

Independent Market Operator



ANNUAL REPORT

2006/07

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ACHIEVEMENTS

The year 2006/07 heralded a significant milestone for the Independent Market Operator (IMO) and the energy sector in Western Australia with the commencement of energy trading in the Wholesale Electricity Market, as scheduled, on 20 September 2006. The first market-traded energy was sent out at 8am on 21 September 2006.

The smooth launch of the Market was the culmination of a massive effort by the entire industry. The IMO attributes much of the success of the launch of the Market to industry's commitment and cooperative effort.

The focus of the IMO in 2006/07, the critical first year of operation of the Market, was:

- The efficient establishment of the Wholesale Electricity Market.
- Continued development of quality relationships with our key stakeholders.
- Efficient and effective ongoing evolution of the Market.
- Ensuring the overall operational effectiveness of the IMO.

The IMO is pleased that all of the key performance and efficiency indicators the IMO set for 2006/07 were successfully achieved on time.

2006/07 in Review

Achievements by the IMO during 2006/07 included:

- Publishing the Statement of Opportunities Report for the second Reserve Capacity Cycle in July 2006.
- The assignment of sufficient Capacity Credits to generation and demand side management facilities (4,600 MW) to meet the requirements of the second Reserve Capacity Cycle (October 2008 to October 2009).
- The registration of all Rule Participants, and their Facilities, prior to the commencement of the energy Market.
- The completion of IT market system implementation in preparation for Market commencement.
- The successful commencement of the trading of electricity in the Wholesale Electricity Market in September 2006.
- Successful Market operation for nine months following the commencement of the Market.
- Improvement and refinement of IT market systems and processes following the commencement of the Market.
- The commencement of the formal Rule Change processes including the establishment of the Market Advisory Committee.
- Successful progress of a number of Market Rule Changes, by the IMO, in accordance with the Market Rules to facilitate the efficient and effective ongoing evolution of the Market.

- The expressions of interest for generation and demand side management capacity for the third Reserve Capacity Cycle (covering the period from October 2009 through to October 2010) elicited interest in the provision of 1,406 MW of capacity. Expressions of Interest were also received for a further 301 MW of facilities to enter service in the period October 2010 through to October 2011.
- The approval by the Minister for Energy of the IMO's Operational Plan for 2007/08.

Market Outcomes

It is very early days for the Market and long-term trends will take time to emerge. However, early trading in the Wholesale Electricity Market indicates:

- Over the first six months the Short Term Energy Market (STEM) and Balancing prices trended downwards and Balancing prices usually exceeded STEM prices. More recently prices have largely remained steady with some spikes during fuel restrictions.
- In the first two months of the Market relatively high levels of trade occurred in the STEM (and net Balancing Market trades were relatively low). November 2006 through to January 2007, the quantity of STEM trades fell away significantly and Balancing trades increased. More recently STEM trades have increased once more, with net Balancing trades remaining relatively static.

These early trends in Market outcomes are likely to reflect the Market environment (high concentration of ownership), the context of Market start (gas constraints and plant availability), an embryonic understanding by participants as to how the Market works and seasonal demand factors, rather than be indicative of longer-term trends.

Recently, Market outcomes also appear to reflect the emergence of trading strategies and participants establishing their positions in the Market. However, external influences such as fuel restrictions continue to have a pronounced effect on Market trends.

Nevertheless, analysis by the IMO suggests that the Market is providing Market Participants with a real opportunity to trade electricity and manage risk. As the vesting contract cover is reduced and further supply and retail competition emerges, the STEM Market is expected to become a stronger alternative to bilateral contracts.

CHAIRMAN AND CHIEF EXECUTIVE'S REPORT

This year has been momentous with the trading of wholesale electricity through a market mechanism for the first time in Western Australia.

Commencement of the Market was a challenging task for the IMO, Market Participants and Government, and was achieved through the tremendous cooperation and effort of all involved.

In particular, we would like to express our warm appreciation and gratitude to the Market Participants for the vital role they played in bringing together the foundation stones for a successful Market.

Now that Market start has been achieved, we are focused on ensuring that the performance and the evolution of the Wholesale Electricity Market design and systems are effective and efficient in facilitating the achievement of the legislated Market Objectives.

We are pleased that the Market systems and processes have performed well in these early days of trading and we will continue to strive for improved performance in consultation with Market Participants.

Similarly, the Reserve Capacity Mechanism continues to effectively facilitate the provision of adequate capacity to meet demand. The enormous interest shown by investors in the Western Australian electricity industry bodes well for the future of the Market.

The Market Rules themselves have also stood up well to the test of live market experience.

The IMO became responsible for the formal process of making changes to the Market Rules on 15 December 2006. To assist the IMO in processing proposal changes and to provide an industry perspective on changes, the IMO established a Market Advisory Committee in December 2006.

From the perspective of achievement of the Market Objectives, the most important rule change that the Board is currently considering is a proposal submitted by the IMO to enhance the method of calculating Reserve Capacity Credit Refunds. The IMO Board, which makes the final decision on rule amendments, sees refund arrangements as a critical aspect of the Market design in ensuring that sufficient generation and demand side management capacity is available to meet demand.

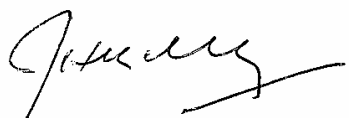
Other challenges in 2006/07 included reviewing whether we had a good grasp on the demand for electricity into the future and that the reserve margin beyond the peak demand for electricity was sufficient to maintain reliability. Specific Advisory Committees have been established to advise the IMO on forecasting methodology and the adequacy of the reserve plant margin. The IMO Board looks forward to receiving the recommendations of these reviews early in 2007/08.

Internally, resourcing of the IMO has been difficult in a tight labour market but staffing was strengthened over 2006/07 with the appointment of key operational and support staff.

The year has been very demanding on IMO staff and we would like to congratulate all staff on the excellent job they have done and thank them for their effort and commitment to the electricity Market in Western Australia.

In 2006/07 the Board was also pleased to welcome Mr David Huggins to the Board following the resignation of Ms Danielle McGrath. We would like to thank Danielle for her contribution in the early days of establishing the Market.

Whilst 2006/07 has been momentous, we are aware that the outlook for the IMO is one of continuing challenges and evolution. We look forward to working with all stakeholders to meet these challenges effectively and professionally over the coming years.



John Kelly
Chair



Anne Nolan
Chief Executive

1. THE IMO OBJECTIVES AND ROLE

1.1 Market Objectives

The IMO was established pursuant to the *Electricity Industry Act 2004* under the *Electricity Industry (Independent Market Operator) Regulations 2004*. The Electricity Industry Act sets out the Objectives of the Wholesale Electricity Market:

- To promote the economically efficient, safe and reliable production and supply of electricity and related services in the SWIS.
- To encourage competition between generators and retailers in the SWIS, including by 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 customers from the SWIS.
- To encourage the taking of measures to manage the amount of electricity used and when it is used.

1.2 IMO Functions

The IMO's functions are established and shaped by the Market Objectives, as well as the regulations establishing the IMO and the Wholesale Electricity Market Rules. The Rules place a number of obligations on the IMO in four key areas:

Market Administration

- Maintaining and developing the Market Rules and Market Procedures.
- Registering Market Participants and their facilities.
- Monitoring Participants for Rule breaches (including imposing penalties for minor breaches and reporting more serious breaches to the Energy Review Board).
- Commissioning audits of the IMO's and System Management's activities and systems under the Market Rules.
- Supporting the Economic Regulation Authority (ERA) in its role of market surveillance and monitoring market effectiveness.
- Publishing Market information.

Market Operations

- Collecting bilateral contract submissions.
- Operating the Short Term Energy Market and administering a Balancing Mechanism.
- Collecting Resource Plans from Market Participants (other than Verve Energy) and forwarding these to Systems Management.

- Conducting Market settlements.
- Maintaining and developing Market Procedures in relation to Market operations.

System Capacity

- Development of long-term load and energy forecasts.
- Assessing generation and Demand Side Management adequacy over the long term.
- Operating the Reserve Capacity Mechanism.

Finance and Administration

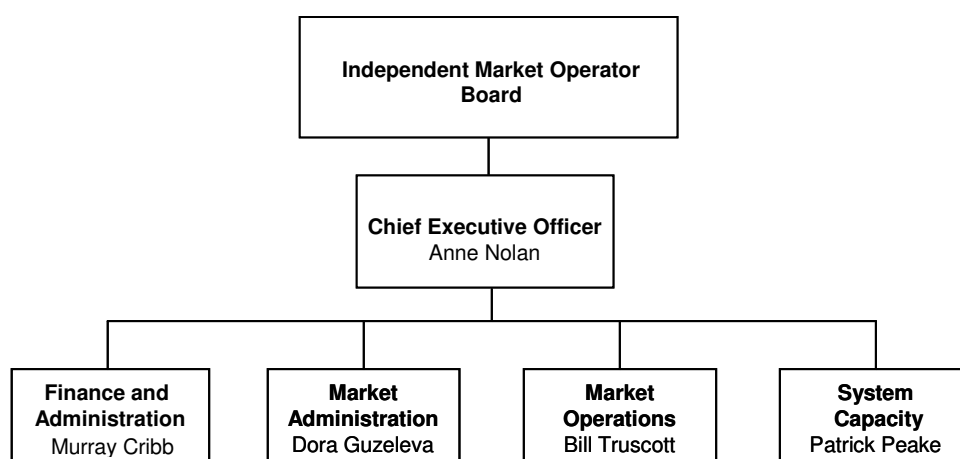
- Financial management of the IMO.
- Staff development and recruitment.
- Development of internal policies and procedures.
- General day-to-day operations of the IMO.

The IMO has been structured internally to optimise service delivery in these four key areas.

1.3 Corporate Structure

The Chief Executive Officer is responsible for implementing the Board's decisions and strategies and maintaining the highest levels of service and financial performance. In carrying out these tasks, the CEO is assisted by the IMO's Management team that meets regularly to coordinate the activities of the IMO.

The IMO is organised into four distinct work groups in a flat structure as shown.



1.4 Role and Function

IMO'S ROLE AND FUNCTION

Who is the IMO?

We are the independent operator of the Wholesale Electricity Market in Western Australia.

What does the IMO do?

We facilitate the provision of reliable, sustainable and competitively priced electricity. We do this through:

- Administering and operating the Market.
- Securing sufficient capacity to meet peak demand plus a reserve margin.
- Continually contributing to the development of the Market to improve efficiency and meet the Market Objectives.

Our Vision

Our operation and development of the Wholesale Electricity Market facilitates the provision of reliable, sustainable and competitively priced electricity.

1.5 Strategic Objectives

The Board and Senior Management have developed four Strategic Objectives for the IMO to facilitate the achievement of the Objectives of the Wholesale Electricity Market.

THE IMO'S STRATEGIC OBJECTIVES

Operational Effectiveness and Efficiency

- The IMO team and its systems and processes have strong integrity and operate effectively and efficiently.
- Generation and demand side management capacity is sufficient to meet demand.

Market Development

- Evolution of the Market is appropriate and is managed effectively.

Customer and Stakeholder Satisfaction

- The IMO is recognised as effectively managing its relationships and communications in support of the Market.

Financial Responsibility

- Market costs are minimised and funds are used effectively and prudently.

The IMO has developed Key Performance Indicators (KPI's) for these Strategic Objectives, focusing on 2007/08 but also having regard to the medium term planning horizon. The performance expectations in regard to these KPI's will be reconsidered on an annual basis to ensure that best practice continues to evolve (see www.imowa.com.au).

The IMO developed these KPI's through internal workshops, discussion with the Board and liaison with key stakeholders.

1.6 IMO Values

The IMO is a new organisation. Developing and maintaining a good reputation will be essential if the IMO is to continue to contribute to the successful development of the Wholesale Electricity Market. The Board and IMO staff consider it important to establish the values that will underpin how the IMO will operate.

