

Independent Market Operator



# **ANNUAL REPORT**

**2005/06**



*In August 2001, the Government of Western Australia established the Electricity Reform Task Force to investigate options for competitive electricity reform. After five years of hard work by industry and Government agencies the final stage of the new Wholesale Electricity Market, short-term energy trading, is about to be launched within the South West Interconnected System.*

*Industry's confidence in the dramatic changes to the way in which electricity will be traded is illustrated by thirty-three entities having already registered as Market Participants and over one thousand megawatts of new generation capacity under construction.*

*With its key roles in operating, administering and managing capacity provision within the electricity market, the Independent Market Operator is at the heart of the new market.*

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## ACHIEVEMENTS

The year 2005/06 has seen significant progress achieved on the road towards a successful commencement of the Wholesale Electricity Market. Electricity trading in the market is expected to commence in the first quarter of 2006/07. Achievements by the Independent Market Operator (IMO) during 2005/06 included:

- Appointment of ABB to develop the Market IT Systems to undertake all operations and settlement processes associated with the Wholesale Electricity Market.
- Significant progress in Market IT Systems development, testing and implementation.
- 33 entities Registered as Market Participants within the Market IT Systems.
- Market Participants were provided with comprehensive IT System training and have participated in extensive market trials.
- Statement of Opportunities Report published for the first Reserve Capacity Cycle.
- 4115.4 MW of Capacity Credits assigned to generation and demand side management facilities to meet the requirements of the first Reserve Capacity Cycle (October 2007 to October 2008).
- Expressions of Interest received for 712.6 MW of generation and demand side management capacity for the second Reserve Capacity Cycle (covering the period from October 2008 through to October 2009).
- Establishment of the IMO, with the appointment of new Directors, an inaugural Chief Executive Officer and recruitment of key operating and support staff.
- The Minister for Energy approved the IMO's Operational Plan for 2006/07.

## CHAIRMAN'S REPORT

The past 12 months have seen the IMO lay the foundations for the successful commencement of the Wholesale Electricity Market.

By far the most challenging task has been the procurement and commissioning of the IT systems, which form the core of market operations and settlement. After an intensive procurement process, ABB Inc was awarded the contract to develop and implement the systems.

On behalf of the IMO, I would like to express my appreciation to the many Market Participants who have participated in the testing and trials of the systems. This has been a significant effort from these people that still have their core businesses to operate at the same time. This reflects the high level of industry commitment, which has also been seen within the various teams developing and refining the market rules and procedures. It gives me great confidence that the planned commencement date for energy trading will be achieved.

A second key event has been the successful acquisition of the generation and demand side management (DSM) capacity necessary to meet system requirements of the first Reserve Capacity Cycle for the period October 2007 to October 2008. The IMO published its first Statement of Opportunities Report in July 2005 and following the certification of capacity, 4,115.4 MW of capacity credits were assigned.

The second Expression of Interest process also indicated a continuing high level of confidence in the market by Market Participants.

This year has also seen the structure of the IMO strengthened through the appointment of key operations and support staff. This has been a very demanding time and I would like to congratulate all staff for their efforts and tireless commitment to open the Wholesale Electricity Market in September.

I would also like to express my gratitude to Ms Anne Nolan who recently resigned as Chair. Ms Nolan has been very influential in the start up phase of the organisation and the IMO has been fortunate to retain her expertise upon her appointment in April as the Chief Executive Officer. It was also pleasing to be able to welcome Mr Shaun Dennison and Ms Danielle McGrath to the Board.

The outlook for the IMO is one of further change and challenge. The commencement of energy trading, the establishment of monitoring and surveillance processes and the procurement of new capacity will place great demands on the IMO. I believe that IMO's performance to date should encourage all of our stakeholders that these tasks will be accomplished efficiently and professionally.



John Kelly  
Chair

## CHIEF EXECUTIVE'S REPORT

This has been a year of building at the IMO – not only building of the systems needed to run the Wholesale Energy Market but building of the IMO itself.

I am pleased to say that we have now assembled a strong team that is well capable of taking the business forward. It is a diverse team with both depth and breadth. Some staff have extensive backgrounds in various aspects of the energy industry; others bring different but complementary skills and experience.

The building process has also encompassed the support systems and processes necessary to enable the market to be successful. Operating procedures have been developed and the first round of strategic planning has been completed. All this has been accomplished while undertaking the main task of developing, installing and testing of the market IT systems.

The contract for the market systems was awarded to ABB Inc with the settlement systems sub-contracted to Navita. Following factory testing in the US, the systems were delivered and installed within the IMO's Perth office early in 2006.

Extensive on-site testing has been completed and market trials involving Market Participants are now well underway. Substantial training has been provided to stakeholders, many of who have participated in the market trials.

The trials identified a number of areas where additional work needs to be undertaken by market participants, the IMO and others. A key result of the trials is that the IMO, with the support of industry, has been able to commit to 21 September 2006 as the date for the commencement of electricity trading.

The IMO has continued to progress the Reserve Capacity Mechanism completing the capacity acquisition process for the first Reserve Capacity Cycle and commencing that for the second. The Statement of Opportunities Report identified the need for capacity to be increased to 4000 MW for the period from October 2007 and October 2008.

Certified Reserve Capacity was granted to 4,536 MW of existing and new capacity with 4,114.5 MW of Capacity Credits being assigned. As a result of this, and commitments to capacity for the 2008/09 Reserve Capacity Cycle, approximately 1200 MW of new generation capacity is under construction. This is a very strong vote of confidence in the new market.

It was very pleasing to see that capacity credits for 2007/08 were assigned to a wide range of facilities including:

- Large conventional coal and gas fired plants.
- High efficiency cogeneration plants.
- Plants driven by non-conventional fuels.
- Large wind farms.
- Substantial demand side management programmes.

The success of the market depends upon the continuing close cooperation from a wide range of stakeholders. I would particularly like to thank the members of the Transitional Market Advisory Committee and the Market Readiness Committee for their substantial and essential contributions. The Industry Reference Group, a forum at which senior industry management has been able to provide direct input to the market development, has also assisted the IMO.

Market surveillance and monitoring will be critical to the efficient operation of the market, especially in view of the dominant positions of a few players. The IMO has commenced a process of liaison with both System Management and the Economic Regulation Authority in respect to developing the required protocols for this work.

This year has been very productive. Significant progress has been made towards the opening of the Wholesale Electricity Market and the IMO is well positioned to fulfil its responsibilities.

Looking to the future, the IMO appreciates that it has a critical role in shaping the market and understanding the impact this will have upon Market Participants. It takes this responsibility very seriously.

It is with pleasure that I submit my first report as Chief Executive Officer and I look forward to continuing the IMO's good working relationship with Market Participants in facing the challenges of 2006/07.



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) and forwarding these to Systems Management.
- Conducting market settlement.
- 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.

### **Corporate Operations**

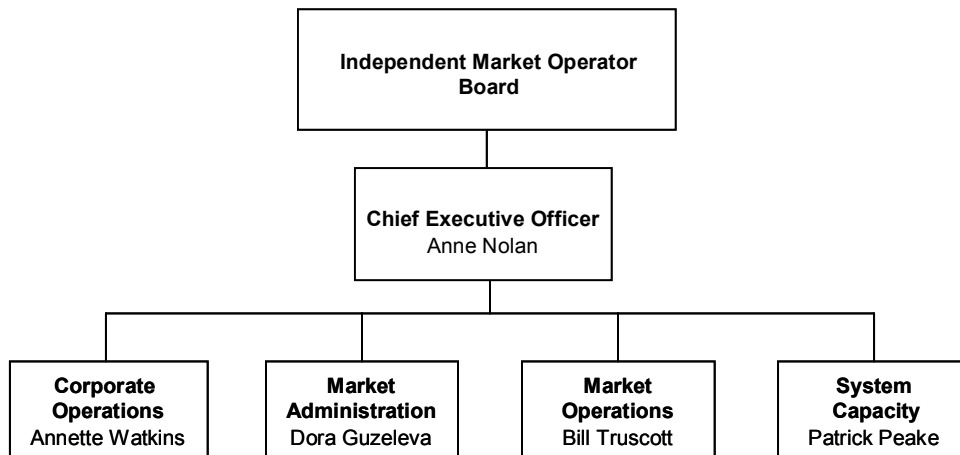
- Financial management of the IMO.
- Staff development and recruitment.
- Development of internal policies and procedures.
- General day-to-day operations of the IMO.

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 that are organised in a flat structure as shown.



