imo
Independent Market Operator

Annual Report 2010/11

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Independent Market Operator
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1. Chair and Executive Report

imo Independent Market Operator

In 2010/11 the IMO has focused on maintaining delivery in market operations and at the same time addressing critical issues raised in 2009/10. These issues included competitive balancing and ancillary service markets, the impact of renewables, the effectiveness of the Short Term Energy Market (STEM) and the Reserve Capacity Refund Scheme. With the support of the industry considerable progress has been made this year.

Following the early success of the Wholesale Electricity Market (WEM) the focus of the industry over recent times has turned to areas where the WEM could be made more competitive.

The Market Evolution Program (MEP) was established to address the priorities in the Market Rules Evolution Plan and the recommendations from the Verve Energy Review.

The MEP has the following objectives:

- To ensure the most economically efficient balancing options are used to provide balancing and load following ancillary services.
- To ensure Verve Energy can be increasingly treated like other Market Participants.
- To implement a new reserve capacity refund methodology that:
  - continues to incentivise long term maintenance regimes;
  - better reflects actual market conditions; and
  - ensures the incentives to provide capacity to meet system load are not undermined.
- To implement a more robust and adaptable IT system that can support evolution of the WEM over the next 3-5 years.

The Market Advisory Committee established an industry working group (the Rules Development Implementation Working Group – RDIWG) to advise the IMO on the MEP work program.

The MEP work program has progressed well during 2010/11 with significant input and support from the industry. MEP outcomes have been developed in line with industry and stakeholder expectations, and will be rolled out from the end of 2011.

The MEP initiatives will place greater reliance on our IT systems in future years. To address this, the IMO restructured its IT activities this year. The result of recruiting key IT personnel, combined with the added investment in our systems as part of the MEP work program, will result in improved service delivery.

The other key focus during the 2010/11 year has been on maintaining and incrementally improving the IMO's service delivery to our customers. The IMO has targeted both the quality and frequency of its engagement with stakeholders, along with increased use of technology to better support service delivery.

Throughout the year the IMO has actively sought additional opportunities to interact with industry stakeholders. These include:

- Market Operations Stakeholder Forum established in December 2010.
- IT User Group convened prior to releases of major system changes.
- IMO's investor road show held in Melbourne and Sydney.
- The IMO website upgrade.
- The IMO annual stakeholder survey which highlighted areas for further business improvement.

Interaction with industry stakeholders has never been greater and we acknowledge and appreciate the significant commitment of time and expertise the industry is prepared to make to improve the operation of the WEM.

In May 2011 an announcement was made by the Minister for Energy confirming the appointment of the IMO to operate a Gas Bulletin Board (GBB) and develop a Gas Statement of Opportunities (GSOO) for WA.

The IMO welcomes the Minister's announcement and will commence the implementation in the 2011/12 financial year. We look forward to working with a new set of stakeholders on this important initiative.

Finally we would like to acknowledge and thank all the dedicated staff at the IMO for another year of hard work. The progress made could not have been achieved without their fine efforts.

JOHN KELLY
CHAIR

ALLAN DAWSON
CHIEF EXECUTIVE OFFICER

2. Corporate Profile

The IMO is a body corporate that was established on 1 December 2004 to administer and operate the Wholesale Electricity Market of Western Australia.

The key roles and functions of the IMO are set out in the following instruments:

- Wholesale Electricity Market Rules;
- *Electricity Industry (Wholesale Electricity Market) Regulations 2004*; and
- *Electricity Industry (Independent Market Operator) Regulations 2004*.

2.1 Market Objectives

The *Electricity Industry Act 2004* sets the objectives of the Wholesale Electricity Market. These objectives are:

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

2.2 IMO Governance Framework

The IMO Board is the governing body, with authority to perform the functions, determine policies and control the affairs of the IMO.

The IMO Board is appointed by the Minister for Energy and operates in accordance with the *Electricity Industry (Independent Market Operator) Regulations 2004.*

IMO Board members are:

- John Kelly (Chair),
- Shaun Dennison; and
- David Huggins.

2.3 Strategic Objectives

Market Operations

The IMO operates reliable, efficient energy and capacity markets with integrity and transparency.

Market Development

The IMO promotes market evolution to meet the needs of the market, consistent with the Market Objectives. Development is based on robust analysis, objective reasoning and consultation.

Customers and Stakeholders

The IMO develops relationships with customers and stakeholders, based on trust and knowledge sharing, to support the Market Objectives.

Financial Responsibility

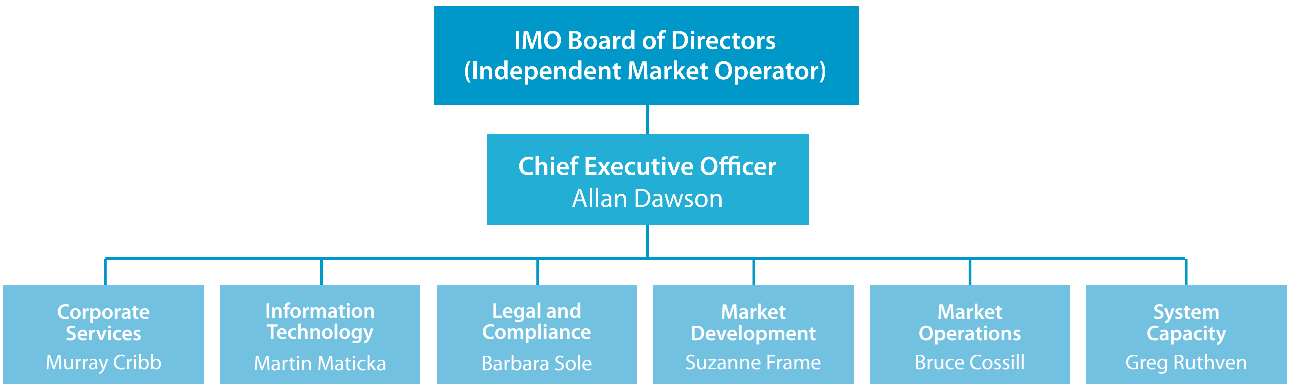
All financial transactions have prudent governance oversight. IMO expenditure is cost effective.

IMO Capacity and Capability

The IMO has the capacity and capability to operate the market professionally and meet our stakeholders' expectations.

2.4 IMO Organisational Structure

Figure 1. IMO Organisational Chart



3. 2010/11 in Review

3.1 Key Performance Indicators 2010/11

Strategic Objective: Market Operations

Measure	Performance Expectation	Actual Performance
Number of STEM Market Suspensions	≤ 1	1
STEM Market delay	≤ 5	4
Unplanned system unavailability (3,650 hours per year – 7:00 am – 5:00 pm seven days per week)	≤ 20 hours not available	4 hours
Late Settlement statements (STEM & Non-STEM)	≤ 2	2

Strategic Objective: Financial Responsibility

Measure	Performance Expectation	Actual Performance
Expenditure Control	≤ Allowable Revenue	Within budget.
Capital Expenditure Control	≤ Capital Budget	Within budget.

