

Independent Market Operator

Annual Report 2004-2005

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Independent Market Operator

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Chair's Report

I welcome you to our first Annual Report. I trust you will find this report both informative and helpful.

The creation of the Independent Market Operator (IMO) is both an exciting and challenging opportunity within Western Australia's electricity industry. The IMO was established to administer and operate the Wholesale Electricity Market and ensure adequate reserves of electricity supply to Western Australian consumers within the South West Interconnected System.

Our major focus has been meeting the challenges ahead with the establishment of the Wholesale Electricity Market in mid 2006. In particular, significant effort has been directed towards the acquisition of the necessary IT systems for trading and settlement.

We have also established the IMO from an organisational, administrative and corporate governance perspective.

As from 2007/08, the IMO will take over the responsibility for ensuring that there is sufficient generation capacity available in the South West Interconnected System for all customers. Because of the long lead time required to secure new capacity, this work commenced in October 2004 through the Reserve Capacity process.

Overall, establishment of the IMO is progressing well, with the Wholesale Electricity Market on track to be operational in July 2006.

I am particularly pleased to have the opportunity to play a role in this early development phase. I am also delighted to have Mr John Kelly as a fellow Board member. John Kelly has been an enthusiastic supporter of electricity reform and has played a significant role in shaping the direction of the reforms.

The immediate challenge for 2005/06 is to continue to progress the establishment of the IMO.

The IMO seeks to develop the intellectual and organisational capacity to deliver the outcomes expected by Government and the community. It aims to be recognised in Western Australia and elsewhere as a highly professional and independent organisation making a positive contribution to the Western Australian electricity industry.

Operationally, the major focus of the IMO during 2005/06 will be to ensure that it and industry, is prepared for the commencement of energy trading in July 2006.

As reported, the major project being undertaken by the IMO is the implementation of IT systems to support the efficient and effective operation of the Market. This project accounts for almost all of the IMO's capital expenditure in 2005/06 and is budgeted at around \$15 million, funded through borrowings from the Western Australian Treasury Corporation.

The challenge ahead for the IMO is significant. I look forward to continuing to foster relationships with our stakeholders and be seen as a highly trusted and professional organisation.

I wish to thank the IMO's stakeholders for their support and enthusiasm. Reform of the electricity industry would not have been possible without the strong support of industry.

Once again, thank you for your co-operation and input and I look forward to your continued support in 2005/06.

Anne Nolan
Chair

Corporate Profile

The IMO was established pursuant to the *Electricity Industry Act 2004*. A body corporate, the IMO will be responsible for the administration and operation of the Western Australian Wholesale Electricity Market in accordance with the Wholesale Electricity Market Rules.

Trading of electricity within the Wholesale Electricity Market will commence in July 2006.

The organisation's aim is to provide and maintain an effective infrastructure for the efficient operation of the Wholesale Electricity Market in Western Australia.

The IMO's responsibilities as defined under the *Wholesale Electricity Market (Independent Market Operator) Regulations 2004* are summarised as the:

- > administration and operation of the Wholesale Electricity Market;
- > securing of sufficient generation capacity to meet demand when required; and
- > coordination of system capacity planning.

These specific requirements overarch the IMO's role in promoting the ongoing development of, and changes to, the market with the objective of continually improving its performance to ensure that the market is efficient and effective.

In the lead up to the Wholesale Electricity Market becoming fully operational, the IMO's main focus is on:

- > ensuring all necessary information systems are in place and are operational by 1 July 2006;
- > undertaking the processes necessary to ensure that adequate generation capacity is in place for October 2007; and
- > progressively recruiting the necessary operational and support staff.

Initially, the State Government will fund the IMO. Once electricity trading commences, costs will be recovered directly by the IMO from Market Participants. The Economic Regulation Authority will determine the level of costs.

Achievements

The IMO has made significant efforts to ensure the timely commencement of the Wholesale Electricity Market.

Since 1 December 2004 until 30 June 2005, the Board met on six occasions. Both directors attended all meetings of the Board.

Whilst the Wholesale Electricity Market Rules will not be passed over to the IMO until the commencement of the market, the IMO has taken an active role in the Transitional Market Advisory Committee and its supporting working groups. Representatives from the IMO have attended a total of 12 meetings in the same period.

The IMO has also ensured that stakeholders are well informed of the process to establish the IMO and in particular the Reserve Capacity Cycle. A total of 28 briefings were held with stakeholders between 1 December 2004 and 30 June 2005.