Organisational values are essential to ensuring that the staff of the IMO know what is expected of them. Following wide ranging consultation with staff the following values were established to assist in the achievement of our objectives.

OUR VALUES

Integrity and Impartiality

- We act without fear or favour and are fair, consistent and transparent in our actions and accept responsibility.

Working with Stakeholders

- We listen to our stakeholders and assist stakeholders to understand and contribute to achieving the Market Objectives.

Team Work

- We work as a strong team, being supportive of each other, treat each other with respect and are appreciative of others' input.

Innovation and Courage

- We encourage innovation and are receptive to new ideas; we strive for continuous learning and improvement, and share our knowledge.

Quality and Excellence

- We are professional and committed to what we do. We apply our skills and expertise well and celebrate our successes.

2. SUMMARY OF IMO ACTIVITIES

2.1 Overview

A significant milestone for the Western Australian electricity industry in 2006/07 was the commencement of trading of electricity in the Wholesale Market on 21 September 2006. This made for an exciting and very busy year for the IMO.

The smooth launch of the energy Market was the culmination of a massive effort by the entire industry. The IMO attributes much of the success of the launch of the Market to industry's drive, commitment and cooperative effort.

Pivotal to the successful commencement of the Market was the finalisation of Market Systems implementation, which has enabled the Market to operate successfully since September 2006.

Significant support work has also continued in other areas, including the on-going development of Market Procedures, registration of Market Participants and development of Market Rules.

At the same time, the acquisition of capacity for the second Reserve Capacity Cycle was completed and the processes for the third cycle, to ensure sufficient provision of generation and DSM, were commenced.

Throughout 2006/07 the input of all stakeholders, particularly Market Participants, has been fundamental to the establishment and successful operation of the Market.

2.2 Key Performance Indicators 2006/07

The IMO is pleased that effectively all of the Key Performance and Efficiency Indicators the IMO set for 2006/07 were successfully achieved on time.

Milestone Achievement	When	Status
Commencement of the Wholesale Electricity Market	1 st quarter 2006/07	Achieved
Certification of IMO Market Systems	1 st quarter 2006/07	Achieved
Publication of Statement of Opportunities Report	July 2006	Achieved
Certification of Reserve Capacity	August 2006	Achieved
Market Advisory Committee established	August 2006	Achieved¹
Confirmation of Certified Bilateral Capacity	August 2006	Achieved
ACCC Authorisation of the Market Rules	2 nd quarter 2006/07	Achieved

¹ Achieved December 2006 following transfer of function to the IMO
2006/07 Annual Report

Efficiency Target	Target	Outcome	Status
Daily STEM auction processes complete by 11.00am	80%	98%	Achieved
Balancing Prices determined by 3.00pm	80%	100%	Achieved
STEM settlements two (2) business days after trading week	80%	97%	Achieved
Non-STEM settlements within 1 month and 8 days after trading month	80%	100%	Achieved
Corporate standards and legislative requirements met in prescribed timeframe	100%	100%	Achieved

2.2 Market Development

Commencement of Energy Trading in the Wholesale Electricity Market

Through an immense effort by industry and the IMO, trading of wholesale electricity in Western Australia successfully commenced on 21 September 2006.

All industry participants and the IMO were keen to ensure that the IMO and industry were fully prepared for a successful Market start. A Market Readiness Committee, comprising all key participants, ensured that Market Participants' interests in regard to Market readiness were taken on board and participants were kept fully informed of progress.

The last stages in the carefully planned implementation of the Market included full and integrated testing of all Market Systems and Market Trials in July and August of 2006.

The Market Trials were a continuation of thorough testing of the IMO Market Systems. The trials also enabled participants to gain skills and experience in using the systems and to enhance their knowledge of the Market Rules and Procedures prior to the commencement of the Market.

The IMO and System Management worked closely in establishing and achieving common milestones. It was important that interfaces with System Management's systems were completed in time to enable the effective operation of the IMO Market Systems.

In late August and early September through the joint effort of the IMO team, Market Participants and System Management, all Participants and their facilities were formally registered.

Once registration was complete in early September 2006, two weeks of Market simulation was undertaken. The simulation provided all parties with a further opportunity to operate systems in accordance with the relevant timelines.

The IMO welcomed commencement of energy trading in the Wholesale Electricity Market as scheduled on 20 September 2006, with the first market traded energy being sent out at 8am, on 21 September 2006.

2.3 Market Operation Outcomes

Establishment and on-going operation of the Wholesale Electricity Market

Once the Market was established, focus turned to the on-going operation, improvement and development of the Market. All industry participants and the IMO continue to work cooperatively to ensure that these improvements and developments achieve the Objectives of the Market in the most efficient manner.

The IMO has also continued to develop and improve its IT systems in order to better meet Market Objectives and requirements. This has included the identification and resolution of issues involving Market Systems as well as improvements to systems and processes where efficiency gains can be identified.

In addition to this, significant system development is required to meet Rule Changes as they arise. For example, recent settlement Rule Changes regarding balancing settlement and facility dispatch schedules required considerable implementation effort by the IMO.

These system improvements and other changes have given rise to the development of testing, release management and change control processes and procedures that involve the IMO and participants.

System Performance

The Wholesale Electricity Market system has performed very well since Market commencement. Over 2006/07:

- System issues have resulted in market suspension on only four occasions, which is better than expectation (two suspensions were due to the inflexibility of timelines, which will be improved by a Rule Change currently in process).
- IMO system outage times were well below expectation resulting in high system availability.
- While some teething issues have arisen in relation to settlement accuracy, these problems are being addressed through settlement adjustments.
- Feedback to the IMO regarding its systems and processes has been generally positive. The IMO has established an operations desk that also provides a Participant helpdesk service. Feedback regarding this helpdesk has also been positive.

2.4 Market Support and Administration

Market Rules

The Market Rules have generally well supported the operation and Objectives of the Market since the commencement of the Market.

- The formal process for making changes to the Rules commenced on 15 December 2006, with the IMO having a prime role in processing Rule Changes and industry providing important input on Rule Change Proposals.
- In mid December 2006, the IMO established the Market Advisory Committee (MAC). The purpose of the Committee is to advise the IMO in regard to Rule Changes, Procedure changes, and Market operation matters in general.
- The Committee has 12 members and one observer from various industry bodies. Its composition will be reviewed on an annual basis. The IMO provides secretariat support to the Committee. The IMO has developed the constitution for the MAC and this, together with MAC meeting minutes and working papers, is available on the IMO's web site.
- A Rule Change Proposal can be processed using a Standard Process or a Fast Track Process. The Standard Process involves a combined 10 weeks public submission period, while the Fast Track Process involves the IMO consulting with Rule Participants who either advise the IMO that they wish to be consulted or the IMO considers have an interest in the change.
- In consulting on a Rule Change Proposal, the IMO convenes the MAC and regularly meets with interested parties. It has also established technical working groups drawing on industry representatives where this was considered necessary to appropriately develop or assess changes.
- The IMO Board makes a final decision on Rule amendments and if a Rule Change relates to a protected provision seeks the Minister's approval. The IMO's decisions with respect to proposed Rule Changes are published on the IMO website, together with the time and date when accepted Rule Changes will come into force.
- The first formal Rule Change Proposal was received by the IMO in late March from System Management and was processed through the Fast Track mechanism in the Rules. The Market Rule change was made by the IMO on 30 April 2007 and commenced operation on 10 May 2007.
- Four further Rule Change Proposals were submitted to the IMO in 2006/07 from Market Participants, which are currently being progressed in consultation with industry.
- The IMO also monitors the external environment to identify trends, which may influence Market development. The IMO has progressed four Rule Change Proposals, which it considers will enhance the achievement of the Market Objectives.
- There are also a number of Rule Change Proposals in different stages of development, which are the subject of ongoing discussions between the IMO and various Rule Participants.

Monitoring Rule Participants' Compliance

The Market Rules require the IMO to:

- Monitor other Rule Participants' compliance with their obligations under the Market Rules and Market Procedures.
- Annually audit System Management's compliance with its obligations under the Market Rules and Market Procedures.
- Be able to demonstrate to an external auditor that it has adequate processes and systems in place to ensure the IMO's compliance with its obligations under the Market Rules and Market Procedures.

The IMO has developed a strategy to fulfil its obligations with regard to monitoring and enforcing compliance with the Market Rules and Market Procedures. It has also developed comprehensive internal procedures to ensure its own compliance with the Market Rules.

Market Surveillance and Monitoring Market Effectiveness

- The IMO provides data, reports and analysis to the ERA to support the ERA in its role of market surveillance and monitoring market effectiveness. The IMO has built a Reporting Services system to assist in this process.
- The IMO and the ERA, with the assistance of an independent consultant, have developed and implemented a Short Run Marginal Cost Model. The model will facilitate the IMO and the ERA in conducting their market surveillance roles.

Publishing of Market Information

A key feature of the Market is its transparency. A range of information is published regularly on the IMO web-site, including:

- The current level of electricity consumption.
- Short term energy market clearing prices and quantities.
- Balancing market prices and quantities.
- Load forecasts.
- Demand and generation capacity expected to be available in the future.
- Details of Rule Participants and facilities.

The Market also has a high degree of openness about Participant's bidding behaviour. In accordance with the Market Rules, Participant's bids and offers in the STEM auctions are published on the IMO web site.

Market information is provided on the Market web site (www.imowa.com.au).

Registration of Participants and Facilities

- The Market Rules place the obligation to register as a Rule Participant on owners and operators of generation, demand side management and network facilities. By registering, Participants agree to comply with the Market Rules and provide standing data necessary for the operation of the Market. They also have an obligation to register their facilities.
- Participants submitted registration applications, covering the full registration requirements in the Market Rules, using the IMO Market Systems during the last few weeks before the commencement of the Market. The IMO processed registration applications from Participants and all Participants and facilities were registered in time for Market commencement.
- All Market Participants, and Network Operators required to fund network support services, are subject to prudential requirements as a fundamental requirement for participation in the Market.
- Credit Support is required to provide prudential support for the operational exposure of Market Participants to the Market. The IMO estimated and set the initial prudential requirements of all Rule Participants before the commencement of the energy Market, and continued to review these as actual data on Participant exposure became available throughout the year.

As at 30 June 2007, 23 entities had registered as Market Participants and 21 entities had exemption from the requirement to register as a Rule Participant. Some of the registered entities have registered as both generators and retailers, while several entities have registered more than one Participant. A full list of the registered entities is provided in Table 1, while a list of the exempted entities is provided in Table 2.

2.5 System Capacity

2006 Statement of Opportunities Report

The IMO published the 2006 Statement of Opportunities Report (SOO) in July 2006 in accordance with the provisions of the Market Rules. A key focus of this report is the assessment of the supply demand balance for the period October 2008 through to October 2009.

The SOO indicated that:

- The maximum demand during 2008/09, based on a once-in-10-year hot weather scenario, is forecast to be 3,961 MW.
- Allowing for a reserve to cover generation plant maintenance, supply to intermittent loads and to cover the minimum frequency control requirement, the system requires a total of 4,322 MW of capacity.
- The amount of generation and DSM capacity in service or committed at July 2006 was 4,445.9 MW, which is sufficient to fully cover the capacity requirement.

The SOO also indicated that the maximum demand was forecast to increase by an annual average of 3.2% over the coming 10 years. In contrast, annual energy sales growth was forecast to be only 2.2%. This is the result of increasing demand during the peak summer period, mainly because of air conditioning.

The forecast supply demand balance is shown in Figure 4.