Strategic Objective: Market Development

Measure	Performance Expectation	Actual Performance
Market RulesEvolution Plan reviewed and updated	1 time per year	No updates planned to the Market Rules Evolution Plan for this year as IMO and Market Participants fully engaged on the Market Evolution Program.
High Priority Rule Changes on Market Rule Change log	Each change progressed within 3 months	No high priority rule changes received within the period.
Medium Priority Rule Changes on Market Rule Change log	Less than 5 outstanding issues (by the end of 2010/11)	18 outstanding issues resolved during the year. However 20 new issues added during the review period.[1]
Conduct Investor Information Briefings	Three national briefings conducted, with potential for one international briefing	Investor forum briefings held in Sydney and Melbourne in October 2010.

Strategic Objective: Customers and Stakeholders

Measure	Performance Expectation	Actual Performance
Number of market training sessions presented	≥ 25 courses	36 sessions presented.

Strategic Objective: IMO Capacity and Capability

Measure	Performance Expectation	Actual Performance
Training and development undertaken by IMO staff	40 hours per person	Average 34 hours per person (YTD).[2]

1 Number of issues on the Market Rule Change Log has not reduced in line with expectations. Internal reviews have uncovered multiple new rule issues.

2 Training and development hours have not met the KPI target during the review period largely as a result of the IMO workload this year. Individual staff development plans have been agreed for 2011/12 and should support the IMO achieving this KPI next year.

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.

The IMO is required under its Regulations to submit an operational plan and budget for the following financial year to the Minister for Energy for approval by 30 April each year.

The Regulations exempt the IMO from the *Public Sector Management Act 1994*, but require it to put in place minimum standards that reflect the principles of the Act and to report annually to the Commissioner for Public Sector Standards.

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

4.2 Board of Directors

The IMO's governing body is a Board of three Directors appointed by the Minister for Energy.

4.3 Code of Conduct and Human Resource Standards

The Regulations require the Board to develop and establish minimum human resource standards (HR Standards) to apply to staff, and a Code of Conduct, in consultation with the Commissioner for Public Sector Standards. The Board approved an employee handbook in June 2009 which contained revised HR Standards and a Code of Conduct. The Commissioner for Public Sector Standards was consulted on the HR Standards and Code of Conduct contained in the employee handbook providing complimentary feedback.

The Regulations require a report to be submitted to the Minister for Energy and Commissioner for Public Sector Standards annually regarding the observance by members of staff of the Code of Conduct and the Standards.

There were no breaches of either the HR Standards or the Code of Conduct during the year.

4.4 Occupational Safety and Health

The IMO is committed to providing a safe and healthy working environment.

During the year, an Occupational Safety and Health Group operated with specialised support provided by the Chamber of Commerce and Industry.

There were no fatalities or workers compensation claims lodged during the reporting period.

4.5 Internal Audit

The IMO's inaugural Strategic Audit Plan covers the period 2008/09 – 2010/11. During the year internal audit reviews were conducted in the areas of accounts payable, prudential arrangements and taxation compliance.

4.6 Other

- The IMO is a "notifying authority" for the purposes of the *Corruption and Crime Commission Act 2003* and the *Public Interest Disclosure Act 2003*. There were no incidents requiring disclosure reports under this legislation during the year.
- The provisions of the *Freedom of Information Act 1992* apply to the IMO. During the year, no applications were received. A statement in accordance with the *Freedom of Information Act 1992*, giving information about the IMO and making an FOI request is available on the IMO website.
- The State Records Commission approved the IMO's Recordkeeping Plan on 25 June 2008 satisfying the IMO's obligations under the *State Records Act 2000*. Employee responsibilities in respect of record keeping are outlined in the Employee Handbook, form part of formal induction processes for new starters, and are periodically presented to staff in support of the recordkeeping training program.
- Under the *Electoral Act 1907* the IMO is required to report on expenditure on advertising, market research, polling, direct mail and media advertising. Expenditure of $16,824 was incurred on staff recruitment advertising and $8,342 on tender advertising.
- The *Equal Opportunity Act 1994* requires the IMO to prepare and implement an equal opportunity management plan and report annually on progress with the plan. An updated EEO Management Plan for the period 2010-2012 was established in December 2009 and annual reporting obligations for 2010/11 were satisfied in July 2011.

5. Directors' Report

The Directors of the Independent Market Operator present their report for the twelve months to 30 June 2011.

Directors

The following were Directors of the IMO during the financial year to 30 June 2011:

John Kelly

- Appointed Director December 2004
- Appointed Chair April 2006
- Current term ends May 2012

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

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

Shaun Dennison

- Appointed Director March 2006
- Appointed Deputy Chair June 2006
- Current term ends* June 2010

* Under Schedule 1 of the *Electricity Industry (Independent Market Operator) Regulations 2004*, a Director continues in office until his or her successor comes into office, even if the period for which the Director was appointed has expired.

Mr Shaun Dennison has had over 20 years experience in corporate advisory and project management roles with a focus on energy and water sector reform. He is one of two independent members of the Information Exchange Committee, established under the National Electricity Rules, appointed by the electricity industry.

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

David Huggins

- Appointed Director November 2006
- Current term ends July 2011

Mr David Huggins is a lawyer specialising in stockbroking industry related matters. He currently has his own legal practice and has previously held positions with the Australian Securities Exchange, Australian Securities Commission and a major law firm.

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

Directors' Meetings

Attendances by Directors at meetings held during the financial year ending 30 June 2011 were:

	Meetings Attended	Meetings Eligible
John Kelly	13	13*
Shaun Dennison	13	13*
David Huggins	12	13*

* Includes special meetings held in April and June 2011.

Principal Activities

The principal activity of the IMO during the year was the operation of the Wholesale Electricity Market.

Review of Operations

The IMO has operated during 2010/11 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 2010/11.

Results of Operations

The Operating Result for the IMO for the year ending 30 June 2011 was a loss of $272,000, which compares to a budgeted loss of $772,000 approved in the Operational Plan. This outcome was better than expected largely due to lower than budgeted expenditure.

The IMO is required under the Market Rules to return operating surpluses to Market Participants via adjustments to subsequent year budgets. A surplus of $688,000 was recorded for 2008/09, which was offset against the 2010/11 operational loss of $272,000.

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

The IMO's Directors are of the opinion that no matters or circumstances have arisen since the end of the financial year or are likely to arise that will significantly affect (or have the potential to significantly affect) the IMO's operations, the results of those operations, or the state of affairs of the IMO in the financial year subsequent to 30 June 2011.

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 Directors and Officers Liability Insurance policy, which seeks to cover the Directors, the CEO, and any employee of the IMO for costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as an officer for the IMO. In accordance with Section 15 of the *Statutory Corporations (Liability of Directors) Act 1996*, the IMO had previously obtained the Minister for Energy's approval to pay the premium.

There were no claims made against Directors during 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 2010/11 are:

	Primary Fees	Post-employment Superannuation	Total
John Kelly	$64,792	$5,831	$70,623
Shaun Dennison	$35,885	$3,230	$39,115
David Huggins	$35,885	$3,230	$39,115

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 remuneration of the other senior executives in 2010/11 based on performance, benchmarking with other organisations and competitive requirements.

