



COMMITTED TO AN  
INTEGRATED ENERGY FUTURE

ANNUAL REPORT 2012



## OUR VISION

Our vision is to be pivotal to markets that secure Australia's energy needs.

## OUR MISSION

Our mission is to plan, develop and operate markets that are responsive to energy sector needs and support long-term investment in Australia.

## WE VALUE

### Every Voice

AEMO is engaged and receptive. We listen openly and respectfully.

### Our Stakeholders

AEMO is stakeholder-focused and responsive. We are committed to delivering on the expectations of our stakeholders.

### One Team

AEMO is united and coherent. We work collaboratively and speak as one.

### Commitment and Delivery

AEMO's people are dedicated and accountable. We are motivated to perform at our best.

The Australian Energy Market Operator (AEMO) plays a pivotal role in delivering Australia's energy supply. We support the energy sector in providing the integrated, secure and cost-effective electricity and gas supplies fundamental to Australia's continued prosperity.

AEMO is facilitating an integrated energy future for Australia. To meet the challenge, AEMO is adapting to the changes taking place in our energy supply system by staying relevant, providing value and performing with vision, dynamism and commitment.

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# AEMO IS... LISTENING UNDERSTANDING RESPONDING COMMUNICATING

AEMO IS ADAPTING TO  
AUSTRALIA'S CHANGING  
ENERGY SYSTEM



The past 12 months have seen the public and media profile of Australia's energy industry increase substantially.

The energy industry is adapting to significant change, such as the move to a low carbon economy – for which AEMO is playing an important expert advisory role – and a fundamental shift in consumer behaviour. Consumers are adopting energy efficiency measures and installing solar rooftop photovoltaic (PV) units in response to rising electricity prices, while broader community concern about prices is at the core of debate surrounding network costs and investment.

To help better assess these changes, for the first time in 2012 AEMO developed an independent and consistent set of electricity forecasts for each region of the National Electricity Market (NEM).

The National Electricity Forecasting Report (NEFR) revealed a paradigm shift across the energy sector, with fundamental changes to the investment profile of Australia's electricity generation fleet. Driven by the Large-scale Renewable Energy Target (LRET), together with a move to demand side generation plant in solar PV, the years ahead will see further continued growth in renewable energy, particularly wind.

AEMO is ready to respond to these new developments on the economic, operational and policy fronts as we embark on the next phase of the industry's evolution. The past year has already set the stage with a number of successes, including the launch of the gas Short-Term Trading Market (STTM), that has helped prepare the organisation and the broader industry for the challenges ahead.

The 2012-13 value proposition for AEMO includes working closely with industry to align regional and connection point – or terminal station – electricity forecasts, providing a consistent basis for investment across the NEM, and consolidating publications to improve the focus and value of our analysis. AEMO is also streamlining our industry working groups and processes, as well as the products and



## CHAIRMAN'S REPORT

The way forward

services we provide to stakeholders, to improve their productivity, transparency and efficiency.

In 2012-13 we will further AEMO's objective to play a more active role in planning and decision making around transmission services. To this end, AEMO is working with the Australian Energy Market Commission (AEMC) and the Standing Council on Energy and Resources (SCER) as they progress important energy market reform initiatives relating to merits review and transmission frameworks. The successful conclusion of these reviews will help to ensure efficient and timely investment in and operation of generation and network assets.

Over the next 12 months we will also continue our focus on a transparent and open dialogue with the energy sector on our value and fees. We will demonstrate this by communicating more effectively with stakeholders and delivering against transparent and measurable initiatives.

The Commonwealth's establishment of statutory bodies the Clean Energy Regulator and Climate Change Authority – created to oversee Australia's transition to a low carbon economy – are additional stakeholders with which AEMO is forging close working relationships.

To manage the challenges that lie ahead AEMO will continue to rely on strong leadership. The AEMO Board has demonstrated its willingness to lead in times of change and I am pleased to welcome Mr Stephen Orr to the Board, replacing foundation director Ms Karen Moses. On behalf of all AEMO Board members, I thank Ms Moses for her outstanding contribution and commitment since AEMO was formed, and wish her well for the future.

Mr Orr has extensive senior management experience in the energy industry and brings to the AEMO Board detailed knowledge of the electricity wholesale spot and financial markets and a working understanding of gas markets.

As we look ahead to further reinforcing our central role in the energy sector, the Board and I would like to thank AEMO's members and stakeholders for their input and contribution. With their support AEMO will continue to build upon its vision.

I would also like to thank Mr Matt Zema for his ongoing commitment and foresight, as well as all AEMO employees for their motivation and hard work. Over the past year, their dedication has underpinned AEMO's capability in delivering a high standard of market oversight that continues to meet the expectations of our stakeholders.

We look forward to another exciting and fulfilling year, and continued industry and government engagement as part of our commitment to an integrated energy future.

A handwritten signature in black ink, which appears to read 'Thomas Parry'. The signature is written in a cursive, flowing style.

Dr Thomas Parry AM  
Chairman



# CHIEF EXECUTIVE OFFICER'S REPORT

## The year in review

**AEMO's role as Australia's energy market operator and planner has evolved. AEMO has moved on from integrating and transitioning our business to be ready for the future, while continuing to provide value to members and stakeholders.**

AEMO's strategic direction for the future development of efficient energy markets is central to our work, as is the continuing need for ongoing market reform. AEMO has identified opportunities to support the continued growth and evolution of its role in Australia's energy markets through the national transmission planner and market integrator and in energy information hub and clearing services.

A highlight during the year was AEMO's implementation of a nationally consistent and independent electricity forecasting model. AEMO launched the ground-breaking NEFR in June 2012, which for the first time provides more meaningful and timely forecasting information, with reports being released more frequently in response to changing conditions within the energy industry.

A major change is in how consumers are responding to higher electricity prices. There is an onus on industry to introduce more efficient transmission planning to deliver better value to generators and energy consumers.

As Victorian Transmission Network Service Provider (TNSP), AEMO already has a proven record in striving for the best outcome for industry and electricity users. Victoria has had the greatest utilisation of networks and efficiency in infrastructure provision over the past five years even though it has very 'peaky' electricity demand compared to other states in the NEM. This is supported in Victoria's asset utilisation rates for 2006-2011; its transmission prices are also the lowest.

AEMO is recommending significant changes to the transmission framework if Australia is to meet future generation and network investment challenges in a cost-effective way, ultimately

delivering better value to generators and energy consumers.

AEMO progressed integration of the jurisdictional gas retail markets in 2011-12, including the consolidation of development mechanisms and preparation for the implementation of the National Energy Customer Framework (NECF). Development of a strategy to consolidate AEMO's gas retail market IT systems has also commenced.

There have been advances in gas market development, with improved information transparency, convergence in specific areas of market design and improvements to liquidity, competition and trade across markets. A highlight in 2011-12 was the confirmation of SCER support for the continued development of a gas supply hub at Wallumbilla in Queensland.

Further developments have included the launch of the gas STTM at the Brisbane hub late in 2011 and the Victorian Connections Initiative which reached fruition in the last year. AEMO emphasised its ongoing stakeholder engagement in this initiative.

AEMO played a key role in responding to and supporting the implementation of important policy developments, such as the introduction of a carbon price on 1 July 2012.

While it will be some time before the full effects of the carbon price are known, AEMO is continuing to monitor its market impact and is acting in a technical advisory role on government policy initiatives.

AEMO has also shown its mettle in responding to natural weather events occurring through the year. It is a testament to AEMO's people that our response has been swift and decisive in dealing with the impacts of these events.

Closer to home, AEMO has implemented internal changes to ensure it is best placed to respond to the changing industry demands.

From 2009 to 2012 AEMO's focus was on transitioning its role from a patchwork of disparate market-focused organisations to a national operator. This year's restructure, which reduced the number of business units from 10 to six, positions AEMO for the next phase: becoming pivotal to energy markets.

AEMO's annual deficit for 2011-12 was \$18.7 million, which predominantly relates to lower revenue in the Victorian TNSP function as a result of lower than expected maximum demand during summer. AEMO 'ring-fences' the fees and costs for each of its functions to ensure any deficits or surpluses are recovered or returned to the relevant function.

AEMO also continued to focus on identifying efficiencies in its cost base to minimise the impact that the demand reduction would have on stakeholder fees. AEMO was able to negotiate significant sustainable reductions in insurance and financing costs in 2011-12.

AEMO's Workplace Health, Safety and Environment (WHSE) initiative continues to ensure AEMO people enjoy a safe, sustainable and healthy workplace. An employee survey conducted early in 2012 reflected the improvements AEMO has made in this area.

In rising to the energy industry challenges over the past year, AEMO has demonstrated its resilience, professionalism and strength. Its achievements have been many and I acknowledge the constant support of the AEMO Board and congratulate AEMO's talented and dedicated employees for their commitment to an integrated energy future.

**Matt Zema**  
Managing Director and  
Chief Executive Officer

# WHO AEMO IS AND WHAT AEMO DOES

AEMO is an independent, member-based organisation with responsibility for the operation and planning development of Australia's energy markets and systems.

AEMO was created in 2009 following an amalgamation of six industry bodies from across the electricity and gas markets. It has an ownership structure split between government and industry representatives from across the eastern states of Australia. Membership comprises 60 per cent Commonwealth and State government members and 40 per cent industry members.

As well as the day-to-day management of wholesale and retail energy market operations, AEMO is involved in the operation of the electricity power system and Victorian gas declared transmission system, ongoing market development and long-term market planning via demand forecasting and scenario analysis.

AEMO also delivers planning advice in eastern and south-eastern Australia and plans and procures electricity transmission expansions and connections in Victoria.

AEMO performs its functions under the National Electricity Law and National Gas Law and operates alongside the Australian Energy Regulator (AER) – which oversees economic regulation and compliance with national laws and rules, reports on generator bidding behaviour and regulates electricity transmission and distribution networks – and the Australian Energy Market Commission (AEMC), which makes the rules governing the regulation of the energy markets.

The Standing Council on Energy and Resources (SCER) – previously the Ministerial Council on Energy (MCE) – is responsible for policy making relevant to Australia's gas and electricity markets. AEMO is responsible to the Council of Australian Governments (COAG) through SCER.

## Functions

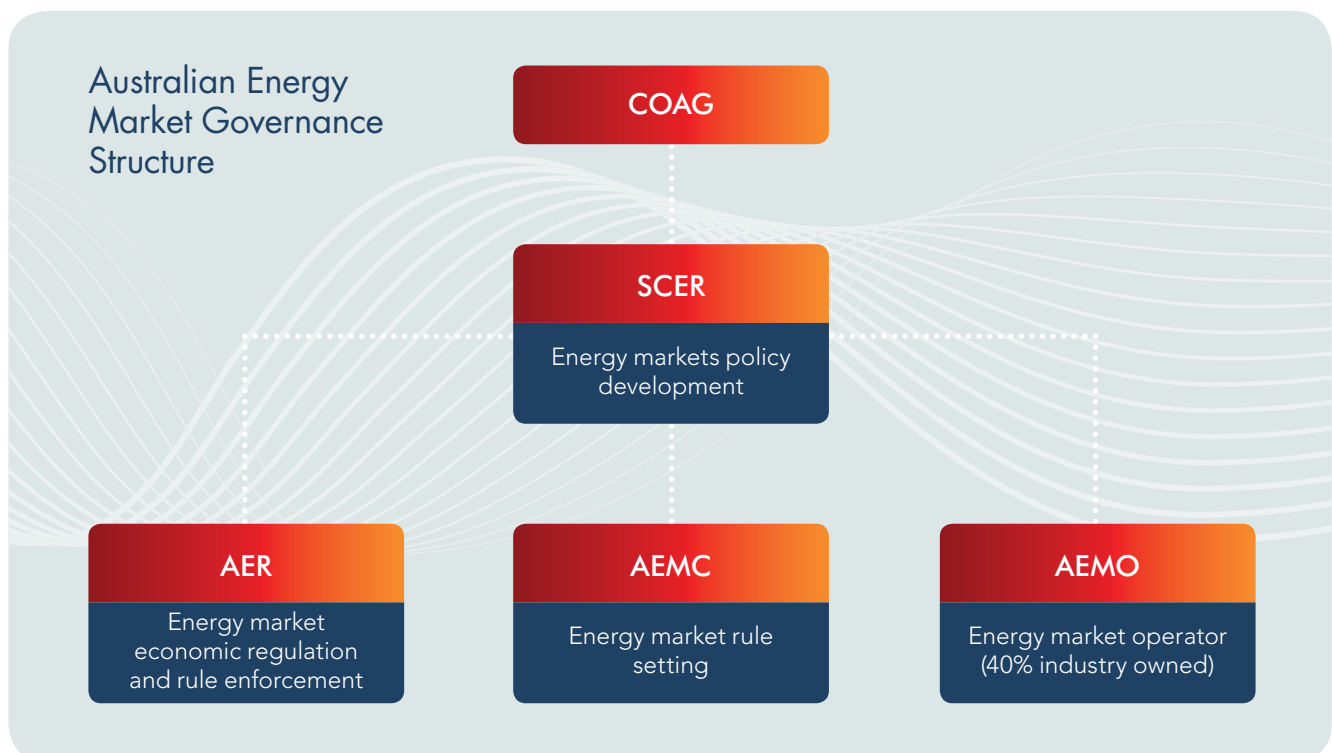
### Markets

AEMO operates wholesale and retail markets including the NEM, the Victorian DWGM and the gas STTM.

AEMO manages the security of the interconnected eastern Australian power system from two control centres in different states. Both centres operate around the clock, and are equipped with identical communication and information technology systems.

As the NEM operator, AEMO produces pre-dispatch, short term (ST) and medium term (MT) Projected Assessments of System Adequacy (PASA) outlooks to provide information on supply availability and expected electricity reserve levels that assists market participants make appropriate business decisions.

AEMO facilitates market development participation by obtaining and publishing





stakeholder input, and by administering rules and procedures for the operation of the wholesale gas and electricity markets, the retail electricity and gas markets and the Gas Bulletin Board.

### Operations

AEMO oversees the vital system operations and security of the NEM and the Victorian gas Declared Transmission System (DTS). This involves systems operation, metering and settlements, market performance reporting, incident analysis and emergency management.

Prudential arrangements in the electricity and gas markets are also managed by AEMO. These arrangements ensure the financial integrity of energy markets is maintained.

### Planning

AEMO delivers strategic gas and electricity planning advice and forecasting to guide long-term investment in network infrastructure and resource management. AEMO provides independent modelling of possible future scenarios, advice on how markets might develop under those scenarios and leadership in developing markets to meet forecast energy requirements.

As Australia transitions to a carbon constrained economy, AEMO's energy forecast scenarios also consider the effects of energy efficiency improvements and new technologies such as smart metering, renewable energy sources and improved peak load control.

### Victorian electricity transmission planning and procurement

In Victoria, AEMO is responsible for planning and procuring new transmission capacity and for connecting generators and customers to the electricity transmission network.