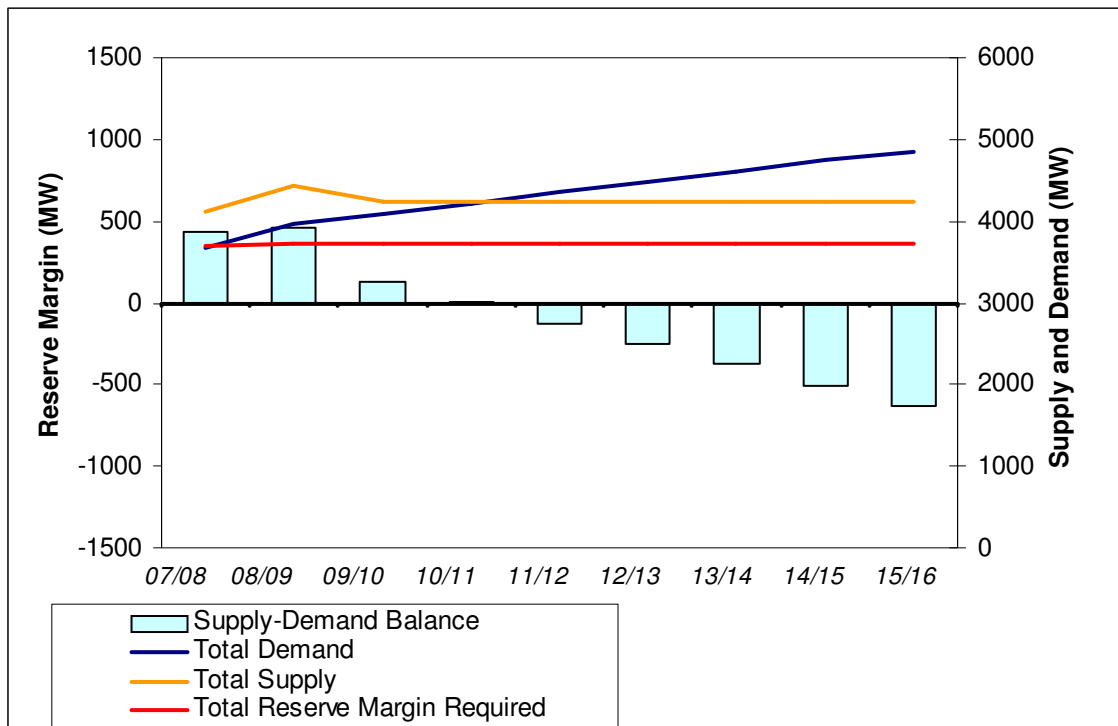
Table 1. Market Participants Registered as at 30 June 2007

Market Participant	Registration Classes
Alcoa of Australia	<i>Generator & Customer</i>
Alinta Sales	<i>Network Operator, Generator and Customer</i>
BioEnergy Ltd	<i>Generator</i>
EDWF Manager Pty Ltd	<i>Generator</i>
Eneabba Energy	<i>Generator</i>
Eneabba Gas	<i>Generator</i>
Goldfields Power	<i>Generator</i>
Griffin Power	<i>Generator and Customer</i>
Barrick (Kanowna) Limited	<i>Customer</i>
Landfill Gas & Power	<i>Generator and Customer</i>
Mount Herron Engineering	<i>Generator</i>
NewGen Power Kwinana Pty Ltd	<i>Customer</i>
Newmont Power	<i>Customer</i>
Perth Energy	<i>Generator and Customer</i>
Premier Power Sales	<i>Customer</i>
Southern Cross Energy	<i>Generator and Customer</i>
Western Australia Biomass Pty Ltd	<i>Generator</i>
Wambo Power Ventures	<i>Generator</i>
Waste Gas Resources	<i>Generator</i>
Water Corporation	<i>Customer</i>
Verve Energy	<i>Generator and Customer</i>
Western Power Corporation	<i>Network Operator</i>
Synergy Energy	<i>Customer</i>

Table 2. Entities Exempted from Registration Requirements as at 30 June 2007

Entity	Exempted as
AGL Energy Services Pty Ltd	<i>Rule Participant</i>
Alinta Cogeneration (Pinjarra) Pty Ltd	<i>Rule Participant</i>
Alinta Sales	<i>Network Operator</i>
Croesus Mining NL	<i>Network Operator</i>
CSBP	<i>Rule Participant</i>
EDWF Holdings 1 Pty Ltd	<i>Rule Participant</i>
HiSmelt	<i>Rule Participant</i>
Landfill Management Services Pty Ltd	<i>Rule Participant</i>
Newmont Power Pty Ltd	<i>Network Operator</i>
Nickel West	<i>Rule Participant</i>
NP Kalgoorlie Pty Ltd	<i>Rule Participant</i>
Origin Energy SWC Limited	<i>Rule Participant</i>
Perth Power Partnership	<i>Rule Participant</i>
Renewable Power Ventures Pty Ltd	<i>Rule Participant</i>
Southern Cross Energy	<i>Network Operator</i>
TEC Desert Pty Ltd	<i>Rule Participant</i>
TEC Desert No.2 Pty Ltd	<i>Rule Participant</i>
TEC Kalgoorlie Pty Ltd	<i>Rule Participant</i>
TEC Operations Pty Ltd	<i>Rule Participant</i>
Transfield Services Kemerton	<i>Rule Participant</i>
Worsley Alumina Pty Ltd	<i>Rule Participant</i>

Figure 4. Reserve Margin Outlook



2006 Certification of Reserve Capacity and Assignment of Capacity Credits

A total of 4,675.93 MW of generation and DSM capacity was assigned Certified Reserve Capacity for the second Reserve Capacity Cycle (October 2008 to 2009). This comprised:

- 3,307 MW of existing generation.
- 81 MW of existing DSM capacity.
- 689 MW of new facilities of which the most significant were:
 - Alcoa on-site generation (which had not been certified in 2007/08).
 - Alinta DSM programs.
 - Griffin Energy Bluewaters 1 coal fired power station.
 - NewGen Kwinana gas fired combined cycle plant.
- 386 MW of capacity increases for existing facilities.

Most of the capacity increases are associated with facilities owned by Verve Energy. Several of these facilities have been upgraded and a number have been shown to have a higher capacity than previously certified.

Verve Energy did not seek certification for the Kwinana Stage B power station and it is understood that this will be retired at the end of 2007/08.

As in the first Reserve Capacity Cycle, all Capacity Credits were assigned to facilities that had indicated their intention to trade their Credits bilaterally. No Reserve Capacity Auction was required.

A total of 4,599.875 MW of Capacity Credits were assigned which was 278 MW in excess of the Reserve Capacity Target.

In August 2006, a change was made to the Market Rules in respect to the setting of the Reserve Capacity Price. The Rules include a provision that, in the event that all Capacity Credits are assigned through the bilateral trade process, the Reserve Capacity Price is set at 85% of the Maximum Reserve Capacity Price published within the request for Expressions of Interest document for that year. The new Market Rule reduces the Reserve Capacity Price by a further factor that takes account of any excess assignment of Capacity Credits. The Reserve Capacity Price for 2008/09 was set at \$97,834 per MW per year.

Third Reserve Capacity Cycle

In January 2007, the IMO published a Request for Expressions of Interest for new generation and DSM capacity for the third Reserve Capacity Cycle. This covers the period from October 2009 through to October 2010.

This document includes advice that the Maximum Reserve Capacity Price for this cycle had been set, following review by the Economic Regulation Authority, at \$142,200 per MW per year.

Fifteen submissions were received covering 1,406 MW of new capacity for 2009/10 with a further six submissions covering 301 MW of capacity for 2010/11. Over half of the capacity offered was for renewable energy with most of this fuelled by biomass or bio-diesel. New gas fired facilities amounted to 445 MW with 264 MW of capacity fuelled by coal.

There are many external factors which impact on the ability of developers to bring new capacity on stream. Current issues include:

- Despite a significant capacity increase on the Dampier to Bunbury natural gas pipeline being commissioned during 2006/07, which is anticipated to significantly ease gas transport restrictions, a number of developers have indicated to the IMO that they are experiencing difficulty in securing the large amounts of gas required to support major power station projects.

The IMO also understands that the price of new gas supplies within the domestic market has risen substantially. Developers are seeking to address these issues through various strategies but there is a risk that new gas based power generation facilities may be restricted over the coming few years.

- A number of developers have commented on the substantial time required for Western Power to provide proposals for access to the transmission system. The IMO continues to advise developers that they must liaise with Western Power at the earliest opportunity to ensure that access proposals can be provided in a timely manner.
- An issue that has the potential to restrict network access for new generation is the retention of network access rights by Market Participants for a plant that has been retired. There is very limited spare capacity on the transmission system and the efficient use of all existing capacity is critical if system reliability is to be maintained and electricity prices are to be minimised.

Assessment of the Reserve Capacity Mechanism

The IMO, in conjunction with an Advisory Group comprising Market Participants and other stakeholders, is reviewing the reserve capacity reliability criterion and the methodology used to forecast electricity demand.

With regard to the review of the reserve capacity criteria:

- The consultant retained to review the reliability criterion, CRA International has indicated that the reserve margin within the South West Interconnected System is comparable with that used on other similar systems. However, it recommends that it be revised to “future proof” the requirement. In particular, it suggests that the criterion should be changed from a fixed quantity to one related to the level of maximum forecast demand. A mechanism to accommodate changes in generation system performance was also suggested.
- Once the final report is available from CRA International, this will be published for public comment. Any required changes to the Market Rules would be progressed through the normal consultative process.

The methodology to forecast demand is also being reviewed.

- Over the past two years, Western Power has provided all data used in the forecasting process to the IMO. With the commencement of Market operations, data is now provided directly through the Market Systems. As part of the forecasting review, the IMO has undertaken considerable analysis to ensure that the new data flows are fully consistent with those provided previously by Western Power.
- Forecasts provided to the IMO for preparation of the 2007 SOO, published in 2007/08, indicated a step change in the forecasts of maximum demand compared with those published in the 2006 SOO. This follows on from a similar step change between the 2005 SOO and the 2006 SOO. An independent review is to be undertaken of the forecasting processes used by the consultant that provides these forecasts.

3. WHOLESALE ELECTRICITY MARKET TRENDS

The operation and outcomes of the electricity Market is affected by a number of external and internal factors which impact on the demand and supply of electricity including:

- Climate/weather.
- Generator and demand side management availability.
- Bidding strategies and behaviour.
- Fuel supply.
- Load variations.

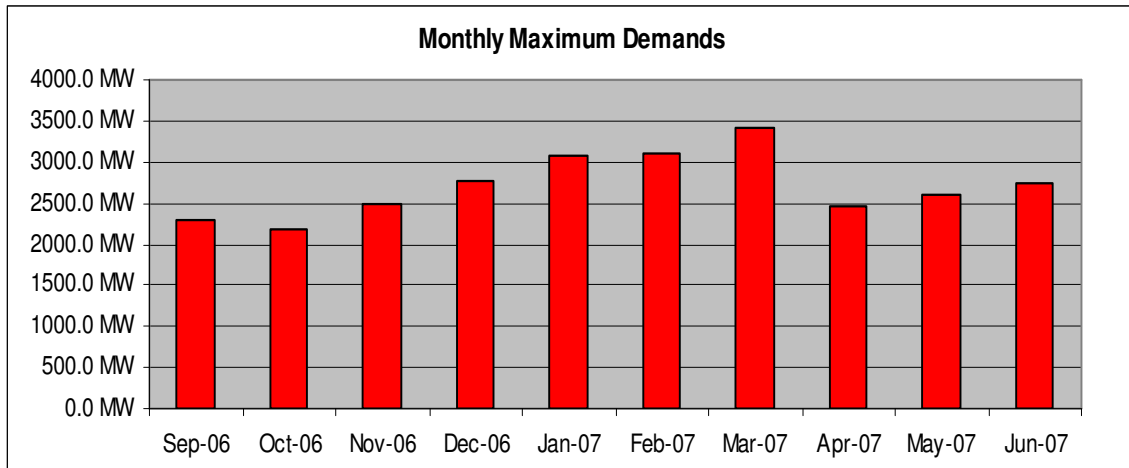
This discussion on Market trends needs to be seen in the context of these internal and external factors, which dynamically impact on Market outcomes.