Details of emoluments provided to the named officers receiving the highest emolument during 2010/11 are:

	Salary	Post-employment Superannuation	Total
Allan Dawson	$332,820	$41,864	$374,684
Bruce Cossill	$219,829	$19,785	$239,614
Arthur Pettigrew *	$214,534	$15,553	$230,087
Troy Forward **	$200,199	$15,537	$215,736
Murray Cribb	$152,885	$20,448	$173,333

* Employed for period 1 July 2010 to 31 March 2011. Reported salary figure includes $18,921 accumulated annual leave and $32,191 long service leave paid out.

** Employed for period 1 July 2010 to 2 June 2011. Reported salary figure includes $27,568 accumulated annual leave paid out.

Resolution

This report is made in accordance with a resolution of the Board on 18 August 2011.

JOHN KELLY
CHAIR
15 September 2011

SHAUN DENNISON
DEPUTY CHAIR
15 September 2011

Financial Statements
for the Year ended 30 June 2011

The Directors of the Independent Market Operator declare that the financial statements and notes:

(a) comply with applicable accounting standards and the *Corporations Act 2001*;

(b) give a true and fair view of the financial position of the Independent Market Operator as at 30 June 2011 and of its performance for the period 1 July 2010 to 30 June 2011;

(c) are in accordance with *Electricity Industry (Independent Market Operator) Regulations 2004*; and

(d) 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.

Signed in accordance with a resolution of the Board of Directors.

JOHN KELLY
DIRECTOR

SHAUN DENNISON
DIRECTOR

Dated this 15th day of September 2011

Statement of Comprehensive Income
for the year ended 30 June 2011

	Note	2011 $000	2010 $000
INCOME			
User charges and fees	2	11,459	9,292
Interest revenue	3	153	70
Other income	4	66	56
Income from state government	4	6	5
Total income		**11,684**	**9,423**
EXPENSES			
Employee benefits expense	5	(4,650)	(3,799)
Depreciation and amortisation expense	6	(1,424)	(2,423)
Supplies and services	7	(5,106)	(4,653)
Advertising expense	8	(25)	(42)
Accommodation expense	9	(335)	(313)
Finance costs	10	(178)	(65)
Other expenses	11	(238)	(204)
Total expenses		**(11,956)**	**(11,499)**
(LOSS) FOR THE PERIOD	30	**(272)**	**(2,076)**
OTHER COMPREHENSIVE INCOME			
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**(272)**	**(2,076)**

The accompanying notes form part of these financial statements.

Statement of Financial Position as at 30 June 2011

	Note	2011 $000	2010 $000
ASSETS			
Current Assets			
Cash and cash equivalents	12	3,819	2,652
Trade and other receivables	13	1,902	1,602
Other current assets	14	47	21
Total Current Assets		**5,768**	**4,275**
Non-Current Assets			
Property, plant and equipment	15	580	676
Intangible assets	16	6,310	1,735
Total Non-Current Assets		**6,890**	**2,411**
TOTAL ASSETS		**12,658**	**6,686**
LIABILITIES			
Current Liabilities			
Trade and other payables	17	1,663	724
Borrowings	18	1,622	1,022
Other liabilities	19	1,918	500
Provisions	20	281	208
Total Current Liabilities		**5,484**	**2,454**
Non-Current Liabilities			
Borrowings	18	4,708	1,517
Provisions	20	182	159
Total Non-Current Liabilities		**4,890**	**1,676**
TOTAL LIABILITIES		**10,374**	**4,130**
NET ASSETS		**2,284**	**2,556**
EQUITY			
Accumulated surplus	21	2,284	2,556
TOTAL EQUITY		**2,284**	**2,556**

The accompanying notes form part of these financial statements.

	Note	Accumulated Surplus $000
Balance at 1 July 2009		**4,632**
Total comprehensive (loss)/income for the period		(2,076)
Balance at 30 June 2010	21	**2,556**
Balance at 1 July 2010		**2,556**
Total comprehensive (loss)/income for the period		(272)
Balance at 30 June 2011	21	**2,284**

The accompanying notes form part of these financial statements.

Statement of Cash Flows for the year ended 30 June 2011

	Note	2011 $000	2010 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Provision of services		11,133	9,222
Interest received		153	70
Other receipts		72	56
Goods and Services Tax receipts/(payments)		(67)	6
Payments			
Employee benefits expense		(4,642)	(3,791)
Supplies and services		(2,594)	(4,136)
Finance costs		(178)	(65)
Accommodation expense		(335)	(334)
Advertising expense		(25)	(42)
Other expenses		(238)	(204)
Net cash provided by operating activities	22(b)	**3,279**	**782**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of non-current physical assets		(243)	(301)
Purchase of intangible assets		(5,660)	(1,288)
Net cash (used in) investing activities		**(5,903)**	**(1,589)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds/(Repayments) of borrowings		3,791	(1,745)
Net cash provided by/(used in) financing activities		**3,791**	**(1,745)**
Net increase/(decrease) in cash and cash equivalents		**1,167**	**(2,552)**
Cash and cash equivalents at the beginning of period		2,652	5,204
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	22(a)	**3,819**	**2,652**

The accompanying notes form part of these financial statements.

The financial statements cover the Independent Market Operator ("IMO") as an individual entity. The IMO is a statutory corporation incorporated and domiciled in Australia. The IMO was established on 1 December 2004 by the *Electricity Industry (Independent Market Operator) Regulations 2004* to administer and operate the Western Australian Wholesale Electricity Market.

Note 1: Summary of Significant Accounting Policies

(a) General Statement

The financial statements constitute general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board ("AASB"), the *Corporations Act 2001* and the *Electricity Industry (Independent Market Operator) Regulations 2004*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards ("IFRS").

Where modification is required and has had a material or significant financial effect upon the reported results, details of that modification and the resulting financial effect are disclosed in the notes to the financial statements.

(b) Basis of Preparation

The financial statements have been prepared on the accruals basis of accounting using the historical cost convention, except for land, buildings and infrastructure which have been measured at fair value.

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

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

The judgements that have been made in the process of applying the IMO's accounting policies that have the most significant effect on the amounts recognised in the financial statements are disclosed at Note 1(u) 'Judgements Made by Management in Applying Accounting Policies'.

The key assumptions made concerning the future and other key sources of estimation uncertainty at the end of the reporting period, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are disclosed at Note 1(v) 'Key Sources of Estimation Uncertainty'.

(c) Reporting Entity

The reporting entity comprises the Independent Market Operator

(d) Revenue and Other Income

Revenue Recognition

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

User Charges and Fees

Revenue recognition relating to the provision of rendering services and licenses is recognised when the IMO has delivered the service, issued the licence or with reference to the stage of completion of the transaction, at the end of the reporting period and where outcome of the contract, or when the significant risks and rewards of ownership transfer to the purchaser can be measured reliably.

Interest

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

Gains

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

All revenue is stated net of the amount of Goods and Services Tax ("GST").

(e) Income Tax

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

(f) Borrowing Costs

All borrowing costs have been expensed in the financial statements in accordance with AASB 2009-1. This standard allows not-for-profit public sector entities an option to expense borrowing costs in the period in which they are incurred even if they relate to qualifying assets. Therefore, the financial statements have been prepared to reflect this option to expense the borrowing costs when incurred.