We prepare independent demand forecasts and justify expenditure on new transmission infrastructure using an economic cost-benefit framework that balances network costs, reliability and market operating benefits.

As the TNSP for Victoria's shared network, AEMO determines the expansion needs of the transmission network and contestably procures the services from network asset owners.

In Victoria, AEMO complements its gas role with assessments of the need for gas network augmentations.

## Markets

### The National Electricity Market (NEM)

The NEM is one of the world's longest interconnected power systems. Its generation and transmission infrastructure provides high voltage electricity that distributors deliver to homes and businesses throughout Australia's eastern seaboard and South Australia.

Exchange between the producers and retailers of electricity is facilitated via a centralised pool where generator

output is aggregated and scheduled at five-minute intervals to meet demand. The dispatch system uses sophisticated systems that balance supply with demand, maintain reserve requirements, determine spot pricing and facilitate financial settlements.

### Declared Wholesale Gas Market

Victoria's DWGM was established in 1999 to enable competitive, dynamic trading based on injections into and withdrawals from the transmission system that links producers, major users and retailers.

As well as providing a mechanism to trade imbalances, the DWGM enables a reliable and secure system for gas transportation, information gathering for efficient pipeline operations, and metering data management for operational and market balancing.

### Short-Term Trading Market

The STTM is a wholesale market designed to facilitate short term gas trading using market-driven daily prices.

The STTM commenced operation in 2010 at the New South Wales and South Australian hubs and expanded to include a Queensland hub in 2011. The hubs are transfer points through which gas is transmitted and then delivered to the distribution networks.

### Retail Markets

AEMO manages the development and operation of retail markets in Queensland, New South Wales, the Australian Capital Territory, Victoria, South Australia and, for the NEM, Tasmania. The retail markets underpin the wholesale markets operating in those states with retail market procedures, managing interactions between retail businesses and the network operators.

# AEMO ORGANISATIONAL STRUCTURE

AEMO's organisational structure comprises six departments, each led by an Executive General Manager. Together with the Chief Executive Officer, they form the Executive Leadership Team. The structure was streamlined in 2012 to deliver

efficiencies and prepare AEMO for our future role in being pivotal to Australia's energy markets. AEMO will continue to review, assess and reshape our business to ensure we stay relevant and responsive to changing conditions.

## INFORMATION MANAGEMENT AND TECHNOLOGY



**CHRIS FORD**  
Chief Information Officer

## PEOPLE AND CULTURE



**MAREE GARDNER**  
Executive General Manager

## CHIEF EXECUTIVE OFFICER



**MATT ZEMA**

## GOVERNANCE



**BRETT HAUSLER**  
Company Secretary and  
General Counsel

## OPERATIONS



**MIKE CLEARY**  
Chief Operating Officer

## CORPORATE SERVICES



**KAREN OLESNICKY**  
Chief Financial Officer

## CORPORATE DEVELOPMENT



**DAVID SWIFT**  
Executive General Manager



# AEMO MEMBERS

AEMO's membership includes both government and industry stakeholders, comprising 60 per cent and 40 per cent of AEMO ownership respectively.

Government members include:

The Commonwealth

New South Wales

Queensland

South Australia

Tasmania

Victoria

Australian Capital Territory

Industry members are registered participants in the gas and electricity markets and represent a diverse range of interests from across the energy sector to provide input into key AEMO governance processes and constitutional changes.

At 30 June 2012, AEMO's industry members are:

Acciona Energy Oceania Pty Ltd

AGL Energy Ltd

APA GasNet Australia (Operations) Pty Limited

APT Allgas Energy Pty Limited

APT Petroleum Pipelines Pty Limited

APT Pipelines (NSW) Pty Limited

Attunga Capital Pty Ltd

Aurora Energy (Tamar Valley) Pty Ltd trading as AETV Power

Aurora Energy Pty Ltd

Ausgrid

Australian Power and Gas Pty Ltd

Central Ranges Pipeline Pty Limited

CitiPower Pty

Click Energy Pty Ltd

Delta Electricity

Diamond Energy Pty Ltd

Directlink Joint Venture

(ABN 16 779 340 889) (Directlink (No. 1) Pty Limited ABN 85 085 123 468, Directlink (No. 2) Pty Limited ABN 87 095 439 222, and Directlink (No. 3) Pty Limited ABN 86 095 449 817 trading as Directlink Joint Venture)

Dodo Power & Gas Pty Ltd

East Australian Pipeline Pty Limited

EDL Group Operations Pty Limited

ElectraNet Pty Ltd

Endeavour Energy

Energyx Limited

Energy Pacific (Vic) Pty Ltd

EnerNOC Pty Ltd

Envestra Limited

Envestra (NSW) Pty Ltd

Epic Energy Holdings Pty Ltd

Eraring Energy

ERM Power Limited

ERM Power Retail Pty Ltd

Essential Energy

Hydro-Electric Corporation

Infigen Energy Markets Pty Ltd

Infratil Energy Australia Pty Ltd

Jemena Limited

Loy Yang Marketing Management Company Pty Ltd

Macquarie Generation

Marubeni Australia Power Services Pty Ltd

Millmerran Energy Trader Pty Ltd

Murraylink Transmission Company Pty Ltd

N P Power Pty Ltd

OneSteel Manufacturing Pty Ltd

Origin Energy Electricity Limited

Pacific Hydro Clements Gap Pty Ltd

Pacific Hydro Challicum Hills Pty Ltd

Pacific Hydro Portland Wind Farm Pty Ltd

Powercor Australia Ltd

Queensland Electricity Transmission Corporation Limited (trading as Powerlink Queensland)

Rocky Point Power Project Pty Ltd

Roverton Pty Limited

Santos Ltd

South East Australia Gas Pty Ltd

SPI Electricity Pty Ltd

Tasmanian Gas Pipeline Pty Ltd

Transend Networks Pty Ltd

TransGrid

TRUenergy Gas Storage Pty Ltd

TRUenergy Pty Ltd

TRUenergy Yallourn Pty Ltd

Vicpower Trading

(State Electricity Commission of Victoria trading as Vicpower Trading)

Westpac Banking Corporation

# BOARD OF DIRECTORS

## **DR THOMAS (TOM) PARRY AM**

Chairman

Dr Parry is the Chairman of Sydney Water Corporation and First State Super Trustee Corporation. He is also a director of Powerco (New Zealand) and ASX Compliance Pty Ltd. With over 30 years' experience as an academic, business and public policy consultant and regulator, Dr Parry has extensive experience in regulating utility assets in the water and energy sectors. Dr Parry was the Foundation Executive Chairman of the Independent Pricing and Regulatory Tribunal of NSW (IPART). He was also the Foundation NSW Natural Resources Commissioner.

## **MR MATT ZEMA**

Managing Director  
and Chief Executive Officer

Mr Matt Zema is the Chief Executive Officer of AEMO. Previously, Mr Zema held the position of Chief Executive Officer of the Victorian Energy Networks Corporation (VENCorp), responsible for operating the principal transmission system for gas in Victoria and for the planning, procurement and augmentation of the Victorian electricity transmission network. Prior to joining VENCorp in 1999, Mr Zema worked in general management roles with PowerNet Victoria, GPU PowerNet and GPU International. Mr Zema is also currently a Director of ANC-Cigre and the Melbourne Dental Clinic. Mr Zema's experience in strategic planning, asset management, corporate governance and financial management areas has been gained in public and private sector executive management roles.

## **MR IAN FRASER**

Non-executive Director

Mr Fraser currently holds directorships on several listed companies and was the Chairman of the Gas Market Company Ltd. He is a qualified accountant (CPA) with significant operational experience in a number of managing director positions over 13 years and across a broad range of industries.

## **MR LESLIE (LES) HOSKING**

Non-executive Director

Mr Hosking was the CEO and Managing Director of the National Electricity Market Management Company (NEMMCO) from 2003 to 2008 and a director of the company between 1997 and 2003. He is currently a non-executive director of AGL Energy Ltd and Chairman of Adelaide Brighton Ltd. He has over 30 years' experience in the Australian futures industry, including being CEO and Managing Director of the Sydney Futures Exchange Ltd for 15 years, from 1985 to 2000.

## **PROFESSOR THE HON. MICHAEL LAVARCH AO**

Non-executive Director

Professor Lavarch is the Chairman of the Financial Ombudsman Service Ltd and was previously a director of NEMMCO and ASX Supervisory Review Pty Ltd. He has significant experience in the private and public sectors and is currently a Commissioner of the Australian Skills Quality Authority. Prior to this he was the Executive Dean of the Faculty of Law at the Queensland University of Technology.



## **MR GREG MARTIN**

Non-executive Director

Mr Martin is a non-executive director of a number of listed and unlisted companies including Santos Ltd and Energy Developments Ltd. He is the Managing Director of Murchison Metals Ltd. Mr Martin is a previous CEO and Managing Director of AGL and has nearly 30 years' experience in the utilities, energy and energy-related infrastructure sectors in Australia, New Zealand and internationally.

The AEMO Board comprises (from left): Dr Anthony (Tony) Marxsen, Mr Ian Fraser, Mr Matt Zema (Managing Director and Chief Executive Officer), Ms Jane Tongs, Mr Stephen Orr, Dr Michael Sargent AM, Mr Greg Martin, Professor the Hon. Michael Lavarch AO, Mr Leslie (Les) Hosking, Dr Thomas (Tom) Parry AM (Chairman).



**DR ANTHONY (TONY) MARXSEN**

Non-executive Director

Dr Marxsen is director of Marxsen Consulting Pty Ltd and Jancomax Pty Ltd and a former director of VENCORP and Sustainability Victoria. He has extensive strategic and operational expertise in electricity grids and information technology and senior experience in a range of industries and particularly in strategic, transformational and operational roles in the energy sector including the NEM and gas markets. He was made a Computerworld Fellow in 2001.

**MS KAREN MOSES**

Non-executive Director  
(1 July 2009 – 30 June 2012)

Ms Moses is currently Executive Director, Finance and Strategy at Origin Energy Ltd. She is a director of Origin Energy Ltd, Australia Pacific LNG Ltd and Contact Energy in New Zealand. Ms Moses was a director of VENCORP and the Energy and Water Ombudsman (Victoria) Ltd and has over 27 years of experience in the energy industry.

**MR STEPHEN ORR**

Non-executive Director

Mr Orr joined the AEMO Board in July 2012. Mr Orr is currently Head of Strategy and Regulation Australia for International Power GDF SUEZ and is a director of a number of companies within the International Power GDF SUEZ group. He has extensive senior management experience in the energy industry including power generation, financial markets, energy trading and, through his involvement with a significant second tier business, retail.

**DR MICHAEL SARGENT AM**

Non-executive Director

Dr Sargent is Chairman of the Lighthouse Business Innovation Centre Ltd, is a director of six organisations and is a member of the Clean Energy Regulator. He was previously a director of NEMMCO. Dr Sargent has operated his consultancy since 1999 with a particular focus on the IT, energy, environment and utilities sectors. Dr Sargent has 45 years of experience in the utilities industry in Australia and internationally in a number of engineering and operational management roles.

**MS JANE TONGS**

Non-executive Director

Ms Tongs is Chair of Netwealth Holdings Ltd and a director of Catholic Care, Catholic Church Insurances Ltd, LCM Calvary Health Care Holdings Ltd, Leadership Victoria Ltd, RUN Corp Ltd and Warakirri Holdings Pty Ltd. She has chaired multiple audit and risk committees and has deep knowledge and experience in risk management, corporate governance and financial services. She was formerly a partner at PricewaterhouseCoopers and a director of several private sector companies and government organisations. Ms Tongs is a Fellow of the Institute of Chartered Accountants, CPA Australia and the Williamson Community Leadership Program and is a member of the Institute of Company Directors.

# FAST FACTS

## 2012-13

### The National Electricity Market

The NEM services 19 million homes and businesses.

The NEM supplies around 200 TWh of energy to businesses and households each year.

The NEM extends over 5,000 kilometres.

The NEM has about 40,000 kilometres of transmission lines and cables.

The NEM is one of the longest alternating current (AC) systems in the world.

### The Victorian Declared Wholesale Gas Market

The DWGM supports the highest residential natural gas usage in Australia.

The DWGM services about 1.9 million homes and businesses.

The DWGM's total annual demand is 222.8 PJ.

### The Short Term Trading Market

The STTM services 1.9 million homes and businesses from hubs in Adelaide, Sydney and Brisbane.

The STTM's total annual demand is 138.8 PJ.

### Energy fact

Australia is the world's ninth largest energy producer, accounting for around 2.4 per cent of global energy production.

### Value of energy traded in markets in 2011-12

STTM: \$519.3 million (energy purchased)

DWGM: \$766.5 million (energy purchased)

NEM: \$5.5 billion energy sales value; \$5.7 billion energy purchase value in 2011-12

### New market participant registrations in 2011-12

STTM: 13

DWGM: 4

NEM: 30

### Number of customers transferring between retailers

Gas: 671,765 per year

NEM: 1.72 million per year

### Total number of participants

STTM: 35

DWGM: 24

NEM: 155

### Amount of energy traded in markets in 2011-12

STTM: 145.5 PJ (energy purchased)

DWGM

- Total injections: 230.3 PJ
- Total exports: 7.5 PJ
- Total system demand: 222.8 PJ

NEM

- 183 TWh (amount of energy purchased by market customers)
- 193 TWh (amount of energy sold by generators)

### Total new generation plant commissioned in 2011-12

Wind: 120 MW – Oaklands Hill Wind Farm (Vic) and Hallett 5 Wind Farm (SA)

Gas (OCGT): 566 MW – Mortlake Stage 1 OCGT plant (Vic)

Black coal: 60 MW – Eraring Power Station upgrade (NSW)

# STRATEGIC DRIVERS 2012-13

## 1. EXTERNAL STAKEHOLDERS

### Electricity market development

In pursuing further electricity market development, AEMO has worked with industry and jurisdictions to ensure the market systems and procedures and industry business processes were in place to meet the requirements of the new National Energy Customer Framework (NECF) arrangements targeted for implementation on 1 July 2012.

While the implementation of NECF has been delayed in some jurisdictions, AEMO successfully completed its readiness requirements such that the NECF requirements are now in place for Tasmania and the Australian Capital Territory and can be met as soon as the remaining jurisdictions apply enabling legislation.

### National Transmission Planner

In line with our submission to the AEMC's Transmission Frameworks Review, AEMO believes that change is needed for Australia to meet its future electricity asset investment challenges in a cost-effective manner. AEMO recommends that an independent national network planner is needed to efficiently plan and procure the national network. With the right framework in place, the NEM can be improved so that it signals efficient investment in the right assets, in the right place, at the right time.

AEMO has supported ongoing government review and policy analysis, including that of the Productivity Commission (PC) – through its Inquiry into Electricity Network Regulation – and the AEMC. AEMO has also advocated the benefits of an independent planner through our national demand forecasting project.

### Victorian electricity transmission augmentation

In the connection pipeline is the Victoria-South Australia interconnector upgrade at Heywood, currently a joint Regulatory Investment Test-Transmission (RIT-T) with ElectraNet.

