

AEMO BUDGET 2025-26

24 APRIL 2025

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

The EUAA presents this submission as a member since 2023 of AEMO's Financial Consultative Committee established in 2021. The FCC's purpose is¹:

“...to improve transparency around the development of AEMO's budget and fees and our financial health and performance.”

In the past we have been very critical of the approach AEMO has taken to the development of its budget, particularly when we were informed about the \$106m deficit after the event.

We are pleased to report that AEMO has made some improvements in both its engagement approach and transparency around its level of cost control and in the development of its costs in its preparation of the 2025-26 budget. In the case of the latter we welcome the forecast of coming in under budget for 2024-25 and meeting its commitment to clear the NEM Core deficit in 2024-25.

Given we are unable to determine whether the proposed 2025-26 budget is prudent and efficient, our focus in this submission is on a range of further improvements we invite AEMO to consider incorporating into the FCC consultation process for the 2026-27 budget:

- Explore the usefulness of benchmarking against similar organisations around the world
- Consider how to apply the engagement approach described in the AER's Better Reset Handbook
- Improve the quality and term of the information provided
- Expand the analysis of capex proposals

We believe these measures will give consumers more confidence that AEMO is efficiently delivering the services it is required to deliver. This is important even though AEMO costs are only a small part of the total bill e.g. ~1% for residential and ~0.5% for small business because every dollar counts.

¹ <https://aemo.com.au/consultations/industry-forums-and-working-groups/list-of-industry-forums-and-working-groups/financial-consultation-committee>

The operating context makes preparing AEMO's budget challenging, but not unique

AEMO is a not-for-profit monopoly provider of services to national electricity and gas markets operating on a full cost-recovery basis. It carries out functions under energy laws and rules and has a statutory right to recover the costs of these functions. AEMO does this in an environment that is constantly evolving. 80% of 2025-26 NEM core operating expenditure is labour, consulting and contracting². There is a significant capital works programme which is financed by debt and recovered through depreciation or amortisation costs usually over 3-7 years. Energy Ministers are regularly directing it to expand existing roles and take on new roles as they seek to manage the complexity of the energy transition.

While AEMO rightly argues that it faces a lot of uncertainty in how its budget is subject to external influences of new functions often at relatively short notice, networks regulated by the AER also face great uncertainty. Their 5-year resets mean they have to forecast capex and opex up to 7 years ahead and are then penalised if they overspend approved allowances. But, just like networks that keep doing a lot of things every year – which provides the basis for their opex and capex forecasts – AEMO has its core functions that it keeps doing year after year.

While networks can choose to change how they spend their allocated 'bucket' of opex and capex during the 5-year period, there are certain functions that they simply have to do efficiently to meet their legal, regulatory and compliance obligations. So, we do not accept the argument that AEMO's differences from regulated networks mean it is not appropriate to apply at least some of the rigor applied to regulated networks.

The Western Australian ERA does undertake a process that gives consumers some level of confidence around the prudence and efficiency of AEMO's WEM costs

Consumers, either directly or indirectly, pay all AEMO's costs. As a monopoly service provider consumers need to have confidence that the costs they are paying are both prudent (spending at the right time) and efficient (spending the right amount). The AER regulatory framework applying to monopoly electricity and gas networks gives consumers confidence that the approved expenditure for these monopoly network service providers is 'prudent and efficient' and reflect consumer preferences. There is a combination of measures:

- Consumer engagement following the Better Resets Handbook to ensure a 'consumer centric' expenditure proposal
- AER evaluation applying standard methodologies set out in AER Guidelines e.g. benchmarking and the 'base, step, trend' approach for opex, capex guidelines and opex (EBSS) and capex (CESS) efficiency incentives.