Note 1: Summary of Significant Accounting Policies (cont...)

(g) Plant and Equipment

Capitalisation/Expensing of Assets

Items of plant and equipment costing $5,000 or more are recognised and capitalised as assets and the cost of utilising assets is expensed (depreciated) over their useful lives. Items of plant and equipment costing less than $5,000 are immediately expensed direct to the Statement of Comprehensive Income (other than where they form part of a group of similar items which are significant in total).

Initial Recognition and Measurement

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

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

Subsequent Measurement

Subsequent to initial recognition as an asset, the IMO uses the cost model for all plant and equipment. Items of plant and equipment are carried at historical cost less accumulated depreciation and accumulated impairment losses.

Depreciation

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

Depreciation on other assets is calculated using the straight line method, using rates which are reviewed annually.

Estimated useful lives for each class of depreciable asset are:

Furniture and equipment	5 years
Computer equipment	3 years
Leasehold improvements	10 years (or remaining term of lease, if less)

(h) Intangible Assets

Capitalisation/Expensing of Assets

Acquisitions of intangible assets costing $5,000 or more and internally generated intangible assets costing $5,000 or more are capitalised. The cost of utilising the assets is amortised over their useful life. Costs incurred below these thresholds are immediately expensed directly to the Statement of Comprehensive Income.

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

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

Amortisation for intangible assets with finite useful lives is calculated for the period of the expected benefit (estimated useful life) on a 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 years

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

(i) Impairment of Assets

Plant and equipment and intangible assets are tested for any indication of impairment at the end of each reporting period. 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.

The risk of impairment is generally limited to circumstances where an asset's depreciation is materially understated, where the replacement cost is falling or where there is a significant change in useful life. Each relevant class of assets are reviewed annually to verify that the accumulated depreciation/amortisation reflects the level of consumption or expiration of the asset's future economic benefits and to evaluate any impairment risk from falling replacement costs.

Intangible assets with an indefinite useful life and intangible assets not yet available for use are tested for impairment at each reporting period irrespective of whether there is any indication of impairment.

The recoverable amount of assets identified as surplus assets is the higher of fair value less costs to sell and the present value of future cash flows expected to be derived from the asset. Surplus assets carried at fair value have no risk of material impairment where fair value is determined by reference to market-based evidence.

Where fair value is determined by reference to depreciated replacement cost, surplus assets are at risk of impairment and the recoverable amount is measured. Surplus assets at cost are tested for indications of impairment at the end of each reporting period.

Note 1: Summary of Significant Accounting Policies (cont...)

(j) Leases

Finance lease rights and obligations are initially recognised, at the commencement of the lease term, as assets and liabilities equal in amount to the fair value of the leased item or, if lower, the present value of the minimum lease payments, determined at the inception of the lease. The assets are disclosed as plant and equipment under lease, and are depreciated over the period during which the IMO is expected to benefit from their use. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding lease liability, according to the interest rate implicit in the lease.

The IMO holds operating leases for office accommodation. Lease payments are expensed on a straight line basis over the lease term as this represents the pattern of benefits derived from the leased property.

(k) Financial Instruments

In addition to cash, the IMO has two categories of financial instrument:

- Loans and receivables; and
- Financial liabilities measured at amortised cost.

Financial instruments have been disaggregated into the following classes:

- Financial Assets
    - Cash and cash equivalents; and
    - Receivables.
- Financial Liabilities
    - Payables; and
    - WATC borrowings.

Initial recognition and measurement of financial instruments is at fair value which normally equates to the transaction cost or the face value. Subsequent measurement is at amortised cost using the effective interest method.

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

(l) Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents 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.

(m) Accrued Salaries

Accrued salaries (refer Note 17) represent the amount due to employees but unpaid at the end of the financial year, as the pay date for the last pay period for that financial year does not coincide with the end of the financial year. Accrued salaries are settled within a few days of the financial year-end. The IMO considers the carrying amount of accrued salaries to be equivalent to its net fair value.

(n) Trade and Other Receivables

Trade and other receivables are recognised and carried at original invoice amount less an allowance for any uncollectable amount (i.e. impairment). The collectability of receivables is reviewed on an ongoing basis and any receivables identified as uncollectible are written-off against the allowance account. The allowance for uncollectible amounts (doubtful debts) is raised when there is objective evidence that the IMO will not be able to collect the debts. The carrying amount is equivalent to fair value as it is due for settlement within 30 days.

(o) Trade and Other Payables

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

(p) Borrowings

All loans payable 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.

(q) Provisions

Provisions are liabilities of uncertain timing or amount and are recognised when the IMO has a present legal or constructive obligation as a result of a past event and when the outflow of resources embodying economic benefits is probable and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at the end of each reporting period.

<u>Provisions – Employee Benefits</u>

Annual Leave and Long Service Leave

The liability for annual and long service leave expected to be settled within 12 months after the reporting period 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 reporting period 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 end of the reporting period.

Note 1: Summary of Significant Accounting Policies (cont...)

(q) Provisions (cont...)

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 using market yields at the end of the reporting period 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 period.

Superannuation

The Government Employees Superannuation Board ("GESB") in accordance with legislative requirements administers public sector superannuation arrangements in Western Australia.

Employees may contribute to the Pension Scheme, a defined benefit pension scheme now closed to new members or the Gold State Superannuation Scheme ("GSS"), a defined benefit lump sum scheme also closed to new members.

Employees commencing employment prior to 16 April 2007 who were not members of either the Pension or the GSS became non-contributory members of the West State Superannuation Scheme ("WSS"). Employees commencing employment on or after 16 April 2007 became members of the GESB Super Scheme ("GESBS"). Both of these schemes are accumulation schemes. The IMO makes concurrent contributions to GESB on behalf of employees in compliance with the Commonwealth Government's *Superannuation Guarantee (Administration) Act 1992*. These contributions extinguish the liability for superannuation charges in respect of the WSS and GESBS.

The Pension Scheme and the pre-transfer benefit for employees who transferred to the GSS are defined benefit schemes. These benefits are wholly unfunded and the liabilities for future payments are provided at the end of the reporting period.

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

The GSS, the WSS, and the GESBS, where the current service superannuation charge is paid by the IMO to the GESB, are defined contribution schemes. The liabilities for current service superannuation charges under the GSS, the WSS, and the GESBS are extinguished by the concurrent payment of employer contributions to the GESB.

The GSS is a defined benefit scheme for the purposes of employees and whole-of-government reporting. However, from an agency perspective, apart from the transfer benefits, it is a defined contribution plan under AASB 119.

<u>Provisions – Other</u>

Employment On-Costs

Employment on-costs, including workers' compensation insurance, are not employee benefits and are recognised separately as liabilities and expenses when the employment to which they relate has occurred.

Employment on-costs are included as part of the IMO's Supplies and Services – other' expenses as shown in Note 7, and are not included as part of the IMO's 'Employee Benefits Expense'. The related liability is included in the employment on-costs provision as shown in Note 20.