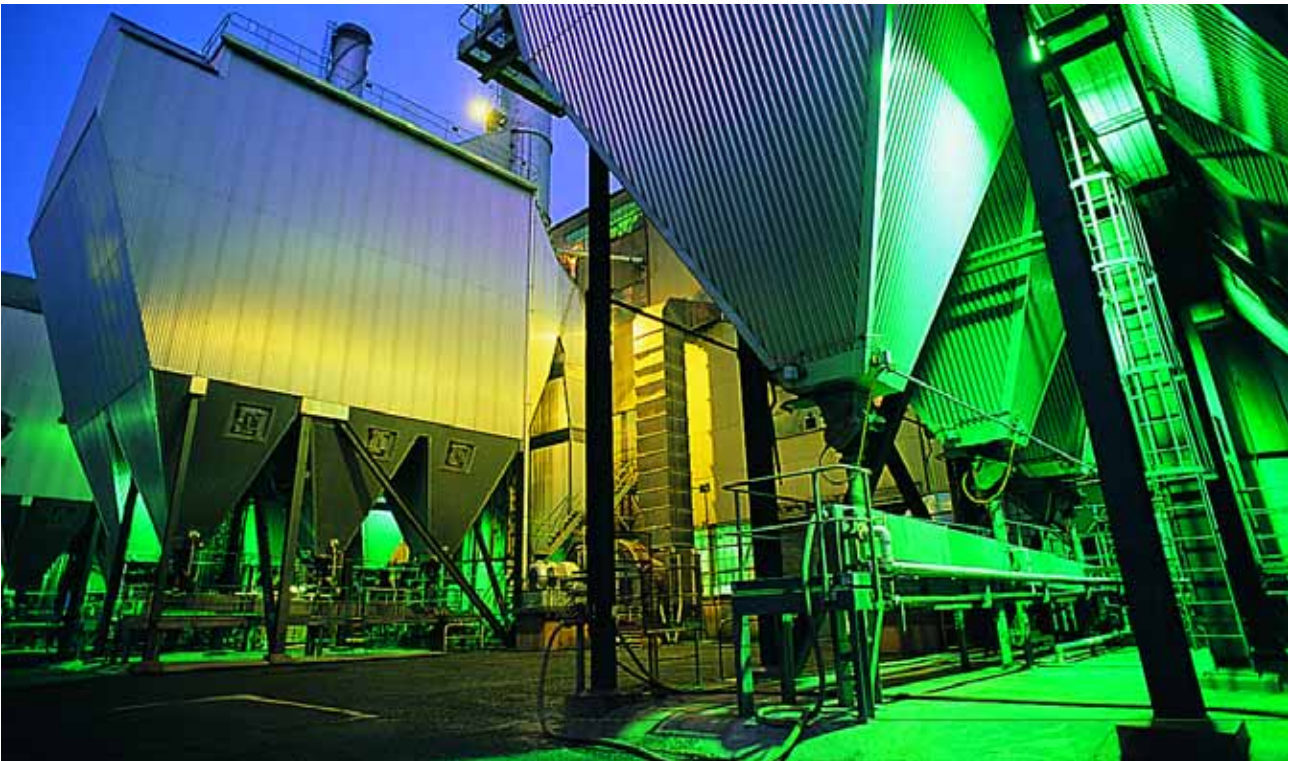
Other significant events, which occurred during the same period, were:

- > **December 2004** Establishment of the Independent Market Operator
- > **December 2004** Appointment of Chair and Director to the Board of the Independent Market Operator
- > **December 2004** Expression of Interest confirms significant interest in providing extra power capacity for 2007
- > **December 2004** Request for proposal for Information Systems for the Wholesale Electricity Market Systems issued
- > **February 2005** Short listing of bidders for the IT systems for the Wholesale Electricity Market
- > **June 2005** The IMO's Operational Plan was approved by the Minister for Energy

Electricity Reform Milestones

The Government's electricity reform process has achieved many significant milestones in the lead up to establishing the Wholesale Electricity Market and the IMO. These milestones include:

- > **October 2002** Electricity Reform Task Force submitted recommendations to Cabinet
- > **November 2002** Cabinet endorsed Electricity Reform Task Force recommendations
- > **August 2003** Wholesale Electricity Market Design endorsed by the Minister for Energy
- > **November 2003** Introduction of Electricity Reform Legislation into Parliament
- > **September 2004** *Electricity Industry Act 2004* passed through Parliament providing heads of power for the establishment of the Wholesale Electricity Market
- > **June 2004** Top Up and Spill regime introduced as an interim measure prior to the commencement of the Wholesale Electricity Market
- > **October 2004** Public comment sought on Wholesale Electricity Market Rules
- > **October 2004** Wholesale Electricity Market Rules approved by the Minister for Energy
- > **October 2004** Launch of Expression of Interest for Reserve Capacity Mechanism
- > **December 2004** Establishment of the Independent Market Operator



Overview of Wholesale Electricity Market

Introduction

In 2001, the Electricity Reform Task Force (ERTF) was established by the Hon. Eric Ripper MLA, the then Western Australian Minister for Energy to develop a framework for the reform of the State's electricity industry. These reforms have the ultimate purpose of:

- > facilitating competition and choice;
- > improving service standards and reliability; and
- > promoting economic growth.

In its final report, the ERTF recommended that the most effective means of achieving a dynamic and competitive electricity market was by establishing structural, market and institutional arrangements to actively promote competition in the electricity supply industry.

Amongst these recommendations, the ERTF identified a number of market arrangements to promote greater competition and investment in the electricity supply industry. These comprised the introduction in the South West Interconnected System of a Wholesale Bilateral Contract Market, accompanied by a short-term energy trading market to allow for the adjustment of contractual positions in trading electricity at the wholesale level.

Market Objectives

The establishment of a new Wholesale Electricity Market arrangement will have a significant impact on the electricity industry within the South West Interconnected System. This market will be operational by July 2006.

The ultimate objective of the Wholesale Electricity Market is to minimise the cost of electricity supplied to consumers in the South West Interconnected System.