A project assessment draft report is being prepared to publish the results of the study, the underlying data and assumptions used and the recommended investment option. The final report is scheduled to be released in December 2012 indicating the preferred option recommended for investment.

Other developments being progressed in Victoria include the Mount Mercer Wind Farm, Brunswick Terminal Station upgrade and a new terminal station for Deer Park.

The connection and commissioning of the Mortlake gas-fired Power Station to Victoria's transmission network has been a further highlight of electricity market development in 2011-12. The Oaklands wind farm and Wemen terminal station have also been commissioned.

### Gas market integration

Integration of the jurisdictionally-based gas retail markets during 2011-12 has progressed over a number of fronts, including the consolidation of consultative and procedure-development mechanisms, the development of nationally-consistent procedures for the implementation of the NECF and the development of a strategy to consolidate AEMO's gas retail market IT systems.

Progress has also been made toward reaching industry agreement on business-to-business infrastructure for the Australian Capital Territory/



New South Wales gas retail markets consistent with that in other jurisdictions.

### Gas market development

The themes central to gas market development are improved information transparency, convergence in specific areas of market design and improving liquidity, competition and trade across markets.

AEMO has made significant progress on these objectives through consistent engagement with stakeholders, in both industry and government. This includes SCER support and approval for the continued development of a gas supply hub at Wallumbilla in Queensland, broad agreement on measures to enhance gas market transparency and the conclusion of the STTM operational review recommending support for measures to improve operational efficiency of the STTM.



## 2. PEOPLE

People are pivotal to all that AEMO does. AEMO's continued success – particularly as we strive to continuously improve, deliver ongoing value to our stakeholders and meet current challenges confronting the energy sector – relies upon their skills, motivation and commitment.

In our third year of operation, AEMO has continued to focus on creating a supportive working environment that empowers employees to align with AEMO's vision and achievements while being recognised, rewarded and valued.

### Workplace Health Safety and Environment

AEMO is working to make WHSE a part of what we do every day. In 2011-12, AEMO enhanced the WHSE program by introducing a new online portal to further emphasise the need for a proactive approach to workplace health and safety in all employees. Our aim is to ensure all employees enjoy a safe, healthy and sustainable working environment and embed a culture of WHSE responsibility across the organisation.

### Employee survey

AEMO conducted a survey in February 2012 to measure organisational culture and employee engagement, following

up on a 2009 review. The overall results reflected an optimistic view with employee positivity continuing to be above average compared with global and Australian levels. The responses also indicated improvements in a number of areas including relationships across teams, alignment of systems and employees' understanding of how their work adds value to stakeholders. Employee opportunities to use their strengths and skills, while remaining accountable and responsible for delivering stakeholder-aligned outputs, also increased. AEMO's commitment to employee well-being and health and safety, employees' understanding of AEMO's role and vision and employees' honesty and integrity were some of the strengths highlighted in the results.

Considerable effort has gone into increasing coordination and integration throughout AEMO, and this has also been reflected in the latest survey results, which show that perceptions of the impact of individuals' contributions and colleague relationships have improved.

AEMO will continue to work to improve its performance in career and skills development, decision making and in communication with employees. To that end, AEMO has introduced an internal newsletter together with regular business reports and statistics to better connect with employees.

### Training and development

As part of its approach to ensure the right people for the right job, AEMO developed and implemented a new framework covering non-technical competencies through job profiles, training and recruitment. The framework covers behaviours under three broad headings: 'managing self', 'managing others' and 'managing the business'. To support one of the core competencies, the Leadership Communications Program was developed and rolled out to the Executive Leadership Team and senior manager groups.

Other activities included 360-degree feedback for AEMO's Executive Leadership Team and senior managers, and a safety leadership program designed to reinforce the WHSE culture.

AEMO's e-learning platform was also implemented to facilitate learning for both internal and external market participants.

### Attraction and selection

AEMO has continued to enhance its working environment for employees. AEMO has prioritised the maintenance and increased ratio of female to male employees as a specific element of its 2011-15 operational plan, and offers a range of flexible working arrangements to assist employees in accommodating family and work needs.

AEMO has also implemented an employee referral program and will focus on creating more leadership opportunities for employees to move into more senior roles, and develop managers' leadership skills.

Attracting graduates is an important part of AEMO's talent pipeline. AEMO looks for opportunities to enhance its appeal to graduates and in 2012 we established relationships with a number of universities in addition to improving the graduate development program.

## 3. MARKETS

### Planning

AEMO delivers essential planning advice and forecasting to guide long-term investment in Australia's energy network infrastructure.

In this space, AEMO has progressed key initiatives to assist in the development in Australia's energy network infrastructure, including the National Electricity Forecasting project and analytical work on the increased uptake of solar PV. The National Transmission Network Development Plan (NTNDP) provides an independent strategic overview on the efficient development of the national transmission network over a 20-year planning horizon, and AEMO is also playing a key role in the Heywood interconnector upgrade regulatory test.

AEMO's objective of becoming a national planner and decision maker progressed in 2011-12. AEMO has also continued to support the introduction of an economic approach to planning and the introduction of financial transmission rights to support inter-regional trade.

### Market development

#### Prudential reform

Following the publication of AEMO's Prudential Readiness Review Report in April 2011, AEMO moved to implement the report's key recommendations and in July 2011 submitted a rule change proposal to the AEMC to establish a clearer prudential standard for the NEM.

The AEMC is expected to complete its consultation on this rule change proposal in late 2012 with AEMO to consult on and develop new credit limit procedures for implementation in 2013.

#### National Energy Customer Framework

The NECF is designed to streamline the regulation of energy distribution and retail functions, and incorporate appropriate customer protections.

For AEMO, the introduction of the NECF in Tasmania and the ACT on 1 July 2012 signals the commencement of new Retailer of Last Resort (RoLR) processes.

In the lead-up to the NECF introduction, earlier this year the AEMO and Australian Energy Regulator Boards, supported by AEMO's Electricity Retail Market Development, Gas Retail Market Development, and Metering and Settlements teams, participated in a joint RoLR exercise at AEMO's Melbourne office to identify and test the extent of interactions required by both AEMO and AER Boards from an operational perspective.

#### AEMO Rule Change

As part of the Small Generator Aggregation Project, AEMO submitted a rule change proposal to remove barriers for small generators wanting to participate in the NEM. The rule change aims to encourage NEM participation of small generating units.

#### Short-Term Trading Market

Operation of the gas STTM at the Brisbane hub commenced on schedule in December 2011. An initial review of the STTM operation after its first year of operation at the Sydney and Adelaide hubs has identified a number of incremental design changes to improve the operational efficiency of the market; these have been developed in consultation with market participants and stakeholders.

#### Declared Wholesale Gas Market

AEMO is developing rule change proposals to implement a portfolio trading rights approach to better facilitate trading of capacity rights and that is aimed at optimising the use of existing pipeline capacity.

#### Gas market development

AEMO has made significant progress in 2011-12, including SCER approval for the continued development of a gas supply hub at Wallumbilla in Queensland, broad agreement on measures to enhance gas market transparency and an STTM operational review recommending support for measures to improve operational efficiency of the STTM.

#### Energy clearing services

AEMO is exploring opportunities to deliver benefits to members through

more efficient clearing and settlement of our energy markets.

Building on the work of the Prudential Review and the proposed implementation of the Prudential Standard, AEMO has been examining options to better manage financial risks in the market to the benefit of all participants.

#### Emergency management

In 2011-12, AEMO's emergency management team participated in exercises with industry, government and emergency services, and conducted a half-day workshop for gas market participants following the winter peak period. Extreme weather events in June 2012 demonstrated AEMO's responsiveness to potential threats to energy supply. In early June 2012, heavy rainfall caused the Yallourn open cut mine in Victoria's Latrobe Valley to flood, forcing the temporary closure of coal conveyors supplying fuel to the Yallourn Power Station.

Additional flooding in south Gippsland, two earthquakes and protest activities further showcased AEMO emergency management's response capability throughout the year.



## 4. COMMERCIAL MANAGEMENT

### Budget and fees / finances

AEMO's 2012-13 budget provides a consolidated overview of our operation expenditure for the next 12 months and outlines the fees associated with each market function and service.

During 2012, energy demand had been lower than budgeted, which reduced the revenue collected by AEMO. Stakeholders were invited to comment on the draft budget and their feedback was considered in finalising the papers, which were approved by the AEMO Board in May 2012.

AEMO continues to identify opportunities to maintain tight control over its operating costs.

the South Australian FRC gas market, the Gas Statement of Opportunities (GSOO) and the Gas Consumer Advocacy Panel (GCAP).

Following a stakeholder consultation process, the structures of these fees were finalised with the new structures taking effect from 1 July 2012.

### Information Management and Technology

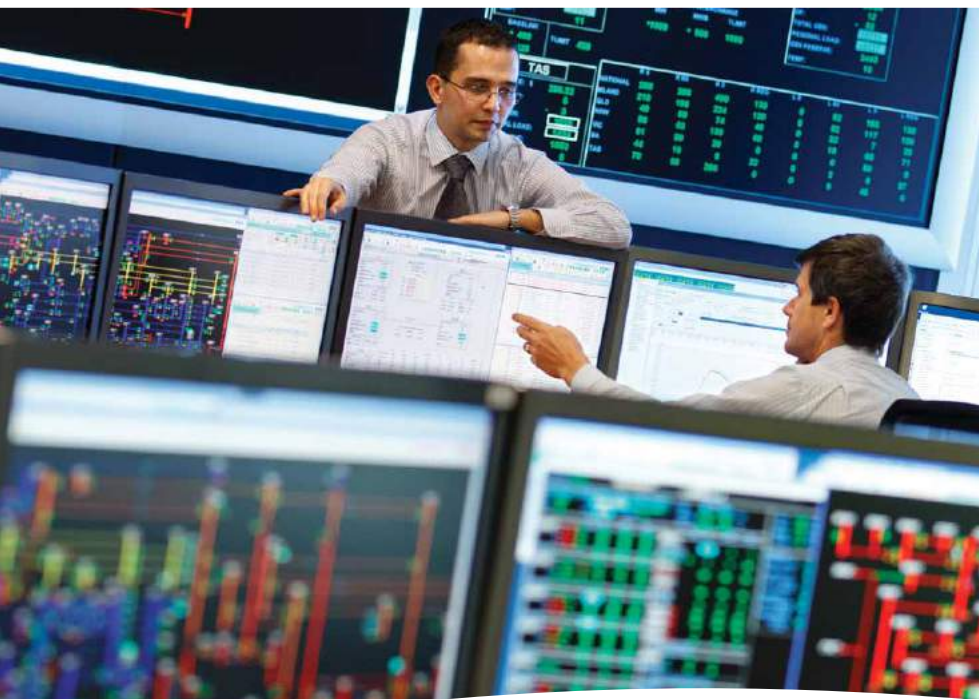
AEMO's Information Management and Technology (IMT) function is responsible for the delivery of Market IT services to the AEMO Operations, Market participants and other Market stakeholders.

their interfaces and market data and in realising the value from initiatives such as new generation technologies as they evolve.

For example, AEMO and its partners have won support from the Australian Solar Institute (ASI) to build a world-class solar forecasting system for Australia. Working with the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and other partners and vendors, the project will implement a solar forecasting system to support the efficient integration of large-scale solar into the NEM. This project will build on the existing wind forecasting system and be delivered over the next two years.

In 2011-12, AEMO IMT has been working to further integrate services between electricity and gas, through multi-skilling staff and consolidating functions. To date, the integration of tools and processes has been implemented along with establishing increased capabilities in project delivery and consultancy skills.

The sophistication of cyber threats continues to evolve rapidly, increasing the risk of damage to the confidentiality, integrity or availability of AEMO's critical IT systems due to cyber attack. As a result, cyber security continues to be a key focus area. New security monitoring and analysis capability has been deployed to improve the detection of, response to, and recovery from cyber security incidents. AEMO also continues to proactively engage with government and non-government stakeholders in addressing associated challenges. Increasing activities in the consolidation of market functions will, in future, provide value to Market participants.



In one example, significant long-term reductions in consulting, insurance and finance costs were achieved in 2011-12.

During the year AEMO also conducted a review of the structure of its participant fees in its gas markets, including the DWGM, the Victorian Full Retail Contestability (FRC) gas market, the New South Wales/Australian Capital Territory FRC gas market, the Queensland FRC gas market,

Services span gas and electricity, wholesale and retail, from real-time (two seconds) through to longer-term (20 year) planning systems, across the east coast and South Australia jurisdictions. IMT also provides company-wide business information services that enable the efficient operation of the business.

AEMO IMT is seeking to maximise the effectiveness of market systems,



## 5. PRODUCTIVITY

### Organisational structure

The creation of new Chief Operating Officer and Chief Information Officer roles preceded a broader restructure of the AEMO business over the past year, which was guided by the objectives of making accountabilities clearer, improving efficiencies and effectiveness, better managing resources and priorities and enhancing skill development and succession planning.

The new structure was unveiled in late June 2012 and comprises six key departments: Information Management and Technology, Governance, Corporate Services, People and Culture, Operations and Corporate Development.

### Systems capability

A number of projects have been completed to improve the efficiency and transparency of AEMO's market operations in the past year, including the provision of complete and transparent network outage history via the information AEMO provides to market participants.

AEMO has also provided improved rating data on our website and through the information provided to market participants, increasing transparency and enabling participants to better understand how AEMO calculates system limitations.

In addition, publication of the Monthly Constraint Report provides participants with a review of constraints in the past month as well as reasons for the use of constraint automation and any investigations into dispatch or pre-dispatch performance issues.

In further system efficiencies, changes have been applied to constraint automation so that line and transformer flow values are automatically modelled, providing more accurate and efficient information – previously this was a manual process completed by AEMO.

### Single helpdesk

AEMO's new Information and Support Hub was introduced on 1 July 2012, reducing duplication in service provision and providing greater efficiencies for stakeholders.

The new Hub offers an information service to all interested parties, from NEM and gas market participants to the general public. The former Helpdesk and InfoCentre Teams have been combined and have commenced training to consolidate the teams and response capability.

### Demand forecasting

Given the increasing complexity of the NEM, consistent and efficient time-critical demand forecasting is an important consideration for AEMO.

An automatic Demand Forecasting System (DFS) was introduced in November 2011 to replace AEMO's manual process. The DFS utilises advanced neural network specifications that capture interactions between load, weather and calendar information. It automatically generates half-hourly short-term demand forecasts for the five regions across AEMO's operating footprint as well as sub-regions that significantly impact on constraints. The automated process has improved the accuracy and cost-effectiveness of forecasts, bringing "ahead of time" market information closer to real-time operation.

### Network Support and Control Ancillary Service

The Network Support and Control Ancillary Service (NSCAS) rule change proposed by AEMO to clarify the responsibilities of TNSPs as the primary procurer of NSCAS services for managing power system security and improving economic benefits to market participants was accepted by AEMC and industry in April 2012. AEMO will continue to procure NSCAS as a last resort provider as needed for managing system security when there is a deficit of NSCAS procured by TNSPs.