(r) Superannuation Expense

The superannuation expense of the defined benefit plans is made up of the following elements:

- Current service cost;
- Interest cost (unwinding of the discount);
- Actuarial gains and losses; and
- Past service cost.

Actuarial gains and losses of the defined benefit plans are recognised immediately as income or expense in the Statement of Comprehensive Income.

The superannuation expense of the defined contribution plans is recognised as and when the contributions fall due.

(s) Resources Received Free of Charge or for Nominal Cost

Resources received free of charge or for nominal cost that can be reliably measured are recognised as income and as assets or expenses as appropriate, at fair value.

Where assets or services are received from another State Government agency, these are separately disclosed under 'Income from State Government' in the Statement of Comprehensive Income.

(t) Comparative Figures

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

Note 1: Summary of Significant Accounting Policies (cont...)

(u) Judgements Made by Management in Applying Accounting Policies

The preparation of financial statements requires management to make judgements about the application of accounting policies that have a significant effect on the amounts recognised in the financial statements. The IMO evaluates these judgements regularly.

Operating Lease Commitments

The IMO is entered into leases for buildings for branch office accommodation. These leases relate to buildings of a temporary nature and it has been determined that the lessor retains substantially all the risks and rewards incidental to ownership. Accordingly, these leases have been classified as operating leases.

(v) Key Sources of Estimation Uncertainty

The IMO makes key estimates and assumptions concerning the future. These estimates and assumptions are based on historical experience and various other factors that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Long Service Leave

In calculating the IMO's long service leave provision, several estimations and assumptions have been made. These include expected future salary rates, salary inflation, discount rates, employee retention rates and expected future payments. Any changes in these estimations and assumptions may impact on the carrying amount of the long service leave provision.

Note 1: Summary of Significant Accounting Policies (cont...)

(w) Initial Application of an Australian Accounting Standard

The IMO has applied the following Australian Accounting Standards effective for annual reporting periods beginning on or after 1 July 2010 that impacted on the IMO.

AASB 2009-1	*Amendments to Australian Accounting Standards – Borrowing Costs for Not-for-Profit Public Sector Entities [AASB 1, AASB 111 & AASB 123]* In respect of not-for-profit public sector entities, this Standard amends *AASB 123* by reintroducing the option to expense borrowing costs in the period in which they are incurred and thereby allow, subject to the requirements in *AASB 1049 - Whole of Government and General Government Sector Financial Reporting*, an entity to choose whether it expenses or capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. As such, there is no financial impact resulting from the application of this standard to the IMO as per prior years, the IMO continues to expense borrowings costs in the period in which they are incurred.
AASB 2009-5	*Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 117, 118, 136 & 139]* Some amendments will result in accounting changes for presentation, recognition or measurement purposes, while other amendments will relate to terminology and editorial changes. Under amendments to *AASB 107*, only expenditures that result in a recognised asset are eligible for classification as investing activities in the Statement of Cash Flows. All investing cash flows reported in the IMO's Statement of Cash Flows relate to increases in recognised assets. Financial impact resulting from the application of this standard to the IMO is expected to be insignificant.

(x) Future Impact of Australian Accounting Standards not yet Operative

The IMO cannot early adopt an Australian Accounting Standard unless specifically permitted by the *Australian Accounting Standards*. Consequently, the IMO has not applied early any of the following Australian Accounting Standards that have been issued that may impact the IMO. Where applicable, the IMO plans to apply these Australian Accounting Standards from their application date.

		Operative for reporting periods beginning on/after
AASB 9	*Financial Instruments* This standard supersedes *AASB 139 - Financial Instruments: Recognition and Measurement*, introducing a number of changes to accounting treatments. The standard was reissued on 6 Dec 2010 and the IMO has not yet evaluated the application or potential financial impact of the standard.	1 Jan 2013
AASB 2009-11	*Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12].* The amendment to *AASB 7 - Financial Instruments: Disclosures* requires modification to the disclosure of categories of financial assets. The IMO does not expect any financial impact when the standard is first applied. The disclosure of categories of financial assets in the notes however may change.	1 Jan 2013

Note 1: Summary of Significant Accounting Policies (cont...)

(x) Future Impact of Australian Accounting Standards not yet Operative (cont...)

AASB 1053	*Application of Tiers of Australian Accounting Standards* This standard establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements. The standard is not expected to have any financial impact on the IMO. However, it may affect disclosures in the financial statements of the IMO if the reduced disclosure requirements apply. The IMO has not yet evaluated the application or potential financial impact of the standard.	1 Jul 2013
AASB 1054	*Australian Additional Disclosures* This standard, in conjunction with *AASB 2011-1: Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project*, removes disclosure requirements from other standards and incorporates them in a single standard to achieve convergence between Australian and New Zealand accounting standards. The IMO has not yet evaluated the application or potential financial impact of the standard.	1 Jul 2011
AASB 2010-2	*Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* This standard makes amendments to many Australian Accounting Standards, including interpretations, to introduce reduced disclosure requirements into these pronouncements for application by certain types of entities. The standard is not expected to have any financial impact on the IMO. However, the standard may reduce some note disclosures in the financial statements of the IMO. The IMO has not yet evaluated the application or potential financial impact of the amendments to these standards.	1 Jul 2013
AASB 2010-6	*Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]* This standard makes amendments to Australian Accounting Standards, introducing additional presentation and disclosure requirements for financial assets. The standard is not expected to have any financial impact on the IMO. The IMO has not yet evaluated the application or potential financial impact of the amendments to these standards.	1 Jul 2011

Note 1: Summary of Significant Accounting Policies (cont...)

(x) Future Impact of Australian Accounting Standards not yet Operative (cont...)

AASB 2010-7	*Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118 120, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127].* This amending standard makes consequential adjustments to other standards as a result of issuing *AASB 9 - Financial Instruments* in December 2010. The IMO has not yet evaluated the application or potential financial impact of the amendments to this standard.	1 Jan 2013
AASB 2011-1	*Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project [AASB 1, 5, 101, 107, 108, 121, 128, 132 & 134 and Interpretations 2, 112 & 113]* This amending standard, in conjunction with *AASB 1054 - Australian Additional Disclosures*, removes disclosure requirements from other standards and incorporates them in a single standard to achieve convergence between Australian and New Zealand accounting standards. The IMO has not yet evaluated the application or potential financial impact of the amendments to these standards.	1 Jul 2011
AASB 2011-2	*Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Regime [AASB 101 & AASB 1054]* This amending standard removes disclosure requirements from other standards and incorporates them in a single standard to achieve convergence between Australian and New Zealand accounting standards for reduced disclosure reporting. The IMO has not yet evaluated the application or potential financial impact of the amendments to these standards.	1 Jul 2013

Note 2: User Charges and Fees

	2011 $000	2010 $000
Regulatory charge – registration fees	24	14
Regulatory charge – market fees	11,435	9,278
	11,459	**9,292**

Note 3: Interest Revenue

Interest received from bank	153	70
	153	**70**

Note 4: Other Revenue

	2011 $000	2010 $000
Market participant training	6	11
Income from state government (a)	6	5
Other revenue	60	45
	72	**61**

(a) Services provided free of charge by the Department of Treasury and Finance ("DTF") for accommodation related services.