## 1.4 Role and Function

Given this extensive list of IMO functions and market objectives, the Board and Senior Management of the IMO considered that understanding the essential role of the IMO would be facilitated by simply answering two fundamental questions. Who is the IMO and what does it do?

### 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 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.

## 1.5 Strategic Objectives

The Board and Senior Management have also developed four Strategic Objectives for the IMO to facilitate the achievement of the Objectives of the Wholesale Electricity Market. Over 2006/07, and following commencement of electricity trading, Key Performance Indicators will be developed for the IMO corresponding to these strategic objectives.

### THE IMO'S STRATEGIC OBJECTIVES

#### *Operational Effectiveness and Efficiency*

- Market 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 relations and communications in support of the Market.

#### *Financial Responsibility*

- Market costs are minimised and funds are used effectively.

## 1.6 IMO Values

The IMO is a new organisation. Developing and maintaining a good reputation will be essential if it 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 IMO staff 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.

#### *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. ELECTRICITY REFORM AND THE MARKET FRAMEWORK

### 2.1 Electricity Market Reform in Western Australia

One major aspect of the electricity reform agenda has been to establish a market for trading wholesale electricity within the South West Interconnected System (SWIS). This is the electricity network covering the south west of Western Australia that supplies power to the majority of the State's two million residents, shown in Figure 1.

**Figure 1. Map of the South West Interconnected System**



### 2.2 Disaggregation of Western Power

One of the major reforms undertaken in the energy market has been the disaggregation of the incumbent State-owned utility, Western Power. This entity had previously been vertically integrated with responsibility for electricity supply from generator to customers. In April 2006, three new Government owned trading corporations were established with each having responsibility for various parts of the operation within the SWIS:

- Verve Energy has responsibility for generation and operates a fleet of coal, gas and liquid and renewable fuelled power stations.
- Synergy Energy has responsibility for retail operations including the provision of interruptible and curtailable DSM services.
- Western Power has responsibility for the transmission and distribution networks and is the system operator.

A fourth entity, Horizon Power, has responsibility for all operations outside of the SWIS.

## 2.3 Institutional Arrangements

The Wholesale Electricity Market is being established to provide an efficient and convenient forum for buyers and sellers to trade wholesale electricity. It needs to be flexible to ensure that participants can establish trades that meet their individual objectives in respect to their preferred contract arrangements and risk profile.

The market must also provide certainty of supply while being able to accommodate every-day variations arising from factors such as changing weather conditions, customer demand and plant break-downs. The following describes the main market participants.

### **IMO**

As previously noted the IMO fulfils a number of distinct roles within the market as the market administrator and market operator.

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

More information on the IMO's activities is available at its website at [www.imowa.com.au](http://www.imowa.com.au).

### **System Management**

System Management is a ring-fenced entity within the new Western Power network corporation. It is responsible for the physical operation of the power system, ensuring that system security, safety and reliability are maintained in both the short and longer term.

Historically, as part of the Network Business Unit of Western Power, System Management's real-time function focused on instructing generating plant to increase or decrease output so as to meet demand on a moment-by-moment basis. With the commencement of the wholesale market, its functions will expand to include:

- Facilitating transactions scheduled by Independent Power Producers (IPPs) in accordance with their bilateral contracts and STEM trades.
- Scheduling Verve's generation capacity to meet its contractual requirements.
- Continuing to balance system supply and demand by dispatching Verve's generators and, if necessary, IPP generators.
- Ensuring that sufficient ancillary services are procured and dispatched to achieve system security.

System Management also conducts short and medium term system planning, including the co-ordination of scheduled outages of generators and other major items of plant that are critical to the maintenance of system capacity.

### **Economic Regulation Authority (ERA)**

The ERA has a substantial involvement within the electricity sector through its licensing and network access responsibilities. In respect to the market, its key role is market surveillance and the monitoring and reporting to Government on the efficiency and effectiveness of the market.

The ERA also has several other approval functions within the market including:

- Approving the maximum prices for the reserve capacity mechanism.
- Approving the maximum and minimum energy prices.
- Approving the efficient costs for the operation of both the IMO and System Management.

More information about the ERA can be found at its website at [www.era.wa.gov.au](http://www.era.wa.gov.au).

### ***Network Operators***

A network operator is an entity that operates or intends to operate a registered transmission or distribution system within the SWIS. As well as Western Power, it is anticipated that a number of private transmission systems may also register over time as network operators.

Network operators also have responsibility for metering of electricity produced by generators and used by end-use customers. This responsibility includes:

- The provision of accurate meters.
- Gathering and processing data from these meters.
- Providing metering data to market participants and the IMO for billing and settlement for energy traded in the wholesale market.

Independent network operators have the option of ceding their metering responsibilities to Western Power.

### ***Market Generators***

A market generator is an entity that operates a generating facility to provide energy to the market. Subject to some exemptions in the rules, all generating capacity with a capacity in excess of 10 MW will be required to register.

The largest generation entity at present is Verve Energy, which owns or controls around 3,400 MW of capacity. Other significant generators are Alinta Sales Pty, NewGen Power and Griffin Power which between them, have committed to around 1,200 MW of new capacity. Several smaller IPPs have also registered and been assigned Capacity Credits.

### ***Market Customers***

A market customer is an entity that purchases power from the market either for its own consumption or for retail sale. End use customers, such as domestic customers, who purchase electricity from a retailer, are not a part of the wholesale market. The experience in other markets is that very few end-use customers will buy wholesale power directly from the market.

The largest registered market customer is Synergy, which supplies both contestable and non-contestable (franchise) customers. Several other retailers have registered as market customers.

## 2.4 Electricity Trading

The structure and processes that constitute the market are established through the Wholesale Electricity Market Rules (Market Rules). These were developed by the OOE with substantial support from a number of expert teams comprising representatives from industry and Government. A full set of the Market Rules can be downloaded at the OOE website at [www.energy.wa.gov.au](http://www.energy.wa.gov.au).

The market design that has been developed comprises a wholesale electricity trading component and a capacity component which are described in more detail below.

The electricity trading component is scheduled to commence on 21 September 2006. It is expected that most electricity will be traded through bilateral contracts between Market Generators and Market Customers who, at the wholesale level, will mostly be retailers' on-selling electricity to end use customers.

Participants need some flexibility to be able to respond to fluctuations in demand resulting from less predictable factors such as the weather and other factors leading to a change in supply or demand. This is provided through a day-ahead short-term energy market (STEM).

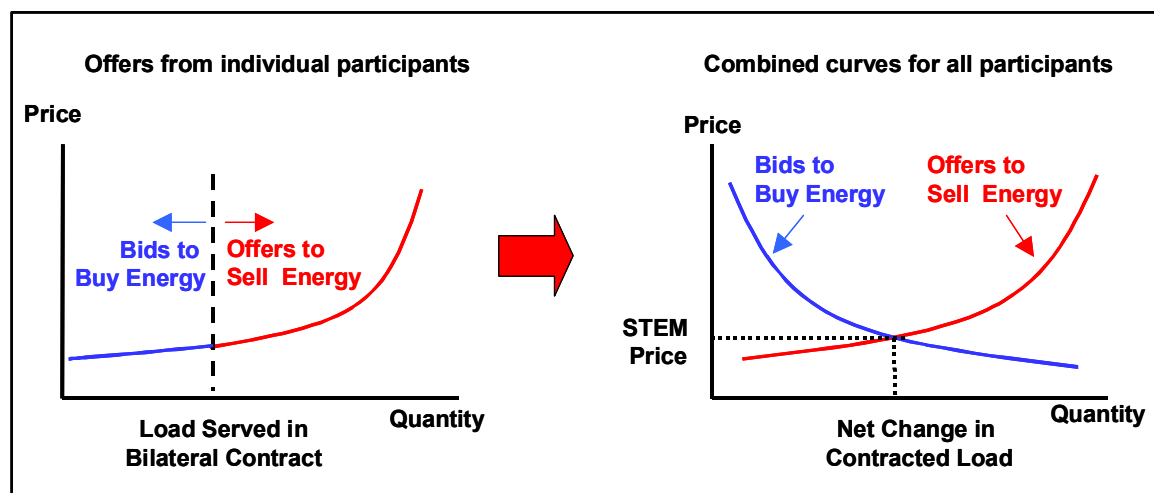
Each day, participants will advise the IMO of their bilateral contract position and make bids to buy and offers to sell electricity in each trading interval on the following day relative to its bilateral position.

