

17 March 2022

Ms Clare Savage

Chair

Australian Energy Regulator

GPO Box 3131, Canberra ACT 2601

CC: Stephanie Jolly, dmo@aer.gov.au

Dear Ms Savage,

Default Market Offer – 2022–23 Draft Determination

I write to make a submission to the AER's Default Market Offer (DMO) prices 2022-23 draft determination, specifically to request that AEMO's latest proposed FY23 fees be included in the FY23 DMO.

Since stepping into this role at AEMO, I have been open that the company's financial position is not sustainable. While AEMO is a not-for-profit, it also cannot withstand a position of ongoing losses. We have been taking steps to improve our financial position in an open & transparent way with our members and stakeholders, including the following steps:

1. **Benchmarking our costs.** AEMO recently engaged Boston Consulting Group to benchmark our costs against peer organisations. We have shared this work with our members through AEMO's Finance Consultative Committee (FCC). It demonstrates AEMO's core costs are low compared to peers and AEMO is underinvesting in some critical, central functions. (see [link](#))
2. **Improving efficiency.** AEMO has taken, and is continuing to implement actions to reduce costs and drive effectiveness in its operations. At the same time, AEMO needs to invest in core operations to ensure the safe, reliable and affordable energy system Australians expect.
3. **Setting appropriate budgets.** AEMO's budget is driven by its core obligations and priorities, noting the significant work required to ensure Australia has a capable system and market operator. The majority of our members have also indicated their support for a strong system operator to help navigate Australia's energy transition in the best interest of consumers, and we have shared our draft FY23 priorities with the FCC (see [link](#))
4. **Following a set of principles.** As a non-profit entity, AEMO can not continue to operate with an annual deficit. Deficits that have been accumulated over prior years also need to be recovered. The aim is not to turn a profit, but simply for revenues to match costs in each of our functions. (see [link](#))

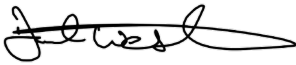
After following these steps transparently with our Financial Consultation Committee, AEMO will be proposing to increase NEM Core fees for FY23 to (i) eliminate annual operating losses, (ii) recognise some costs have risen in delivering our obligations, and (iii) commence recovery of accumulated losses from recent years.

In the National Electricity Market (NEM), AEMO's fee structure was designed such that costs are borne by consumers, collected through retailers and generators. To enable the effective pass through of AEMO's increased costs, we request that our latest FY23 fees are included in the AER's Default Market Offer.

AEMO has now confirmed with the Essential Services Commission that the Victorian Default Offer will include AEMO's latest fee estimates. I would appreciate your consideration of a similar arrangement as the AER considers the 2023 Default Market Offer.

Please contact me directly if a further discussion would be helpful.

Yours sincerely,



Daniel Westerman

Chief Executive Officer