Note 5: Employee Benefits Expense

	2011 $000	2010 $000
Wages and salaries (a)	3,933	3,372
Superannuation - defined contribution plans (b)	357	322
Superannuation - defined benefit plans (Note 20 'Provisions')	176	99
Annual leave (c)	99	(34)
Long service leave (c)	85	40
	4,650	**3,799**

(a) Includes value of the fringe benefit to the employee plus the fringe benefits tax component.

(b) Defined contribution plans include West State, Gold State and GESB Super Scheme (contributions paid).

(c) Includes a superannuation contribution component.

Employment on-costs such as workers' compensation insurance are included in Note 7.

The employment on-costs liability is included at Note 20.

Note 6: Depreciation and Amortisation Expense

	2011 $000	2010 $000
Depreciation		
Computer equipment	167	85
Office equipment	12	12
Office fit-out	157	152
Furniture & Fittings	3	-
Total depreciation	**339**	**249**
Amortisation		
Computer software	1,085	2,174
Total amortisation	**1,085**	**2,174**
Total depreciation and amortisation expense	**1,424**	**2,423**

Note 7: Supplies and Services

	2011 $000	2010 $000
Communications and data processing costs (a)	364	218
Consultants and contractors:		
- market system maintenance and support (b)	1,118	915
- renewal energy working group (c)	89	459
- corporate IT maintenance and support (d)	265	164
- other	2,353	2,189
Recruitment costs (e)	194	89
Other	723	619
	5,106	**4,653**

(a) Increase influenced by the IMO disengaging in January 2010 from IT infrastructure previously provided by the DTF. Six months expenditure in 2009/10 compared to 12 months expenditure in 2010/11.

(b) Increase influenced by discrete engagement in 2010/11 to resolve backlog of system issues raised by market participants, annual increase in main maintenance and support contract rate and one off cleaning of market settlement system to improve functionality and performance.

(c) Consultancy expenditure in support of a special project established to evaluate the impact of renewable energy targets on the Wholesale Electricity Market. The majority of the project work occurred in 2009/10 with some concluding activity carrying over to 2010/11.

(d) Increase influenced by the IMO disengaging in January 2010 from IT infrastructure previously provided by DTF, and restructure of the IT section resulting in contracted support taking over functions previously provided by salaried staff.

(e) Increase related to restructure of the IT section resulting in additional recruitment activity, and engaging professional services in support of the recruitment function.

Note 8: Advertising Expense

Advertising staff vacancies	17	20
Advertising general	8	22
	25	**42**

Note 9: Accommodation Expense

Lease rentals	239	226
Car bay rental	64	62
Electricity	10	7
Repairs and maintenance	5	3
Lease administration	6	-
Cleaning and security	11	15
	335	**313**

Note 10: Finance Costs

	2011 $000	2010 $000
Interest expense on financial liabilities not at fair value through profit or loss:		
- external	178	65
Finance costs expensed	**178**	**65**

Note 11: Other Expenses

	2011 $000	2010 $000
Software maintenance	71	16
Repairs and maintenance	56	61
Other	111	127
	238	**204**

Note 12: Cash and Cash Equivalents

	2011 $000	2010 $000
Cash at bank	2,397	2,651
Cash at bank – Operating term deposit	-	1
Cash at bank – Market settlement default	1,422	-
	3,819	**2,652**

Note 13: Trade and Other Receivables

	2011 $000	2010 $000
Current		
Trade receivables	1	49
GST receivable - Australian Taxation Office	79	12
Accrued revenue	1,822	1,541
	1,902	**1,602**

Note 14: Other Current Assets

	2011 $000	2010 $000
Current		
Prepayments	47	21
	47	**21**

Note 15: Property, Plant and Equipment

PLANT AND EQUIPMENT	2011	2010
Office Equipment	$000	$000
At cost	66	66
Accumulated depreciation	(48)	(36)
	18	**30**
Computer Equipment		
At cost	674	482
Accumulated depreciation	(315)	(148)
	359	**334**
Office Fit-out		
At cost	641	607
Accumulated depreciation	(452)	(295)
	189	**312**
Furniture & Fittings		
At cost	17	-
Accumulated depreciation	(3)	(-)
	14	**-**
Total		
At cost	1,398	1,155
Accumulated depreciation	(818)	(479)
	580	**676**

Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the reporting period are set out in the table below:

	Office equipment $000	Computer equipment $000	Office fit-out $000	Furniture & Fittings $000	Total $000
2011					
Carrying amount at start of year	30	334	312	-	676
Additions	-	192	34	17	243
Disposals	-	-	-	-	-
Depreciation	(12)	(167)	(157)	(3)	(339)
Carrying amount at end of year	**18**	**359**	**189**	**14**	**580**
2010					
Carrying amount at start of year	42	118	464	-	624
Additions	-	301	-	-	301
Disposals	-	-	-	-	-
Depreciation	(12)	(85)	(152)	(-)	(249)
Carrying amount at end of year	**30**	**334**	**312**	**-**	**676**

There were no indications of impairment of property, plant and equipment as at 30 June 2011.

Note 16: Intangible Assets

	2011 $000	2010 $000
INTANGIBLES		
Computer Software		
At cost	13,316	11,349
Accumulated amortisation	(10,699)	(9,614)
	2,617	**1,735**
Reconciliation:		
Carrying amount at start of year	1,735	2,621
Additions	1,967	1,288
Disposals	-	-
Amortisation expense	(1,085)	(2,174)
Carrying amount at end of year	**2,617**	**1,735**
Work in progress – Market Evolution Program (a)		
At cost	3,693	-
Accumulated amortisation	-	-
	3,693	**-**
Reconciliation:		
Carrying amount at start of year	-	-
Additions	3,693	-
Disposals	-	-
Amortisation expense	-	-
Carrying amount at end of year	**3,693**	**-**
Total		
At cost	17,009	11,349
Accumulated depreciation	(10,699)	(9,614)
	6,310	**1,735**

(a) The Market Evolution Program ("MEP") emerged during the year as a new work program necessary to improve the Wholesale Electricity Market. Following industry endorsement, the State Government approved for an increase in the IMO's loan facility to fund the implementation of the MEP. In line with the established practice, expenditure on the MEP will be capitalised and will be depreciated over the financial years 2011/12 to 2014/15.

There were no indications of impairment to intangible assets as at 30 June 2011.

Note 17: Trade and Other Payables

	2011 $000	2010 $000
Current		
Trade payables	1,080	380
Accrued expenses	438	288
Accrued salaries	145	56
	1,663	**724**

Note 18: Borrowings

	2011 $000	2010 $000
Current		
Western Australian Treasury Corporation ("WATC") loan	1,622	1,022
Non-Current		
Western Australian Treasury Corporation ("WATC") loan	4,708	1,517
	6,330	**2,539**

Borrowings are cash advances and fixed rate term Australian Dollar loans from the WATC with a weighted average interest rate of 5.14% (2010: 5.36%).