It is still early days in electricity trading in Western Australia and it will take time for long-term trends to be established and patterns in behaviour to emerge.

However, positive benefits have already emerged from electricity trading with Market Participants having the opportunity to trade electricity and manage risk. In addition Participants have been both proactive in their trading strategies as well as reactive to daily Market outcomes.

The figure below presents monthly maximum demand on the SWIS. Some relevant points include:

- During the 2006/07 summer period the previous maximum demand was exceeded on three separate occasions.
- This summer the maximum demand occurred early in March while other hot temperature periods drove demand up late in January and early February.
- Maximum demands fell away significantly from March to April, and then started to increase once more with the onset of winter.
- The short term nature of peak demand is illustrated by the fact that the last 800 MW (23% of the maximum demand) occurred less than 3% of the time.



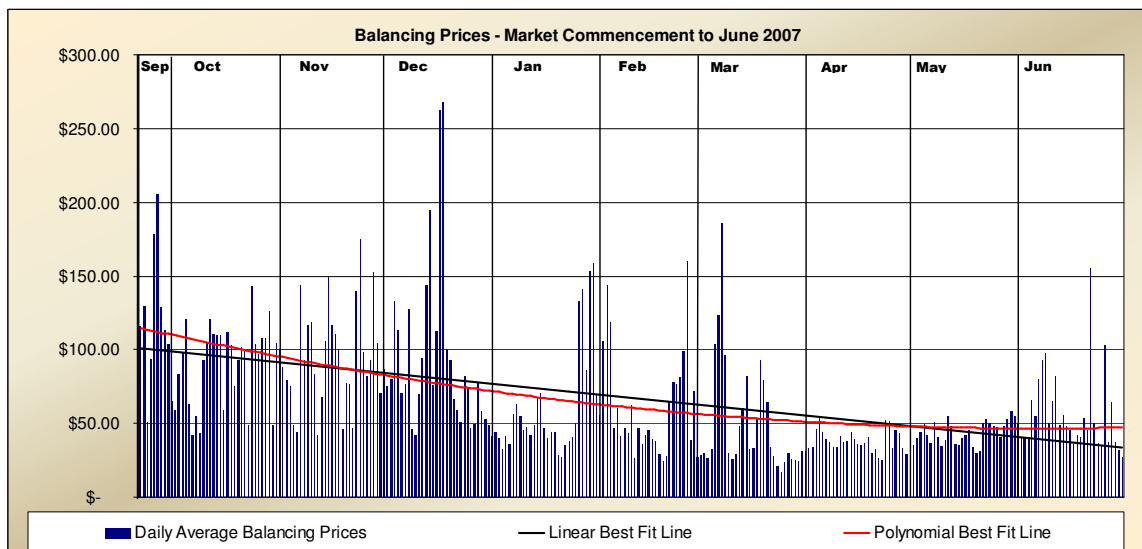
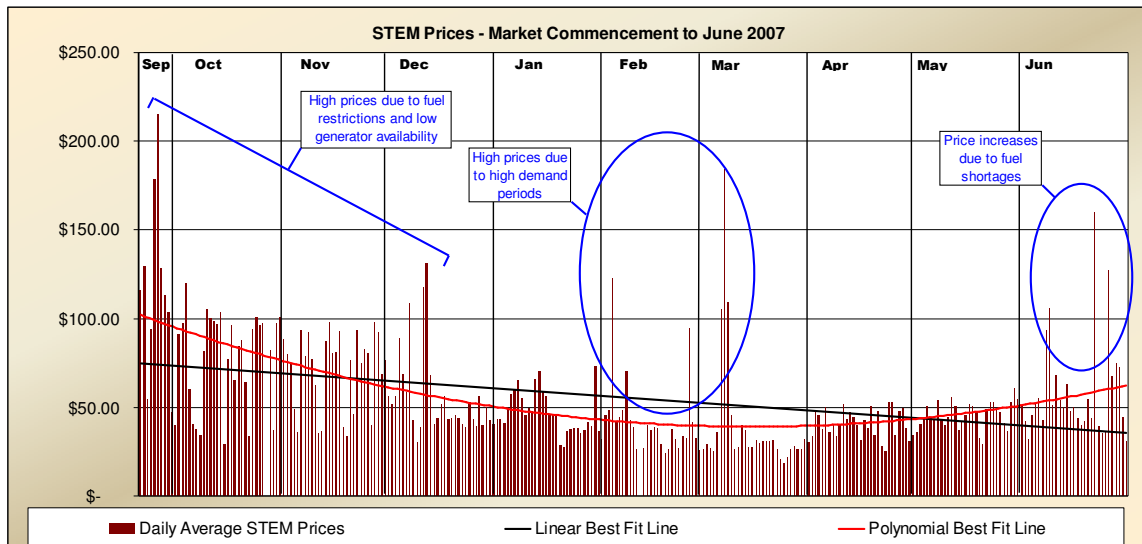
Since the commencement of the Market energy prices in the STEM have reflected the factors influencing the energy industry. As such, the STEM price has been effective in signalling the cost of supply in the Market:

- For the first three months of Market operation, the STEM prices were high due to fuel restrictions and low levels of generator availability.
- As generator availability increased and fuel restrictions were lifted, STEM prices dropped accordingly.
- There were some brief periods of high prices around February and March due to the extreme demands at this time.
- Since March, prices have risen slightly as a result of increased plant outages due to maintenance, and further fuel restrictions.
- As expected, high prices have been most apparent in the peak periods.

Balancing Market prices have been, on average, higher than STEM prices, particularly in the period up until around March 2007. This is likely to reflect the initial tendency by Market Participants to 'buy' more energy in Balancing than the STEM. This leads to higher demand in real time than projected the day ahead, which leads to the upward recalculation of Balancing prices.

More recently however, Market customers have tended to enter bilateral positions that exceed their load and then sell energy back into the Balancing Market. This has resulted in average Balancing prices more closely matching STEM prices since March.

The daily average STEM and Balancing prices are provided in the figures below.

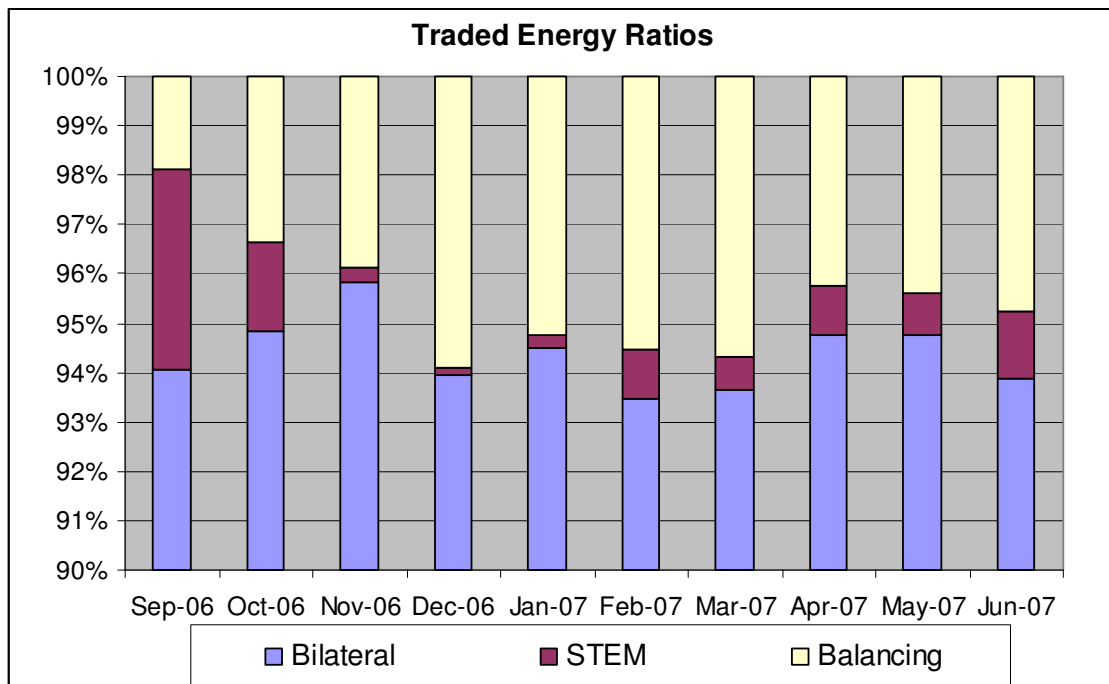


As expected since the commencement of the Market, most energy has been traded through bilateral contracts between generators and customers. The evolution of STEM and Balancing trades over this nine month period are captured in the points below:

- There was relatively strong trading activity in the STEM at the start of the Market, as traders developed their strategic approach to trading. As the Market progressed, STEM trades declined considerably. However, more recently, STEM trades have increased once again.
- A large number of these STEM trades are between generators. This suggests that the STEM is being used by generators to access lower cost plant, a positive benefit from the establishment of the Market.
- The vesting contract between the two major Wholesale Electricity Market Participants currently provides good risk coverage muting competition and liquidity of trade. As the vesting contract cover is reduced (as it is scheduled to) competition and liquidity is expected to increase.

- Net exposure to the Balancing Market increased steadily over the last months of 2006, it then peaked in the summer and fell away again in April. More recently, Balancing Market exposure has started to increase once again.
- During the first six months of the Market, net Balancing Market exposure has reflected reasonably even positive and negative net exposure. However, the tendency over recent months for Participants to enter bilateral positions that exceed their actual demands has resulted in negative balancing exposure becoming predominant.
- While exposure to the Balancing Market may be a strategic decision by Participants, this exposure can also be driven by factors outside of the control of Market Participants (such as forecasting errors). Consequently, it is difficult to draw indications of Market efficiency from Balancing Market exposure.

The figure below illustrates the comparative extent of trades through the bilateral, STEM and Balancing Markets.



The amount of trade through the STEM should not be seen as an indicator of Market success. Trade through the STEM is just one means for Market Participants to manage risk in the Western Australian Wholesale Electricity Market.

Competition

One measure of Market effectiveness is the level of competition that the Market has encouraged. While the IMO is not in a position to comment on competition in the bilateral environment, it can provide two alternative measures of competition:

- The number of Participants active in the STEM.
- The amount of net customer churn since Market commencement.

The number of Participants actively making offers to sell and bids to buy from the STEM has generally ranged between 4 and 6 per day (with some outlying days). However, more recently the retail sector has become more active in the STEM enhancing the level of competition.

The IMO can also measure basic customer churn amounts based on changes to Individual Reserve Capacity Requirements. This information suggests a reasonably significant amount of net churn since the commencement of the Market (up to 25 MW per month). Note that full retail contestability has not yet commenced in Western Australia (currently only around 60% of the Western Australian Market, by volume, is contestable).

4. CORPORATE GOVERNANCE

Good corporate governance has been an objective of the Board since its inception. The current Board of Directors is committed to the highest standards of corporate governance and its activities are aligned to the Principals of Good Corporate Governance and Best Practice Recommendations as developed by the Australian Stock Exchange (to the extent that they are relevant to the IMO).

The IMO is developing comprehensive systems of governance practices to ensure it achieves the intent of its legislation.

4.1 Legislative Framework

The IMO was established in December 2004 under the *Electricity Industry (Independent Market Operator) Regulations 2004*. This legislation in many respects sets the foundation for the corporate governance framework and structure to be given effect by the Board.

The IMO is a body corporate and its functions are conferred by the above regulations, the *Electricity Industry (Wholesale Electricity Market) Regulations 2004* and the Wholesale Electricity Market Rules. It is responsible to the Minister for Energy.

In performing its function, the IMO must endeavour to ensure that its revenue is sufficient to meet its costs as determined under the Market Rules.

The Regulations exempt the IMO from the Public Sector Management Act, but require it to put in place minimum standards that reflect the principles of the Act and to report annually to the Commissioner for Public Sector Standards.