A generator, for example, may offer to supply increasing quantities into the market, beyond its contractual position, as the price rises. It may also bid to purchase energy where the price is less than its own production cost.

Similarly, a retailer may offer to purchase increasing quantities as the price moves lower or less if the price increases.

The IMO will combine all of the bids and offers for all participants to determine the STEM price for each half hour.

**Figure 2. Setting Prices within the STEM**



The bilateral contract and STEM processes determine the quantity of electricity that will be provided by each generator in each trading interval.

Verve is required to balance the inevitable real-time variations in IPP generation and customer demand from its portfolio of generation plant. In the event that Verve owned plant is unable to fully cover any system imbalance, IPPs can be called upon to either increase or reduce generation from their plants.

One feature of the Wholesale Electricity Market is that the design has been developed so as to accommodate the specific requirements of renewable energy generators. In particular:

- Intermittent generators, such as wind farms, are not required to follow a production schedule.
- Intermittent generators may also spill their entire output into the market and receive payment at the prevailing half-hour price. This avoids the need for such generators to fully contract their output before commencing production.
- The level of Certified Reserve Capacity for intermittent generators recognises the non-dispatchable nature of their operation and is based on their average production.

A more detailed description of the market is available in the document, entitled “Wholesale Electricity Market Design Summary” which is available on the IMO website at [www.imowa.com.au](http://www.imowa.com.au).

## **2.5 System Capacity**

A key feature of the market in Western Australia, and one that distinguishes it from the National Electricity Market (NEM) operating in the Eastern States is the provision of a separate capacity mechanism.

In many markets, including the NEM, economic forces determine when new generators enter the market encouraged by high energy prices. A stronger focus on capacity adequacy has been adopted in the SWIS due to the small system size and, in particular, the inability to draw supplies from neighbouring power systems.

The Reserve Capacity Mechanism, which is the set of capacity related processes adopted in the SWIS, requires the IMO to centrally determine the capacity requirement and facilitate adequate capacity onto the system.

At the heart of this process is the concept of recognising that generators and DSM providers must be rewarded for the provision of reliable capacity.

Maximum capacity payments are set such that they are sufficient to fund a typical peaking gas turbine plant in the event that insufficient capacity is brought on line through bilateral contracts.

### **Capacity Obligations and Credits**

To ensure that sufficient capacity is installed in the SWIS, the market rules include the concept of Capacity Credits. A Capacity Credit is a notional unit of capacity that can be traded between market participants. Capacity Credits are valid for a particular Reserve Capacity Year and are allocated to a specific generating plant or DSM facility.



Generators, and providers of DSM, can earn Capacity Credits by providing capacity into the SWIS. Market customers are assigned Capacity Credit obligations based on their expected maximum demand, measured during periods of system peak demand, plus a contribution to the system wide reserve margin.

The IMO prepares forecasts of the quantity of electricity that it expects consumers within the SWIS will use on an annual basis over the next 10 years. The IMO then determines how much generation capacity is required to meet this demand and provide an adequate reserve margin to cover plant outages or other contingencies

The reserve margin comprises three components:

- The largest portion is required to cover the potential failure of the largest generating unit on the system.
- The second component is provided to ensure that the power system frequency can be adequately controlled at times of system peak.
- The third component provides stand-by coverage for embedded generators associated with intermittent loads (these are loads that are served by generators located at the same site).

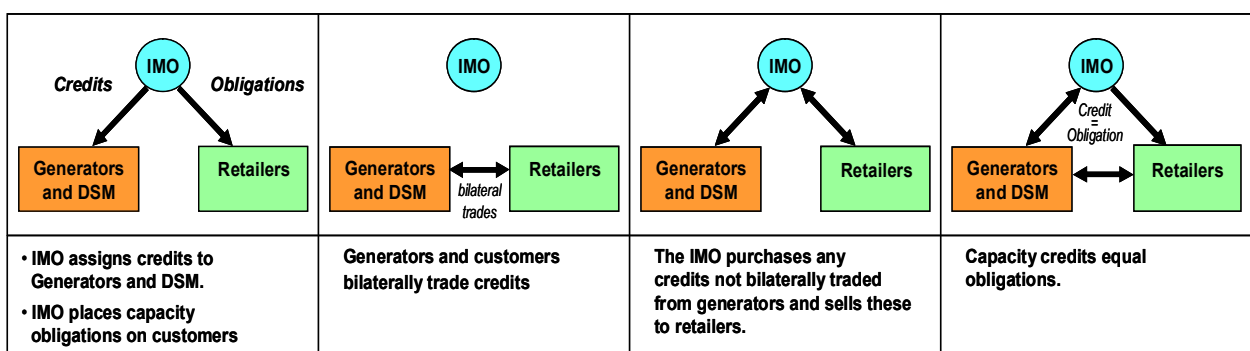
If, for example, the maximum demand is forecast to be 3,000 MW during a particular year, and the required reserve margin is 300 MW, then a total of 3,300 MW of capacity must be provided. To do this, the IMO must ensure that generators and DSM providers provide 3,300 Capacity Credits during that year. To ensure that this capacity is funded, the IMO must place 3,300 MW of Capacity Credit obligations on customers.

Generators can follow one of two processes to be assigned Capacity Credits. The first option is for the generator to advise the IMO that it is trading its Capacity Credits bilaterally with a customer or customers. This allows the customer to cover its obligations, possibly for a number of years, at an assured price (which is likely to differ from the prevailing Reserve Capacity Price).

The alternative is for the generator to offer its capacity into the Reserve Capacity Auction. However, the IMO will only call an auction if insufficient Capacity Credits have been assigned through bilateral trades. In the auction, the IMO will commit to purchase the outstanding number of Capacity Credits it requires.

As a consequence, the number of Capacity Credits that the IMO purchases from generators at least meets the quantity that customers need to purchase each year. It is expected that most trading of Capacity Credits will be through bilateral trades with a smaller proportion being traded through the IMO.

**Figure 3. Trading of Capacity Credits**



### **3. SUMMARY OF IMO ACTIVITIES**

#### **3.1 Overview**

The IMO was established in late 2004, and over 2005/06 the IMO has built towards commencing its full range of operations. It has been a particularly busy year with the major focus being on the development of the necessary IT systems for operation and administration of electricity and capacity trading.

Significant support work has also been required, including the development of market procedures, registration of market participants, changes to market rules and training of IMO staff and participants.

At the same time, the acquisition of capacity for the first Reserve Capacity Cycle was completed and the processes for the second cycle were commenced.

#### **3.2 Market Development**

##### ***IT System Design and Implementation***

The establishment of the Wholesale Electricity Market took a significant step forward in July 2005 with the appointment of a contractor to develop and implement the requisite IT Systems to operate the WEM. The implementation of these Systems is the most significant implementation task related to the establishment of the market.

The IT Systems were procured through a two-stage process. The first stage of the procurement process involved an Expressions of Interest request that identified five companies with the requisite skills, knowledge and experience. The second stage of the process involved the issue of a Request for Proposal to the five pre-qualified bidders.

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

- Total cost.
- The ability to complete implementation of the IT systems within 12 months after project commencement.
- Effective and efficient operation of the market.
- Flexibility to adapt to future changes in the market.

Through this competitive process, ABB was appointed as the successful tenderer and a contract for the provision of these systems was signed by the IMO and ABB on 27 July 2005. The ABB tender was selected based on the proven record of its proposed system and competitive cost. Whilst the System was customised to fit the IMO requirements, it was largely based on a platform that ABB had previously developed for other markets as well as other elements that were in the final stages of development.

The IT Systems project includes system development, testing, market trials and independent certification of the systems. A number of key project milestones must be met to ensure that the market can be successfully implemented. In summary the key milestones are:

- Development and approval of Functional Specifications.
- Development and approval of Detailed Design Description.

- Shipment and installation of the systems at the IMO sites.
- Completion of a number of tests, including Factory Acceptance Tests, Site Acceptance Tests, Field Trials and Availability Tests.
- Undertaking of comprehensive Market Trials with all potential Market Participants.
- Independent audit and certification of the Market Systems.

System Management, as a ring-fenced entity in Western Power, will have an extensive role and functions in the new market, and will be the key body interfacing with the IMO in the operation of the market. It is important that interfaces with System Management are completed in time to enable the effective implementation of the IMO Market Systems. The IMO and System Management are working closely towards establishing and achieving common milestones.

Market Participants will not be required to develop or purchase any special software to effectively interface with the IMO IT Systems to operate in the market. All of the required software will be provided by the ABB solution and will be downloaded onto Market Participants' computers via a web browser.