Note 19: Other Liabilities

	2011 $000	2010 $000
Current		
Superannuation payable	-	4
Amounts due to market participants (a)	1,918	496
	1,918	**500**

(a) Amount relates to relinquishing of security deposit ($1,422,000) by a market participant as compensation to the market for failing to operate a facility in accordance with clause 4.13.11 of the market rules. The balance ($496,000) relates to outstanding settlements due to be reimbursed to market participants as at 30 June 2011.

Note 20: Provisions

	2011 $000	2010 $000
Current		
Employee benefits provision		
Annual leave (a)	223	170
Long service leave (b)	20	10
	243	**180**
Other provisions		
Employment on-costs (c)	38	28
	38	**28**
	281	**208**

Note 20: Provisions (cont...)

	2011 $000	2010 $000
Non-Current		
Employee benefits provision		
Long service leave (b)	158	140
	158	**140**
Other provisions		
Employment on-costs (c)	24	19
	24	**19**
	182	**159**
	463	**367**

(a) Annual leave liabilities have been classified as current as there is no unconditional right to defer settlement for at least 12 months after the reporting period. Assessments indicate that actual settlement of the leave liabilities will occur as follows:

Within 12 months of the end of the reporting period	173	122
More than 12 months after the reporting period	50	48
	223	**170**

(b) Long service leave liabilities have been classified as current where there is no unconditional right to defer settlement for at least 12 months after the reporting period. Assessments indicate that actual settlement of the leave liabilities will occur as follows:

Within 12 months of the end of the reporting period	20	10
More than 12 months after the reporting period	158	140
	178	**150**

(c) The settlement of annual and long service leave liabilities gives rise to the payment of employment on-costs including workers' compensation insurance. The provision is the present value of expected future payments. The associated expense, apart from the unwinding of the discount (finance cost), is disclosed in Note 11 'Other Expenses'.

Movements in Other Provisions

Movement during the financial year, other than employee benefits, are set out below.

Employment On-Cost Provision		
Carrying amount at start of year	47	19
Additional provisions recognised	15	28
Payments of economic benefits	-	-
Carrying amount at end of year	**62**	**47**

Note 21: Equity

Equity represents the residual interest in the net assets of the IMO. The Western Australian government holds the equity interest in the IMO on behalf of the market participants.

	2011 $000	2010 $000
Accumulated Surplus		
Balance at start of year	2,556	4,632
Result for the period	(272)	(2,076)
Balance at end of year	**2,284**	**2,556**

Note 22: Notes to the Statement of Cash Flows

(a) Reconciliation of cash

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

Cash and cash equivalents	**3,819**	**2,652**

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

Loss for the period	**(272)**	**(2,076)**
Non-cash items:		
Depreciation and amortisation expense	1,424	2,423
(Increase)/decrease in assets:		
Trade and other receivables	(234)	(70)
Other assets	(27)	(21)
GST receivable	(67)	6
Increase/(decrease) in liabilities:		
Trade and other payables	939	14
Provisions	96	6
Other liabilities	1,418	500
Net cash provided by/(used in) operating activities	**3,277**	**782**

Note 23: Commitments

Non-Cancellable Operating Lease Commitments

Commitments for minimum lease payments are payable as follows:

Within 1 year	306	174
Later than 1 year and not later than 5 years	-	183
	306	**357**

The property leases for office accommodation for 197 St Georges Terrace and 190 St Georges Terrace are non-cancellable leases with four year and three months and one year and nine months terms respectively, with rent payable monthly in advance. Contingent rental provisions within the lease agreements require that the minimum lease payments shall be increased by 5% and 4% respectively per annum. No option exists to renew the leases at the end of the four year and three months and one year and nine months terms. Both leases expire on 30 June 2012.

Note 23: Commitments (cont...)

Capital Commitments

Expenditure in relation to the Market Evolution Program ("MEP") is being capitalised and will be depreciated over the financial years 2011/12 to 2014/15 (see Note 16 for further information).

Capital commitments in respect of the MEP as at 30 June 2011 were as follows:

	2011 $000	2010 $000
Within 1 year (a)	1,847	-
Later than 1 year and not later than 5 years	-	-
	1,847	**-**

(a) Reflects the total remaining value of various contractor engagements entered into. Individual contracts, however, have varying termination clauses – if each contract was terminated at the earliest opportunity, the total contractual commitment reduces to $809,000.

Note 24: Contingent Liabilities and Contingent Assets

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

Note 25: Events Occurring After the End of the Reporting Period

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

Note 26: Financial Instruments

(a) Financial Risk Management Objectives and Policies

Financial instruments held by the IMO are cash and cash equivalents, borrowings, 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

Credit risk arises when there is the possibility of the IMO's receivables defaulting on their contractual obligations resulting in financial loss to the IMO.

The maximum exposure to credit risk at the end of the reporting period, in relation to each class of recognised financial assets, is the gross carrying amount of those assets, inclusive of any provisions for impairment, as shown in the table at Note 26(c) 'Financial Instruments Disclosures' and Note 13 'Trade and Other Receivables'.

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. At the end of the reporting period there were no significant concentrations of credit risk.

Liquidity Risk

Liquidity risk arises when the IMO is unable to meet its financial obligations as they fall due.

The IMO is exposed to liquidity risk through its trading in the normal course of business.

The IMO's objective is to maintain a balance between continuity of funding and flexibility through the use of WATC borrowings. 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.

Note 26: Financial Instruments (cont...)

(a) Financial Risk Management Objectives and Policies (cont...)

The IMO manages this risk through the following mechanisms:

- Preparing forward-looking cash flow analysis in relation to its operational, investing and financing activities;
- Monitoring undrawn credit facilities;
- Maintaining a reputable credit profile;
- Managing credit risk related to financial assets;
- Only investing cash with major financial institutions; and
- Comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The following table below details contractual maturity analysis for financial liabilities. The contractual maturity amounts are representative of the undiscounted amounts at the end of the reporting period. The table includes interest and principal cash flows. An adjustment has been made where material.

		Within 1 Year	
		2011	2010
	Note	$000	$000
Financial liabilities due for payment			
Trade and other payables (excluding accrued salaries)	17	1,518	668
		1,518	**668**

Market Risk

Market risk is the risk that changes in market prices such as foreign exchange rates and interest rates will affect the IMO's income or the value of its holdings of financial instruments. The IMO does not trade in foreign currency and is not materially exposed to other price risks. The IMO's exposure to market risk for changes in interest rates relates primarily to the long-term debt obligations.

The IMO's borrowings are all obtained through the WATC and are at fixed rates with varying maturities. The risk is managed by WATC through portfolio diversification and variation in maturity dates. Other than as detailed in the interest rate sensitivity analysis table at Note 26(c), the IMO is not exposed to interest rate risk.

This is because, apart from minor amounts of cash and cash equivalents which are non-interest bearing, the IMO has no other borrowings other than WATC borrowings.

(b) Categories of Financial Instruments

In addition to cash, the carrying amounts of each of the following categories of financial assets and financial liabilities at the end of the reporting period are as follows:

	Note	2011 $000	2010 $000
Financial Assets			
Cash and cash equivalents	12	3,819	2,652
Receivables (a)	13	1,823	1,590
Total financial assets		**5,642**	**4,242**
Financial Liabilities			
Trade and other payables	17	1,663	724
Borrowings	18	6,330	2,539
Total financial liabilities		**7,993**	**3,263**

(a) The amount of loans and receivables excludes GST recoverable from the ATO (statutory receivable).