While the NEM Reform program, which is outside of the FCC and Budget and Fees processes, does have a detailed engagement processes including costs, the majority of AEMO NEM core costs are subject to none of this type of regulatory framework with no independent scrutiny for its NEM costs. The process used for the NEM 2025-26 budget is a combination of three FCC Meetings (beginning in February 2025), publication of a budget document on 3rd April 2025, a 30 minute presentation to the Consumer Forum on 9th April, a one hour public webinar on 10th April 2025 and an invitation to make submissions in a one stage consultation process with submissions assessed by AEMO.

² Based on total of all labour components plus consultants see Chart 1. p. 8 https://aemo.com.au/-/media/files/stakeholder_consultation/consultations/nem-consultations/2025/draft-fy26-budget/aemo-fy26-draft-budget-and-fees_document.pdf?la=en

These submissions, of which this is one, are due less than 6 weeks before the beginning of the new budget year. All the engagement is mostly 'inform' with perhaps a little 'consult' on the IAP2 spectrum. It is difficult to understand what impact any of this public engagement might have on the proposed 2025-26 expenditure.

By contrast, the AEMO WEM budget is subject to review by the WA Economic Regulation Authority in a similar two stage process to the AER review of NEM network 5 year expenditure³. The ERA's process is:

- AEMO must submit a proposal to the ERA outlining its proposed funding for the upcoming three-year review period covering allowable revenue and approved capex
- The ERA publishes an Issues Paper and invites submissions on this proposal
- The ERA publishes a draft determination
- AEMO submits a revised proposal
- The ERA publishes a final determination

For the current 2022-25 budget period, AEMO's application was on 21st December 2021 with two stages of submissions by 28th April 2022. AEMO can also submit a proposal for additional funding during the review period through an 'in-period' submission. For the current 2022-25 budget period, AEMO has made application for additional funding in both 2023 and 2024 reflecting additional functions it was required to perform. The table shows the large increases approved in the first and applied for in the second⁴:

Table 2: Previously approved WEM funding for AR6 period and AEMO proposed adjustment (\$ million)

Expenditure type	ERA approved AR6 (May 2022)	ERA approved first in-period submission (September 2023)	AEMO second in-period submission	AEMO proposed new AR6 total
Allowable revenue	142.3	-	59.99	202.29
Forecast capital expenditure	61.5	46.8	39.0	147.3

The ERA approved all but 3% of the proposed opex and capex in the second period submission. In making its decision the ERA noted the dilemma it faces⁵:

"The ERA is aware that the additional funding will flow through to WEM fees, with likely increases to the costs for consumers. Although this is unwelcome in the context of other rising costs in the WEM, minimising costs needs to be balanced against the risk of underfunding AEMO and rendering it unable to operate the WEM or to deliver critical market reform projects."

In August 2024 AEMO made a submission to the WA Coordinator of Energy seeking to remove the requirement for the Economic Regulation Authority to determine AEMO's Allowable Revenue and Forecast Capital Expenditure⁶.

³ <https://www.erawa.com.au/electricity/wholesale-electricity-market/price-setting/allowable-revenue-and-forecast-capital-expenditure-determinations>

⁴ See p. 9 <https://www.erawa.com.au/cproot/24147/2/AR-6-2nd-In-period-CapEx-and-OpEx-submission-Final-determination.PDF>

⁵ Op cit p. 2

⁶ <https://www.wa.gov.au/government/document-collections/rule-change-rc202401>

AEMO proposed to use an enhanced FCC type process. The EUAA did not support AEMO's proposal⁷. As the ERA noted in its final determination on the second in period submission⁸:

"AEMO is not incentivised in the same way as a typical profit-driven network service provider to seek out gains in efficiency."

The Coordinator rejected the rule change concluding that ⁹:

- AEMO's proposed budget requires the regulatory oversight of the ERA to ensure the process receives the appropriate scrutiny and transparency;
- Market Participants and customers are not well placed to review or influence AEMO's Allowable Revenue were it to move to AEMO's proposed model
- Market Participants would likely incur substantial costs reviewing AEMO's Allowable Revenue under the proposed model, and
- AEMO's proposed changes would not be consistent with the WEM Objectives (now the State Electricity Objective).