### ***Market Readiness Committee***

The Market Readiness Committee was established during the year as the key consultation vehicle to undertake the following tasks:

- Design Audit – reviewing whether the IMO Market Systems design is consistent with the Market Rules.
- Participant Education – assisting Market Participants during the testing phases of the IMO Market Systems implementation.
- Market Trials – designing the Market Trials and assisting with their execution.
- Managing and overseeing the development of the market Procedures.

The composition of the Market Readiness Committee ensured that all Market Participants' interests in regard to market readiness and interfacing with the IT Systems were considered. Market Participants were regularly briefed on the progress of the project and participated in the final stages of market development including market trials and training.

### ***Market Trials***

The Market Trial commenced on 1 May 2006. Testing of the Wholesale Electricity Market Systems and the Market Trials are ongoing and are expected to be completed by end of August 2006.

## **3.3 Market Support**

### ***Market Training***

In the lead up to the opening of the Wholesale Electricity Market, a series of training sessions were organised for Market Participants who may be considering entry into the new market. These focused on a range of areas, including:

- An overview of the Wholesale Electricity Market.
- Information regarding standing data.

- Energy market submissions, schedules and prices.
- Metering, settlement, invoicing and prudential support.

The first training session was held on 19 January 2006 and, while the bulk of the training was completed by April 2006, training sessions on selected topics continued through to the end of the year.

Copies of the information provided at the training sessions is available from the IMO website at [http://www.imowa.com.au/Market\\_Training.htm](http://www.imowa.com.au/Market_Training.htm)

### ***Market Rules***

A number of rule changes to accommodate the disaggregation of Western Power and other refinements were approved by the Market Readiness Committee and the Minister for Energy and gazetted during the year.

Further, a number of changes have been drafted to tidy up the rules prior to market commencement. While the majority of these are mechanical, there are some resulting from the implementation of the IMO Market Systems which must be implemented before the Energy Market Commencement. It is proposed to repeal the 2004 Rules and gazette a new consolidated version of the rules, including all changes since 2004, before Energy Market Commencement.

### ***Market Procedures***

The Market Procedures Working Group, chaired by the IMO, developed more than twenty Market Procedures during the year. These, together with nine System Management procedures, were approved by the Market Readiness Committee and will be submitted to the Minister for his approval and subsequent publication. The Procedures, marked as "drafts", have been published on the IMO website in the interim. A number of further Market Procedures are under development.

### ***Participant Registration***

Under the Wholesale Electricity Market Rules, participants who intend to enter the market as generators or retailers are required to register with the IMO. By registering, participants agree to comply with the Market Rules and provide standing data necessary for the operation of the market.

Participants will have to submit registration applications, covering the full registration requirements in the Market Rules, using the IMO Market Systems during the last few weeks before the Energy Market Commencement.

The IMO processed registration applications from participants concurrently with developing its systems and processes. As at 30 June 2006, 33 entities had registered as market participants. Some of these entities have registered as both generators and retailers, while several entities have registered more than one participant. A full list is provided in Table 1.

**Table 1. Market Participants Registered as at 30 June 2006**

<b>Market Participant</b>	<b>Registration Classes</b>
AGL Energy Services	<i>Generator</i>
Alcoa of Australia	<i>Network Operator, Generator &amp; Customer</i>
Alinta Power Services	<i>Generator</i>
Alinta Sales	<i>Generator and Customer</i>
BioEnergy Ltd	<i>Generator</i>
EDWF Holdings # 1	<i>Generator</i>
EDWF Holdings # 2	<i>Generator</i>
EDWF Manager Pty Ltd	<i>Generator</i>
Electricity Generation Corporation (trading as Verve Energy)	<i>Generator and Customer</i>
Electricity Network Corporation (trading as Western Power)	<i>Generator and Customer</i>
Electricity Retail Corporation (trading as Synergy)	<i>Customer</i>
Eneabba Energy	<i>Generator and Customer</i>
Eneabba Gas	<i>Generator and Customer</i>
Goldfields Power	<i>Generator and Customer</i>
Griffin Power	<i>Generator</i>
Griffin Windfarm	<i>Generator</i>
IPM Energy Holdings	<i>Generator</i>
Landfill Gas & Power	<i>Generator</i>
Landfill Management Services	<i>Generator</i>
Midwest Energie	<i>Generator</i>
Mount Herron Engineering	<i>Generator</i>
Newmont Power	<i>Customer</i>
Perth Energy	<i>Generator and Customer</i>
Perth Power Partnership	<i>Generator</i>
Premier Power Sales	<i>Customer</i>
Southern Cross Energy	<i>Generator and Customer</i>
Transfield Services Kemerton	<i>Generator</i>
Wambo Power Ventures	<i>Generator</i>
Waste Gas Resources	<i>Generator</i>
Water Corporation	<i>Customer</i>
Wesfarmers Energy	<i>Generator</i>
Western Power Corporation	<i>Network Operator, Generator &amp; Customer</i>
Worsley Alumina	<i>Generator</i>

### **3.4 System Capacity**

#### ***2005 Statement of Opportunities Report***

As described above, a significant component of the Wholesale Electricity Market is the Reserve Capacity Mechanism.

In July 2005, the IMO published the first Statement of Opportunities Report (SOO) covering the period from 1 October 2007 through to 1 October 2008. The key results from the SOO were:

- The maximum demand during 2007/08 is forecast to be 3,655 MW.
- Allowing for a reserve to cover generation plant outages, and to maintain system security, the system would require a total of 4,000 MW of capacity.
- A total of 3,611 MW of generation and 120 MW of DSM was already in service or committed to be built for service in 2007/08.
- The opportunity existed for a further 269 MW of new facilities to be added to the system.

The report also identified 750 MW of possible new capacity that developers had indicated could be built for service in 2007/08.

#### ***Certification of Capacity***

To ensure that sufficient capacity is brought into service, the IMO assigns Capacity Credits to generators and DSM. For existing facilities, the IMO's major focus is on the ability of all facilities to provide the maximum output that has been claimed. For facilities that are yet to be brought into service, the IMO also assesses whether the nominated service date is likely to be achieved.

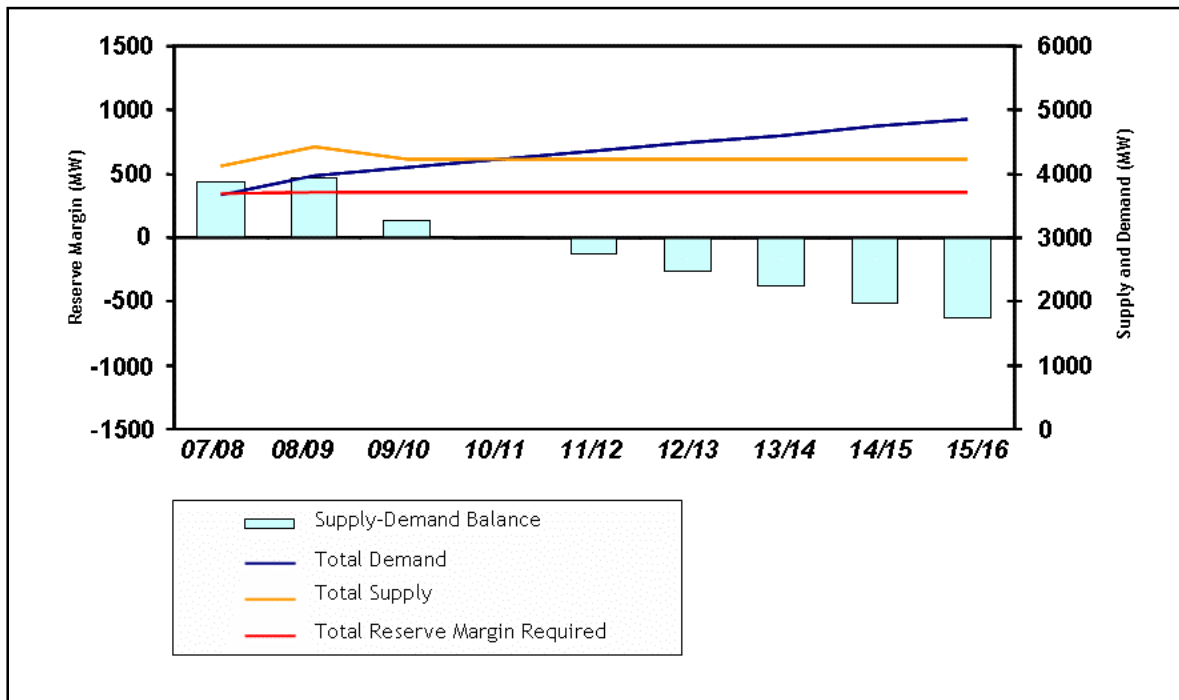
This process was undertaken for the first time during 2005. It ran smoothly but the IMO found it necessary to defer the closing date by four weeks as a number of potential developers had indicated they were having difficulty securing the necessary approvals from third parties.