Note 26: Financial Instruments (cont...)

(c) Financial Instrument Disclosures (cont...)

Credit risk and interest rate exposures

The following tables disclose the IMO's maximum exposure to credit risk, interest rate exposures and the ageing analysis of financial assets. The IMO's maximum exposure to credit risk at the end of the reporting period is the carrying amount of financial assets as shown below. The tables also disclose the ageing of financial assets that are past due but not impaired. The tables are based on information provided to senior management of the IMO.

The IMO does not hold any collateral as security or other credit enhancement relating to the financial assets it holds.

The IMO does not hold any financial assets that had to have their terms renegotiated that would have otherwise resulted in them being past due or impaired.

		Interest rate exposure				Past Due but Not Impaired (Days Overdue)				
Financial Assets	**Weighted Average Effective Interest Rate**	**Fixed Interest Bearing**	**Variable Interest Bearing**	**Non-Interest Bearing**	**Total**	**< 30**	**31 - 60**	**61 - 90**	**> 90**	**Within Initial Trade Terms**
2011	**%**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Cash and cash equivalents	4.62%	-	3,818	1	**3,819**	-	-	-	-	-
Receivables	N/A	-	-	1,823	**1,823**	1	-	-	-	1
		-	**3,818**	**1,824**	**5,642**	**1**	**-**	**-**	**-**	**1**
2010										
Cash and cash equivalents	4.25%	-	2,651	1	**2,652**	-	-	-	-	-
Receivables	N/A	-	-	1,590	**1,590**	49	-	-	-	49
		-	**2,651**	**1,591**	**4,242**	**49**	**-**	**-**	**-**	**49**

The following table details the contractual maturity analysis for financial liabilities. The contractual maturity amounts are representative of the undiscounted amounts at the end of the reporting period. The table includes interest and principal cash flows. An adjustment has been made where material.

		Interest rate exposure				Maturity date				
Financial liabilities	**Weighted Average Effective Interest Rate**	**Fixed Interest Bearing**	**Variable Interest Bearing**	**Non-Interest Bearing**	**Total**	**Up to 3 months**	**3-12 months**	**1-2 years**	**2-3 years**	**More than 3 years**
2011	**%**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Payables	N/A	-	-	1,663	**1,663**	1,663	-	-	-	-
Borrowings	5.14%	6,330	-	-	**6,330**	384	1,238	2,324	1,484	900
		6,330	**-**	**1,663**	**7,993**	**2,047**	**1,238**	**2,324**	**1,484**	**900**
2010										
Payables	N/A	-	-	724	**724**	724	-	-	-	-
Borrowings	5.36%	2,539	-	-	**2,539**	267	755	792	592	133
		2,539	**-**	**724**	**3,263**	**991**	**755**	**792**	**592**	**133**

Note 26: Financial Instruments (cont...)

(c) Financial Instrument Disclosures (cont...)

Interest rate sensitivity analysis

The following table represents a summary of the interest rate sensitivity of the IMO's financial assets and liabilities at the end of the reporting period on the surplus for the period and equity for a 100 basis point change in interest rates. It is assumed that the change in interest rates is held constant throughout the reporting period.

	Carrying amount	-100 basis points		+100 basis points	
		Surplus	Equity	Surplus	Equity
2011	$000	$000	$000	$000	$000
Financial Assets					
Cash and cash equivalents	3,818	(38.2)	(38.2)	38.2	38.2
Total increase/(decrease)		**(38.2)**	**(38.2)**	**38.2**	**38.2**
2010					
Financial Assets					
Cash and cash equivalents	2,651	(26.5)	(26.5)	26.5	26.5
Total increase/(decrease)		**(26.5)**	**(26.5)**	**26.5**	**26.5**

Borrowings are cash advances and fixed term loans and are excluded from the sensitivity analysis.

Fair value

All financial assets and liabilities recognised in the Statement of Financial Position, whether they are carried at cost or fair value, are recognised at amounts that represent a reasonable approximation of fair value unless otherwise stated in the applicable notes.

Note 27: Key Management Personnel Compensation

Information in respect of Directors' and Executives' remuneration has been previously disclosed in the Director's Report section of this Annual Report.

Note 28: Auditors' Remuneration

	2011	2010
	$000	$000
Remuneration payable to the Auditor General for the financial year:		
Auditing the accounts and financial statements	**22**	**25**

Note 29: Bank Security Deposits and Guarantees

In accordance with the *Electricity Industry (Wholesale Electricity Market) Regulations 2004*, the IMO requires market participants to deposit financial securities into a trust fund bank account maintained by the IMO, or provide the IMO, with a deed of bank undertaking that authorises the IMO to withdraw funds from the participant's bank accounts directly.

The purpose of the security deposit or the bank guarantee is to provide a readily accessible fund that the IMO can draw on in the event that a participant fails to meet financial or performance targets.

Bank Security Deposits

The security deposits are held on trust by the IMO and are not the IMO's monies, although the IMO has the conditional right to draw on the funds, as disclosed above. Accordingly, the value of the security deposits which as at 30 June 2011 amounted to $31,644,673 (2010: $18,794,590), is not included in the asset values reported in the Statement of Financial Position in these financial statements.

Bank Guarantees

Similarly, the value of bank undertakings which as at 30 June 2011 amounted to $97,284,676 (2010: $71,450,967), is also excluded from the Statement of Financial Position.

Note 30: Explanatory Statement

The operating result for the year was a loss of $272,000, which compares to a budgeted loss of $772,000 approved in the Modified Operational Plan (modified for the impact of the Market Evolution Program). This outcome was better than expected, influenced by mostly notably higher than budgeted market fee revenue of $390,000.

The IMO is required under the market rules to return operating surpluses to market participants via adjustments to subsequent year budgets. A surplus of $688,000 was recorded for 2008/09, which offsets against the 2010/11 operational loss of $272,000.

Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Parliament of Western Australia

INDEPENDENT MARKET OPERATOR

I have audited the financial report of the Independent Market Operator. The financial report comprises the Statement of Financial Position as at 30 June 2011, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, a summary of significant accounting policies, other explanatory Notes and the Directors' Declaration.

Directors' Responsibility for the Financial Report
The Directors of the Independent Market Operator are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Electricity Industry (Independent Market Operator) Regulations 2004, and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
As required by the Electricity Industry (Independent Market Operator) Regulations 2004, my responsibility is to express an opinion on the financial report based on my audit. The audit was conducted in accordance with Australian Auditing Standards. Those Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Independent Market Operator's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Independent Market Operator's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence
In conducting this audit, I have complied with the independence requirements of the Auditor General Act 2006 and the Australian Auditing Standards, and other relevant ethical requirements.

4th Floor Dumas House 2 Havelock Street West Perth 6005 Western Australia Tel: 08 9222 7500 Fax: 08 9322 5664

Independent Market Operator

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

(a) giving a true and fair view of the Independent Market Operator's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
(b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

COLIN MURPHY
AUDITOR GENERAL
16 September 2011

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