This market will facilitate greater competition and encourage private investment in the generation and retail sectors of the electricity industry.

The market also includes a mechanism for ensuring that adequate generation and Demand Side Management capacity is available to meet demand.

The following objectives have been set by the Western Australian Parliament for the Wholesale Electricity Market:

- > to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West Interconnected System;
- > to encourage competition among generators and retailers in the South West Interconnected System, including the facilitation efficient entry of new competitors;
- > to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions;
- > to minimise the long-term cost of electricity supplied to consumers from the South West Interconnected System; and
- > to encourage measures to manage the amount of electricity used and when it is used.

The design of the market has taken account of an integrated Western Power, though these goals will be further facilitated by the disaggregation of Western Power into separate retailer, generator and network operator entities.

In order to achieve the successful implementation of the market objectives, a number of processes are under development. These include the procurement of IT systems, the establishment of a mechanism to provide sufficient generation capacity and implementation of administrative processes to operate the new Wholesale Electricity Market.

Market Operation

Essential to the operation of the new market are IT systems. IT systems necessary to support the effective operation and administration of the Market were procured through a two-stage process.

The first stage of the procurement process involved an Expressions of Interest (EoI) request. The second stage of the process involved the issue of a formal Request for Tender/Proposal to pre-qualified respondents in the EoI stage.

Overview of Wholesale Electricity Market (continued)

A total of 13 Eols were received, and following an evaluation process, five firms were pre-qualified for the formal Request for Tender stage.

The second stage of the process involved the issue of a Request for Proposal to pre-qualified respondents in the Eol stage.

Proposals were evaluated with respect to their technical compliance, as well as against each of the following objectives:

- > minimum cost;
- > the ability to complete implementation of the IT systems by July 2006;
- > the ability to maintain the efficiency and effectiveness of the market; and
- > the ability to maintain the flexibility to adapt to future changes in the market.

A rigorous and competitive process was undertaken.

The project is expected to take 12 months, which includes, system development, testing, market trials and an independent certification of systems. A number of key project milestones need to be met to ensure the market goes live by July 2006.

The interface with System Management is important to ensure the effective implementation of the IMO IT Systems. The IMO and System Management have commenced working closely together towards establishing and achieving common milestones.

Potential Market Participants will participate in the final stages of market development involving market training and trials. Regular updates will be provided to Market Participants on this project throughout 2005/06.

Reserve Capacity

One of the major requirements in developing an electricity market is to ensure that sufficient generation capacity is provided to maintain reliability and security. This issue is of particular importance in an isolated system such as the South West Interconnected System, where it is not possible to draw support from adjacent systems.

The need to access additional generation capacity is further emphasised with the estimated load growth rate for Western Australia of 3.1% or approximately 120 MW per year.

The approach adopted for the South West Interconnected System to meet this growing demand is to have separate markets for capacity and energy. This is administered through the Reserve Capacity Mechanism which is a distinguishing feature of the Western Australian market.

In the past, it has been Western Power's responsibility to ensure that there is sufficient generation capacity to meet demand. However, in a competitive market, it is not appropriate that one specific generator carry this responsibility. Instead, this responsibility for providing sufficient capacity is being transferred to the IMO.

The IMO fulfils its responsibilities in respect to system reliability through:

- > the preparation of forecasts for the full South West Interconnected System;
- > identifying the requirements for additional capacity;
- > ensuring that proposed generation capacity will actually be built; and
- > monitoring the performance of generation capacity once in service.

Once the energy market commences operation, the incentive of minimising the long-term delivered cost of electrical energy should encourage those purchasing energy to commit to generation and Demand Side Management capacity options far in advance of them being required, and to commit to an efficient mix of supply options.

The Statement of Opportunity Report, provides forecasts of energy and maximum demand for a ten year period to aid such investment decisions. It describes the existing and proposed generation and Demand Side Management capacity.

It also identifies the potential for new capacity to be provided in the immediate future and beyond.

This report is an important tool for investors and will be a significant task in 2005/06 for the IMO in preparing

Overview of Wholesale Electricity Market (continued)

projections of forecast energy and maximum demand through to 2014/15.

The document will form the basis for the allocation of capacity credits, and will determine whether opportunities are available for new generation and Demand Side Management facilities to enter the market through a capacity Auction.

In the lead up to a possible Auction in 2005/06, a request for Expressions of Interests was issued in October 2004 by the Office of Energy, on behalf of the IMO. A total of fourteen (14) responses were received with 2,742 MW in offers. This is an indication of significant interest from private investors in the Western Australian electricity industry.

Market Administration

Registration

Entities, with the exception of very small players, wanting to trade in the Wholesale Electricity Market are required to register with the IMO.

This process requires them to agree to comply with the Market Rules and to provide the standing data necessary for the operations of the market to be undertaken in an efficient and effective manner.

An initial registration process commenced in 2004/05, but given that not all the Market Rules have commenced, only a limited amount of data is being requested from applicants to support the current registration process.

However, prior to the start of the Market, additional data relating to matters such as credit limits and systems readiness will be required to enable the IMO to complete the registration of applicants as Market Participants.

Full registration of Market Participants will be undertaken and completed by the IMO during 2005/06.

