

Allowable Revenue and Forecast Expenditure (AR5) - July 2019-June 2022

WA Electricity Forum – 18 August 2021

Introduction

Background and Objectives

AEMO has now concluded the first two years of the AR5 period and is into the third and final year. Over this time AEMO has continued to focus on its obligations and commitments:

- Market Operator and System Management functions:
 - Core BAU activities
 - Capital projects to ensure ongoing operations (e.g. time critical IT system replacement/renewal, new capabilities required for a changing power system)
 - Rule and procedure change implementation
- Preparing for and implementing constrained access and the WA Government's WEM reform program; and implementing WA DER Roadmap actions
- Propose and support Rule Change modifications

AEMO is seeking to provide an update on how it is tracking against the ERA AR5 approved Allowable Revenue and Capital Allowance.

AR5 Expenditure Forecast

WEM OPEX overview

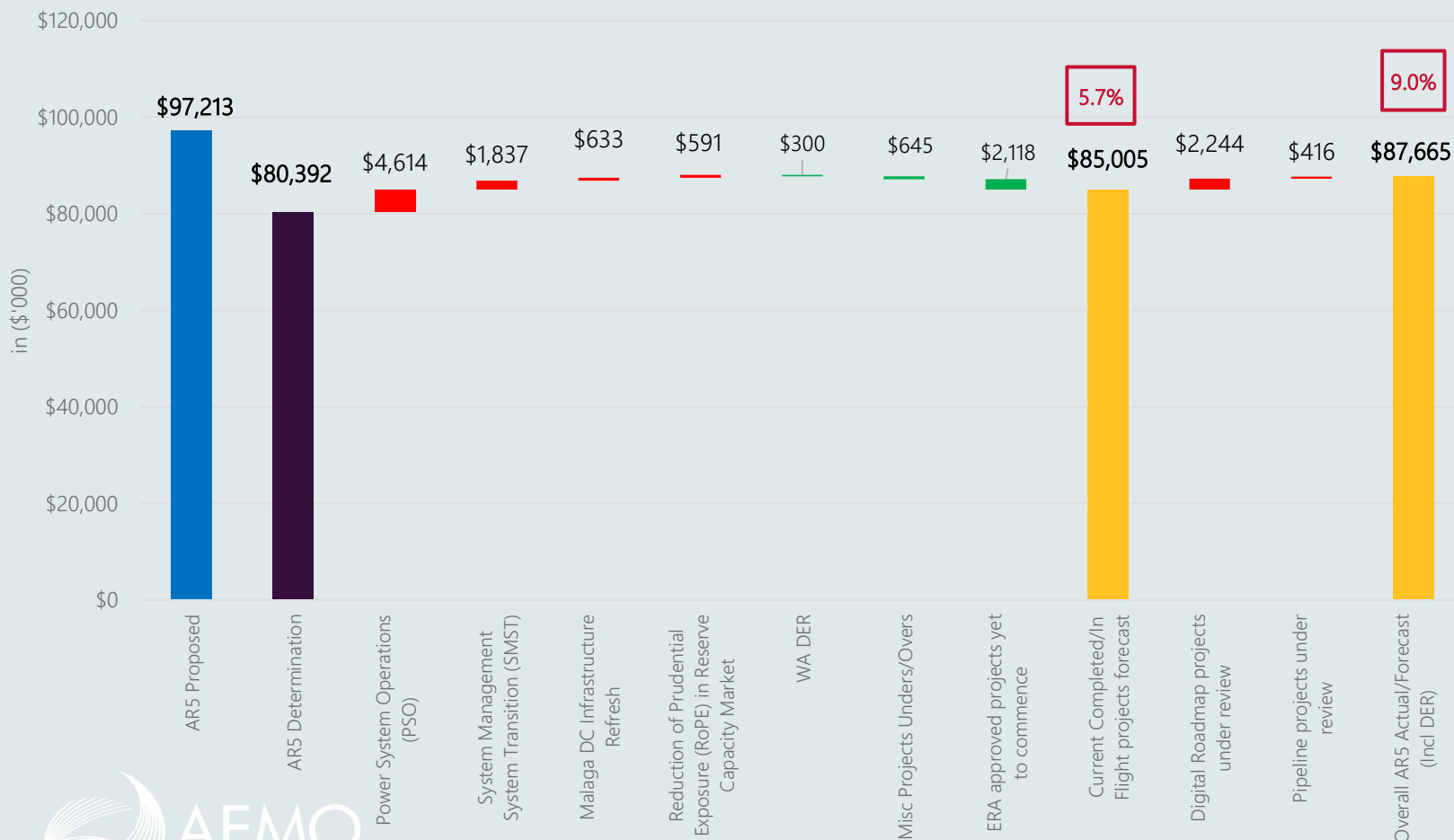


- The approved WEM AR5 Allowable Revenue was \$99.8m.
- The current AR5 OPEX spend is forecast to be **\$6.1m lower** (6.1%) at **\$93.7m**, due to:
 - Lower than expected Legal, Consulting, Travel and Training and other exp. spend, partially due to deliberate costs savings to offset potential COVID19 revenue declines, COVID19 priorities requiring ramp down of activities.
 - Delay in project completion resulting in I.T license savings (IT Digital, PSO Software license and Java license).
 - Lower D&A expenses from delayed completion of the following projects:
 - Power System Operations (PSO)
 - System Management Systems Transition (SMST)
 - Reduction of Prudential Exposure (RoPE)
- This is offset by:
 - Higher IT costs due to extension of Western Power Services agreement due to delays in project completion.
 - Higher labour costs as a result of capex project go-live earlier than anticipated plus e-terra training coupled with O/T coverage due to COVID19.