For the first reserve capacity cycle, the IMO assigned 3,764.4 MW of capacity credits to plant that was in service or under construction. To meet the remaining requirement, the IMO assigned 351 MW of Capacity Credits, in accordance with the Market Rules, to Alinta Sales Pty Ltd's proposed Wagerup facility. The total quantity of Capacity Credits assigned was 4,115.4 MW.

The IMO secured sufficient capacity to meet the reliability criteria from facilities that advised their intention to trade their capacity bilaterally. As a consequence, it was not necessary to hold a Reserve Capacity auction and the Reserve Capacity Price was set through the administrative process. For the period from the commencement of energy trading through to 1 October 2008 the administered price for Capacity Credits is \$127,500 per MW.

The Market Rules have encouraged the development of over 90 MW of renewable energy generation which were assigned Capacity Credits for 2007/08.

**Figure 4. Reserve Margin Outlook**



### **Second Reserve Capacity Cycle**

In December 2005, the IMO published a draft report containing its estimate of the Maximum Reserve Capacity Price to apply for the reserve capacity year running from 1 October 2008 through to 1 October 2009.

Following public comment, and review by the Economic Regulation Authority, the price was set at \$122,500 per MW. Several factors led to this figure being set at a lower level than that applying for the first Reserve Capacity Cycle, the most significant of which was the reduction in costs of gas turbine generation plant.

In January 2006 the IMO called for expressions of interest (EOI) for new capacity for the second Reserve Capacity Cycle. A total of 712.6 MW of new generation and DSM capacity was offered indicating a continuing strong interest in the market.

Experience from the first EOI process suggests that only a small proportion of these projects will proceed for 2008/09 but others are likely to be committed for service in subsequent years.

### **Assessment of the Reserve Capacity Mechanism**

The high level of interest being shown by developers of potential generation facilities suggests that the reserve capacity mechanism (RCM) is working well. Obviously the development of new generation is driven by the strong demand for electricity, which in turn, is driven by the rapid growth in economic activity within Western Australia. However, the RCM is fundamental to establishing an environment in which investment in reliable generation is rewarded for being undertaken in an efficient and timely manner.

The RCM is also key to the continuing development of DSM as an integral part of the new trading arrangements. By assigning economic value to the capacity provided by DSM, the RCM encourages retailers and major customers to consider load management options that may previously have been unattractive.

Similarly, the RCM is encouraging operators of existing capacity to reassess the availability and reliability of their facilities. The IMO has been apprised of a wide range of upgrades, modifications and improvements that are being considered by Market Participants. Many of these will provide low cost capacity enhancements enabling Market Participants to hold or reduce their generation costs.

The IMO and industry will continue to examine ways in which the RCM can be improved as more experience is gained. Some concern has been expressed that the RCM, under some circumstances, may encourage over investment. The potential for volatility in the reserve capacity price has also been raised as an issue to be monitored. Future proposals for change in these areas may be considered through the Market Advisory Committee.



## 4. CORPORATE GOVERNANCE

### 4.1 Legislative Framework

The IMO was established in December 2004 under the *Electricity Industry (Independent Market Operator) Regulations 2004*. 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 Administration and Audit Act 1985*, with the exception of audit provisions, which means that the Auditor General conducts annual audits.

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.

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:

- An introductory document covering the role and responsibilities of the Board for the benefit of new members. 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.
- Consistent with the powers of delegation contained in the enabling regulations, the Board has fixed appropriate levels of delegation to effectively manage the IMO's business with clear lines of accountability.
- An Audit Committee, overseeing the internal audit program, which will commence in 2006/07.

### 4.3 Code of Conduct

The Regulations under which the IMO operates require the Board to establish minimum standards to apply to staff with regard to merit, equity and probity, and in consultation with the Commissioner for Public Sector Standards to develop a Code of Conduct. 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. There were no breaches of the Code of Conduct in the year.

Each new member of the IMO is provided a copy of the IMO's Code of Conduct booklet. This covers standards of behaviour for both business practices and personal conduct. It was distributed to all staff at publication and continues to be distributed as part of the induction package provided to all new staff members.

### 4.4 Other

- The IMO is a "notifying authority" for the purposes of the Corruption and Crimes 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. During the year, no applications were received.
- 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. A number of issues need to be addressed, in particular a Retention and Disposal Schedule, before the plan can be approved.

In keeping with the requirements of the *State Records Act 2000*, the IMO has commenced developing records management policies and procedures, training and induction programs for all staff. This implementation program will continue throughout 2006/07.

The initial Plan was prepared when the IMO was first established and indicated that a large number of records management objectives would be achieved during 2005/06. The IMO has faced a substantial administration workload associated with the recruitment of new staff, and developing policies and procedures in many areas. Consequently, the IMO has not been able to fully achieve the Record Keeping Plan objectives.

The IMO is keenly aware of the importance of the data within its remit and is working to ensure that its Records Plan fully complies with requirements. To this end, the IMO has now secured the services of a professional Records Manager and anticipates that the outstanding objectives will be accomplished over the coming year.

- 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 \$34,462 and general advertising costs of \$3,880.

## **5. DIRECTORS' REPORT**

The Directors of the Independent Market Operator present their report for the 12 months to 30 June 2006.

### ***Directors***

The following were Directors of the IMO during the financial year to 30 June 2006.

#### **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 and is a Fellow of the Institute of Engineers, Australia.

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 Chartered Accountants and 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 and a Bachelor of Laws (First Class Honours) and a Diploma of Applied Finance and Investment.

Ms McGrath's current term expires on 3 March 2007.

## **Anne Nolan**

### **Previous Chair**

Ms Anne Nolan was appointed Chair of the IMO in December 2004, as a founding Board member. She resigned from the position of Chair in March 2006. She has extensive leadership experience as well as experience in commercial and strategic policy setting in Treasury and the energy sector.

Ms Nolan has a Bachelor of Economics (Honours) and a Master of Economics. She is also a member of the Curtin Business School Advisory Council, Chair of the International Centre for the Application of Solar Energy and the Vice Chair of the Western Australia Coastal Shipping Commission.

### **Directors' Meetings**

Attendances by Directors at meetings held during the financial year ending 30 June 2006 were:

	Meetings Attended	Meetings Eligible
John Kelly	14	14
Anne Nolan	9	9
Shaun Dennison	5	5
Danielle McGrath	5	5

### **Principal Activities**

The principal activity of the IMO during the year was the establishment 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 2005 to June 2006 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 2005/06.

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 2006 was a profit of \$1.847 million with revenue of \$4.483 million (including grants from the State of \$4.343 million) and expenditure of \$2.636 million.

Under the Wholesale Electricity Market Rules, the IMO is required to levy fees for service upon Market Participants. The IMO expects the equity position to decline in 2006/07 as market fees will not be recovered until the start of the market, which is scheduled for 21 September 2006. Further government grants are not anticipated in 2006/07.

### **Dividends**

There were no dividends paid or declared by the IMO.

### **Significant Changes in the IMO's State of Affairs**

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**

It is noted that the final stage of establishment of the wholesale electricity market, the commencement of short term energy trading is scheduled to commence on 21 September 2006. Upon commencement of the Market the IMO will be funded through market fees.

The IMO's Directors are of the opinion that no matters or circumstances have arisen since the end of the financial year that 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 2006.

### **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 the 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 2005/06 are:

	Primary Fees	Post-employment Superannuation	Total
John Kelly	\$40,708	\$3,677	\$44,385
Anne Nolan	Nil	Nil	Nil
Shaun Dennison	\$9,523	\$857	\$10,380
Danielle McGrath	\$9,523	\$857	\$10,380

### 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 2005/06 based on benchmarking with other organisations and competitive requirements.

Details of emoluments provided to the five named officers receiving the highest emolument during 2005/06 are:

	Salary	Post-employment Superannuation	Total
Patrick Peake	\$138,154	\$16,578	\$154,732
John MacCaskill	\$94,440	\$2,184	\$96,624
William Truscott	\$85,540	\$8,902	\$94,442
Annette Watkins	\$81,144	\$7,415	\$88,559
Troy Forward	\$74,024	\$6,893	\$80,917

### Resolution

This report is made in accordance with a resolution of the Board on 14 September 2006.