Those participants that have been registered based on limited data during 2004/05 will be required to provide the additional information to complete the registration process.

As at 30 June 2005, the following had registered as Market Generators:

- > Alinta Power Services Pty Ltd;
- > Alinta Sales Pty Ltd;
- > Eneabba Gas Ltd;
- > Griffin Power Pty Ltd; and
- > Griffin Windfarms Pty Ltd.

As at 30 June 2005, the following had registered as Market Customers:

- > Alinta Sales Pty Ltd; and
- > Eneabba Gas Pty Ltd.

Certification

Certification is the process through which the IMO formally establishes the key features of all generation capacity. For existing capacity, this includes the plant capacity, the temperature dependence of that capacity and any restrictions on when that capacity can be provided. For plant that is yet to be built, additional data is required in respect to the proposed construction schedule, environmental approvals and network access arrangements.

Market participants can apply for certified capacity for plant that will be available for service in the current Reserve Capacity cycle and can apply for conditional certified capacity for plant that is to be built for a future Reserve Capacity cycle.

As at 30 June 2005, the following facilities had been assigned conditional certified Reserve Capacity:

- > Bluewaters 1 & 2 Power Stations;
- > Collie B Power Station; and
- > Centauri 1 Power Station.

As at 30 June 2005, no plant had been assigned certified Reserve Capacity.

Market Participant Liaison

The IMO is a new organisation within the Western Australian electricity industry. The organisation developed from the State Government's reform program for the electricity industry.

The establishment of the IMO on 1 December 2004 follows a number of significant achievements by the State Government to reform the Western Australian electricity industry.

The company's presence in the industry will be increasingly felt over the next twelve months, with the Wholesale Electricity Market becoming operational and the responsibility for ensuring sufficient generation capacity being transferred to the IMO from Western Power in 2007/08.

Whilst the IMO has only been operational for a short time, it has enjoyed significant support from the industry. It aims to continue developing its credentials and expertise in its operations so as to be identified as a significant contributor to the Western Australian electricity industry.

Furthermore, the IMO is committed to ongoing development of an effective Wholesale Electricity Market. It will facilitate this by:

- > continual improvements to operational efficiency;
- > building lasting relationships with stakeholders; and
- > providing accurate and timely information for planning, development and investment processes to facilitate an effective Wholesale Electricity Market.



Directors' Report

Board of Directors

Under the *Wholesale Electricity Market (Independent Market Operator) Regulations 2004*, the IMO Board is its governing body, with authority to perform the functions of determining the policies and controlling the affairs of the IMO.

At establishment, two appointments were made to the Board. The directors of the IMO are Ms Anne Nolan and Mr John Kelly.

The Board has determined to convene monthly. The Board has met on six occasions in the period 1 December 2004 to 30 June 2005. Both Directors have attended all meetings.

The Board receives regular reports on the progress of all work of the IMO and its financial position.

In the performance of their duties, all directors are expected to act lawfully, in a professional manner, and with integrity and objectivity in their dealings with external parties and one another.

Anne Nolan

Bachelor of Economics (Honours), Master of Economics

Ms Anne Nolan was appointed as Chairperson of the IMO in December 2004 following approval by Cabinet.

Since September 2002, Ms Nolan has been Coordinator of Energy, and CEO of the Office of Energy. In this role, Ms Nolan is responsible for the provision of advice to the Minister for Energy on energy policy and strategies for Western Australia. A major focus over the last two years has been fundamental structural reform of the electricity industry and the introduction of gas full retail contestability.

Previously, Ms Nolan was with the Department of Treasury and Finance in Western Australia for thirteen years, for the last seven of these years, Ms Nolan was Executive Director (Economics).

John Kelly

**Bachelor of Engineering (Mechanical), Diploma Business Management
Fellow of the Institute of Engineers Australia**

Mr John Kelly was appointed Director of the IMO in December 2004.

Mr Kelly has spent his working career in the power industry. His career in the State Energy Commission of Western Australia (SECWA) and Western Power included experience at senior management level in electricity generation, distribution and managing major construction projects.

Mr Kelly managed several major power stations and headed the then Power Production Division (Power Generation), responsible for all power generation in SECWA.

Mr Kelly also led a division in SECWA responsible for major projects including the upgrading of the Dampier to Bunbury Natural Gas Pipeline, the development of two gas turbine power station sites and a major thermal power station.

Mr Kelly had a significant role in managing the separation of SECWA into two separate organizations, Alinta and Western Power. He then initiated Western Power's electricity marketing group and was General Manager of the electricity distribution division until his retirement from Western Power in November 2000.

In 2001 through to the end of 2002, Mr Kelly served as a member of the four person Electricity Reform Task Force formed by Government to make recommendations on reform of the electricity industry in Western Australia and later became a member of the Steering Committee responsible for implementation of these recommendations.

Record Keeping

Section 21 of the *State Records Act 2000* requires that any Statutory organisation must submit a draft Recordkeeping Plan within six months of its creation.

Directors' Report (continued)

In May 2005, a Recordkeeping Plan was developed for submission to the State Records Commission to meet the compliance requirements of the *State Records Act 2000*. The Plan is expected to receive clearance pending approval of the Retention and Disposal Schedule at the meeting of the State Records Commission on 14 July 2005.