There is now a review underway of the Allowable Revenue Framework under which the ERA reviews the AEMO budget.

The ERA recognises the difficulty of its task in a rapidly changing environment as it responded to the second in period funding application by AEMO¹⁰:

"While AEMO attempts to operate at the lowest sustainable cost, it must prioritise delivery of reform and transition activities to deadlines set in the WEM Rules and by the State Government and Energy Policy WA. As a result, AEMO is incentivised to prioritise the timely delivery and full scope of reform work, over limiting cost pressures. This trade-off between time and scope with costs appears to be the basis for this second in-period submission, and the implementation of the new WEM more broadly.

However, from a consumer perspective, while the ERA process is far from perfect, it is a lot better than the current NEM process. The issue is how, in the absence of regulatory oversight for AEMO's NEM budget, can external scrutiny of AEMO's budget be achieved in a cost-effective way to give consumers some level of confidence that the costs are prudent and efficient. We think this could be possible through more comprehensive FCC engagement.

Some suggestions for more comprehensive FCC engagement

We do appreciate the additional transparency AEMO has provided to the FCC on details of the budget setting process and how particular categories were forecast. We have seen a great willingness to explain numbers and their derivation. But we consider that is only part of the changes needed in the context of the NEM that does not have the WA regulatory framework. We make the following suggestions for discussion about how to better utilise the FCC to a much greater extent in the budget review process.

⁷ Email on 15th November 2024 to Dora Guzeleva Director Wholesale Market, Market Development and Coordination Division, Department of Energy, Mines, Industry Regulation and Safety, WA supporting the submission made by Chris Alexander, a member of the Expert Consumer Panel

⁸ See p. 32 <https://www.erawa.com.au/cproot/24147/2/AR-6-2nd-In-period-CapEx-and-OpEx-submission-Final-determination.PDF>

⁹ https://www.wa.gov.au/system/files/2025-02/rc_2024_01_final_rule_change_report_0.pdf

¹⁰ *ibid*

Explore the usefulness of benchmarking against similar organisations around the world

We are the first to acknowledge that benchmarking AEMO is difficult given the variety of functions for network operators and jurisdictional legislation around the world. The WA ERA notes¹¹:

“Benchmarking may provide insights on efficiency. However, finding appropriate benchmark comparators is inherently difficult. Differences in market design, market size and legislative requirements result in each market operator having a variety of different roles and functions, and these can change over time.”

Nevertheless, that is not a reason not to try. A study by CEPA¹² commissioned by the ENA and ECA and published in September 2020 highlighted a number of issues around AEMO governance and costs and made suggestions on where improvement could be made to bring AEMO up to the level of scrutiny that is applied to system and market operators in other jurisdictions. The establishment of the FCC has gone part of the way to achieving that objective.

We understand that AEMO commissioned its own benchmarking study from BCG but this has not been made available to the FCC to review. It would help transparency for the FCC to be able to discuss this report and hear AEMO’s views on its relevance.

Benchmarking can inform many issues apart from relative \$ spend. It is particularly useful to understand processes e.g. governance, the scope and depth of consumer engagement in developing the budget and understanding AEMO’s capital efficiency.

Consider how to apply the engagement approach described in the AER’s Better Reset Handbook

The AER together with networks have jointly facilitated a significant improvement in consumer engagement practices for network revenue resets over the last 5 years. A significant milestone was the publication in 2021 of the Better Resets handbook¹³. With its focus on developing ‘consumer centric’ revenue proposals, the AER set out its expectations of what good engagement looks like - the nature of engagement, the breadth and depth of engagement and clearly evidenced impact of this engagement.

We encourage AEMO to consider how it could apply these expectations to the budget process in 2026-27. This would certainly mean earlier and more comprehensive engagement with the FCC prior to any preliminary budget numbers being considered.