AR5 Expenditure Forecast

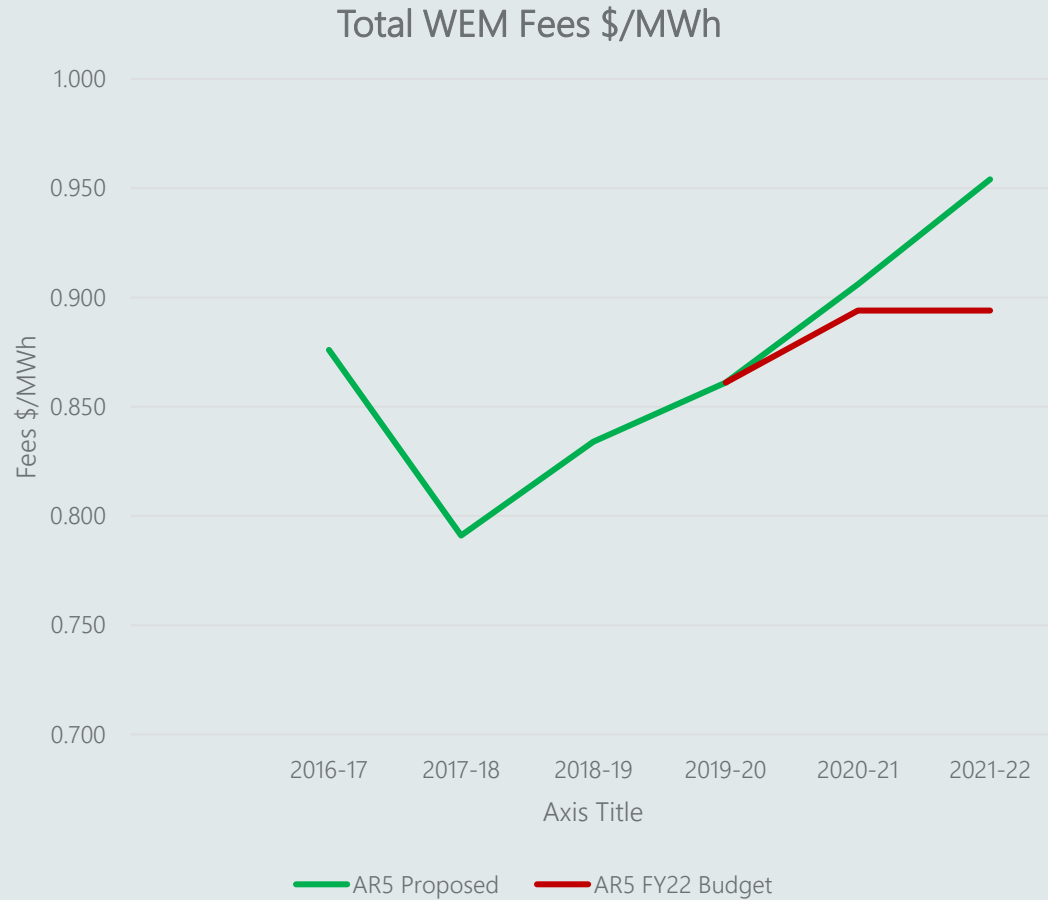
WEM CAPEX overview

AR5 Determination vs Actual/Forecast



- AEMO current completed and in-flight CAPEX forecast (including WA DER) for AR5 is **\$85m (5.7% over ERA Final Determination of \$80.4m)**.
- Key drivers are:
 - PSO (\$4.6m additional spend in AR5 due to upgrade to a new EMS version, underestimation of implementation complexities, WEM specific requirements and resourcing challenges).
 - SMST (\$1.8m additional spend in AR5 due mainly to delayed spending from AR4 and changed sequencing/scope to bring in before PSO project).
 - Malaga DC Infrastructure refresh (\$0.6m unexpected spend in AR5. Overall project spend is \$0.5m lower than budget).
 - RoPE (\$0.6m additional spend in AR5 due to under forecast in Phase 2, overall completed within budget).
 - WA DER is expected to be \$0.3m lower due to reforecast of contingency.
 - It is worth noting that AR4 actual spend came in at \$27.6m, \$4.5m lower than AR4 Determination of \$32.1m. AR4 reductions were mainly from PSO, SMST and RoPE projects that flowed into AR5.
- Further projects pending review and approvals
 - FY20 Digital Roadmap (ERA approved \$4.7m of the \$13.1m proposed due in part to lack of specificity in scope and benefits. Digital Program is on track with full year forecast of \$7.6m coming in lower than original proposed budget of \$13.1m)
- WEM Reform is expected to be in line with AR5 budget.

AR5 WEM Market Fees overview



Total WEM Fees*

\$/ MWh	2016-17	2017-18	2018-19	3 Year Average
AR4 Actual	0.876	0.791	0.834	0.834

	2019-20	2020-21	2021-22	3 Year Average	Var to AR4 Average
AR5 Proposed	0.861	0.906	0.954	0.907	8.8%
AR5 Actual	0.861	0.894	0.894	0.883	5.9%
Variance	-	0.012	0.060	0.024	2.9%

*Excludes ERA fees

- AEMO's WEM Fee was proposed to move from \$0.834/MWh over the AR4 period to \$0.907/MWh in the AR5 period (8.8% over 3 years).
- In the current F22 Budget, AEMO has proposed a flat fee resulting in an AR5 to AR4 5.9% increase (2.9% saving from AR5 proposal) due to lower operating expenses expected in the AR5 period (as shown on slide 3).