Staff training in records management will include:

- > briefings to all staff on the compliance requirements of the *State Records Act 2000*;
- > induction training for all new staff on their obligations under the Act; and
- > training in the operation of records management within the IMO.

Compliance

Functions are conferred on the IMO by:

- > *The Electricity Industry (Wholesale Electricity Market) Regulations 2004*.
- > *The Wholesale Electricity Market Rules*.
- > *The Electricity Industry (Independent Market Operator) Regulations 2004*.

The complete set of the Regulations and Market Rules are available from the IMO's website at www.imowa.com.au

The *Wholesale Electricity Market (Independent Market Operator) Regulations 2004* were enacted in December 2004, which resulted in the establishment of the IMO. These regulations set out the functions of the IMO.

As the market administrator it:

- > registers participants and their capacity;
- > develops and maintains Market Rules and procedures; and
- > publishes market information.

In its role as market operator, the IMO:

- > receives information from participants in respect to their bi-lateral contracts and the planned output from their generating capacity;

- > operates the Short Term Energy Market;
- > conducts market settlement; and
- > operates the Reserve Capacity Mechanism.

The IMO also has responsibility for monitoring and surveillance of the market to identify any rule breaches by participants.

The Regulations impose responsibilities on the Minister for Energy. The IMO Board is accountable to the Minister for Energy through a number of mechanisms. For example:

- > the Board is required to consult with the Minister on major initiatives;
- > the Minister is able to give directions to the IMO which are consistent with the Market objectives;
- > the Minister is entitled to access information in the possession of the IMO; and
- > the Board must keep the Minister reasonably informed of the operations, financial performance and financial position of the IMO.

To meet the requirements set out in the Regulations, a compliance tracking system is being developed and will be implemented in 2005/06.

Review of Operations

The operations of the IMO during the period 1 December 2004 to 30 June 2005 are discussed in the Chair's report and the Overview of the Wholesale Electricity Market sections of the Annual Report.

Indemnification of Directors

During the period 1 December 2004 to 30 June 2005, Directors' and Officers' Liability Insurance was obtained. There were no claims made against the Directors in the reported period.

Accommodation

The IMO has established an office located in the Forrest Centre, Level 22, 221 St George's Terrace, Perth. The office is secure to ensure sensitive market information is kept confidential at all times.

Directors' Report (continued)

Administration and Financial Systems

The IMO has established a variety of financial and administration systems to allow it to manage its affairs and report on its activities to stakeholders and the Minister.

Corporate Governance

Pending the appointment of a Chief Executive Officer and other senior executives in 2005/06, an important objective for the IMO will be the development of a corporate vision and mission statement together with performance indicators that reflect the statutory objectives of the Market.

Human Resources

It is the intention of the Board that the IMO will strive to be recognised as an employer of choice. Upon the commencement of the Wholesale Electricity Market, staff numbers are expected to increase to around eighteen.

In the rapidly changing Western Australian electricity industry, the IMO recognises one of its core strengths must be the skill and commitment of its people. The IMO has focussed on ensuring it provides a working environment, which will attract a quality team of people.

Internal Policies and Procedures

Employees of the IMO are expected to act in the legitimate interests of stakeholders and the Western Australian community. To ensure employees understand their responsibilities whilst working for the IMO, the *Wholesale Electricity Market (Independent Market Operator) Regulations 2004* require that the Board, after consultation with the Commissioner for Public Sector Standards prepare and issue a Code of Conduct setting our minimum standards of conduct and integrity to be observed by members of staff.

The Board is also required to prepare and issue an instrument setting out minimum standards of merit, equity and probity applicable to the management of the staff of the IMO.

Processes and systems are being developed to manage the business and operational risk of the IMO as well as incorporate a rigour of regular assessment of performance.

Whilst there is no timeframe specified for the completion of these policies, it is intended they will be completed prior to the end of 2005/06.

Website

The IMO's website is a key communication tool. The website can be used to access information on the operations and activities of the IMO. There is also an opportunity for interested parties to register their details and areas of interest to ensure they are regularly updated on the work of the IMO.

These facilities will be further developed in 2005/06 to provide greater benefit to stakeholders of the IMO.

The IMO's website address is **www.imowa.com.au**

Public Interest Disclosure

The *Public Interest Disclosure Act 2003* has been enacted to protect the privacy and confidentiality of both the individual making a disclosure and the subject of the disclosure.

There were no public disclosures referred to the IMO in the 2004/05 financial year.

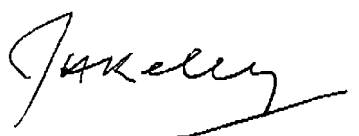
Dividends and Distributions

The IMO operates on a cost recovery basis. There were no dividends or distributions paid during the period 1 December 2005 to 30 June 2005.

Signed in accordance with a resolution of the directors:



Anne Nolan
Chair



John Kelly
Director

21 September 2005



Independent Market Operator

Financial Report for the year ended 30 June 2005

Financial Statements

Independent Market Operator

Statement of Financial Performance

For the period 1 December 2004 to 30 June 2005

	Note	1 Dec 04 to 30 Jun 05 \$'000
REVENUE		
Revenues from operating activities		
User charges and fees		2
Revenues from outside operating activities		
Government Grants		1,276
Interest Revenue		3
Total revenues from ordinary activities		<u>1,281</u>
EXPENSES		
Expenses from ordinary activities		
Employee expenses	2	104
Supplies and services		560
Depreciation expense		3
Accommodation expenses		20
Total expenses from ordinary activities		<u>687</u>
NET PROFIT		<u>594</u>
Total changes in equity other than those resulting from transactions with WA State Government as owners		<u><u>594</u></u>

The Statement of Financial Performance should be read in conjunction with the accompanying notes.