The IMO adopts financial reporting provisions equivalent to those of the Corporations Law and is exempt from the *Financial Management Act 2006*, but annual audits are conducted by the Auditor General in accordance with the *Auditor General Act 2006*.

The Minister may give directions to the IMO with respect to the functions described in the Regulations. Any such direction must be laid before both Houses of Parliament within 14 days.

4.2 Board of Directors

The IMO's governing body is a Board of three Directors appointed by, and responsible to, the Minister.

Directors may hold office for up to three years, and are eligible to be re-appointed. Appointments are staggered to ensure that the continuity of experience on the Board is maintained. Directors are remunerated out of the IMO's funds, with remuneration and allowances determined by the Minister.

The Board's responsibilities include:

- Setting the IMO's Strategic Direction and annually submitting to the Minister for Energy an Operational Plan.
- Reviewing the IMO's financial budget submission to the Minister and monitoring financial performance.
- Monitoring the performance of the IMO in accord with the agreed strategy and priorities as well as compliance with the Market Rules.

- Reviewing the IMO's strategic risks and risk management framework.
- Maintaining good communication with the Minister for Energy.
- Evaluating the performance of the CEO and the Boards own performance.

Since proclamation of the IMO Regulations and its establishment, the Board and management have commenced development of a number of guidelines and practices to ensure compliance of Directors and staff including:

- A Board Handbook that sets out the role and responsibilities of the Board and key aspects of the business has been developed. This emphasises the ethical and legal dimensions of the role of Directors, including useful information relevant to Statutes, which place substantial legal responsibility upon Board members.
- A matrix of Board policies, processes and outcomes in regard to the Board's roles and responsibilities designed to facilitate the achievement of desired outcomes has been established.
- A Board agenda calendar, to ensure adequate consideration of issues which on a larger Board may be the responsibility of sub committees (eg. remuneration, internal audit, risk management).
- Consistent with the powers of delegation contained in the enabling regulations, the Board has established appropriate levels of delegation to effectively manage the IMO's business with clear lines of accountability.

The Chairman sets the agenda for each meeting in consultation with the CEO. Any Director may have any matter added to the agenda. Directors are provided comprehensive papers on matters to be considered by the Board.

The Board and individual Directors can seek other expert advice at the IMO's expense if required.

New Directors to the Board are required to indicate if they have any conflict of interest and each Board agenda includes a request for Directors to declare any conflict of interest. Any disclosures are recorded in the meeting minutes.

Where a Director makes a declaration of a conflict, the Board will take appropriate action regarding participation in the Boards deliberations on the relevant issue.

4.3 Code of Conduct and Minimum Standards

The Regulations under which the IMO operates require the Board to develop and establish minimum standards to apply to staff with regard to merit, equity and probity (IMO Human Resource Management and Development Standards), and a Code of Conduct, in consultation with the Commissioner for Public Sector Standards. The Regulations require a report to be submitted to the Commissioner for Public Sector Standards annually regarding the observance by members of the staff of this Code of Conduct and the Human Resource Management and Development Standards.

There were no breaches of either the Human Resource Management and Development Standards or the Code of Conduct during the year.

New employees are made aware of the IMO's Human Resource Management and Development Standards and Code of Conduct through their orientation and are provided with copies of the policies. The Code of Conduct covers standards of behaviour for both business practices and personal conduct.

Revised versions of these documents were developed over 2006/07 with input from across the IMO. Both policy statements were presented and distributed to all staff during 2006/07 and continue to be distributed as part of the induction package provided to all new staff members.

The IMO ensures the principles in the Code form part of, and are reflected in, everyday business activities in recognition of the value of ethical behaviour to the future of its business.

4.4 Other

- The IMO is a "notifying authority" for the purposes of the Corruption and Crime Commission Act and the Public Disclosure Act. There were no incidents requiring disclosure reports under this legislation during the year.
- The provisions of the Freedom of Information Act 1992 apply to the IMO. During the year, no applications were received. A statement in accordance with the FOI Act, giving information about the IMO and making an FOI request is available on the IMO website.
- The IMO submitted a Record Keeping Plan to the State Records Commission in June 2005 to meet the compliance requirements of the State Records Act 2000. The State Records Commission cleared this plan on 14 July 2005. The IMO's Record Keeping Plan ensures that proper and adequate records are kept maintained and protected in accordance with its Retention and Disposal Schedule that was provisionally approved in March 2007.

In keeping with the requirements of the State Records Act 2000, the IMO is continuing to develop records management policies and procedures, training and induction programs for all staff.

- Under the Electoral Act (1907) the IMO is required to report on expenditure on advertising, market research, polling, direct mail and media advertising. The IMO incurred expenditure on staff recruitment advertising of \$17,248 and general advertising costs of \$5,359.
- The IMO has appointed its Manger Finance and Administration to the position of public interest disclosure officer, who is responsible for ensuring confidentiality for people who make a public interest disclosure and the outcome of that assessment.

5. DIRECTORS' REPORT

The Directors of the Independent Market Operator present their report for the 12 months to 30 June 2007.

Directors

The following were Directors of the IMO during the financial year to 30 June 2007.

John Kelly

Chairman

Mr John Kelly was a founding Director of the IMO in December 2004 and was appointed Chairman of the IMO in April 2006. He has spent his working career in the power industry retiring from Western Power, as General Manager Distribution, in 2000. Mr Kelly was a member of the Electricity Reform Taskforce that provided a blueprint for a competitive electricity industry to Government in 2002. He became the independent member of the Electricity Reform Implementation Steering Committee.

Mr Kelly has a Bachelor of Engineering (Mechanical), a Diploma in Business Management, is a Fellow of the Institute of Engineers Australia and a graduate of the Institute of Company Directors.

Mr Kelly's current term expires on 3 March 2009.

Shaun Dennison

Director

Mr Shaun Dennison was appointed Director of the IMO in April 2006 for a term of two years. He has had 16 years experience in corporate advisory and project management roles with a focus on energy and water sector reform. He was appointed by the electricity industry as one of two independent members of the Information Exchange committee, established under the National Electricity Rules.

Mr Dennison has a Bachelor of Commerce and is a Member of the Institute of Company Directors.

Mr Dennison's current term expires on 3 March 2008.

Danielle McGrath

Director

Ms Danielle McGrath was appointed Director of the IMO in April 2006 for a term of one year. She is a corporate lawyer with more than 12 years of legal experience and has detailed knowledge of, and experience in, Australian financial markets. Ms McGrath has particular expertise in relation to derivatives markets.

Ms McGrath has a Bachelor of Economics, a Bachelor of Laws (First Class Honours) and a Diploma of Applied Finance and Investment.

Ms McGrath's resigned from the Board in August 2006.

David Huggins

Director

Mr David Huggins was appointed as Director of the IMO in November 2006, for a two-year term. Mr Huggins is a lawyer specialising in financial services industry regulation and compliance. He currently has his own legal practice and has previously held positions with the Australian Stock Exchange, Australian Securities Commission and a major law firm.

Mr Huggins has a Bachelor of Laws, Bachelor of Arts, is a Barrister and Solicitor of the Supreme Court of Western Australia and is a Member of the Australasian Compliance Institute.

Mr Huggins' current term expires in November 2008.

Directors' Meetings

Attendances by Directors at meetings held during the financial year ending 30 June 2007 were:

	Meetings Attended	Meetings Eligible
John Kelly	11	11
Shaun Dennison	11	11
David Huggins	7	7
Danielle McGrath	1	1

Principal Activities

The principal activity of the IMO during the year was the establishment and operation of the Wholesale Electricity Market, including development of the IT systems, operation of the Reserve Capacity Mechanism and development of corporate operations.

Review of Operations

The IMO has operated during the period from July 2006 to June 2007 in accordance with its obligations under the *Electricity Industry (Independent Market Operator) Regulations 2004* and the Wholesale Electricity Market Rules.

The Minister of Energy issued no Ministerial Directions to the IMO in 2006/07.

The operations of the IMO are discussed in the Chairman's Report and in the Operational Report.

Results of Operations

The Operating Result for the IMO for the year ending 30 June 2007 was a profit of \$1.8 million with revenue of \$7.8 million (including market fees of \$7.7 million) and expenditure of \$6.0 million. As a consequence the equity position of the IMO increased in 2006/07. This outcome was better than expected largely due to lower than expected expenditure on salaries, supplies and services (consultancies and legal costs), and timing issues related to expenditure on IT systems. This reflects the difficulty of predicting expenditure during the establishment years of the IMO.

Under the Wholesale Electricity Market Rules, the IMO is required to levy fees for service upon Market Participants. The IMO commenced collection of Market Fees at the start of electricity trading in the Wholesale Electricity Market on 21 September 2006. Prior to this the IMO was funded through retained earnings and appropriations from Government.

Dividends

There were no dividends paid or declared by the IMO.

Significant Changes in the IMO's State of Affairs

The IMO commenced energy Market operations in 2006/07 and expects to continue to operate the Market for the foreseeable future. Other than the commencement of the Wholesale Electricity Market operations there were no significant changes to the state of affairs in IMO's operating environment during the financial year under review.

Matters or Circumstances that Arose which May Affect Future Financial Years

The IMO's Directors are of the opinion that no matters or circumstances have arisen since the end of the financial year or are likely to arise that will significantly affect (or have the potential to significantly affect) the IMO's operations, the results of those operations, or the state of affairs of the IMO in the financial year subsequent to 30 June 2007.

Environmental Regulations

Environmental regulations do not impact directly on the IMO's operations.

Indemnification and Insurance of Officers

During or since the end of the financial year, the IMO has not indemnified or, apart from under the terms of the *Electricity Industry (Independent Market Operator) Regulations 2004*, made a relevant agreement with any present or former IMO officer or auditor for indemnifying them against a liability.

During the reporting period the IMO paid a premium amount to procure a Directors and Officers Liability insurance policy. The insurance policy covers the Directors, the CEO, and any employee of the IMO for costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as an officer for the IMO.

There were no claims made against Directors in the reporting period.

Emoluments

In accordance with Section 13 (c) of Schedule 3 of the *Electricity Industry (Independent Market Operator) Regulations 2004*, included below is the nature and amount of each element of the emolument of each Director and each of the five named officers receiving the highest emolument.

Directors' Emoluments

The Minister for Energy determines the emolument of the Board of Directors. Details of emoluments provided to Directors during 2006/07 are:

	Primary Fees	Post-employment Superannuation	Total
John Kelly	\$64,792	\$5,831	\$70,623
Shaun Dennison	\$35,885	\$3,230	\$39,115
David Huggins	\$20,703	\$1,863	\$22,566
Danielle McGrath	\$ 5,520	\$497	\$6017

Director Benefits

During the financial year, no Director has received or became entitled to receive a benefit other than benefits disclosed in the financial statements as emoluments or the fixed salary of a full time employee of the IMO, by reason of a contract made by the IMO with the Director or with a firm of which he/she is a member, or with an entity in which he/she has a substantial financial interest.

Executives' Emoluments

The Board, with the approval of the Minister for Energy, determines the emolument package of the Chief Executive Officer. The Board determined the terms and conditions of the other senior executives in 2006/07 based on benchmarking with other organisations and competitive requirements.

Details of emoluments provided to the five named officers receiving the highest emolument during 2006/07 are:

	Salary	Post-employment Superannuation	Total
Anne Nolan	\$299,041	\$35,520	\$334,561
William Truscott	\$173,755	\$15,637	\$189,392
Dora Guzeleva	\$154,505	\$11,978	\$166,483
Patrick Peake	\$152,830	\$19,358	\$172,188
Arthur Pettigrew	\$124,600	\$12,553	\$137,153

Resolution

This report is made in accordance with a resolution of the Board on 16 August 2007.