AEMO has improved the operating procedures associated with dispatching NSCAS services procured for managing high voltages in southern New South Wales during light load periods and for improving power system stability during high power transfers between Victoria and New South Wales – resulting in a significant reduction in the quantity of NSCAS dispatched and hence associated costs.

### Price book

AEMO has created a new 'price book' transmission cost database, and has implemented tools and procedures for estimating the costs of transmission augmentation in the NEM, allowing it to recommend the most effective and economical solutions.

AEMO has also rationalised the industry consultative forums used in the management of retail gas markets in South Australia, Victoria and Queensland. Three forums have been converged, resulting in reduced industry costs and a greater focus on harmonising arrangements across the gas markets.

# TOWARDS AN INTEGRATED ENERGY FUTURE

AEMO provides policy makers and investors in the industry with the information and context needed to make key decisions that will determine Australia's integrated energy future.



The inaugural National Electricity Forecasting Report, published at the end of June 2012, forecast reduced energy use across eastern and south eastern Australia that is likely to result in some deferral of new electricity generation and transmission network investment.

The report showed lower industrial energy consumption, increasing uptake of rooftop solar photovoltaic systems and consumer response to rising electricity prices were behind a 2.4 per cent drop in annual energy for 2011-12. The new forecast was 5.7 per cent lower than what was published in the 2011 Electricity Statement of Opportunities.

It is clear consumers are responding to higher electricity prices and there is an onus on network planners to introduce more efficient transmission



planning to deliver better value to energy consumers.

The National Transmission Network Development Plan, published in December 2011, outlines the changes emerging over the next two decades, such as Australia's transition to a low carbon economy and the integration of renewable energy sources, rising prices and consumers adopting energy efficient behaviours and technologies. New policies, technologies and changing consumption patterns will determine when and where new generation will connect to the transmission and distribution networks.

AEMO advocates a transmission framework model that combines competitive delivery of services with a national approach to network planning. AEMO has made submissions to the AEMC and Productivity Commission outlining this approach in their recent reviews.

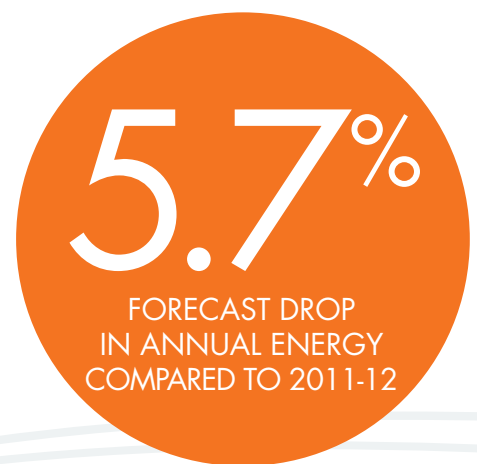
The development of Australia's gas resources is also a key part of an

integrated energy future. The 2011 Gas Statement of Opportunities (GSOO) highlighted competing domestic and export interests. The report shows a boom in LNG exports could put pressure on local gas prices. Price will also impact on investment in gas-powered generation, a factor in Australia's integrated energy future.

The 2012 GSOO will further explore the impact of demand for gas on the local and export markets and emerging constraints and investment opportunities. To date AEMO has published a number of input reports outlining gas reserves, LNG potential, production and transmission costs.

This suite of planning reports is part of a new approach to providing the industry with timely and relevant information as it comes to hand rather than producing one consolidated report on each topic once a year.

Further improvements will be made to AEMO's planning information in the coming year.



# AEMO'S VALUE PROPOSITION

## VICTORIAN CONNECTIONS

AEMO's Connection Initiatives Project, to improve and clarify the process for connections and augmentations in Victoria, was completed in December 2011. Industry members responded positively to the project, with many expressing satisfaction with how AEMO actively listened to the range of views canvassed.

The remaining program outcomes are being integrated into AEMO's business as usual activities. The first information kit, which aims to streamline the connection process for applicants, went live in December 2011 and AEMO is progressively adding to the range on its website.

In ensuring the timely development of the electricity transmission infrastructure necessary to provide Victoria with reliable power supply now and into the future, AEMO is actively working with government to secure land and easements for this purpose.

AEMO is working with Victoria's Department of Primary Industries to investigate compulsory acquisition rights which would enable AEMO to secure the necessary land and easements. AEMO has an obligation to procure the electricity transmission infrastructure necessary to provide Victoria with reliable power supply, and this obligation cannot be fulfilled without the acquisition of additional land – however compulsory acquisition rights being requested are intended as a last resort option.

The Victorian electricity industry has supported these changes through AEMO's Connection Initiatives workshops.

A contractor panel, published in the information kit, gives applicants the flexibility to choose an alternative procurement option; further providers are being added. AEMO has also published a pamphlet, Energy Infrastructure in your Community, which explains AEMO's role in transmission planning and augmentation and gives communities information on how to contribute to the development process.

Contract Principles for Generation Connections to the Victorian Declared Shared Network have also been published and AEMO is working on contract templates.

ENERGY  
INFRASTRUCTURE  
IN YOUR  
COMMUNITY

## TOWARDS A LOW CARBON FUTURE

The introduction of the Commonwealth Government's Clean Energy Future plan marks a significant policy change for Australia's energy industry.

A key plank is the introduction of a \$23 per tonne charge on carbon-equivalent emissions from 1 July 2012, which implements a step change to the cost structure of emitting generating plant in the NEM.

In addition to monitoring the impact of the carbon price on energy market participants and supply reliability, AEMO is playing a major role in supporting Australia's transition to a low carbon economy through the provision of expert technical advice and scenario modelling work.

AEMO provided confidential energy security advice to the Commonwealth Department of Resources, Energy and Tourism (RET) as part of the government's Contract for Closure program.

Under the Clean Energy Act, AEMO has a role in the government's 'reliability test', where carbon-intensive coal-fired generators receiving assistance from the Energy Security Fund have constraints on their registration, and may request 'anticipatory certification' from AEMO to change their registration.

In 2012, the Department of Climate Change and Energy Efficiency tasked AEMO with modelling 100 per cent renewable energy scenarios to 2030 and to 2050. The modelling will explore the type of generation plant, storage and transmission networks needed to achieve the 100 per cent target, cost estimates in today's dollars and an indication of the impact on customer energy prices.

AEMO will consider around 40 renewable resource regions and analyse a number of technologies that could contribute to meeting the 100 per cent renewable target, such as onshore and offshore wind, and energy generated by wave, geothermal, biomass and solar technologies.

EXPERT ADVICE  
UNDERPINS  
CLEAN ENERGY  
FUTURE  
INITIATIVES

## ❖ GAS MARKET DEVELOPMENT

### Queensland hub in operation

The STTM, a wholesale market designed to facilitate short term gas trading at designated hubs, has operated successfully in 2011 at the Sydney and Adelaide trading hubs. On 1 December 2011, AEMO implemented a third trading hub at Brisbane.

The three hubs provide price transparency and facilitate short-term trading of gas to balance supply and demand variations.

### Market improvements

A gas supply framework will foster continued development of reliable, efficient and competitive natural gas markets.

The SCER has asked AEMO to develop the detailed design for a new Queensland supply hub at Wallumbilla in consultation with the Gas Supply Hub Industry Reference Group and the Gas Supply Hub Jurisdictional Working Group.

The development of a national gas supply hub trading market has the potential to enhance market transparency and efficiency. This is important as the gas industry faces a period of rapid growth, particularly in Queensland, a state which is experiencing substantial developments in LNG processing.

Following an extended stakeholder consultation process, AEMO released the final report on the Review of the STTM Operations and Demand Hubs. AEMO considered the adequacy of short- and medium-term gas market information across the interconnected eastern seaboard gas market.

As a result of the reviews AEMO recommends changes to the market balancing service, deviation pricing, settlement surplus and shortfall mechanism, and market schedule variations. AEMO has submitted the necessary rule changes to the AEMC to implement the changes. AEMO will explore more advanced market pricing and intra-day market options as part of its intra-day review to be completed by the end of December 2012.

AEMO is working with industry to implement changes to the Gas Bulletin Board (GBB) to include a medium-term outlook.

1.9m

STTM CUSTOMERS  
SERVICED FROM HUBS IN  
QLD, NSW AND SA

## ❖ NATIONAL ELECTRICITY FORECASTING

To benefit the long-term interests of Australian energy consumers, and capture and assess the significant changes currently taking place in Australia's energy supply landscape, AEMO commenced a process in 2011 to ensure it had robust forecasting to assist with planning future efficient investment in, and efficient operation and use of, electricity services.

The National Electricity Forecasting Report in June 2012 was the first to showcase AEMO's independent electricity forecasts for all NEM regions, using a nationally consistent forecasting framework.

The release of the inaugural NEFR generated significant industry and media interest. AEMO will use the report as a basis for further collaboration with stakeholders to maintain the quality and value of its independent forecasting work.

The development of the independent forecasting underpinning the NEFR work involved extensive industry consultation in early 2012. After AEMO's National Electricity Forecasting Information Paper was published in December 2011, initial meetings were held with each of the TNSP and Distribution Network Service Provider (DNSP) stakeholders. Discussions with state government departments, regulatory bodies, and retail and generation businesses were also held. In all, around 20 separate consultation sessions were held to gather information about forecasting processes, local load characteristics and future supply challenges.

All stakeholders expressed agreement on the significant challenges currently facing forecasters, and their strong desire to continue to work with AEMO on further enhancing its forecasting work into the future.

AEMO aims to gain a better understanding of the localised effects that impact forecasts, such as weather and changing consumer behaviours in different regions.

The National Electricity Data Repository was completed in March 2012 and work has commenced on reviewing the summer 2011-12 period.

20

CONSULTATIONS TO  
IMPROVE FORECASTING  
OUTCOMES

# CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE PRINCIPLES

Good corporate governance should provide proper incentives for the Board and management to pursue objectives that are in the interests of the company and its members and stakeholders. We believe there is a clear correlation between a culture focused on achieving and maintaining high standards of corporate governance and the creation of value for our members and the broader community.

AEMO has used a number of sources to develop and define our approach to corporate governance, including the Australian Securities Exchange (ASX) Corporate Governance Principles and Recommendations to the extent that they are applicable to our corporate structure, as well as considering overseas developments in corporate governance.

The Board has established corporate governance policies and charters, which are outlined later in this report.

## COMPOSITION OF THE BOARD

The Board, with the assistance of Board Committees, oversees AEMO's business affairs to ensure that the company's objectives and responsibilities under relevant law and regulatory regimes are met. The Board reviews policies and planning objectives, and monitors how these policies and plans are implemented. The Board also monitors the performance of AEMO's operations and systems and their cost-effectiveness.

To assist the Board with carrying out its duties during 2011-2012, the Board established four committees:

- Risk and Audit Committee
- Technical Committee
- Policy and Regulatory Committee
- People and Remuneration Committee

The responsibilities of each committee are discussed later in this report.

There are 10 members on the AEMO Board, which comprises an independent Chairman, the Managing Director – who is also the Chief Executive Officer – and eight non-executive directors. Collectively the Board has the core skills and experience prescribed in the AEMO Constitution.

The selection process for new directors is overseen by the People and Remuneration Committee with the interview process and recommendations being made by the independent MCE Appointments Selection Panel. In addition to the required core skills and experience, other factors such as diversity and succession planning are taken into account as part of the selection process.

The recommendations of the MCE Appointments Selection Panel are considered by the members, who approve the submission of the recommendations to the MCE for approval.

In relation to retiring directors, the Chairman reviews all directors whose term of appointment is due to expire and then compiles a list of all such directors who are eligible for reappointment and who the Chairman recommends to be reappointed for a further term.

The list is then submitted to the members seeking their approval for the list to be submitted to the MCE for approval. Non-executive directors are limited under the Constitution to one further term after their initial term.

## DIRECTOR INDUCTION AND CONTINUING EDUCATION

Prior to appointment, each Director is provided with a letter of appointment and corporate governance documentation including the AEMO Constitution, Board Charter, Board Committee Charters, relevant policies and an overview of the strategic objectives and operations. Briefing sessions are then conducted with executives and other managers on key aspects of the Company's operations.

Directors are encouraged by the Board to continue their education by attending training and education relevant to their role.

## REVIEW OF THE BOARD, MANAGING DIRECTOR AND EXECUTIVE LEADERSHIP TEAM

The Board has delegated day-to-day management of the company to the Managing Director and Chief Executive Officer, assisted by the Executive Leadership Team. Each executive has a formal position description and their performance is monitored and measured in accordance with the performance management process. The Board, with the assistance of the People and Remuneration Committee, assesses the performance of the Managing Director and Chief Executive Officer and the Executive Leadership Team.

Annually, the Board undertakes an assessment of its own performance. During the 2011-12 period a detailed review was undertaken that considered the performance of the Board including: strategy and planning; Board structure and role; meeting processes; performance monitoring; Board and Directors' responsibilities; and Board culture and relationships. The performance assessment also considered the role of the Chairman, the effectiveness of the Board committees and an individual self-assessment by each director and included feedback from executives.

## DIRECTOR INDEPENDENCE

The Constitution requires a majority of directors to be independent. Furthermore, a definition for assessing the independence of directors is included in the Constitution. This includes considering a director to be independent if he or she is not a member of management and is free of any business or other relationship that could materially interfere with the exercise of their unfettered and independent judgment, or could reasonably be perceived to do so.

Directors are required to promptly disclose to the Board any interests and other directorships which may be relevant in considering their independence.

The current independent directors are Dr Parry AM, Mr Fraser, Prof Lavarch, Dr Marxsen, Dr Sargent AM and Ms Tongs.

## RESPONSIBILITIES

The Board acts in the best interests of the company and is accountable to the Members for the overall direction, management and corporate governance of the company.

The Board's responsibilities include:

- Oversight of the company's activities to achieve the objectives set out in the Constitution
- Setting the company's goals and strategy
- Determining the financial, operational, human, technological and administrative resources required by AEMO to meet our objectives and goals
- Establishing and maintaining adequate and effective reporting lines and procedures, which enable all material matters and information to be identified and reported to the Board
- Approving company budgets and monitoring compliance with financial reporting obligations
- Appointing the Managing Director
- Reviewing and assessing the performance of AEMO's management
- Establishing and approving the charters of the Board committees
- Establishing effective controls and procedures to enable risks to AEMO to be identified, assessed and managed
- Monitoring compliance with ethical, legislative and regulatory requirements including occupational health and safety, equal opportunity, environmental, corporate governance and reporting obligations
- Reporting to stakeholders of the company
- Regularly reviewing the performance of senior executives against measurable and qualitative indicators as decided by the Board
- Ensuring that induction procedures are in place to allow new senior executives to participate fully and actively in management decision making at the earliest opportunity

These responsibilities are set out in the Board Charter.