Financial Statements (continued)

Independent Market Operator

Statement of Financial Position

As at 30 June 2005

	Note	30 Jun 05 \$'000
Current Assets		
Cash assets	3	793
Receivables	4	55
Other assets	5	21
Total Current Assets		<u>869</u>
Non-Current Assets		
Furniture, fittings and equipment	6	34
Total Non-Current Assets		<u>34</u>
Total Assets		<u>903</u>
Current Liabilities		
Payables	7	304
Provisions	8	5
Total Current Liabilities		<u>309</u>
Total Liabilities		<u>309</u>
NET ASSETS		<u><u>594</u></u>
EQUITY		
Retained profit	9	594
Total Equity		<u><u>594</u></u>

The Statement of Financial Position should be read in conjunction with the accompanying notes.

Financial Statements (continued)

*Independent Market Operator***Statement of Cash Flows***For the period 1 December 2004 to 30 June 2005*

	Note	1 Dec 04 to 30 Jun 05 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts		
Government grants		1,276
User charges and fees		2
Interest revenue		3
GST receipts from ATO		10
Payments		
Employee costs		(99)
Supplies and services		(323)
Accommodation costs		(2)
GST payments on purchases		(38)
Net cash provided by/(used in) Operating Activities	10(b)	<u><u>829</u></u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for the purchase of non-current assets		(36)
Net cash provided by/(used in) Investing Activities		<u><u>(36)</u></u>
Net Increase/(Decrease) in Cash Held		793
Cash assets at the beginning of the financial year		-
CASH ASSETS AT THE END OF THE FINANCIAL YEAR	10(a)	<u><u>793</u></u>

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Report

Independent Market Operator

Notes to the Financial Report

For the period 1 December 2004 to 30 June 2005

The Independent Market Operator (IMO) was established on 1 December 2004. The IMO is a statutory corporation that was established by the *Electricity Industry (Independent Market Operator) Regulations 2004* to administer and operate the Western Australian Wholesale Electricity Market.

1. Significant accounting policies

The following accounting policies have been adopted in the preparation of the financial report.

General statement

The financial report constitute a general purpose financial report which has been prepared in accordance with Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group (UIG) Consensus Views and the *Electricity Industry (Independent Market Operator) Regulations 2004*.

Basis of accounting

The financial report have been prepared on the accrual basis of accounting using the historical cost convention:

(a) Revenue Recognition

Revenue from rendering services, licenses and from the disposal of assets, is recognised when the IMO has delivered the service, issued the licence or passed control of the asset to the customer.

Interest revenue includes interest on money held on deposit with financial institutions and is recognised as it accrues.

(b) Acquisition of assets

The cost method of accounting is used for all acquisition of assets. Cost is measured as the fair value of the assets given up or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

Assets costing less than \$1,000 are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

Depreciation of non-current assets

All non-current assets having limited useful lives are systematically depreciated over their useful lives in a manner that reflects the consumption of their future economic benefits.

Depreciation is calculated on the straight line basis, using rates, which are reviewed annually. Useful lives for each class of depreciable asset are:

Furniture and equipment	5 years
Computer equipment	3 years

(c) Leases

The IMO has entered into an operating lease arrangement for office accommodation where the lessors effectively retain all of the risks and benefits incident to ownership of the items held under the operating lease. Equal instalments of the lease payments are charged to the Statement of Financial Performance over the lease term as this is representative of the pattern of benefits to be derived from the leased property.

(d) Cash

For the purposes of the Statement of Cash Flows, cash includes cash at call with financial institutions.

(e) Receivables

Receivables are recognised at the amounts receivable as they are due for settlement no more than 30 days from the date of recognition.

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for doubtful debts is raised where some doubt as to collection exists and in any event where the debt is more than 60 days overdue.

Notes to the Financial Report (continued)

(f) Payables

Payables, including accruals not yet billed, are recognised when the IMO becomes obliged to make future payments as a result of a purchase of assets or services. Payables are generally settled within 30 days.

(g) Employee Benefits

Annual leave

This benefit is recognised at the reporting date in respect to employees' services up to that date and is measured at the nominal amounts expected to be paid when the liabilities are settled.

Long service leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provisions for employee benefits and is measured at the nominal amounts expected to be paid when the liability is settled. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provisions for employee benefits and is measured at the present value of the expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given, when assessing expected future payments, to expected future wage and salary levels including relevant on costs, experience of departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash flows.

Superannuation

Staff may contribute to the Gold State Superannuation Scheme, a defined benefit and lump sum scheme now closed to new members or to a complying superannuation fund of their choice. All staff who do not contribute to either Gold State or another complying fund become non-contributory members of the West State Superannuation Scheme, an accumulation fund. The IMO contributes to this accumulation fund in compliance with the Commonwealth Government's

Superannuation Guarantee (Administration) Act 1992.