John Kelly  
**Chair**  
 14 September 2006



Shaun Dennison  
**Director**  
 14 September 2006

## 6. FINANCIAL STATEMENTS

## INDEPENDENT MARKET OPERATOR

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### DIRECTORS' DECLARATION for the year ended 30 June 2006

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 2006 and of its performance for the period 1 July 2005 to 30 June 2006.

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  
14 September 2006



**John Kelly**  
DIRECTOR  
14 September 2006



## INDEPENDENT MARKET OPERATOR

### INCOME STATEMENT

for the year ended 30 June 2006

	Note	2006 \$000	2005 (7 months) \$000
<b>INCOME</b>			
<b>Revenue from continuing operations</b>			
User charges and fees		–	2
<b>Other revenue</b>			
Government grants		4,343	1,276
Interest revenue		140	3
<b>Total income</b>		<b>4,483</b>	<b>1,281</b>
<b>EXPENSES</b>			
Employee benefits expense	2	1,080	79
Supplies and services	3	1,325	560
Depreciation expense	4	13	3
Accommodation expenses	5	118	20
Other expenses		100	25
<b>Total expenses</b>		<b>2,636</b>	<b>687</b>
<b>PROFIT FOR THE PERIOD</b>		<b>1,847</b>	<b>594</b>

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

## INDEPENDENT MARKET OPERATOR

### BALANCE SHEET

for the year ended 30 June 2006

	Note	2006 \$000	2005 \$000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	6	3,995	793
Receivables	7	48	55
Other assets	8	39	21
Total Current Assets		<u>4,082</u>	<u>869</u>
<b>Non-Current Assets</b>			
Property, plant and equipment	9	149	34
Intangible assets	10	4,401	–
Total Non-Current Assets		<u>4,550</u>	<u>34</u>
<b>TOTAL ASSETS</b>		<b><u>8,632</u></b>	<b><u>903</u></b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables	11	85	–
Provisions	12	176	5
Other liabilities	13	2,693	304
Total Current Liabilities		<u>2,954</u>	<u>309</u>
<b>Non-Current Liabilities</b>			
Provisions	12	9	–
Borrowings	14	3,228	–
Total Non-Current Liabilities		<u>3,237</u>	<u>–</u>
<b>TOTAL LIABILITIES</b>		<b><u>6,191</u></b>	<b><u>309</u></b>
<b>NET ASSETS</b>		<b><u>2,441</u></b>	<b><u>594</u></b>
<b>EQUITY</b>			
Retained earnings	15	2,441	594
<b>TOTAL EQUITY</b>		<b><u>2,441</u></b>	<b><u>594</u></b>

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 2006

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	Note	2006 \$000	2005 \$000
<b>Balance of equity at start of period</b>	15	<u>594</u>	<u>-</u>
<b>RETAINED EARNINGS</b>			
Balance at start of period		594	-
Profit/(loss) for the period		1,847	594
Balance at end of period		<u>2,441</u>	<u>594</u>
<b>Balance of equity at end of period</b>		<u>2,441</u>	<u>594</u>
<b>Total income and expense for the period</b>		<u>1,847</u>	<u>594</u>

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

## INDEPENDENT MARKET OPERATOR

### CASH FLOW STATEMENT

for the year ended 30 June 2006

	2006	2005
	\$000	(7 months) \$000
	Note	
	16	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Receipts</b>		
Government grants	4,343	1,276
User charges and fees	–	2
Interest received	138	3
Goods and Services Tax receipts	780	10
Contractor bond receipts	1,995	–
<b>Payments</b>		
Employee benefits	(900)	(99)
Supplies and services	(852)	(323)
Accommodation	(130)	(2)
Other expenses	(98)	–
Goods and Services Tax payments	(773)	(38)
<b>Net cash provided by operating activities</b>	<b>4,503</b>	<b>829</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for property, plant and equipment	(128)	(36)
Payments for intangible assets	(4,401)	
<b>Net cash used in investing activities</b>	<b>(4,529)</b>	<b>(36)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	3,228	–
<b>Net cash provided by financing activities</b>	<b>3,228</b>	<b>–</b>
<b>Net increase in cash and cash equivalents</b>	<b>3,202</b>	<b>793</b>
Cash and cash equivalents at the beginning of period	793	–
<b>CASH AND CASH EQUIVALENT ASSETS AT THE END OF PERIOD</b>	<b>3,995</b>	<b>793</b>

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 2006

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. These policies have been consistently applied to all the years 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*.

##### (b) Basis of Preparation

The IMO has prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005.

In accordance with the requirements of AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', adjustments resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These accounts are the first financial statements of IMO to be prepared in accordance with AIFRS.

The accounting policies below have been consistently applied to all years presented. The IMO has elected to adopt the exemptions available under AASB 1 relating to AASB 132 'Financial Instruments: Disclosure and Presentation' and AASB 139 'Financial Instruments: Recognition and Measurement'. Reconciliations, where applicable, of the transition from previous Australian GAAP to AIFRS have been included in the notes to the financial statements.

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

##### (c) Revenue Recognition

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

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

Grants from the State Government are recognised upon receipt. The purpose of the grants is to provide the IMO with initial funding until the commencement of the Wholesale Electricity Market.

##### (d) Borrowing Costs

Borrowing costs for qualifying assets are capitalised net of any investment income earned on the unexpended 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.

#### **(e) Property, plant and Equipment**

##### *Capitalisation/Expensing of Property, Plant and Equipment*

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

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

##### *Depreciation*

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	8 years

#### **(f) Intangible Assets**

##### *Capitalisation/Expensing of Intangible Assets*

Acquisitions of intangible assets costing over \$5,000 and internally generated intangible assets costing over \$5,000 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.

The carrying value of intangible assets is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

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.

#### **(g) Impairment of Assets**

Plant, equipment, furniture and fittings and intangible assets are tested for any indication of impairment at each reporting 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 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.

## INDEPENDENT MARKET OPERATOR

### NOTES TO THE FINANCIAL STATEMENTS (CONT'D) for the year ended 30 June 2006

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The risk of impairment is generally limited to circumstances where an asset's depreciation is materially understated or where the replacement cost is falling. 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.

Tests are undertaken at each reporting date for intangible assets with an indefinite useful life and intangible assets not yet available for use, 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 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 reporting date.

#### **(h) Leases**

The IMO has entered into an 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 lease. 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.

#### **(i) Cash and Cash Equivalents**

For the purpose of the Cash Flow Statement, cash and cash equivalent assets comprise cash on hand and short-term deposits with original maturities of three months or less that are readily convertible to a known amount of cash and which are subject to insignificant risk of changes in value.

#### **(j) Receivables**

Receivables 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 its debts. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Income Statement.

#### **(k) 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.

**(l) Contractors Bonds**

Contractor bonds are security deposits for 'Reserve Capacity Security' from suppliers in accordance with Regulation 9 of the *Electricity Industry (Wholesale Electricity Market) Regulations 2004*. Bonds received are held in term deposits with the interest earned paid to the supplier. Unless the IMO has not drawn upon the security deposit as required by the Wholesale Electricity Market Rules, the deposit is returned to the contractor together with all interest that has not already been paid less any liabilities, expenses, fees, charges or taxes paid or payable in relation the security deposit or the closing of the account.

**(m) 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.

**(n) Provisions**

Provisions are liabilities of uncertain timing and amount. The IMO only recognises a provision where there is a present legal, equitable or constructive obligation as a result of a past event and when the outflow of economic benefits is probable and can be measured reliably. Provisions are reviewed at each balance date and adjusted to reflect the current best estimate.

**(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 reporting 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 reporting 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 reporting 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 reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

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 reporting date.

*Superannuation*

The Government Employees Superannuation Board (GESB) administers the Gold State and West State superannuation schemes.

Employees may contribute to the Gold State Superannuation Scheme, a defined benefit lump sum scheme now closed to new members or to a complying superannuation fund of their choice. All employees who do not contribute to either Gold State or another complying fund become non-contributory members of the West State Superannuation Scheme, an accumulation fund. The IMO contributes to this accumulation fund in compliance with the Commonwealth Government's *Superannuation Guarantee (Administration) Act 1992*.



The 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 'other expenses' and are not included as part of the IMO's 'Employee benefits expense' and the related liability is included in Employment on-costs provision.