# CORPORATE GOVERNANCE (CONT.)

## DIRECTORS' ACCESS TO INFORMATION AND ADVICE

The directors have unrestricted access to all company records that are reasonably necessary to fulfil their responsibilities. They also have access to the Company Secretary with regard to any matter related to their role as director. Executives and other managers are called on, from time to time, to present results and findings to the Board, and the Board, at its discretion, can seek information, advice, and opinion from any employee. The directors also have the right to seek independent professional advice at AEMO's expense to help them carry out their duties.

## CONFLICTS OF INTEREST

Directors are required to avoid conflicts of interest and breaches of duty. Specifically, they are required to act in good faith in the best interests of the company. Directors must not use their positions for personal benefit or the advantage of another person or organisation at AEMO's expense or use AEMO property inappropriately or place themselves in positions where they are owed a duty to a third party that conflicts with their duty to AEMO.

Directors are required to immediately declare any interest or duty that might be construed as a conflict of interest so as to avoid any actual, potential, or perceived conflict of interest. AEMO considers a director to be independent if the director is independent of management and is free of any business relationship that might materially interfere with (or be perceived to interfere with) the exercise of an unfettered and independent judgement on matters relating to AEMO. Conflicts of Interest are managed in accordance with the Directors' Interests Protocol.

No director has received or become entitled to receive a benefit because of contractual arrangements between AEMO and the director other than those that have been declared in the Annual Report or through their contract of employment or engagement with AEMO.

## BOARD COMMITTEES

The Board seeks assistance and support from a number of Board committees in the discharge of its duties.

Each Board committee has a formal Charter that outlines its responsibilities. Board committees have access to internal and external resources, including access to advice from consultants and specialists, as required. The Chairman of each Board committee provides a briefing on the actions of the committee meeting at the next Board meeting along with the draft minutes of the meeting.

The table below provides a summary of the membership of the Board committees for 2011-2012:

	Full meetings of directors	People and Remuneration	Risk and Audit	Technical	Policy and Regulatory
Dr Thomas Parry	Chairman, Non-executive Director	Member			Member
Mr Matt Zema	Chief Executive Officer and Managing Director				
Mr Ian Fraser	Non-executive Director		Member	Member	
Mr Leslie Hosking	Non-executive Director	Member	Member		
Professor the Hon. Michael Lavarch	Non-executive Director	Chairman			Member
Mr Greg Martin	Non-executive Director		Member		Chairman
Dr Anthony Marxsen	Non-executive Director			Member	Member
Ms Karen Moses	Non-executive Director			Member	Member
Dr Michael Sargent AM	Non-executive Director		Member	Chairman	
Ms Jane Tongs	Non-executive Director	Member	Chairman		



The purpose of each Board committee and some of their respective areas of focus during the 2011–12 year are described below.

Following the Board performance assessment conducted during 2011-2012, the Board committee structure for 2012-2013 has been revised and will comprise a Risk and Audit Committee, People and Remuneration Committee, Technical and Regulatory Committee and a Nomination Committee.

## **BOARD COMMITTEE FOCUS AREAS**

### **Risk and Audit Committee**

This Committee assists the Board in the effective discharge of its responsibilities for oversight and governance of financial, risk, audit, corporate governance and compliance matters.

The Committee met four times during 2011-2012 and considerations included:

- Reviewing the Annual Financial Report and reviewing the appropriateness of AEMO's material accounting policies and procedures, significant estimates, judgements and notes to the financial statements.
- Approving the audit plan for the internal auditor, considering the findings of the internal auditor and the effectiveness of the internal audit function.
- The approach for the market audits, findings of the market auditors for gas and electricity and the effectiveness of the market audit function.
- Risk management strategy and reporting, including reviewing the system of identifying, assessing, monitoring and managing material risk throughout the company, reviewing the Risk Register and assessing the company's insurance requirements.
- Compliance reporting and analysis, including monitoring the development and ongoing review of appropriate legislative and regulatory compliance programmes where applicable.
- Reviewing corporate governance practices, including ensuring that an appropriate set of corporate governance policies and principles applicable to the Company are developed and reviewed on a regular basis.
- Reviewing the post implementation reviews of Board approved projects.
- Reviewing the management of information technology and physical security.

### **People and Remuneration Committee**

This Committee assists the Board in the effective discharge of its responsibilities in the management of its people and their remuneration.

This Committee met six times during the year and considerations included:

- Reviewing strategies for resourcing, the recruitment and retention of people, including their health, safety and wellbeing.
- Reviewing remuneration strategies, including performance payments and other monetary and non-monetary benefits.
- Monitoring people-related performance targets.
- Monitoring AEMO's compliance with workplace, health and safety obligations.
- Evaluating the performance of AEMO's people, including that of the Managing Director and the Executive Leadership Team, as well as company performance.
- Reviewing succession planning.
- Considering the approach for Board performance evaluations.

# CORPORATE GOVERNANCE (CONT.)

## Technical Committee

This Committee assists the Board in the effective discharge of its responsibilities for the oversight and governance of technical matters, including information technology and technical publications and emergency preparedness.

This Committee met four times during the year and considerations included:

- The Information Technology Strategic Plan
- The strategic direction and high level structure and content of AEMO planning publications.
- The findings of the Victorian Gas Safety Case audits.
- Operating incidents and events including operating incident statistics.

## Policy and Regulatory Committee

This Committee assists the Board in the effective discharge of its responsibilities in relation to energy policy and regulatory matters.

This Committee met three times during the year and considerations included:

- Changes in the policy and regulatory environment in which AEMO operates and identify the regulatory, policy and industry developments that may impact on AEMO and the energy markets for which it has responsibility.
- Reviewing analysis undertaken by AEMO to identify the likely impacts of these developments on AEMO and energy markets.
- Reviewing key AEMO policy and regulatory papers summarising AEMO's position on policy, legal, regulatory and market developments, and the strategies and action plans required in response to these issues.
- Monitoring major reviews of energy markets to improve AEMO's efficiency as market operator.
- Monitoring international trends and reviews of energy market policy and regulation.

## RISK MANAGEMENT

The Board has an overarching policy governing risk management. The Risk and Audit Committee monitors the risk management policy and procedures and internal control systems.

AEMO faces a wide variety of risks due to the nature of its operations, including asset, market, IT security, regulatory, compliance, financial, prudential, reputational and operational risks. At AEMO, risk management includes the culture, processes and structures that are directed to taking advantage of potential opportunities and managing potential threats or adverse consequences.

Risk compliance frameworks have been implemented by AEMO to provide the systems and processes for the management of risks and AEMO's compliance obligations.

AEMO is committed to applying a comprehensive and integrated risk management framework across AEMO and to embedding risk management into every business activity, function and process. This framework enables the identification and management of risks that may have a material adverse impact on AEMO, including strategic and emerging risks. AEMO's risk management objective is the achievement of a high performing, continually improving risk management function, aligned to the International Risk Management Standard ISO 31000:2009.

During the financial year 2011-12 AEMO maintained a strong focus on proactively identifying and managing all classes of risk. Improvements were made to the processes and systems that support risk management, including risk identification and assessment and occupational health and safety practices. AEMO has implemented new processes for the reporting of risks at the Board, Risk and Audit Committee and the Executive Leadership Team levels.

The Board received dedicated monthly risk management reporting during 2011-2012 and an assessment by management of the risks associated with strategic and operational matters considered by the Board. As part of its commitment to risk management, the Board also undertook a risk management workshop to consider the risk management strategy, determine risk tolerance levels and actions being taken to enhance risk management culture across the Company.

AEMO also has a number of policies that directly or indirectly serve to reduce, manage, or mitigate risk.

These policies encompass, but are not limited to, responsibilities relating to:

- Fraud and corruption
- IT security
- Site security
- Legislative compliance
- Risk Management Policy
- Privacy Policy
- Trade Practices Policy
- WHSE Policy
- Whistleblower Policy

## **ETHICAL STANDARDS AND CODE OF CONDUCT**

AEMO believes it is important to demonstrate commitment to sound and ethical corporate practices and decision-making. This entails not only complying with legal obligations, but also considering the reasonable expectations of stakeholders including members, registered participants, employees, industry representatives, consumers and the broader community.

AEMO has adopted a Code of Conduct which sets out the required standards of behaviour and legal and other obligations applicable to employees and contractors. Each employee and contractor is given a copy of the code of conduct applicable to their position when joining AEMO.

The Code of Conduct provides guidance on the following:

- Respect for policy, law, and government
- Honesty and integrity
- Respect for people
- Responsibility and accountability
- Efficiency and economy

Employees are encouraged to report known or suspected inappropriate conduct generally to either management or an independent whistleblower arrangement that reports directly to the Chairman of the Risk and Audit Committee.

## **CONTINUOUS DISCLOSURE AND FINANCIAL REPORTING**

The Risk and Audit Committee oversees accounting and reporting practices and reviews AEMO's financial statements. The committee is also responsible for the performance and objectivity of the internal auditor and the performance and independence of the market auditor. The Risk and Audit Committee comprises a number of non-executive directors who have corporate financial experience. The external auditor is precluded from providing the company with any services that might threaten their independence or a conflict with their assurance and compliance roles. The internal auditor assisted the Board and executive management to meet their regulatory obligations.

## **MAKE TIMELY AND BALANCED DISCLOSURE**

AEMO adopts the approach that all company announcements be factual and balanced, and that timely access to material be given to stakeholders and to the market. All publicly available documents are published in PDF format and are available from the company's website. AEMO, as market operator, is committed to maintaining transparency on matters related to the commercial operation of the markets.

# CORPORATE GOVERNANCE (CONT.)

## RESPECT THE RIGHTS OF MEMBERS AND STAKEHOLDERS

The competitiveness and ultimate success of AEMO is the result of teamwork that embodies contributions from a range of different sources, including members, registered participants, industry representatives, government, regulators and employees. Our governance framework recognises that our interests and those of our stakeholders are served by fostering cooperation and interaction.

AEMO's members, both industry and government, have rights and obligations under the AEMO Constitution. Annual General Meetings are held in accordance with the Corporations Act. At these meetings all members are able to participate in the decision-making process in accordance with their voting rights as described in the constitution. Furthermore, member briefings are conducted following Annual General Meetings to advise and seek input from members of major or recent developments relating to AEMO.

AEMO's Statement of Corporate Intent sets out the company's policy and strategic direction in regard to stakeholder communications and engagement. Specific strategies have been developed and implemented, such as the establishment of leadership forums; strategies also facilitate Board engagement with stakeholders.

AEMO provides all relevant stakeholders with a fair and full opportunity to participate in the ongoing operation, development and planning of Australian energy markets. AEMO strives to serve as a constructive facilitator bringing stakeholders together so that all viewpoints are considered in the effort to agree on the right way forward. AEMO fulfils this role through the provision and dissemination of information and market data to market stakeholders and through facilitation of processes, programs, committees and other representative forums where stakeholders provide feedback and collectively address energy market issues and opportunities. Industry consultations are used as the main way to gain stakeholder feedback about emerging issues and about AEMO's operational performance.

This consultation process is vital to the maintenance of effective day-to-day operations, to the development and refinement of effective new market mechanisms, and to the integrity of long-term planning.

## REMUNERATE FAIRLY AND RESPONSIBLY

Non-executive directors were remunerated for fulfilling both their Board and Board Committee duties in accordance with relevant industry benchmarks. Any change in the remuneration of directors is based on independent advice from a remuneration specialist and is approved by the members.

During 2011-2012, the Board's People and Remuneration Committee consisted of four non-executive directors. The People and Remuneration Committee monitors matters concerning the remuneration, development, health and safety, and rights of the company's employees.

It also reviews the performance of the company, the Managing Director and Chief Executive Officer and the members of the Executive Leadership Team.

# FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

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Australian Energy Market Operator Limited  
ABN 94 072 010 327

# DIRECTORS' REPORT

Your directors present their report on the Australian Energy Market Operator Limited (AEMO) for the year ended 30 June 2012.

## DIRECTORS

The following persons were directors of AEMO during the whole financial year and up to the date of this report, with the exception of K.A. Moses who resigned effective 30 June 2012:

Dr. T.G. Parry AM  
I.L. Fraser  
L.V. Hosking  
M.H. Lavarch AO  
G.J.W. Martin  
Dr. A.L. Marxsen  
K.A. Moses  
Dr. M.A. Sargent AM  
J.A. Tongs  
M. Zema

The following person was appointed a director of AEMO, effective 1 July 2012, and is continuing as a director at the date of this report:

S.C. Orr

## MISSION AND VISION

AEMO's Mission is to plan, develop and operate markets that are responsive to energy sector needs and support long-term investment in Australia.

Our Vision is to be pivotal to markets that secure Australia's energy needs.

## PRINCIPAL ACTIVITIES

AEMO continued to manage wholesale and retail gas and electricity markets for eastern and south-eastern Australia. AEMO oversaw the power system operations and security of Australia's National Electricity Market (NEM).

AEMO also continued to operate the Victorian gas Declared Transmission System (DTS) and the Short-term Trading Market (STTM) for natural gas in Adelaide, Sydney and Brisbane, introduced in December 2011.

AEMO is the Transmission Network Service Provider (TNSP) for Victoria and continued to review and approve the connection of new and upgraded generation to the state's shared electricity transmission network. In December 2011, AEMO streamlined the Victorian transmission connections process for proponents by introducing greater transparency, structure and timeliness. This program is also designed to allow Generators to choose the provision of transmission services and greater economic efficiency of transmission augmentations.

In its role as the National Transmission Planner (NTP), AEMO delivered planning advice to guide long-term investment in Australia's energy network infrastructure and resource management. This is provided through the National Transmission Network Development Plan (NTNDP), which is the first publication of its kind in Australia that provides a 20-year projection of development requirements for the NEM interconnected electricity grid.

AEMO produced key energy outlook reports in 2011-12 for both electricity and gas. These publications included the Electricity Statement of Opportunities (ESOO) and Gas Statement of Opportunities (GSOO), and two state-based planning reports: the South Australian Supply and Demand Outlook (SASDO) and the Victorian Annual Planning Reports (VAPR). AEMO also published the Power System Adequacy (PSA) – Two Year Outlook, a report that focuses on the electricity supply/demand outlook for the next two years, taking into account the Commonwealth Government's Clean Energy Future Plan.

For the first time AEMO published the National Electricity Forecast Report (NEFR) in 2012. The NEFR provided the annual energy and maximum demand forecasts (on a consistent basis) over the next 10 years for each of the five regions in the National Electricity Market, namely New South Wales (including ACT), Queensland, South Australia, Tasmania, and Victoria.

AEMO also released several new reports as the data became available. These reports included a snapshot of gas reserves, processing, transmission and storage facilities, gas production (including LNG) and transmission costs. As a consequence, the GSOO report will be a more compact publication compared to previous years, focussing on key findings and insights from the content published throughout 2012.