John Kelly
Chair
20 September 2007



Shaun Dennison
Director
20 September 2007

6. FINANCIAL STATEMENTS

INDEPENDENT MARKET OPERATOR

DIRECTORS' DECLARATION FOR THE YEAR ENDED 30 JUNE 2007

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

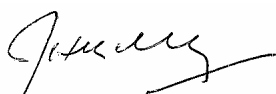
- (a) comply with Accounting Standards and the Corporations Regulations 2001; and
- (b) give a true and fair view of the financial position of the Independent Market Operator as at 30 June 2007 and of its performance for the period 1 July 2006 and 30 June 2007.

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.



Shaun Dennison
DIRECTOR
20 September 2007



John Kelly
DIRECTOR
20 September 2007

INDEPENDENT MARKET OPERATOR

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 \$000	2006 \$000
INCOME			
Revenue			
User charges and fees	3	7,706	-
Government grants	4	-	4,343
Interest revenue	5,13	78	42
Other revenue	6	5	-
Gains/(loss)			
Gains/(loss) on disposal of non-current assets	7	(1)	-
Total income		7,788	4,385
EXPENSES			
Expenses			
Employee benefits expense	8	2,475	1,082
Supplies and services	9	1,293	1,299
Depreciation and amortisation expense	10	1,438	13
Finance cost	11	429	-
Accommodation expenses	12	186	118
Other expenses	13, 14	160	26
Total expenses		5,981	2,538
Profit for the year		1,807	1,847

The Income Statement should be read in conjunction with the accompanying notes.

INDEPENDENT MARKET OPERATOR

BALANCE SHEET AS AT 30 JUNE 2007

	Note	2007 \$000	2006 \$000
ASSETS			
Current Assets			
Cash and cash equivalents	13,15	2,848	2,000
Receivables	16	1,743	48
Other assets	17	-	39
Total Current Assets		4,591	2,087
Non-Current Assets			
Property, plant and equipment	18	128	149
Intangible assets	19	6,954	4,401
Total Non-Current Assets		7,082	4,550
TOTAL ASSETS		11,673	6,637
LIABILITIES			
Current Liabilities			
Payables	20	150	85
Provisions	21	282	176
Other liabilities	13,22	490	698
Total Current Liabilities		922	959
Non-Current Liabilities			
Provisions	21	59	9
Borrowings	23	6,444	3,228
Total Non-Current Liabilities		6,503	3,237
Total LIABILITIES		7,425	4,196
NET ASSETS		4,248	2,441
EQUITY			
Retained earnings	24	4,248	2,441
Total EQUITY		4,248	2,441

The Balance Sheet should be read in conjunction with the accompanying notes.

INDEPENDENT MARKET OPERATOR

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2007**

	Note	2007 \$000	2006 \$000
Balance of Equity at start of year	24	2,441	594
RETAINED EARNINGS			
Balance at start of year		2,441	594
Profit/(loss) for the year	36	1,807	1,847
Balance at end of year		<u>4,248</u>	<u>2,441</u>
Balance of Equity at end of year	24	<u>4,248</u>	<u>2,441</u>
Total income and expense for the year		<u>1,807</u>	<u>1,847</u>

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

INDEPENDENT MARKET OPERATOR

**CASHFLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007**

	Note	2007 \$000	2006 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Government grants		-	4,343
Rendering of services		6,046	-
Other interest revenue		78	42
Goods and Services Tax receipts		41	780
Other receipts		5	-
Payments			
Employee benefits expense		(2,328)	(867)
Supplies and services		(1,535)	(861)
Finance cost		(429)	-
Accommodation expenses		(186)	(130)
Goods and Services Tax payments		70	(773)
Other expenses		(160)	(26)
Net cash provided by/(used in) Operating Activities	25 (b)	1,602	2,508
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of non-current physical assets		(9)	(128)
Purchase of intangible assets		(3,961)	(4,401)
Net cash provided by/(used in) Investing Activities		(3,970)	(4,529)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		3,216	3,228
Net cash provided by/(used in) Financing Activities		3,216	3,228
Net increase/(decrease) in cash and cash equivalents		848	1,207
Cash and cash equivalents at the beginning of period		2,000	793
CASH AND CASH EQUIVALENT ASSETS AT THE END OF PERIOD	25 (a)	2,848	2,000

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

INDEPENDENT MARKET OPERATOR

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

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. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. The accounting policies adopted in the preparation of the financial statements have been consistently applied throughout all periods presented unless otherwise stated.

(a) General Statement

The financial statements constitute a general purpose financial report which has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS), Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group (UIG) Interpretations and the Electricity Industry (Independent Market Operator) Regulations 2004.

In preparing these financial statements the IMO has adopted, where relevant to its operations, new and revised Standards and Interpretations from their operative dates as issued by the AASB and formerly the Urgent Issues Group (UIG).

The Australian Accounting Interpretations are adopted through AASB 1048 'Interpretation and Application of Standards' and are classified into those corresponding to IASB Interpretations and those only applicable in Australia.

The AASB has decided to maintain statements of accounting concepts (SAC 1 and SAC 2) and has continued to revise and maintain accounting standards and the interpretations that are of particular relevance to the Australian environment, especially those that deal more specifically with not-for-profit entity issues and/or do not have an equivalent IASB Standard or Interpretation.

(b) Basis of Preparation

The financial statements have been prepared on the accrual basis of accounting using the historical cost convention.

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000).

(c) Reporting Entity

The reporting entity is the Independent Market Operator.

(d) Income

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised for the major business activities as follows:

INDEPENDENT MARKET OPERATOR

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

User charges and fees

Revenue from rendering services and licenses is recognised when the IMO has delivered the service or issued the licence.

Interest

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

Grants

Grants from the State Government are recognised upon receipt. The purpose of grant funding in 2005/06 was to provide the IMO with initial funding until the commencement of the Wholesale Electricity Market.

Gains

Gains may be realised or unrealised and are usually recognised on a net basis. These include gains arising on the disposal of non-current assets.

(e) Income Tax

The IMO is established under the Electricity Industry (Independent Market Operator) Regulations 2004 and is provided sole provider status under Clause 19 of the Electricity Industry (Wholesale Electricity Market) Regulations 2004. Furthermore, the IMO is a not for profit organization and operates on a cost recovery basis. As a result, the IMO is not listed as a national tax equivalent regime ("NTER") and is not required to pay PAYG tax equivalents to the Treasurer.

(f) Borrowing Costs

Borrowing costs for qualifying assets are capitalised net of any investment income earned on the unexpected portion of the borrowings. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

(g) Property, Plant and Equipment

Capitalisation/Expensing of assets

Items of property, plant and equipment costing \$1,000 or more are recognised as assets and the cost of utilising assets is expensed (depreciated) over their useful lives. Items of property, plant and equipment costing less than \$1,000 are expensed direct to the Income Statement (other than where they form part of a group of similar items which are significant in total).

Initial recognition and measurement

All items of property, plant and equipment are initially recognised at cost.

For items of property, plant and equipment acquired at no cost or for nominal cost, cost is their fair value at the date of acquisition.

INDEPENDENT MARKET OPERATOR

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Subsequent measurement

After recognition as an asset, the IMO uses the cost model for the measurement of property, plant and equipment. Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

Depreciation

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

Depreciation on other assets is calculated using the straight-line method, using rates which are reviewed annually. Estimated useful lives for each class of depreciable asset are:

Furniture and equipment	5 years
Computer equipment	3 years
Leasehold improvements	10 years

(h) Intangible Assets

Capitalisation/Expensing of assets

Acquisitions of intangible assets costing \$5,000 or more and internally generated intangible assets costing \$5,000 or more are capitalised. The cost of utilising the assets is expensed (amortised) over their useful life. Costs incurred of less than \$5,000 are immediately expensed directly to the Income Statement.

All acquired and internally developed intangible assets are initially measured at cost. For assets acquired at no cost or for nominal cost, cost is their fair value at the date of acquisition.

The cost model is applied for subsequent measurement requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is calculated for the period of the expected benefit (estimated useful life) on the straight-line basis using rates which are reviewed annually. All intangible assets controlled by the IMO have a finite useful life and zero residual value. The expected useful lives for each class of intangible asset are:

Software	3 to 5 years
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Software that is an integral part of the related hardware is treated as property, plant and equipment. Software that is not an integral part of the related hardware is treated as an intangible asset. Software costing less than \$5,000 is expensed in the year of acquisition.

(i) Impairment of Assets

Property, plant and equipment and intangible assets are tested for any indication of impairment at each balance sheet date. Where there is an indication of impairment, the recoverable amount is estimated. Where the recoverable amount is less than the carrying amount, the asset is

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

considered impaired and is written down to the recoverable amount and an impairment loss is recognised. As the IMO is a not-for profit entity, unless an asset has been identified as a surplus asset, the recoverable amount is the higher of an asset's fair value less costs to sell and depreciated replacement cost.

The risk of impairment is generally limited to circumstances where an asset's depreciation is materially understated, where the replacement cost is falling or where there is a significant change in useful life. Each relevant class of assets is reviewed annually to verify that the accumulated depreciation/amortisation reflects the level of consumption or expiration of asset's future economic benefits and to evaluate any impairment risk from falling replacement costs. Intangible assets with an indefinite useful life and intangible assets not yet available for use are tested for impairment at each balance sheet date irrespective of whether there is any indication of impairment.

The recoverable amount of assets identified as surplus assets is the higher of fair value less costs to sell and the present value of future cash flows expected to be derived from the asset. Surplus assets carried at fair value have no risk of material impairment where fair value is determined by reference to market-based evidence. Where fair value is determined by reference to depreciated replacement cost, surplus assets are at risk of impairment and the recoverable amount is measured. Surplus assets at cost are tested for indications of impairment at each balance sheet date.

(j) Leases

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

(k) Financial Instruments

The IMO has two categories of financial instrument:

- Loans and receivables (includes cash and cash equivalents, receivable); and
- Non-trading financial liabilities (payables, borrowings).

The fair value of short-term receivables and payables is the transaction cost or the face value because there is no interest rate applicable and subsequent measurement is not required as the effect of discounting is not material.

(l) Cash and Cash Equivalents

For the purpose of the Cash Flow Statement, cash and cash equivalents comprise of cash on hand and short-term deposits with original of one month that are readily convertible to a known amount of cash and which are subject to insignificant risk of changes in value.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

(m) Receivables

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

The collectability of receivables is reviewed on an ongoing basis and any receivables identified as uncollectible are written-off. The allowance for uncollectible amounts (doubtful debts) is raised when there is objective evidence that the IMO will not be able to collect the debts. The carrying amount is equivalent to fair value as it is due for settlement within 30 days.

(n) Payables

Payables are recognised when the IMO becomes obliged to make future payments as a result of a purchase of assets or services at the amounts payable. The carrying amount is equivalent to fair value, as they are generally settled within 30 days.

(o) Borrowings

All loans are initially recognised at cost, being the fair value of the net proceeds received. Subsequent measurement is at amortised cost using the effective interest rate method.

(p) Provisions

Provisions are liabilities of uncertain timing and amount and are recognised where there is a present legal or constructive obligation as a result of a past event and when the outflow of resources embodying economic benefits is probable and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date.

(i) Provisions – Employee Benefits

Annual Leave and Long Service Leave

The liability for annual and long service leave expected to be settled within 12 months after the end of the balance sheet date is recognised and measured at the undiscounted amounts expected to be paid when the liabilities are settled. Annual and long service leave expected to be settled more than 12 months after the end of the balance sheet date is measured at the present value of amounts expected to be paid when the liabilities are settled. Leave liabilities are in respect of services provided by employees up to the balance sheet date.

When assessing expected future payments consideration is given to expected future wage and salary levels including non-salary components such as employer superannuation contributions. In addition, the long service leave liability also considers the experience of employee departures and periods of service.

The expected future payments are discounted to present value using market yields at the balance sheet date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

All annual leave and unconditional long service leave provisions are classified as current liabilities as the IMO does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Superannuation

The Government Employees Superannuation Board (GESB) administers the following superannuation schemes.