The Gold State and West State schemes are administered by the Government Employees Superannuation Board (GESB).

The superannuation expense comprises the employer contributions paid to the Gold State Superannuation Scheme and the West State Superannuation Scheme.

The superannuation expense does not include payment of pensions to retirees, as this does not constitute part of the cost of services provided by the IMO in the reporting period.

The liabilities for superannuation charges under the Gold State Superannuation Scheme and the West State Superannuation Scheme are extinguished by payment of employer contributions to the GESB.

(h) Employee benefit on-costs

Employee benefit on-costs are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities and expenses (See notes 2 and 8).

(i) Comparative Figures

The IMO commenced operations on 1 December 2004 and, therefore, there are no comparative figures for 2003-04.

(j) Rounding

Amounts in the financial report have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Notes to the Financial Report (continued)

For the period 1 December 2004 to 30 June 2005

1 Dec 04 to 30 Jun 05
\$'000

2 Profit from Ordinary Activities

Profit from ordinary activities has been determined after

(a) Employee expenses

Salaries	68
Superannuation	7
Annual leave	4
Other related expenses (1)	25
	104

(b) Supplies and services

Communication	3
Consultants and contractors	461
Consumables	20
Insurance	35
Legal costs	17
Travel	6
Other	18
	560

(c) Depreciation expense

Depreciation of computer equipment	2
Depreciation of office equipment	1
	3

(d) Accommodation expenses

Office accommodation rental	18
Other accommodation expenses	2
	20
	687

Total expenses

(1) These employee expenses include staff relocation costs and superannuation, workers compensation premiums and other employment on costs associated with the recognition of annual and long service leave liability. The related on-costs liability is included in employee benefit liabilities at note 8.

3 Cash assets

Operating Account	793
	793

Notes to the Financial Report (continued)

For the period 1 December 2004 to 30 June 2005

	1 Dec 04 to 30 Jun 05
	\$'000
4 Receivables	
Goods and Services Tax receivable – ATO	55
	<u>55</u>
5 Other Assets	
Prepayments	21
	<u>21</u>
6 Furniture, fittings and equipment	
Office equipment and furniture	
At cost	21
Accumulated depreciation	(1)
	<u>20</u>
Computer equipment	
At cost	16
Accumulated depreciation	(2)
	<u>14</u>
Total	
At cost	37
Accumulated depreciation	(3)
	<u>34</u>
Reconciliation of property, furniture, fittings, equipment and software	
Reconciliation of the carrying amounts of each class of asset at the start and the end of the current year are set out below	
Office equipment and furniture	
Carrying amount at start of year	-
Additions	21
Disposals	-
Depreciation expense	(1)
Carrying amount at end of year	<u>20</u>
Computer equipment	
Carrying amount at start of year	-
Additions	16
Disposals	-
Depreciation expense	(2)
Carrying amount at end of year	<u>14</u>
Total carrying amount at start of year	-
Additions	37
Disposals	-
Depreciation expense	(3)
Carrying amount at end of year	<u>34</u>

Notes to the Financial Report (continued)

For the period 1 December 2004 to 30 June 2005

		1 Dec 04 to 30 Jun 05
		\$'000
7	Payables	
	Accrued expenses	304
		<u>304</u>
8	Provisions	
	Employee expenses	
	Current:	
	Annual Leave	4
	Other employee benefits	1
		<u>5</u>
	The settlement of annual leave liabilities gives rise to the payment of employment on-costs including superannuation and workers compensation premiums. The liability for such on-costs is included here. The associated expense is included under Other related expenses (under Employee expenses) at Note 2.	
	Employee Benefits Liability	
	The aggregate employee benefits liability recognised and included in the financial reports is as follows:	
	Provision for employee benefits	
	Current	5
	Non-current	-
		<u>5</u>
9	Equity	
	Equity represents the residual interest in the net assets of the IMO.	
	The Government holds the equity interest in the IMO on behalf of the community.	
	Retained Profits	
	Opening balance	-
	Net profit	594
	Closing balance	<u>594</u>

Notes to the Financial Report (continued)

For the period 1 December 2004 to 30 June 2005

1 Dec 04 to 30 Jun 05
\$'000**10 Notes to the Statement of Cash Flows**

(a) Reconciliation of cash

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

Cash assets	793
	<u>793</u>

(b) Reconciliation of net profit to net cash flows provided by/(used in) operating activities

Net profit	594
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Non-cash items

Depreciation and amortisation expense	3
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(increase)/decrease in assets:

Prepayments	(21)
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Increase/(decrease) in liabilities:

Payables	276
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Provisions	5
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Change in GST in receivables/payable	(38)
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Net GST receipts/(payments)	10
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Net cash used in operating activities	829
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Notes to the Financial Report (continued)

For the period 1 December 2004 to 30 June 2005

11 Financial instruments**(a) interest rate risk exposure**

The following table details the IMO'S exposure to interest rate risk as at the reporting date:

	Weighted average interest rate	Interest bearing \$'000	Non Interest bearing \$'000	Total \$'000
2005	%			
Financial Assets				
Cash assets	4.75	793	-	793
Accounts Receivable	n/a	-	55	55
		<u>793</u>	<u>55</u>	<u>848</u>
Financial Liabilities				
Accounts payable	n/a	-	304	304
		<u>-</u>	<u>304</u>	<u>304</u>

(b) Credit risk

The carrying amount of financial assets recorded in the financial report, net of any provisions for losses, represents the IMO's maximum exposure to credit risk without taking account of any collateral or other security obtained.