Through its market development function, AEMO continued to work with industry and government to further identify opportunities for developing and improving Australia's gas and electricity markets. This was enhanced by the continuation of three Strategic Leadership Forums focused respectively on electricity markets, gas markets and network planning. These executive-level forums meet three times a year to discuss issues of interest to industry and AEMO, and to highlight priorities and future challenges for Australia's energy markets. In summary, AEMO's principal activities over the 2011–12 year comprised the following:

- Market operation of the NEM and Victorian Declared Wholesale Gas Market (DWGM).
- System operation and security of the NEM interconnected grid and the Victorian gas DTS.
- Emergency management responsibilities for electricity and gas and the National Gas Emergency Response Advisory Committee.
- Victorian electricity TNSP responsibilities (transmission network connections and procurement services).
- Facilitation of Full Retail Contestability (FRC) for electricity and gas in eastern and south-eastern Australia.
- Operation of the STTM for gas at the Adelaide, Sydney and Brisbane hubs.
- Management of the national gas market Bulletin Board.
- National transmission planning, including the production of key energy planning reports.
- Additional major projects including the preparation of a full scoping and cost report on a new gas supply hub for Queensland. Projects also included a view to develop a national gas supply hub trading market, consolidation of AEMO publications to improve the focus and engagement of our analysis, and streamline industry working groups and processes to improve productivity and efficiency.

These activities are aligned to AEMO's Mission and Vision and deliver on the company's core functions and commitment to market and system operations, planning and energy market development.

## REVIEW OF OPERATIONS

AEMO is a not-for-profit public company limited by guarantee incorporated under the Corporations Act 2001. The membership of the company is comprised of government and industry members with government owning 60% and industry 40% of the company. Government members of the company comprise the Commonwealth, the states of New South Wales, Victoria, Queensland, South Australia and Tasmania and the Australian Capital Territory.

Registered participants are eligible to become members of AEMO.

AEMO has statutory powers to recover all costs including under and over recoveries in any of the specific functions in the next or subsequent financial years. This is achieved by including surpluses or deficits in future budgets and applying these to future recoveries for specific AEMO functions. The operating loss of \$18.685 million is primarily the result of lower than expected revenue in the Victorian TNSP function and lower demands in markets generally and will be primarily recovered in the 2012-13 year. The actuarial loss on the defined benefit superannuation scheme also contributed to the current year loss.

The net asset deficiency of \$19.355 million recorded at the end of this reporting period is supported by AEMO's statutory powers and contracts to recover all costs and does not impact AEMO's operations as a going concern.

During the year, AEMO published the fees associated with each of its market functions and services for 2012–13. These fees include cost recovery for the operation of the NEM and Victorian DWGM, electricity and gas FRC, Victorian TNSP responsibilities, and operation of the STTM in Sydney, Adelaide and Brisbane hubs.

# DIRECTORS' REPORT (CONT.)

FOR THE YEAR ENDED 30 JUNE 2012

## DIRECTORS' QUALIFICATIONS AND EXPERIENCE

The Directors' Board Appointments are as at 30 June 2012.

Name, Qualifications and Responsibilities	Age	Current Board Appointments
<b>Dr. Thomas G. Parry AM</b> <i>BEC (Hons), MEd, PhD</i> Chairman	63	Chairman, Sydney Water Corporation; Non-executive Director, ASX Compliance Pty Ltd; Chairman, First State Super Trustee Corporation; Non-executive Director, Sydney Opera House Trust; Non-executive Director, Powerco NZ; Director, Dalacon Pty Ltd; Alternate Director, Brisbane Airport Corporation.
<b>Mr Ian L. Fraser</b> <i>FCCA, FAICD</i> Non-executive Director	67	Chairman, PMP Ltd; Non-executive Director, Legend Corporation Ltd; Non-executive Director, Structural Systems Ltd.
<b>Mr Leslie V. Hosking</b> Non-executive Director	67	Chairman, Adelaide Brighton Ltd; Non-executive director, AGL Energy Ltd; Chairman, Carbon Market Institute Ltd; Member, Innovation Australia Board.
<b>Professor the Honourable Michael H. Lavarch AO</b> <i>LLB</i> Non-executive Director	51	Chairman, Financial Ombudsman Service Ltd; Director, Lavarch Consulting Pty Ltd; Director, Cambia.
<b>Mr Gregory J.W. Martin</b> <i>BEC, LLB, FAIM, MAICD</i> Non-executive Director	52	Non-executive Director, Energy Developments Ltd; Director, Santos Ltd; Committee Member, Council on Australia-Latin America Relations; Managing Director, Murchison Metals Ltd; Non-executive Director, Calix Ltd; Chairman, NSW Royal Botanic Gardens & Domain Trust (retired 30 June 2012); Chairman, Grant Samuel Infrastructure Partners Pty Ltd (retired 30 June 2012);
<b>Dr. Anthony Marxsen</b> <i>PhD, BEng</i> Non-executive Director (from 1 July 2011)	66	Director, Marxsen Consulting Pty Ltd; Director, Jancomax Pty Ltd.
<b>Ms Karen A. Moses</b> <i>BEC, DipEd</i> Non-executive Director	54	Director, Origin Energy Ltd; Director, Origin Energy Ltd Group; Director, Contact Energy Ltd; Director, Australia Pacific LNG Pty Ltd; Director, Australia Pacific LNG Pty Ltd Group; Non-executive director, Sydney Dance Company; Non-executive director, SAS Trustee Corporation.
<b>Dr. Michael A. Sargent AM</b> <i>BE (Hons), PhD</i> Non-executive Director	69	Director, M.A. Sargent & Associates Pty Ltd; Non-executive Director, Epicorp Ltd; Non-executive Director, Epicorp Seed Fund Pty Ltd; Non-executive Director, Heart Foundation ACT; Chairman, Lighthouse Business Innovation Centre Ltd.
<b>Ms Jane A. Tongs</b> <i>EMBA, B.Bus (Acc), FACA, FCCPA, MAICD</i> Non-executive Director	52	Non-executive Director, Catholic Care; Non-executive Director, Catholic Church Insurances Ltd (and related companies); Non-executive Director, LCM Calvary Health Care Holdings Ltd (and related companies); Chairman, Netwealth Holdings Ltd (and related companies); Non-executive Director, RUN Corp Ltd (and related companies); Non-executive Director, Warakirri Holdings Pty Ltd (and related companies); Non-executive Director, Brighton Grammar School.
<b>Mr Matt Zema</b> <i>BE, FIEAust</i> Managing Director and Chief Executive Officer	52	Director, Zema Estate Pty Ltd and Associated Trusts; Director, ANC-Cigre; Non-executive director, Melbourne University Dental Clinic.

Information pertaining to directors' benefits is detailed in Note 18 – Key Management Personnel Disclosures

## COMPANY SECRETARY

The company secretary is Mr Brett Hausler. Mr Hausler has previously been a company secretary for a number of energy companies and prior to this worked as a lawyer in private and corporate practice.



## MEETINGS OF DIRECTORS

The number of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2012, and the number of meetings attended by each director were:

	Full meetings of directors		People and Remuneration		Risk and Audit		Technical		Policy and Regulatory	
	A	B	A	B	A	B	A	B	A	B
I.L. Fraser	11	13			3	4	4	4		
L.V. Hosking	9	10	7	7*	4	4				
M.H. Lavarch	12	13	7	7*					1	3
G.J.W. Martin	10	11			3	4			2	3
Dr. A. Marxsen	13	13					4	4	3	3
K.A. Moses	10	10					2	4	1	3
Dr. T.G. Parry	13	13	7	7*					3	3
Dr. M.A. Sargent	12	13			4	4	4	4		
J. A. Tongs	12	13	7	7*	4	4				
M. Zema	13	13								

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year which they were eligible to attend.

\* = includes 2 nominations committee meetings

The Managing Director attends all committee meetings. All directors are eligible to attend committee meetings. Where a director is not a committee member, their attendance at meetings is not reflected in the table above.

## ROUNDING

The amounts contained in this report and the financial report have been rounded to the nearest \$1,000 (where rounding is applicable and where noted (\$'000)) under the option available to the company under ASIC CO 98/0100. The company is an entity to which the class order applies.

## AUDITOR'S INDEPENDENCE DECLARATION


A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 32.

## AUDITOR

On 7 June 2012, the directors of AEMO approved the resignation of statutory auditor BDO. Grant Thornton was subsequently appointed statutory auditor of AEMO and continues in office in accordance with section 327 of the *Corporations Act 2001*.

## RESOLUTION

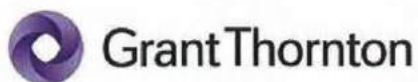
This report is made in accordance with a resolution of directors.



Dr. Thomas G. Parry  
Chairman

Melbourne  
6 September 2012

# AUDITOR'S INDEPENDENCE DECLARATION



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W www.grantthornton.com.au

## **Auditor's Independence Declaration To the Directors of Australian Energy Market Operator Limited**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Australian Energy Market Operator Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

*Grant Thornton*  
GRANT THORNTON AUDIT PTY LTD

*Michael Climpson*  
Michael Climpson  
Partner - Audit & Assurance

Melbourne, 6 September 2012

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# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

	Notes	2012 \$'000	2011 \$'000
<b>Revenue</b>			
Transmission income	5	466,655	430,858
Settlement residue	5	37,009	39,009
Electricity Market income	5	92,114	95,554
Gas Market income	5	32,908	28,868
Other Revenue	5	8,543	11,238
	5	<b>637,229</b>	<b>605,527</b>
<b>Expenses</b>			
Network charges		(505,880)	(491,641)
Employee benefits	6	(75,554)	(67,606)
Depreciation	9	(5,580)	(5,425)
Amortisation	10	(11,386)	(9,949)
Consulting, contracting and outsourcing		(14,492)	(18,787)
Information technology and maintenance		(13,887)	(12,443)
Insurance		(2,929)	(3,578)
Finance Costs	6	(4,392)	(4,671)
Travel and accommodation		(1,695)	(1,915)
Participant Compensation Fund expenses		(2,153)	(271)
Actuarial (loss)/gain – defined benefit superannuation plan	16	(6,410)	68
Other expenses		(11,556)	(12,089)
		<b>(655,914)</b>	<b>(628,307)</b>
<b>Deficit before income tax</b>		<b>(18,685)</b>	<b>(22,780)</b>
Income tax expense		–	–
<b>Deficit for the year</b>		<b>(18,685)</b>	<b>(22,780)</b>
<b>Other comprehensive income</b>		–	–
<b>Total comprehensive deficit for the year</b>		<b>(18,685)</b>	<b>(22,780)</b>

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

# STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

	Notes	2012 \$'000	2011 \$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	7	27,331	32,467
Trade and other receivables	8	65,448	62,380
<b>Total current assets</b>		<b>92,779</b>	<b>94,847</b>
<b>Non-current assets</b>			
Trade and other receivables (non current)	8	–	1,324
Property, plant and equipment	9	34,200	36,322
Intangible assets	10	36,287	38,861
<b>Total Non-current assets</b>		<b>70,487</b>	<b>76,507</b>
<b>Total assets</b>		<b>163,266</b>	<b>171,354</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	11	66,960	66,929
Borrowings	12	38,218	27,192
Provisions	13	17,753	15,798
Other current liabilities	14	3,038	3,063
Derivative financial instruments	15	–	336
Defined benefit superannuation	16	13,372	7,611
<b>Total current liabilities</b>		<b>139,341</b>	<b>120,929</b>
<b>Non-current liabilities</b>			
Trade and other payables non current	11	2,675	3,068
Borrowings Non-current	12	38,699	46,577
Provisions non current	13	1,906	1,450
<b>Total current liabilities</b>		<b>43,280</b>	<b>51,095</b>
<b>Total liabilities</b>		<b>182,621</b>	<b>172,024</b>
<b>Net (deficiency)/assets</b>		<b>(19,355)</b>	<b>(670)</b>
<b>EQUITY</b>			
Capital contribution of members		7,093	7,093
Participant compensation fund reserve	17	8,225	8,979
Australian Wind Energy Forecasting System reserve	17	1,642	2,632
Land reserve	17	1,360	1,133
Accumulated surplus/(deficit)	23	(37,675)	(20,507)
<b>Total equity</b>		<b>(19,355)</b>	<b>(670)</b>

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

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2012

	Capital Contri- bution of Members \$'000	PCF Reserve \$'000	AWEFS Reserve \$'000	Land Reserve \$'000	Accu- mulated Surplus/ (Deficit) \$'000	Total equity \$'000
<b>At 1 July 2010</b>	7,093	6,872	3,656	906	3,583	22,110
Deficit for the year					(22,780)	(22,780)
Transfer to/(from) reserves						
– PCF Reserve		2,107			(2,107)	–
– AWEFS Reserve			(1,024)		1,024	–
– Land Reserve				227	(227)	–
<b>Year ended 30 June 2011</b>	<b>7,093</b>	<b>8,979</b>	<b>2,632</b>	<b>1,133</b>	<b>(20,507)</b>	<b>(670)</b>
<b>At 1 July 2011</b>	<b>7,093</b>	<b>8,979</b>	<b>2,632</b>	<b>1,133</b>	<b>(20,507)</b>	<b>(670)</b>
Deficit for the year					(18,685)	(18,685)
Transfer to/(from) reserves						
– PCF Reserve		(754)			754	–
– AWEFS Reserve			(990)		990	–
– Land Reserve				227	(227)	–
<b>As at 30 June 2012</b>	<b>7,093</b>	<b>8,225</b>	<b>1,642</b>	<b>1,360</b>	<b>(37,675)</b>	<b>(19,355)</b>

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

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2012

	Notes	2012 \$'000	2011 \$'000
<b>Cash Flows from Operating Activities</b>			
Receipts from customers		697,514	692,639
Payments to suppliers and employees		(690,177)	(663,967)
Payment claims from the PCF		–	(271)
		<b>7,337</b>	<b>28,401</b>
Interest received		1,380	1,879
Interest and other finance costs paid		(5,618)	(4,463)
<b>Net Cash Inflow from Operating Activities</b>	25	<b>3,099</b>	<b>25,817</b>
<b>Cash Flows from Investing Activities</b>			
Net proceeds/(repayment) of participant security deposits		1,150	(2,283)
Payments for property, plant and equipment		(12,270)	(16,664)
<b>Net Cash Outflow from Investing Activities</b>		<b>(11,120)</b>	<b>(18,947)</b>
<b>Cash Flows From Financing Activities</b>			
Proceeds from borrowings		77,410	29,913
Repayment of borrowings		(74,525)	(32,671)
<b>Net Cash Inflow/(Outflow) from Financing Activities</b>		<b>2,885</b>	<b>(2,758)</b>
<b>Net (Decrease)/Increase in Cash and Cash Equivalents</b>		<b>(5,136)</b>	<b>4,112</b>
Cash and Cash Equivalents at the beginning of the financial year		32,467	28,355
<b>Cash and Cash Equivalents at End of the Financial Year</b>	7	<b>27,331</b>	<b>32,467</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

## 1 INTRODUCTION

This financial report covers the Australian Energy Market Operator Limited (AEMO). AEMO is a not-for-profit public company limited by guarantee, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 22, 530 Collins Street  
Melbourne, Victoria, 3000

The financial report was authorised for issue by the directors on the date of the directors declaration.