#### **(o) Comparative Figures**

The IMO commenced operations on 1 December 2004 and comparative figures reflect seven months operations. Comparative figures have been restated on the AIFRS basis except for financial instruments information that has been prepared under the previous AGAAP Accounting Standard AAS 33 'Presentation and Disclosure of Financial Instruments'. The transition date to AIFRS for financial instruments will be 1 July 2005 in accordance with AASB 1 paragraph 36A.

#### **(p) Rounding**

The financial statements are presented in Australian dollars and all amounts have been rounded to the nearest thousand dollars, or in certain cases, the nearest dollar.

#### **(q) Future impact of Australian Accounting Standards not yet operative**

The IMO cannot early adopt an Australian Accounting Standard or UIG Interpretation. Consequently, the IMO has not applied the following Australian Accounting Standards and UIG Interpretations that have been issued but are not yet effective.

These will be applied from their application date:

- (a) AASB7 'Financial Instruments: Disclosures' (including consequential amendments in AASB2005-10 'Amendments to Australian Accounting Standards [AASB132, AASB101, AASB114, AASB117, AASB133, AASB139, AASB1, AASB4, AASB1023 and AASB1038]'). This Standard requires new disclosures in relation to financial instruments. The Standard is required to be applied to annual reporting periods beginning on or after 1 January 2007. The Standard is considered to result in increased disclosures of an entity's risks, enhanced disclosure about components of a financial position and performance, and changes to the way of presenting financial statements, but otherwise there is no financial impact.
- (b) AASB2005-9 'Amendments to Australian Accounting Standards [AASB4, AASB1023, AASB139 and AASB132]' (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 AASB4 'Insurance Contracts' or as a "financial guarantee contract" under AASB139 'Financial Instruments: Recognition and Measurement'. The IMO does not undertake these types of transactions resulting in no 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 2006.

## INDEPENDENT MARKET OPERATOR

### NOTES TO THE FINANCIAL STATEMENTS (CONT'D) for the year ended 30 June 2006

- (c) UIG Interpretation 4 'Determining whether an Arrangement Contains a Lease'. 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 AASB117 'Leases'. At reporting date, the IMO has not entered into any arrangements as specified in the Interpretation 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 2006.

The following amendments are not applicable to the IMO as they will have no impact:

<u>AASB Amendment</u>	<u>Affected Standards</u>
2005-1	AASB139 ( <i>Cash flow hedge accounting of forecast intra-group transactions</i> )
2005-5	'Amendments to Australian Accounting Standards [AASB1 and AASB139]'
2006-1	AASB121 ( <i>Net investment in foreign operations</i> )
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 AASB129 Financial Reporting in Hyperinflationary Economies'
UIG 8	'Accounting for Acquisitions - Recognition of Restructuring Costs as Liabilities'
UIG 9	'Accounting for Acquisitions - Recognition of Acquired Tax Losses'

## INDEPENDENT MARKET OPERATOR

### NOTES TO THE FINANCIAL STATEMENTS (CONT'D) for the year ended 30 June 2006

	2006	2005 (7 months)
	\$'000	\$'000
<b>2. EMPLOYEE BENEFITS EXPENSE</b>		
Salaries	922	68
Superannuation	81	7
Annual leave	77	4
	<b>1,080</b>	<b>79</b>
<b>3. SUPPLIES AND SERVICES</b>		
Communications	10	3
Consultant and contractors	807	461
Consumables	31	20
Insurance	52	35
Legal fees	209	17
Motor vehicle expenses	1	-
Repairs and maintenance	1	-
Travel	22	6
Other	192	18
	<b>1,325</b>	<b>560</b>
<b>4. DEPRECIATION EXPENSE</b>		
Depreciation of computer equipment	9	2
Depreciation of office equipment	4	1
	<b>13</b>	<b>3</b>
<b>5. ACCOMMODATION EXPENSE</b>		
Office accommodation rental	90	18
Other office accommodation expenses	28	2
	<b>118</b>	<b>20</b>
<b>6. CASH AND CASH EQUIVALENTS</b>		(not 7 months)
Cash at bank	2,000	793
Term deposits	1,995	-
	<b>3,995</b>	<b>793</b>
<b>7. RECEIVABLES</b>		
Goods and Services Tax receivable	48	55
	<b>48</b>	<b>55</b>
<b>8. OTHER ASSETS</b>		
Prepayments	25	21
Interest receivable	2	-
Rental bond	12	-
	<b>39</b>	<b>21</b>

## INDEPENDENT MARKET OPERATOR

### NOTES TO THE FINANCIAL STATEMENTS (CONT'D) for the year ended 30 June 2006

#### 9. PROPERTY, PLANT AND EQUIPMENT

	Carrying amount at 1 July 2005 \$'000	Additions \$'000	Disposal \$'000	Carrying amount at 30 June 2006 \$'000
<b>As at 30 June 2006</b>				
<b>Office equipment and furniture</b>				
At cost	21	5	–	26
Accumulated depreciation	(1)	(4)	–	(5)
Accumulated impairment losses	–	–	–	–
<b>Carrying amount</b>	<b>20</b>	<b>1</b>	<b>–</b>	<b>21</b>
<b>Computer equipment</b>				
At cost	16	37	–	53
Accumulated depreciation	(2)	(9)	–	(11)
Accumulated impairment losses	–	–	–	–
<b>Carrying amount</b>	<b>14</b>	<b>28</b>	<b>–</b>	<b>42</b>
<b>Works in Progress</b>				
Leasehold improvements at cost	–	86	–	86
<b>Carrying amount</b>	<b>–</b>	<b>86</b>	<b>–</b>	<b>86</b>
<b>Total</b>	<b>34</b>	<b>115</b>	<b>–</b>	<b>149</b>
	Carrying amount at 1 Dec 2004 \$'000	Additions \$'000	Disposal \$'000	Carrying amount at 30 June 2005 \$'000
<b>As at 30 June 2005</b>				
<b>Office equipment and furniture</b>				
At cost	–	21	–	21
Accumulated depreciation	–	(1)	–	(1)
Accumulated impairment losses	–	–	–	–
<b>Carrying amount</b>	<b>–</b>	<b>20</b>	<b>–</b>	<b>20</b>
<b>Computer equipment</b>				
At cost	–	16	–	16
Accumulated depreciation	–	(2)	–	(2)
Accumulated impairment losses	–	–	–	–
<b>Carrying amount</b>	<b>–</b>	<b>14</b>	<b>–</b>	<b>14</b>
<b>Total</b>	<b>–</b>	<b>34</b>	<b>–</b>	<b>34</b>

There were no indications of impairment to property, plant and equipment at 30 June 2006.

## INDEPENDENT MARKET OPERATOR

### NOTES TO THE FINANCIAL STATEMENTS (CONT'D) for the year ended 30 June 2006

#### 10. INTANGIBLE ASSETS

<b>As at 30 June 2006</b>	<b>Carrying amount at 1 July 2005 \$'000</b>	<b>Additions \$'000</b>	<b>Disposal \$'000</b>	<b>Carrying amount at 30 June 2006 \$'000</b>
<b>Works in Progress</b>				
Computer software at cost	–	4,401	–	4,401
<b>Carrying amount</b>	<b>–</b>	<b>4,401</b>	<b>–</b>	<b>4,401</b>
<b>Total</b>	<b>–</b>	<b>4,401</b>	<b>–</b>	<b>4,401</b>

There were no indications of impairment to intangible assets at 30 June 2006.

#### 11. PAYABLES

	<b>2006 \$'000</b>	<b>2005 \$'000</b>
Trade payables	85	–
	<b>85</b>	<b>–</b>

#### 12. PROVISIONS

##### (a) Provision for Employee Benefits

###### *Current*

Annual leave	134	4
Long service leave	23	–
	<b>157</b>	<b>4</b>

###### *Non-Current*

Long service leave	9	–
	<b>9</b>	<b>–</b>

##### **Total employee benefit provision**

<b>166</b>	<b>4</b>
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##### (b) Other Provisions

###### *Current*

Employee on-cost	19	1
<b>Total other provisions</b>	<b>19</b>	<b>1</b>

The settlement of annual leave liabilities gives rise to the payment of employment on-costs including superannuation and workers compensation premiums. The liability for such on-costs is included here.