(c) Net fair value of financial instruments

The carrying amount of financial assets and financial liabilities recorded in the financial report are not materially different from the net fair values, determined in accordance with the accounting policies disclosed in Note 1 to the financial report.

12 Remuneration and Retirement Benefits**(a) Directors' Remuneration**

Income paid or payable to all directors of the IMO 20

Number of directors whose income was within the following bands

20,001 - 30,000 1

The names of the directors of the IMO who have held office during the reporting period are:

Anne Nolan

John Kelly

One of the directors is a full time public servant and, therefore, does not receive any benefits as a director of the IMO.

(b) Retirement and Superannuation Payments

No directors retired during the reporting period.

Notes to the Financial Report (continued)

For the period 1 December 2004 to 30 June 2005

1 Dec 04 to 30 Jun 05
\$'000

13 Commitments for expenditure

(a) Lease Commitments

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities are payable:

Within one year	55
Later than one year and not later than five years	36
	<u>91</u>

Representing:

Non-cancellable operating leases	<u>91</u>
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14 Contingent liabilities

The IMO has no contingent liabilities as at 30 June 2005.

15 Events occurring after reporting date

The IMO is unaware of any event occurring after reporting date that would materially affect the financial report.

16 Segment Reporting

The IMO operates within one geographical sector (Western Australia) and in one business segment. Accordingly there is no need to provide segment information.

17 Auditor's Remuneration

Remuneration to the Office of the Auditor General for the audit of the 2004-05 financial report.

8
<u>8</u>

Notes to the Financial Report (continued)

For the period 1 December 2004 to 30 June 2005

18 Impact of Adopting Australian Equivalents to International Financial Reporting Standards

Australia is adopting Australian equivalents to International Financial Reporting Standards (AIFRS) for reporting periods beginning on or after 1 January 2005. The Independent Market Operator will adopt these Standards for the first time for the year ended 30 June 2006.

AASB 1047 'Disclosure of the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards' requires disclosure of any known or reliably estimable information about the impacts on the financial statements had they been prepared using AIFRSs.

The information provided below discloses the main areas impacted due to the effects of adopting AIFRS. Management have determined the quantitative impacts using their best estimates available at the time of preparing the 30 June 2005 financial report. These amounts may change in circumstances where accounting standards and/or interpretations applicable to the first AIFRS financial report are amended or revised.

(a) Reconciliation of total equity as represented under previous AGAAP to that under AIFRS
No material impacts are expected from adopting AIFRS with respect to equity.

(b) Reconciliation of surplus/(deficit) for the period as presented under previous AGAAP to that under AIFRS:

No material impacts are expected from adopting AIFRS with respect to the surplus/(deficit) for the period.

(c) Statement of Cash Flows

No material impacts are expected from adopting AIFRS with respect to the Statement of Cash Flows.

Directors' Declaration

For the year ended 30 June 2005

The Directors declare that the financial statements and notes are in accordance with *Electricity Industry (Independent Market Operator) Regulations 2004* and

a) comply with Accounting Standards and the *Corporations Regulations 2001*; and

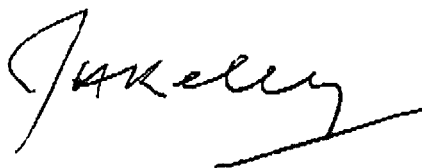
b) give a true and fair view of the financial position of the Independent Market Operator as at 30 June 2005 and of its performance for the period 1 December 2004 to 30 June 2005.

In the Directors' opinion there are reasonable grounds to believe that the Independent Market Operator will be able to pay its debts as and when they become due and payable.

This declaration has been made in accordance with a resolution of the Board of Directors.



Anne Nolan
DIRECTOR



John Kelly
DIRECTOR

Date: 21 September 2005



AUDITOR GENERAL

INDEPENDENT AUDIT REPORT ON INDEPENDENT MARKET OPERATOR

To the Parliament of Western Australia

Audit Opinion

In my opinion, the financial report of the Independent Market Operator is in accordance with:

- (a) schedule 3 of the Electricity Industry (Independent Market Operator) Regulations 2004, including:
 - (i) giving a true and fair view of the Independent Market Operator's financial position at 30 June 2005 and of its performance for the period 1 December 2004 to 30 June 2005; and
 - (ii) complying with Accounting Standards in Australia; and
- (b) other mandatory professional reporting requirements in Australia.

Scope

The Board's Role

The Board of Directors is responsible for the financial report.

The financial report consists of the Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows, accompanying Notes and Directors' Declaration.

Summary of my Role

As required by the Electricity Industry (Independent Market Operator) Regulations 2004, I have independently audited the financial report to express an opinion on it. This was done by looking at a sample of the evidence.

An audit does not guarantee that every amount and disclosure in the financial report is error free, nor does it examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the financial report.

A handwritten signature in black ink, appearing to read 'D D R Pearson'.

D D R PEARSON
AUDITOR GENERAL
23 September 2005