## 2 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) Basis of preparation

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

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

### Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

### Going Concern

At reporting date, AEMO has a net working capital deficiency of \$46,562k (net current assets), and a net total asset deficiency of \$19,355k. AEMO is required to operate on a break even funding basis which does not enable the accumulation of significant working capital. Rules under the National Electricity Law (NEL) and National Gas Law (NGL) ensure AEMO's ability to recover expenditure through the participant fee mechanisms. AEMO's current liabilities in the Statement of Financial Position reflect loans and obligations to be repaid within the next 12 months with funds yet to be received from participants. It also reflects AEMO's assessment of its obligations and confirms its intentions to make repayments. To guarantee ongoing liquidity AEMO has a significant debt facility which ensures project funding and support for variations in the timing of cash flows. This facility is partially utilised with \$27,754k available to be drawn at 30 June 2012 which ensures AEMO's operation as a going concern.

As per AEMO's management accounts (unaudited), at 31 August 2012 AEMO has returned to a net total asset surplus position.

### Critical accounting estimates

The preparation of financial statements on conformity with the Australian equivalents to International Financial Reporting Standards (AIFRS) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

### b) Currency

#### Functional and presentation currency

The financial statements are presented in Australian Dollars, which is AEMO's functional and presentation currency.

# NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2012

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

### b) Currency (cont.)

#### Foreign currency translation

Foreign currency transactions are entered into with some suppliers. Each liability and expense item arising from a foreign currency transaction is measured and recognised in the functional currency (Australian dollars) at the exchange rates prevailing at the date of the transaction.

Each foreign currency denomination liability at balance date is translated into Australian dollars at rate of exchange at the balance date. Foreign currency gains and losses from the settlement of such transactions are recognised in profit and loss.

### c) Revenue

Income primarily comprises fees charged for the recovery of expenditure incurred in relation to the provision of the following services:

- Victorian electricity Transmission Network Service Provider (TNSP) responsibilities;
- National Electricity Market (NEM);
- Electricity Full Retail Contestability;
- Victorian Declared Wholesale Gas Market (DWGM);
- Gas Full Retail Contestability in Victoria, South Australia, New South Wales and Queensland;
- Short Term Trading Market (STTM);
- National Transmission Planning; and
- South Australian Planning Function.

Revenue is recognised as the services are provided to market participants.

Revenue is also collected to recover costs in relation to National Smart Metering, Gas Statement of Opportunities, Gas B2B, Gas Bulletin Board, Settlement Residue Auctions, Electricity and Gas Consumer Advocacy Panel, and the National Gas Emergency Response Advisory Committee.

The National Electricity Rules, National Gas Rules and Queensland Gas Retail Market Rules each require AEMO to establish and maintain a Participant Compensation Fund. Note 17 provides further details of AEMO's participant compensation funds. Contributions to the funds and interest earned on fund investments are recognised as revenue and transferred to the Participant Compensation Fund Reserve.

Interest revenue is recognised as earned at the effective interest rate.

### d) Income tax

AEMO is exempt from income tax on the basis that it qualifies as a public authority constituted under an Australian law as described in item 5.2 of section 50-52 of the Income Tax Assessment Act 1997. This exemption applies until 30 June 2013 at which time it is due for review. Taxes for which AEMO is liable under Federal and State legislation include Fringe Benefits Tax, Goods and Services Tax (GST) and Payroll Tax.

### e) Leases

Operating lease payments are charged on a basis which is representative of the pattern of benefits derived from the leased property.

Incentives received under non cancellable operating leases in the form of rent free periods and contributions to fit out costs are recognised as a liability. The liability is reduced by allocating lease rental payments between rental expense and reduction of the liability on a straight line basis over the remaining term of the lease.



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

### f) Acquisition of assets

The purchase cost method of accounting is used for all acquisitions. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs directly attributable to the acquisition. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to AEMO and the cost can be reliably measured. All other repairs and maintenance are charged as an expense during the financial period in which they are incurred.

An asset is capitalised if AEMO has control over the asset and will gain future economic benefit. Expenditure directly incurred in making the asset operational is also capitalised. All other expenditure is treated as operating expenditure.

### g) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non financial assets that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

### h) Cash and cash equivalents

For statement of cash flows presentation purposes, cash and cash equivalents includes cash on hand, and deposits held at call with financial institutions, which are readily convertible to cash on hand and are subject to an insignificant risk if change in value, net of outstanding bank overdrafts.

### i) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by AEMO is the current bid price and the appropriate quoted market price for financial liabilities is the current ask price. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. AEMO makes assumptions that are based on market conditions existing at each balance date.

### j) Property, plant and equipment

AEMO initially recognises items of property, plant and equipment that qualify for recognition as an asset at cost.

After initial recognition as an asset, an item of property, plant and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses. This methodology is applied to each class of property plant and equipment.

Depreciation of assets is calculated on a straight line basis to write off the net cost of each item of property, plant and equipment (excluding land) over its expected useful life. Estimates of remaining useful life are made on a regular basis for all assets, with annual reassessments for major items. Land is not depreciated.

Depreciation is charged from the month the asset commences service. The expected useful life periods are as follows:

IT Systems Hardware	3-5 years
Furniture and Equipment	3-5 years
Office and Technology Infrastructure	7-10 years
Building Infrastructure	10-15 years
Buildings – Norwest	30 years

# NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2012

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

### k) Financial assets and Derivative financial instruments

AEMO classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re evaluates this designation at each reporting date.

Financial assets at fair value through profit or loss include derivatives that are not designated as a hedge.

Financial assets and financial liabilities carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the year incurred. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and AEMO has transferred substantially all the risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the statement of comprehensive income within other income or other expenses in the period in which they arise.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, AEMO establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity specific inputs.

AEMO assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

### l) Intangible assets

AEMO's intangible assets have finite useful lives, are amortised on a straight line basis over their useful life and are carried at cost less accumulated amortisation and impairment losses.

#### i. NEM establishment costs

NEM establishment costs represent the expenditure incurred to establish the NEM. These costs were recovered from registered participants over a 10 year period commencing 13 December 1998 and ending 31 December 2008. The straight line method of amortisation was used with the asset now fully amortised.

#### ii. Electricity FRC costs

Electricity FRC costs incurred during the period January 2002 to June 2003 to develop and implement the electricity FRC market. These costs are being recovered from FRC market participants over a 10 year period commencing 1 July 2003 and ending 30 June 2013. The straight line method of amortisation is used with one year of amortisation remaining.

#### iii. Software

Software asset useful lives vary according to the type of assets.

Assets are amortised over its estimated useful life.

- NEM and FRC market management systems software: 5 years
- NEM Energy management systems software: 5 years
- Gas IT system software: 5 years
- STTM system software: 7 years
- IT Systems Software: 3 years
- Business applications software: 5 years

### m) AEMO Transition Fees Receivable

AEMO transition fees receivable represent costs incurred during the period September 2008 to June 2009 to establish AEMO. These costs are to be recovered from market participants over a three year period commencing 1 July 2010 and ending 30 June 2013.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

### n) Trade and other payables

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year which remain unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

### o) Borrowing Costs

Borrowing costs are recognised as expenses in the period in which they are incurred, except where they are included in the costs of qualifying assets (assets under construction). The capitalisation rate used to determine the amount to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year: in this case 5.28% (2011: 5.37%).

### p) Provisions

Provisions for legal claims are recognised when AEMO has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

### q) Employee Benefits

#### i. Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non monetary benefits and annual leave payable within 12 months of the reporting date are recognised in Current Liabilities in respect of employees' services up to the reporting date and are measured at the amounts payable when the liabilities are settled.

#### ii. Long service leave

The liability for long service leave payable within 12 months of the reporting date is recognised as current liability in the provision for employee benefits and is measured in accordance with note 2(q)(i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

### r) Superannuation

#### i. Defined contribution plans

AEMO's default employee superannuation fund is an accumulation benefit fund. Employees have the choice of joining the AEMO nominated fund or another superannuation fund of their choice. Superannuation contributions are included within expenses for the year.

#### ii. Defined benefit plans

Through the business combination that occurred on 1 July 2009 AEMO acquired responsibility for the defined benefit superannuation plan from VENCORP. No new members are permitted to join the plan, however it is continuing for the benefit of existing members. The defined benefit plan comprises 22 employees and 6 pension members.

Past service costs are recognised immediately in profit or loss, unless the changes to the superannuation fund are conditional on the employees remaining in the service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period. Contributions to the defined contribution fund are recognised as an expense as they become payable. Superannuation contributions are made to the plans based on the relevant rules of each plan.

The liability or asset recognised in the Statement of Financial Performance is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets, together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method.

# NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2012

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

### r) Superannuation (cont.)

#### ii. Defined benefit plans (cont.)

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of the Commonwealth Government bonds with terms to maturity approximating to the terms of the related obligation. Actuarial gains and losses are recognised immediately in profit and loss in the years in which they occur. Note 16 provides further details on the company's defined benefit plan.

### s) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position. Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

### t) Negative Settlement Residues

Negative settlement residues are recovered from positive settlement residue auction proceeds in the settlement week in which they occur. If there are insufficient positive settlement residues at this time AEMO funds the negative settlement residue, and recognises it as a receivable, holding it until the next quarterly auction proceeds are paid. At that time repayment of the negative settlement residue amount (including interest) will occur as the first priority from auction proceeds from each auction payment until the amount is fully repaid.

From 1 July 2010 negative settlement residues are to be recovered from the appropriate Transmission Network Service Provider. As the Victorian Transmission Network Service Provider AEMO will be responsible for funding events that occur in relation to Victorian operations.

### u) New accounting standards and interpretations

#### Changes in accounting policy and disclosures

The company has adopted all of the new and/or revised Accounting Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on 1 July 2011.

#### Accounting standards and interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the company for the annual reporting period ending 30 June 2012, are outlined in the table below:

Reference	Title	Details of New Standard/ Amendment/Interpretation	Impact on Company	Application date for the Company
AASB 9	Financial Instruments	AASB 9 amends the classification and measurement of financial assets. The effect on the entity will be that more assets may be held at fair value and the need for impairment testing has been limited to financial assets held at amortised cost only.  Minimal changes have been made in relation to the classification and measurement of financial liabilities, except that the effects of 'own credit risk' are recognised in other comprehensive income.	(i)	30 June 2016
AASB 1053	Application of Tiers of Australian Accounting Standards	Entities classified as Tier 2 entities that prepare general purpose financial statements will be able to apply the reduced disclosures.	(ii)	30 June 2014

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Reference	Title	Details of New Standard/ Amendment/Interpretation	Impact on Company	Application date for the Company
AASB 2010-2	Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements	AASB 2010-2 sets out the relevant disclosures that will not be required to be made if a Tier 2 entity applies the Reduced Disclosure Requirements.	(ii)	30 June 2014
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	The Standard makes amendments to remove the individual key management personnel disclosure requirements, as these are considered to be more in the nature of corporate governance and are generally covered in the Corporations Act and disclosed within the Directors and/or Remuneration Report.	(iii)	30 June 2014
AASB 13	Fair Value Measurement	AASB 13 has been issued to: <ul style="list-style-type: none"> <li>• establish a single source of guidance for all fair value measurements;</li> <li>• clarify the definition of fair value and related guidance; and</li> <li>• enhance disclosures about fair value measurements (new disclosures increase transparency about fair value measurements, including the valuation techniques and inputs used to measure fair value).</li> </ul>	(iv)	30 June 2014
AASB 119	Employee Benefits	The main change for accounting for defined benefit plans is: <ol style="list-style-type: none"> <li>(1) the removal of the option to defer the full recognition of gains and losses under the corridor approach; and</li> <li>(2) the revised method of calculating the return on plan assets.</li> </ol>	(i)	30 June 2014

(i) The company has not yet determined the potential effect of the standard.

(ii) The entity is a Tier 2 entity and therefore eligible to apply the Reduced Disclosure Requirements of AASB 2010-2. The Reduced Disclosure Requirements are not mandatory for Tier 2 entities and the company is not intending to apply the reduced disclosure requirements and intends to continue to provide full disclosures at 30 June 2014.

(iii) There will be no impact on the financial statements on initial adoption as these requirements only relate to disclosing entities that are not companies.

(iv) For financial assets, AASB 13's guidance is broadly consistent with existing practice. The company has no other assets other than financial assets that are measured at fair value. There will be no significant changes to disclosures about fair values.

## 3 FINANCIAL RISK MANAGEMENT

AEMO is exposed to a variety of financial risks; market risk (interest rate risk), credit risk and liquidity risk. The Board has established a Risk and Audit Committee and provides written principles for overall risk management, as well as written policies covering specific areas. The Company's overall risk management program seeks to minimise potential adverse effects on the financial performance of the Company.

# NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2012

## 3 FINANCIAL RISK MANAGEMENT (cont.)

AEMO is required to operate efficiently on a self-funding break even basis with fees to fund operations levied against participants. Cashflow is relevant as an extension of the efficiency concept materialising in interest rate expense and therefore risk. In relation to financial instruments, AEMO does not have exposure to foreign currency fluctuations or changes in market prices.

### Financial Assets and Liabilities

	2012 \$'000	2011 \$'000
<b>Financial Assets</b>		
Cash and cash equivalents	27,331	32,467
Participant Fees Receivable	54,841	52,104
Other Receivables	3,536	4,147
Prepayments	3,264	2,851
	<b>88,972</b>	<b>91,569</b>
<b>Financial Liabilities</b>		
Accounts Payable	1,686	6,687
Other creditors and accruals	57,679	54,993
Financial costs – accrued interest	198	1,424
Electricity Market Participant Security Deposits	5,695	4,546
Gas Market Participant Prepayments	2,089	2,694
Borrowings	76,917	73,769
Derivative financial instruments	–	336
	<b>144,264</b>	<b>144,449</b>

### a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. It comprises three types of risk: interest rate risk, currency risk and other price risk. In AEMO's case only interest rate risk is relevant.

Interest rate risk arises from long-term borrowings issued at variable rates. AEMO manages its cashflow interest rate risk by using floating and fixed interest rate loans.

AEMO has considered the current financial market information and on that basis believe the use of 75 basis points to indicate the impact of potential interest rate variations is reasonable.