Employees may contribute to the Pension Scheme, a defined benefit pension scheme now closed to new members or the Gold State Superannuation Scheme (GSS), a defined benefit lump sum scheme also closed to new members. Employees who are not members of either of these schemes become non-contributory members of the West State Superannuation Scheme (WSS), an accumulation fund. The IMO contributes to this accumulation fund in compliance with the Commonwealth Government's Superannuation Guarantee (Administration) Act 1992.

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 current service superannuation charges under the Gold State Superannuation Scheme and West State Superannuation Scheme are extinguished by the concurrent payment of employer contributions to the GESB.

(ii) Provisions – Other

Employment On-Costs

Employment on-costs, including workers' compensation insurance and payroll tax, are not employee benefits and are recognised separately as liabilities and expenses when the employment to which they relate has occurred. Employment on-costs are included as part of the IMO's 'Employee benefits expense' and are not included as part of the IMO's 'Employee benefits expense' and the related liability is included in Employment on-costs provision.

(q) Accrued Salaries

Accrued salaries (refer note 20 'Other current liabilities') represent the amount due to staff but unpaid at the end of the financial year, as the pay date for the last pay period for that financial year does not coincide with the end of the financial year. Accrued salaries are settled within a few days of the financial year-end. The IMO considers the carrying amount of accrued salaries to be equivalent to the net fair value.

(r) Comparative Figures

Comparative figures are, where appropriate, reclassified to be comparable with the figures presented in the current financial year.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

2. Disclosure of changes in accounting policy and estimates

Initial application of an Australian Accounting Standard

The IMO has applied the following Australian Accounting Standards and Australian Accounting Interpretations effective for annual reporting periods beginning on or after 1 July 2006:

- (i) AASB 2005-9 'Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 139 & AASB 132]' (Financial guarantee contracts). The amendment deals with the treatment of financial guarantee contracts, credit insurance contracts, letters of credit or credit derivative default contracts as either an "insurance contract" under AASB 4 'Insurance Contracts' or as a "financial guarantee contract" under AASB 139 'Financial Instruments: Recognition and Measurement'. The IMO does not currently undertake these types of transactions, resulting in no financial impact in applying the Standard.
- (ii) UIG Interpretation 4 'Determining whether an Arrangement Contains a Lease' as issued in June 2005. This Interpretation deals with arrangements that comprise a transaction or a series of linked transactions that may not involve a legal form of a lease but by their nature are deemed to be leases for the purposes of applying AASB 117 'Leases'. At balance sheet date, the IMO has not entered into any arrangements as specified in the Interpretation, resulting in no impact in applying the Interpretation.
- (iii) UIG Interpretation 9 'Reassessment of Embedded Derivatives'. This Interpretation requires an embedded derivative that has been combined with a non-derivative to be separated from the host contract and accounted for as a derivative in certain circumstances. At balance sheet date, the IMO has not entered into any contracts as specified in the Interpretation resulting in no impact in applying the Interpretation.

The following Australian Accounting Standards and Interpretations are not applicable to the IMO as they have no impact or do not apply to not-for-profit entities:

AASB Standards and Interpretations

2005-1	'Amendments to Australian Accounting Standard' (AASB 139-Cash flow hedge accounting of forecast intragroup transactions).
2005-5	'Amendments to Australian Accounting Standards (AASB 1 & AASB 139)'
2006-1	'Amendments to Australian Accounting Standards (AASB 121)'
2006-3	'Amendments to Australian Accounting Standards (AASB 1045)'
2006-4	'Amendments to Australian Accounting Standards (AASB 134)'
2007-2	'Amendments to Australian Accounting Standards arising from AASB Interpretation 12 (AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131 & AASB 139)' – paragraph 9

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

UIG 5	'Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds'
UIG 6	'Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment'
UIG 7	'Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies'
UIG 8	'Scope of AASB 2'

Future impact of Australian Accounting Standards not yet operative

The IMO cannot early adopt an Australian Accounting Standard or Australian Accounting Interpretation. Consequently, the IMO has not applied the following Australian Accounting Standards and Australian Accounting Interpretations that have been issued but are not yet effective. These will be applied from their application date:

- (i) AASB 7 'Financial Instruments: Disclosures' (including consequential amendments in AASB 2005-10 'Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]'). This Standard requires new disclosures in relation to financial instruments. The Standard is considered to result in increased disclosures, both quantitative and qualitative of the IMO's exposure to risks, enhanced disclosure regarding components of the IMO's financial position and performance, and possible changes to the way of presenting certain items in the financial statements. The IMO does not expect any financial impact when the Standard is first applied. The Standard is required to be applied to annual reporting periods beginning on or after 1 January 2007.
- (ii) AASB 2005-10 'Amendments to Australian Accounting Standards (AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023, & AASB 1038)'. The amendments are as a result of the issue of AASB 7 'Financial Instruments: Disclosures', which amends the financial instrument disclosure requirements in these standards. The IMO does not expect any financial impact when the Standard is first applied. The Standard is required to be applied to annual reporting periods beginning on or after 1 January 2007.
- (iii) AASB 101 'Presentation of Financial Statements'. This Standard was revised and issued in October 2006 so that AASB 101 has the same requirements as IAS 1 'Presentation of Financial Statements' (as issued by the IASB) in respect of for-profit entities. The IMO is a not-for-profit entity and consequently does not expect any financial impact when the Standard is first applied. The Standard is required to be applied to annual reporting periods beginning on or after 1 January 2007.
- (iv) AASB Interpretation 4 'Determining whether an Arrangement Contains a Lease [revised]'. This Interpretation was revised and issued in February 2007 to specify that if a public-to-private service concession arrangement meets the scope requirements of AASB Interpretation 12 'Service Concession Arrangements' as issued in February 2007, it would not be within the scope of Interpretation 4. At balance sheet date, the IMO has not entered into any arrangements as specified in the Interpretation or within the scope of Interpretation 12, resulting in no impact when the Interpretation is first applied. The Interpretation is required to be applied to annual reporting periods beginning on or after 1 January 2008.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

- (v) AASB Interpretation 12 'Service Concession Arrangements'. This Interpretation was issued in February 2007 and gives guidance on the accounting by operators (usually a private sector entity) for public-to-private service concession arrangements. It does not address the accounting by grantors (usually a public sector entity). It is currently unclear as to the application of the Interpretation to the IMO if and when public-to-private service concession arrangements are entered into in the future. At balance sheet date, the IMO has not entered into any public-to-private service concession arrangements resulting in no impact when the Interpretation is first applied. The Interpretation is required to be applied to annual reporting periods beginning on or after 1 January 2008.
- (vi) AASB Interpretation 129 'Service Concession Arrangements: Disclosures [revised]'. This Interpretation was revised and issued in February 2007 to be consistent with the requirements in AASB Interpretation 12 'Service Concession Arrangements' as issued in February 2007. Specific disclosures about service concession arrangements entered into are required in the notes accompanying the financial statements, whether as a grantor or an operator. At balance sheet date, the IMO has not entered into any public-to-private service concession arrangements resulting in no impact when the Interpretation is first applied. The Interpretation is required to be applied to annual reporting periods beginning on or after 1 January 2008.

The following Australian Accounting Standards and Interpretations are not applicable to the IMO as they will have no impact or do not apply to not-for-profit entities:

AASB

Standards and

Interpretations

AASB 8	'Operating Segments'
AASB 1049	'Financial Reporting of General Government Sectors by Government'
AASB 2007-1	'Amendments to Australian Accounting Standards arising from AASB Interpretation 11 [AASB 2]'
AASB 2007-2	'Amendments to Australian Accounting Standards arising from AASB Interpretation 12 [AASB1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131 & AASB 139]' – paragraph 1 to 8
AASB 2007-3	'Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 13, AASB 136, AASB 1023 & AASB 1038]'
Interpretation10	'Interim Financial Reporting and Impairment'
Interpretation11	'AASB 2 – Group and Treasury Share Transactions'

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**NOTES TO THE FINANCIAL STATEMENTS
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	2007 \$000	2006 \$000
3. User charges and fees		
Regulatory charge – registration fees	23	-
Regulatory charge – market fees	7,681	-
Regulatory charge - miscellaneous	2	-
	7,706	-
<p>During 2004/05 and 2005/06 the IMO received establishment funding from Government with the expectation that it would become self-funding from Market Fees upon commencement of trading in the Wholesale Electricity Market. The Wholesale Electricity Market commenced trading on 21 September 2006.</p>		
4. Government grants		
Recurrent	-	4,343
	-	4,343
5. Interest revenue		
Interest on operating bank account	78	42
	78	42
6. Other revenue		
Other revenue	5	-
	5	-
7. Net gain/(loss) on disposal of non-current assets		
<u>Cost of Disposal of Non-Current Assets</u>		
Computer equipment	(1)	-
<u>Proceeds from Disposal of Non-Current Assets</u>		
Computer equipment	-	-
Net Gain/(Loss)	(1)	-

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**NOTES TO THE FINANCIAL STATEMENTS
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	2007	2006
	\$000	\$000
8. Employee benefits expense		
Wages and salaries (a)	2,005	924
Superannuation – defined contribution plans	102	51
Superannuation – defined benefit plans	156	30
Annual Leave (b)	163	77
Long Service Leave (b)	49	-
	2,475	1,082
a) Includes the value of the fringe benefit to the employee plus the fringe benefits tax component.		
(b) Includes a superannuation contribution component.		
Employment on-costs such as workers' compensation insurance are included at note 14 'Other Expenses'. The employment on-costs liability is included at note 21 'Provisions'.		
9. Supplies and services		
Communications	14	10
Data processing costs	3	-
Consultant and contractors	981	807
Recruitment costs	41	83
Consumables	28	15
Insurance	55	52
Legal fees	63	209
Motor vehicle expenses	(3)	1
Travel	46	22
Other	65	100
	1,293	1,299
10. Depreciation and amortisation expense		
Depreciation		
Computer equipment	22	9
Office equipment	6	4
Office fitout	2	-
Total depreciation	30	13
Amortisation		
Computer software	1,408	-
Total amortisation	1,408	-
Total depreciation and amortisation	1,438	13

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007**

	2007	2006
	\$000	\$000
11. Finance costs		
Interest on borrowings	429	-
	429	-
12. Accommodation expenses		
Lease rental and other accommodation expenses	178	108
Repairs and maintenance	3	2
Cleaning and security	5	8
	186	118
13. Restatement of 2006 Comparative Amounts		
<p>The 2006 Income Statement comparative figures have been restated to exclude \$98,000 as interest received (and \$ 98,000 interest paid) on security deposits held by the IMO from market participants (see Note 37 for further information). Such deposits are held in trust by the IMO on behalf of market participants and as there is no economic benefit to the IMO in respect of the deposits, the interest received (and paid back to the participants) was recognised in error in the 2006 financial statements.</p> <p>Similarly, as no economic benefit is derived by the IMO from the security deposits held, the 2006 Balance Sheet comparative figures have been restated to exclude \$1,995,000 as the value of the security deposits, from both "Cash and Cash Equivalents" and "Other Liabilities", that were also recognised in error.</p>		
14. Other expenses		
Employment on-costs	22	1
Software maintenance	68	-
Repairs and maintenance	1	1
Other expenses	69	24
	160	26
15. Cash and Cash Equivalents		
Cash at bank	2,848	2,000
	2,848	2,000

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**NOTES TO THE FINANCIAL STATEMENTS
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	2007 \$000	2006 \$000
16. Receivables		
Current		
Receivables	1,659	(1)
GST receivable - ATO	84	49
	1,743	48
Receivables is accrued revenue relating to two months of market fees (May and June) not received by June 30.		
17. Other assets		
Current		
Prepayments	-	25
Interest receivables	-	2
Rental bond	-	12
	-	39
18. Property, plant and equipment		
Plant & equipment		
At cost	43	25
Accumulated depreciation	(11)	(5)
	32	20
Furniture & fittings		
At cost	1	1
Accumulated depreciation	-	-
	1	1
Computer equipment		
At cost	87	53
Accumulated depreciation	(32)	(11)
	55	42
Office fitout		
At cost	42	-
Accumulated depreciation	(2)	-
	40	-
Works in progress		
Leasehold improvement at cost	-	86
	-	86

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2007 \$000	2006 \$000
Total		
At cost	173	165
Accumulated depreciation	(45)	(16)
	128	149

Reconciliation of the carrying amount of property, plant and equipment at the beginning and end of the reporting period are set out below:

	Plant & equipment \$000	Furniture & fittings \$000	Computer equipment \$000	Office Fitout \$000	Works in Progress \$000	Total \$000
<u>2007</u>						
Carrying amount at start of year	20	1	42	-	86	149
Additions	18	-	35	42	(86)	9
Disposal	-	-	(1)	-	-	(1)
Depreciation	(6)	-	(21)	(2)	-	(29)
Carrying amount at end of year	32	1	55	40	-	128
<u>2006</u>						
Carrying amount at start of year	19	1	14	-	-	34
Additions	5	-	37	-	86	128
Disposal	-	-	-	-	-	-
Depreciation	(4)	-	(9)	-	-	(13)
Carrying amount at end of year	20	1	42	-	86	149

There were no indication of impairment of plant and equipment at 30 June 2007.