Next steps

- AEMO is planning for the sixth allowable revenue submission
 - Engage with ERA ahead of submission
 - Broader industry and Government stakeholder engagement
 - Seeking AEMO Board Approval in September 2021
- AEMO will continue to review Capital Expenditure to determine if a further in-period submission is required, noting there were a number of items not approved by the ERA in AR5 due to greater substantiation required at that time. An in-period submission is looking unlikely at this stage, however AEMO will be needing to utilise some of the 10% capex overspend allowance
- For even more details on AR5 proposed projects, please refer to
 - [AEMO AR5 Submission to ERA - Mar 2019](#)
 - [AEMO AR5 Submission to ERA - May 2019](#)

Conclusions

- AEMO is forecasting to come marginally under the ERA AR5 approved allowable revenue and fees:
 - This is predominantly due to reduced depreciation as a result of delays in some project delivery coupled with some COVID-19 driven changes (both reactive and proactive reduced spending).
 - For the fees, these cost reductions are greater than the negative impact of the latest consumption forecast now reducing more than the consumption forecast at the time of the AR5 submission.
- For CAPEX, AEMO is forecasting that:
 - For AEMO committed projects (i.e. projects completed or in-flight), an overspend of 5.7% will occur
 - majority of this is due to AR4 expenditure that flowed into AR5 due to a few key projects completed later than forecast (vast majority of these projects have, or will, be completed within original total approved budget)
 - An additional in-period submission, whilst unlikely at this stage, may be required in the future although this is uncertain at this time as AEMO is continuing to review its in-flight projects and is continuing to refine its pipeline projects in terms of scope, timeline and cost; conscious of factors such as flow on impacts to fees, resource capacity and cost to develop an in-period submission.