Improve the quality and term of the information provided

The WA ERA noted in its Final Determination on AEMO’s second in-period application in June 2024¹⁴:

“Components of AEMO’s funding proposal have not met the standard set out in the ERA’s proposal guidelines...” (p.2)

¹¹ Op. cit. p. 2

¹² https://www.energycouncil.com.au/media/19091/finalcepa_aecena_marketssystemoperatorgovernance_report.pdf

¹³ <https://www.aer.gov.au/industry/registers/resources/guidelines/better-resets-handbook-towards-consumer-centric-network-proposals>

¹⁴ <https://www.erawa.com.au/cproot/24147/2/AR-6-2nd-In-period-CapEx-and-OpEx-submission-Final-determination.PDF>

“The ERA’s determination is informed by the quality of AEMO’s information. While AEMO is working to improve its financial reporting and project planning processes, this determination process has shown that AEMO has been limited in what information it can produce and has not provided sufficient information to satisfy the ERA’s requirements.” (p.3)

In other places in that report¹⁵ the ERA commented on difficulties reconciling AEMO’s FTE numbers - incorrect allocation of labour costs to capex; lack of clarity on employee numbers engaged in WEM activities and inconsistencies in the definitions of FTE categories.

The FCC is now provided with very high-level budget forecasts out to 2027-28. These medium-term forecasts should be further developed and the briefings we understand that are currently provided to networks on those forecasts should be provided to all FCC members. We are happy to sign a confidentiality agreement if required to participate in these briefings.

It is unclear whether AEMO has the financial systems required to support modern financial budgeting practices.

Improved analysis of capex proposals

The 2025-26 budget caps total capex for all AEMO functions at \$180m/yr and this cap continues to 2027-28. No breakdown of this capex by function was provided so we do not know how much relates to core NEM functions. Much of this capex is spent on ICT and area where networks have had considerable cost and timetable overruns in recent years. The WA ERA noted in its final determination on the 2024 in-period submission that AEMO’s:

“... project management processes continue to raise concerns. (p. 2)

The Rennie review undertaken for the Australian Energy Council as part of its submission opposing the AEMO rule change to remove the ERA from its role, concluded¹⁶:

“Assessment of (2019-22) project actual costs indicates that AEMO underestimated the scope of many of its internally-initiated projects, citing underestimation of project complexity and scheduling challenges in some cases

AEMO acknowledges that the costs of major projects need to be considered earlier than has been the case in recent years and that stakeholders could provide input into the timing, prioritisation and (in some cases) scope”

AEMO has provided the FCC with a very high level overview of AEMO’s investment management approach including the enterprise program office stage gates. We recommend that the FCC is provided the opportunity to review and discuss capital efficiency in much more detail e.g.:

- What is the overall capital governance process? How are projects evaluated e.g. cost and benefit estimation, to get into the budget?
- How has the actual cost and implementation timetable compared to that assumed in the budget?

¹⁵ See the discussion on pp 16-17

¹⁶ See slide 20 <https://www.energycouncil.com.au/media/3jjhs352/20241210-final-report-aemo-budget-framework-v1-0.pdf>

- What post investment reviews have been completed and what have they shown for the actual vs forecast benefits at the time of project approval?

We have many discussions on these matters with electricity and gas networks. The Better Resets Handbook sets out similar expectations for network capex proposals including¹⁷:

- Evidence of prudent and efficient decision-making on key projects and programs
- Evidence of alignment with asset and risk management standards – that the networks standards are consistent with well-established relevant Australian industry standards (such as ISO 55000 and ISO 31000)
- Genuine consumer engagement on capital expenditure proposals

We look forward to continuing our work on the FCC to improve its effectiveness so all consumers can have confidence they are getting value for their AEMO fees.



Andrew Richards
Chief Executive Officer

¹⁷ See p. 21 <https://www.aer.gov.au/system/files/Better%20Reset%20Handbook%20-%20December%202021.pdf>