19. Intangible assets

Work in Progress

Computer software at cost	-	4,401
Accumulated amortisation	-	-
	-	4,401

Computer software

At cost	8,362	-
Accumulated amortisation	(1,408)	-
	6,954	-

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**NOTES TO THE FINANCIAL STATEMENTS
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	2007	2006
	\$000	\$000
Total		
At cost	8,362	4,401
Accumulated depreciation	(1,408)	-
	6,954	4,401
Reconciliation		
<i>Computer Software</i>		
Carrying amount at start of year	4,401	-
Additions	3,961	4,401
Disposal	-	-
Depreciation	(1,408)	-
Carrying amount at end of year	6,954	4,401

There were no indications of impairment to intangible assets at 30 June 2007.

20. Payables

Current		
Trade payable	3	85
GST payable	147	-
	150	85

21. Provisions

Current

Employee benefits provision

Annual leave (a)	227	152
Long service leave (b)	52	23
	279	175

Other provisions

Employment on-cost (c)	3	1
	3	1
	282	176

Non-Current

Employee benefits provision

Long service leave (b)	58	9
	58	9

Other provisions

Employment on-cost (c)	1	-
	1	-
	59	9

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2007 \$000	2006 \$000
(a) Annual leave liabilities have been classified as current as there is no unconditional right to defer settlement for at least 12 months after balance sheet date. Assessments indicate that actual settlement of the liabilities will occur as follows:		
Within 12 months of balance sheet date	130	87
More than 12 months from the balance sheet date	97	65
	<u>227</u>	<u>152</u>
(b) Long service leave liabilities have been classified as current as there is no unconditional right to defer settlement for at least 12 months after balance sheet date. Assessments indicate that actual settlement of the liabilities will occur as follows:		
Within 12 months of balance sheet date	46	15
More than 12 months from the balance sheet date	64	17
	<u>110</u>	<u>32</u>
(c) The settlement of annual and long service leave liabilities gives rise to the payment of employment on-costs including workers' compensation premiums and payroll tax. The associated expense is included at note 14.		

22. Other Liabilities

Current		
Accrued expenses	464	663
Accrued salaries	26	35
	<u>490</u>	<u>698</u>

23. Borrowings

Non-current		
WA Treasury Corporation Loan	6,444	3,228
	<u>6,444</u>	<u>3,228</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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	2007	2006
	\$000	\$000
24. Equity		
<p>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.</p>		
Retained earnings		
Balance at start of year	2,441	594
Result for the period	1,807	1,847
Balance at end of year	4,248	2,441

25. Notes to the Cash Flow Statement

(a) Reconciliation of cash

Cash at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

Cash and cash equivalents	2,848	2,000
	2,848	2,000

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

Profit for the period	1,807	1,847
Non-cash items		
Depreciation and amortisation expense	1,438	13
(Increase)/decrease in assets:		
Receivable	(1,659)	-
Other current assets	39	(18)
Increase/(decrease) in liabilities:		
Payables	(82)	479
Provisions	156	180
Other liabilities	(208)	-
Change in GST receivable/(payable)	505	(145)
Net GST receipts/(payments)	(394)	152
Net cash provided by/(used in) operating activities	1,602	2,508

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2007 \$000	2006 \$000
26. Commitments		
(a) Lease commitments		
Commitments in relation to leases contracted for at the balance sheet date but not recognised in the financial statements as liabilities are payable as follows:		
- Within one year	132	120
- Later than one year and not later than five years	570	733
- Later than 5 years	259	122
	961	975
Representing:		
- Non-cancellable operating leases	961	975
	961	975
(b) Capital expenditure commitments		
Capital expenditure commitments, being contracted capital expenditure additional to the amounts reported in the financial statements, are payable as follows:		
Intangible assets		
- Within 1 year	383	4,351
	383	4,351
The capital commitments include amounts for:		
Wholesale Electricity Market System	383	4,351
	383	4,351

27. Contingent liabilities and contingent assets

The IMO has no contingent liabilities and contingent assets as at balance sheet date.

28. Events occurring after the balance sheet date

The IMO is unaware of any event occurring after balance sheet date that would materially affect the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

29. Financial instruments

(a) Financial Risk Management Objective and Policies

Financial instruments held by the IMO are cash and cash equivalents, receivables, payables and borrowings. The IMO has limited exposure to financial risks. The IMO's overall risk management program focuses on managing the risks identified below.

Credit risk

The IMO trades only with recognised, creditworthy third parties. The IMO has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. In addition, receivable balances are monitored on an ongoing basis with the result that the IMO's exposure to bad debts is minimal. There are no significant concentrations of credit risk.

Liquidity risk

The IMO has appropriate procedures to manage cash flows by monitoring forecast to ensure that sufficient funds are available to meet its commitments.

Cash flow interest rate risk

The IMO exposure to market risk for changes in interest rates relate primarily to the long-term debt obligations. The IMO's borrowings are all obtained through the Western Australian Treasury Corporation (WATC) and are at fixed rates with varying maturities. The risk is managed by WATC through portfolio diversification and variation in maturity dates. Otherwise, the IMO is not exposed to interest rate risks.

(b) Financial Instrument Disclosures

Interest rate risk exposure

The following table details the IMO's exposure to interest rate risk as at the balance sheet date:

	Weighted Average Effective Interest Rate	Fixed Interest Bearing	Variable Interest Bearing	Non- Interest Bearing	Total
<u>2007</u>	%	\$000	\$000	\$000	\$000
<i>Financial Assets</i>					
Cash and cash equivalents	5.75	-	2,848	-	2,848
Receivables	N/a	-	-	1,743	1,743
		-	2,848	1,743	4,591
<i>Financial Liabilities</i>					
Payables	N/a	-	-	150	150
Borrowings	6.03	6,444	-	-	6,444
		6,444	-	150	6,594

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**NOTES TO THE FINANCIAL STATEMENTS
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	Weighted Average Effective Interest Rate	Fixed Interest Bearing	Variable Interest Bearing	Non- Interest Bearing	Total
<u>2006</u>	%	\$000	\$000	\$000	\$000
<i>Financial Assets</i>					
Cash and cash equivalents	5.50	-	2,000	-	2,000
Receivables	N/a	-	-	48	48
		-	2,000	48	2,048
<i>Financial Liabilities</i>					
Payables	N/a	-	-	85	85
Borrowings	5.61	3,228	-	-	3,228
		3,228	-	85	3,313

Fair Values

All financial assets and liabilities recognised in the balance sheet, whether they are carried at cost or fair value, are recognised at amounts that represent a reasonable approximation of fair value unless otherwise stated in Note 2 to the financial statements.

2007	2006
\$000	\$000

30. Key management personnel compensation

(a) Directors' remuneration

Total fees, salaries, employer's contributions to superannuation and fringe benefits received or due and receivable for the financial year by:

John Kelly (Chairman)	71	44
David Huggins (Director)	23	-
Shaun Dennison (Director)	39	10
Danielle McGrath (Director)	3	10
	136	64

Danielle McGrath resigned as a Director during the report period. David Huggins was appointed as a Director effective from 20 November 2006.

INDEPENDENT MARKET OPERATOR

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2007 \$000	2006 \$000
(b) Remuneration of senior officer		
The senior officer whose total of fees, salaries, superannuation, non-monetary benefits and other benefits for the financial year fall within the following bands are:		
Income Band (\$)		
60,001 – 70,000	-	1
330,001 – 340,000	1	-
The total remuneration of senior officer is:	335	61

The total remuneration includes the superannuation expense incurred by the IMO in respect of the senior officer.

31. Remuneration of auditors

Remuneration payable to the Auditor General for the financial year is as follows:

Auditing the accounts, financial statements and performance indicators	20	15
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32. Related bodies

The IMO has no related bodies.

33. Affiliated bodies

The IMO has no affiliated bodies.

34. Segment reporting

The IMO operates within one geographical sector (Western Australia) and in one business segment.

35. Supplementary financial information

Write-off

Property written-off by the IMO during the financial year	1	-
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INDEPENDENT MARKET OPERATOR

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

36. Explanatory Note

The profit for the year ending 30 June 2007 was \$1.8 million. This exceeded expectation largely due to lower than expected expenditure on salaries, supplies and services (consultancies and legal costs), and timing issues related to expenditure on IT systems. This reflects the difficulty of predicting expenditure during the establishment phase of the IMO.

37. Bank Security Deposits and Guarantees

In accordance with the Electricity Industry (Wholesale Electricity Market) Regulations 2004, the IMO requires market participants to deposit financial securities into a Trust Fund Bank Account maintained by the IMO, or provide the IMO with Deed of Bank Undertaking that authorises the IMO to withdraw funds from the participants bank account directly. The purpose of the security deposit or the bank guarantee is to provide a readily accessible fund that the IMO can draw on in the event that a participant fails to meet financial or performance targets.

(a) Bank Security Deposits

The security deposits are held on trust by the IMO and are not IMO monies, although the IMO has the right to draw on the funds. Accordingly, the value of the security deposits which as at 30 June 2007 amounted to \$30,110,000 (2006: \$1,995,000) is not included in the asset values reported in the balance sheet values in these financial statements.

(b) Bank Guarantees

Similarly, the value of Bank Undertakings which as at 30 June 2007 amounted to \$17,791,420 (2006: \$19,277,250) is also excluded from the balance sheet reported amounts.



AUDITOR GENERAL

INDEPENDENT AUDIT REPORT ON INDEPENDENT MARKET OPERATOR

To the Parliament of Western Australia

I have audited the financial report of the Independent Market Operator, which comprises the Balance Sheet as at 30 June 2007, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year ended on that date, a summary of significant accounting policies, other explanatory Notes and the Directors' Declaration.

Directors' Responsibility for the Financial Report

The directors of the Independent Market Operator are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Electricity Industry (Independent Market Operator) Regulations 2004. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Summary of my Role

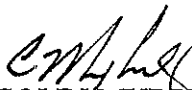
As required by the Electricity Industry (Independent Market Operator) Regulations 2004, my responsibility is to express an opinion on the financial report based on my audit. This was done by testing selected samples of the audit evidence. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion. Further information on my audit approach is provided in my audit practice statement. Refer "<http://www.audit.wa.gov.au/pubs/Audit-Practice-Statement.pdf>".

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.

Audit Opinion

In my opinion, the financial report of the Independent Market Operator is in accordance with Schedule 3 of the Electricity Industry (Independent Market Operator) Regulations 2004, including:

- (a) giving a true and fair view of the Independent Market Operator's financial position as at 30 June 2007 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.


COLIN MURPHY
AUDITOR GENERAL
20 September 2007