## INDEPENDENT MARKET OPERATOR

### NOTES TO THE FINANCIAL STATEMENTS (CONT'D) for the year ended 30 June 2006

	2006 \$'000	2005 \$'000
<b>13. OTHER LIABILITIES</b>		
Accrued expenses	698	304
Contractor bonds	1,995	–
	<b>2,693</b>	<b>304</b>
<p>Contractor bonds represent security deposits as Reserve Capacity Security from suppliers in accordance with Regulation 9 of the <i>Electricity Industry (Wholesale Electricity Market) Regulations 2004</i>. Refer to note 1(l).</p>		
<b>14. BORROWINGS</b>		
WA Treasury Corporation Loan	3,228	–
	<b>3,228</b>	<b>–</b>
<b>15. EQUITY</b>		
<b>Retained Earnings</b>		
Opening balance	594	–
Profit for the period	1,847	594
<b>Closing balance</b>	<b>2,441</b>	<b>594</b>
<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>		
<b>16. NOTES TO THE CASH FLOW STATEMENT</b>		<b>(7 months)</b>
<p>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:</p>		
Cash and cash equivalents	3,995	793
	<b>3,995</b>	<b>793</b>
<p><u>Reconciliation of profit to net cash flows provided by operating activities</u></p>		
<b>Profit for the period</b>	<b>1,847</b>	<b>594</b>
Non-cash items:		
Depreciation and amortisation expense	13	3
(Increase)/decrease in assets:		
Other current assets	(18)	(21)
Increase/(decrease) in liabilities:		
Payables	479	276
Provisions	180	5
Other liabilities	1,995	–
Net GST receipts/(payments)	152	10
Change in GST in receivables/payables	(145)	(38)
<b>Net cash provided by operating activities</b>	<b>4,503</b>	<b>829</b>

## INDEPENDENT MARKET OPERATOR

### NOTES TO THE FINANCIAL STATEMENTS (CONT'D) for the year ended 30 June 2006

	2006 \$'000	2005 \$'000
<b>17. COMMITMENTS</b>		
<b>(a) Lease Commitments</b>		
Commitments in relation to leases contracted for at the reporting date but not recognised in the financial statements as liabilities are payable as follows:		
- Within 1 year	120	55
- Later than 1 year and not later than 5 years	733	36
- Later than 5 years and not later than ten years	122	–
	<u>975</u>	<u>91</u>
Representing:		
Non-cancellable operating leases	975	91
	<u>975</u>	<u>91</u>
<b>(b) Capital Commitments</b>		
Commitments in relation to capital expenditure for the Wholesale Electricity Market System contracted for at the reporting date but not recognised as liabilities are payable as follows:		
- Within 1 year	4,351	–
	<u>4,351</u>	<u>–</u>
<b>18. REMUNERATION OF AUDITOR</b>		
The remuneration of the auditors includes fees paid for auditing the accounts and financial statements as set out below:		
Office of the Auditor General	15	8
	<u>15</u>	<u>8</u>
<b>19. KEY MANAGEMENT PERSONNEL COMPENSATION</b>		
<b>(a) Directors' Remuneration</b>		
Total fees, salaries, employer's contributions to superannuation and fringe benefits received or due and receivable for the financial year by:		
John Kelly (Chairman)	44	20
Anne Nolan (Previous Chair)	–	–
Shaun Dennison (Director)	10	–
Danielle McGrath (Director)	10	–
	<u>64</u>	<u>20</u>

Four non-executive directors on the Board have held office during the reporting period. One executive director was a full time public servant and, therefore, did not receive any benefits as a director.

Anne Nolan resigned as a Director during the reporting period.

## INDEPENDENT MARKET OPERATOR

### NOTES TO THE FINANCIAL STATEMENTS (CONT'D) for the year ended 30 June 2006

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#### (b) Remuneration of Senior Executives

The number of Senior Executives whose total fees, salaries, employer's contributions to superannuation and fringe benefits received, fall within each band of income of \$10,000 are as follows:

\$	2006	2005
60,001 – 70,000	1	-

The total remuneration of the Senior Executive was \$61,000.

The total remuneration included the superannuation expense incurred.

#### 20. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The IMO has no contingent liabilities or contingent assets at the reporting date.

#### 21. EVENTS OCCURRING AFTER THE REPORTING DATE

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

#### 22. SEGMENT REPORTING

The IMO operates within one geographical sector (Western Australia) and in one business segment. Accordingly, the provision of segment information is not required.



**23. FINANCIAL INSTRUMENTS**

**(a) Financial Risk Management Objectives and Policies**

Financial instruments held by the IMO are cash and cash equivalents, receivables and payables. 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 cash flows to ensure that sufficient funds are available to meet its commitments.

*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**

Financial instrument information for the year ended 2005 has been prepared under the previous AGAAP Australian Accounting Standard AAS33 'Presentation and Disclosure of Financial Instruments'. Financial instrument information from 1 July 2005 has been prepared under AASB132 'Financial Instruments: Presentation' and AASB139 'Financial Instruments: Recognition and Measurement'.

*Interest Rate Risk Exposure*

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

	<b>Weighted Average Effective Interest Rate %</b>	<b>Fixed Interest Bearing \$000</b>	<b>Variable Interest Bearing \$000</b>	<b>Non- Interest Bearing \$000</b>	<b>Total \$000</b>
<b>2006</b>					
<b>Financial Assets</b>					
Cash and cash equivalents	5.50	1,995	2,000	–	3,995
Receivables	N/A	–	–	48	48
		<b>1,995</b>	<b>2,000</b>	<b>48</b>	<b>4,043</b>
<b>Financial Liabilities</b>					
Payables	N/A	–	–	85	85
Borrowings	5.61	3,228	–	–	3,228
		<b>3,228</b>	<b>–</b>	<b>85</b>	<b>3,313</b>

## INDEPENDENT MARKET OPERATOR

### NOTES TO THE FINANCIAL STATEMENTS (CONT'D) for the year ended 30 June 2006

#### 23. FINANCIAL INSTRUMENTS (cont'd)

##### (b) Financial Instrument disclosures (cont'd)

	Weighted Average Effective Interest Rate %	Variable Interest Bearing \$000	Non- Interest Bearing \$000	Total \$000
<b>2005</b>				
<b>Financial Assets</b>				
Cash and cash equivalents	4.75	793	-	793
Receivables	N/A	-	55	55
		<b>793</b>	<b>55</b>	<b>848</b>

##### *Fair Values*

The carrying amount of financial assets and financial liabilities recorded in the financial statements are not materially different from their net fair values.

#### 24. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Australia adopted Australian Equivalents to International Financial Reporting Standards (AIFRS) for reporting periods beginning on or after 1 January 2005. The IMO has adopted these standards for the first time for the year ended 30 June 2006.

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

##### (a) Reconciliation of Total Equity at the date of transition to AIFRS – 1 July 2004 (AASB 1.39(a)(i))

The IMO was established on 1 December 2004. The above reconciliation is not applicable in this instance.

##### (b) Reconciliation of Total Equity at the end of the last reporting period under previous AGAAP – 30 June 2005 (AASB 1.39(a)(ii))

There were no adjustments made as required by AASB 1.39(a)(ii) for the IMO as at 30 June 2005. The above reconciliation is not applicable in this instance.

##### (c) Reconciliation of Income Statement (Profit or Loss) for the year ended 30 June 2005 (AASB 1.39(b))

Under AASB 101 and 119, employee on-cost expense of \$25,000 was reclassified from 'employee benefit expenses' to 'other expenses'. There were no other adjustments made as required by AASB 1.39(b) for the IMO as at 30 June 2005 to the Income Statement.

##### (d) Reconciliation of Cash Flow Statement for the year ended 30 June 2005 (AASB 1.40)

There were no adjustments made as required by AASB 1.40 for the IMO as at 30 June 2005 in relation to the Cash Flow Statement. The above reconciliation is not applicable in this instance.



## AUDITOR GENERAL

### INDEPENDENT AUDIT REPORT ON INDEPENDENT MARKET OPERATOR

#### To the Parliament of Western Australia

#### **Audit Opinion**

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

- (a) schedule 3 of the Electricity Industry (Independent Market Operator) Regulations 2004, including:
  - (i) giving a true and fair view of the Independent Market Operator's financial position at 30 June 2006 and of its performance for the financial year ended on that date; and
  - (ii) complying with Accounting Standards in Australia; and
- (b) other mandatory professional reporting requirements in Australia.

#### **Scope**

The Board of Directors is responsible for the financial report.

The financial report consists of the Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement, accompanying Notes and Directors' Declaration.

#### ***Summary of my Role***

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

D D R PEARSON  
AUDITOR GENERAL  
19 September 2006