedging exposure and duration offline with members. Mr Italiano indicated that he was interested in exploring this discussion to consider opportunities for managing the impact of future price increases associated with a change in the fee tariff structure impacting TNSPs.

Mr Brooksbank questioned the strategy to manage the 2023/24 borrowing requirement given it may exceed the \$500m facility limit.

Ms Williams responded that it is likely on current projections AEMO may need to increase the facility.

The breakdown of the capital program investment expenditure was further explored indicating it has been prioritised to largely reflect energy reform programs and supporting dependent digital programs.

NEM core revenue and NEM pricing impacts were explored out to 2023/24 including discussion on consumer impacts.

Mr Brooksbank asked about the NEM Core entity's underlying cash position and whether it is a deficit.

Ms Williams replied that a cash view of the entity's results will be provided in the Final Budget presentation.

Mr Italiano spoke about the allocation of costs to transmission companies. He indicated that TransGrid is currently preparing their own revenue reset to the AER. He was interested in understanding how our fees may overlap with TNSP fees.

Ms Williams replied that this is a good point and that we would like to understand this as well. It was decided to have a separate catch up on this issue prior to the next stage in the budget process.

Mr McKeown asked how this feeds into Default Market Offer and Victorian Default Offer calculations.

Mr Chappel indicated that he would follow this up and answer at or before the next meeting.

AEMO outlined Western Australia's revenue and expenditure forecast to the meeting which is being impacted by the WA market reform program. AEMO then discussed in more detail the cost increases associated with the Victorian TNSP, increase in TUOS income, resettlement revenue and operations expenditure.

Mr Sarcich asked what percentage increases came from augmentation projects verses connections.

Ms Williams replied that consultation has occurred on the 2021/22 fees and as such information had already been shared with the TNSPs at a previous industry workshop and that we would provide the information to the attendees of this meeting.

The operating expenditure and revenue for the 5MS program, which goes live this year, and a breakdown of the corporate expenditure profile was discussed.

Digital Program

Joe Locandro, AEMO's Chief Digital and Technology Officer, presented AEMO's current and proposed digital capital program. He touched on the legacy left by historic bespoke systems that did not consider cyber security or scale well and have led to significant technical complexity and cost in the future.

Mr Locandro highlighted AEMO underspending in the past on systems and a preference to consolidate to fewer newer systems rather than performing major uplifts on legacy systems with limited capability. AEMO expenditure on digital systems was further outlined and broken down into segments for both 2020/21 and what was forecast out to 2023/24. It was noted that 54% is focused on meeting regulatory requirements.

AEMO's digital strategy including business transformation, data platforms, IT systems and cyber security were outlined. The intention for AEMO to deliver a new digital platforms and services that will provide a frictionless, secure, and scalable digital experience for members, employees, and consumers while minimising costs was discussed.

The digital program budget and key metrics was outlined.

AEMO digital program metrics out to 2023/24 are currently on track to be met and include:

- Efficiency – 25% reduction in time to market.
- Simplify – 30% reduction in IT application landscape.
- Cost – 30% reduction in IT unit cost.
- Secure – obtain level 4 NIST security maturity level.

Mr McKeown asked about options to ensure the lower costs become permanent, particularly focused on cloud costs, when more people will use the systems and overall costs will go up.

Mr Locandro responded that business users will see cloud usage and the costs associated with each system. In addition, better tooling that has alerts and training will be utilised to make people aware of costs and to turn off systems.

Although absolute costs of IT usage may go up due to increasing data processing and new systems requirements, the IT unit costs of such activities will be lower.

Mr Brooksbank inquired about reconciling the benefits of the opex/capex split and where the majority of saving would manifest itself.

Ms Williams explained that while there are some operational cost and capital reductions it was difficult to clearly see the savings because of the general volume shift that was occurring -for example, 30 minute to 5 minute settlement.

Mr Locandro outlined what AEMO has delivered so far in our cyber security, digital experience, business systems, integration and information exchange, IT systems and infrastructure.

Questions and comments

Mr Chappel asked members for any further questions or comments.

Mr Sarcich asked about the implications of the post-2025 design.

Mr Chappel responded that the final state is still a work in progress but AEMO had established a team to map out the market changes. Mr Locandro indicated that the post-2025 reforms will be step change for a lot of systems and we need to figure out the best and most efficient way to approach it.

As there were no more questions, Ms Williams encouraged meeting attendees to reach out to either Mr Chappel or herself in the next few weeks with any additional comments on the budget.

Next meeting details and any other business

Ms Williams thanked everyone for attendance and stated that the next meeting of this Committee will be Monday 31 May 2021. She also indicated that we will come back with our Board position and welcomed any further feedback, by next week, to inform our Board decision.

Action items

Item #	Action	Responsibility	Due Date
2.1	Discussions to be held with Mr Italiano on interest rate hedging.	Ms Williams	Before next meeting on 31 May 2021
2.2	Discussions to be held with Mr Italiano on where TNSP fees land with AEMO fees and what the consumer will see.	Ms Williams	Before next meeting on 31 May 2021
2.3	Discussion to be held with Mr McKeown on DMO and VDO price methodology re AEMO fees.	Mr Chappel	Before next meeting on 31 May 2021
2.4	Circulate information provided to industry members on the TUoS required revenue increase.	Ms Williams	Before next meeting on 31 May 2021
2.5	Update from the AEMO Board on budget and fee position to be provided to attendees.	Ms Williams	Next meeting on 31 May 2021