Interest Rate Risk	30 June 12			-75bps		+75bps	
	Notional Amount \$'000	Carrying Amount \$'000	Surplus \$'000	Equity \$'000	Surplus \$'000	Equity \$'000	
<b>Financial Assets</b>							
Cash and cash equivalents	27,331	27,331	(205)	(205)	205	205	
	<b>27,331</b>	<b>27,331</b>	<b>(205)</b>	<b>(205)</b>	<b>205</b>	<b>205</b>	
<b>Financial Liabilities</b>							
Floating rate borrowings	28,406	28,190	(211)	(211)	211	211	
	<b>28,406</b>	<b>28,190</b>	<b>(211)</b>	<b>(211)</b>	<b>211</b>	<b>211</b>	

### 3 FINANCIAL RISK MANAGEMENT (cont.)

#### a) Market risk (cont.)

Interest Rate Risk	30 June 11		-75bps		+75bps	
	Notional Amount \$'000	Carrying Amount \$'000	Surplus \$'000	Equity \$'000	Surplus \$'000	Equity \$'000
<b>Financial Assets</b>						
Cash and cash equivalents	32,467	32,467	(244)	(244)	244	244
	<b>32,467</b>	<b>32,467</b>	<b>(244)</b>	<b>(244)</b>	<b>244</b>	<b>244</b>
<b>Financial Liabilities</b>						
Floating rate borrowings	74,032	73,769	(553)	(553)	553	553
Interest rate swaps	26,344	336	(146)	(146)	146	146
	<b>100,376</b>	<b>74,105</b>	<b>(699)</b>	<b>(699)</b>	<b>699</b>	<b>699</b>

#### b) Credit risk

Credit risk arises where one party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation. AEMO has exposure to credit risk on cash and cash equivalents, prepaid expenses and receivables.

Exposure to credit risk is mitigated by a rigorous market prudential regime that requires credit support from either a bank guarantee or deposit equivalent to the level required by the Rules.

Guarantees will only be accepted from banks that have a credit rating which is either:

- 1) a rating of A-1 or higher for short term unsecured counterparty obligations of the entity, as rated by Standard and Poor's (Australia) Pty Ltd; or
- 2) a rating of P-1 or higher for short term unsecured counterparty obligations of the entity, as rated by Moody's Investor Service Pty Ltd.

If there is to be a change to the credit support (expiry or termination) then at least 10 business days prior to the time at which the existing credit support is due to expire or terminate, the Market Participant must procure a replacement.

Receivables mainly consist of participant fees receivable for settlement and other services, and TUOS revenue settlement. Aged debtors are continually reviewed for collectability and where appropriate an allowance for doubtful debts is raised.

Prepaid expenses represent payments made for services to be provided or consumed over future months. Insurance agreements represent a large proportion of these, with the remainder comprised mostly of IT support. These prepayments are supported by underlying service agreements which would be legally enforceable in the event of default of service. In many instances the services are the result of a tender process where the financial viability of the vendor has been examined.

#### c) Liquidity risk

Liquidity risk arises where there is a possibility that AEMO will encounter difficulty in meeting obligations relating to financial liabilities and will not have sufficient funds to settle a transaction on the due date.

To manage this risk AEMO continually forecasts and monitors cashflow and invests surplus funds in highly liquid markets. To mitigate this risk AEMO has a \$100,000k revolving cash advance facility provided by the National Australia Bank (Note 12).

# NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2012

## 3 FINANCIAL RISK MANAGEMENT (cont.)

### c) Liquidity risk (cont.)

#### Undrawn borrowing facilities

##### NAB Revolving Cash Advance Facility at 30 June 2012 at carrying amount

Limit: \$100,000,000	Limit \$'000	Balance \$'000	Undrawn \$'000
Cash Advance Facility	100,000	72,246	27,754
	<b>100,000</b>	<b>72,246</b>	<b>27,754</b>

AEMO also has a loan from the Commonwealth Government outstanding at 30 June 2012 that was provided to establish AEMO. This loan is planned to be repaid in full in October 2012 as agreed with the Commonwealth Government.

#### Loan repayment commitments

As at 30 June 2012, total loan repayment (combining both principal and interest components) commitments are as follows:

Institution	Loan name	< 1 year \$'000	1-5 years \$'000	> 5 years \$'000	Total \$'000
NAB	Norwest	2,342	8,723	21,660	32,725
	STTM	5,081	15,434	636	21,151
	National Smart Metering	1,217	–	–	1,217
	Working Capital	27,189	–	–	27,189
Commonwealth Government	AEMO T	4,671	–	–	4,671
<b>TOTAL COMMITMENTS</b>		<b>40,500</b>	<b>24,157</b>	<b>22,296</b>	<b>86,953</b>

### d) Fair Value Estimation

There was no swap instrument existing at 30 June 2012.

The swap instrument existing in the prior year 30 June 2011, is categorised as a financial asset at fair value through profit and loss. Fair value is defined in terms of a price agreed by a willing buyer and a willing seller in an arm's length transaction. Fair value is the estimate of the market exit price that is determined by reference to a current hypothetical transaction between the parties.

In this instance, the fair value of the swap transactions is considered to be the estimated cost of agreeing with CBA to exit the agreement at 30 June 2011. This is represented by the mark to market value of the arrangement projected forward to the termination date, based on a forward curve of future interest rates, then discounted back to 30 June 2011.



#### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

AEMO makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

##### a) **Defined Benefit Superannuation**

Actuarial assumptions are utilised in the determination of the defined benefit obligations and the related carrying amounts are discussed in Note 16.

##### b) **Depreciation and Amortisation**

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

##### c) **Use of assets for network services**

AEMO has an ongoing Transmission Network Service Provider Agreement under which SP AusNet provides network services to AEMO in relation to the Victorian electricity transmission network. The charges levied on AEMO by SP AusNet for the provision of transmission services under the agreement are regulated by the Australian Energy Regulator (AER). SP AusNet charges a fixed monthly amount to AEMO for these services and AEMO incorporates these charges into its fees to network users.

AEMO has determined that the arrangement is not, and does not contain, a lease in accordance with AASB Interpretation 4 *Determining whether an Arrangement contains a Lease*.

# NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2012

## 5 REVENUE

	2012 \$'000	2011 \$'000
<b>From continuing operations</b>		
TUOS income	453,039	419,596
Funded augmentation income	13,616	11,262
<b>Electricity Transmission income</b>	<b>466,655</b>	<b>430,858</b>
Settlement residue	21,208	22,133
Settlement residue auctions	15,801	16,876
<b>Settlement residue</b>	<b>37,009</b>	<b>39,009</b>
NEM Fees	72,234	73,865
FRC tariffs – electricity	6,855	8,782
FRC Electricity – establishment recovery	2,649	2,942
Registration fees	189	210
National Smart Metering	3,439	2,359
National Transmission Planner	6,748	7,396
<b>Electricity market income</b>	<b>92,114</b>	<b>95,554</b>
DWGM tariffs	14,908	15,241
FRC tariffs – gas	6,864	5,912
STTM	7,627	4,440
Gas SOO	1,163	1,278
Registration fees	669	512
Other gas revenues	1,677	1,485
<b>Gas market income</b>	<b>32,908</b>	<b>28,868</b>
PCF interest	526	420
PCF contributions received	1,481	2,593
Bank interest revenue	827	1,512
Fair value of derivative income	–	443
Other	5,709	6,270
<b>Other revenue</b>	<b>8,543</b>	<b>11,238</b>
	<b>637,229</b>	<b>605,527</b>

## 6 EXPENSES

	2012 \$'000	2011 \$'000
Surplus/(deficit) before income tax includes:		
Amortisation expense	11,386	9,949
Depreciation expense	5,580	5,425
Wages and Salaries	56,144	51,328
Superannuation expense	6,870	4,978
Defined benefit superannuation expense	360	425
Other employee benefits expense	12,180	10,875
<b>Employee benefits</b>	<b>75,554</b>	<b>67,606</b>
Bank fees	1,157	1,636
Interest expense	3,235	3,035
<b>Finance costs</b>	<b>4,392</b>	<b>4,671</b>
Defined benefits actuarial loss/(gain)	6,410	(68)
Rental expenses related to operating leases	3,756	3,528

## 7 CASH AND CASH EQUIVALENTS

	2012 \$'000	2011 \$'000
Cash at bank and on hand	18,295	25,256
Participant Compensation Fund (PCF)	9,036	7,211
	<b>27,331</b>	<b>32,467</b>

Cash and Cash Equivalents at the end of the year includes \$9,565k (2011: \$4,546k) of participant security deposits and early settlement proceeds not available for use.

## 8 TRADE AND OTHER RECEIVABLES

	2012 \$'000	2011 \$'000
<b>Current</b>		
Participant fees receivable	17,668	15,100
TUOS revenue receivable	37,173	37,004
AEMO transition – fees receivable	1,324	1,324
Other receivables	6,019	6,101
Prepayments	3,264	2,851
	<b>65,448</b>	<b>62,380</b>
<b>Non-current</b>		
AEMO transition – fees receivable Non-current	–	1,324
	<b>–</b>	<b>1,324</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2012

## 9 PROPERTY, PLANT AND EQUIPMENT

	Electricity Systems (NEM and FRC) \$'000	Gas Systems (Wholesale and FRC) \$'000	Short-term Trading Market \$'000	Plant and Equipment \$'000	Land and Buildings \$'000	Total \$'000
<b>At 30 June 2011</b>						
Cost	21,143	3,222	346	20,464	35,084	80,259
Accumulated depreciation	(19,612)	(2,793)	(147)	(13,957)	(7,428)	(43,937)
<b>Net book value at 30 June 2011</b>	<b>1,531</b>	<b>429</b>	<b>199</b>	<b>6,507</b>	<b>27,656</b>	<b>36,322</b>
<b>Reconciliation of carrying amounts:</b>						
Carrying amount at 1 July 2010	2,256	678	146	7,117	26,612	36,809
Additions	1,345	62	140	539	2,854	4,940
Disposals	(2)	–	–	–	–	(2)
Depreciation	(2,068)	(311)	(87)	(1,149)	(1,810)	(5,425)
<b>Carrying amount at 30 June 2011</b>	<b>1,531</b>	<b>429</b>	<b>199</b>	<b>6,507</b>	<b>27,656</b>	<b>36,322</b>
<b>Reconciliation of cost:</b>						
Cost amount at 1 July 2010	20,743	3,159	207	21,231	32,231	77,571
Additions	1,345	62	140	539	2,854	4,940
Disposals	(945)	1	(1)	(1,306)	(1)	(2,252)
<b>Cost amount at 30 June 2011</b>	<b>21,143</b>	<b>3,222</b>	<b>346</b>	<b>20,464</b>	<b>35,084</b>	<b>80,259</b>
<b>At 30 June 2012</b>						
Cost	20,497	3,862	290	21,352	35,564	81,565
Accumulated depreciation	(19,604)	(3,100)	(239)	(15,192)	(9,230)	(47,365)
<b>Net book value at 30 June 2012</b>	<b>893</b>	<b>762</b>	<b>51</b>	<b>6,160</b>	<b>26,334</b>	<b>34,200</b>
<b>Reconciliation of carrying amounts:</b>						
Carrying amount at 1 July 2011	1,531	429	199	6,507	27,656	36,322
Transfers	90	17	(79)	(30)	2	–
Additions	916	630	28	1,405	479	3,458
Depreciation	(1,644)	(314)	(97)	(1,722)	(1,803)	(5,580)
<b>Carrying amount at 30 June 2012</b>	<b>893</b>	<b>762</b>	<b>51</b>	<b>6,160</b>	<b>26,334</b>	<b>34,200</b>
<b>Reconciliation of cost:</b>						
Cost amount at 1 July 2011	21,143	3,222	346	20,464	35,084	80,259
Transfers	483	10	(84)	(410)	1	–
Additions	916	630	28	1,405	479	3,458
Disposals	(2,045)	–	–	(107)	–	(2,152)
<b>Cost amount at 30 June 2012</b>	<b>20,497</b>	<b>3,862</b>	<b>290</b>	<b>21,352</b>	<b>35,564</b>	<b>81,565</b>

## 10 INTANGIBLE ASSETS

	NEM Establish- ment costs \$'000	FRC Establish- ment costs \$'000	Software – Electricity (NEM and FRC) \$'000	Software – Gas (Wholesale and FRC) \$'000	Software – Short-term Trading Market \$'000	Other \$'000	Total \$'000
<b>At 30 June 2011</b>							
Cost	44,473	27,330	77,243	3,861	19,032	2,903	174,842
Accumulated amortisation	(44,473)	(22,480)	(64,053)	(2,444)	(1,933)	(598)	(135,981)
<b>Net book value at 30 June 2011</b>	<b>–</b>	<b>4,850</b>	<b>13,190</b>	<b>1,417</b>	<b>17,099</b>	<b>2,305</b>	<b>38,861</b>
<b>Reconciliation of carrying amounts:</b>							
Carrying amount at 1 July 2010	–	7,583	10,540	2,297	15,421	1,245	37,086
Additions	–	–	6,247	368	3,590	1,519	11,724
Amortisation	–	(2,733)	(3,597)	(1,248)	(1,912)	(459)	(9,949)
<b>Carrying amount at 30 June 2011</b>	<b>–</b>	<b>4,850</b>	<b>13,190</b>	<b>1,417</b>	<b>17,099</b>	<b>2,305</b>	<b>38,861</b>
<b>Reconciliation of cost:</b>							
Cost amount at 1 July 2010	44,473	27,330	70,999	3,493	15,442	1,385	163,122
Additions	–	–	6,247	368	3,590	1,519	11,724
Disposals	–	–	(3)	–	–	(1)	(4)
<b>Cost amount at 30 June 2011</b>	<b>44,473</b>	<b>27,330</b>	<b>77,243</b>	<b>3,861</b>	<b>19,032</b>	<b>2,903</b>	<b>174,842</b>
<b>At 30 June 2012</b>							
Cost	44,473	27,330	82,165	5,097	20,088	4,448	183,601
Accumulated amortisation	(44,473)	(25,213)	(68,286)	(3,452)	(4,594)	(1,296)	(147,314)
<b>Net book value at 30 June 2012</b>	<b>–</b>	<b>2,117</b>	<b>13,879</b>	<b>1,645</b>	<b>15,494</b>	<b>3,152</b>	<b>36,287</b>
<b>Reconciliation of carrying amounts:</b>							
Carrying amount at 1 July 2011	–	4,850	13,190	1,417	17,099	2,305	38,861
Transfers	–	–	(159)	(4)	4	159	–
Additions	–	–	5,139	1,236	1,052	1,385	8,812
Amortisation	–	(2,733)	(4,291)	(1,004)	(2,661)	(697)	(11,386)
<b>Carrying amount at 30 June 2012</b>	<b>–</b>	<b>2,117</b>	<b>13,879</b>	<b>1,645</b>	<b>15,494</b>	<b>3,152</b>	<b>36,287</b>
<b>Reconciliation of cost:</b>							
Cost amount at 1 July 2011	44,473	27,330	77,243	3,861	19,032	2,903	174,842
Transfers	–	–	(164)	–	4	160	–
Additions	–	–	5,139	1,236	1,052	1,385	8,812
Disposals	–	–	(53)	–	–	–	(53)
<b>Cost amount at 30 June 2012</b>	<b>44,473</b>	<b>27,330</b>	<b>82,165</b>	<b>5,097</b>	<b>20,088</b>	<b>4,448</b>	<b>183,601</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2012

## 11 TRADE AND OTHER PAYABLES

	2012 \$'000	2011 \$'000
<b>Current</b>		
Accounts payable	1,686	6,687
Accrued network charges	43,614	41,794
Employee incentives payable	6,783	4,698
Finance costs payable	198	1,424
Participant security deposits	5,695	4,546
Other creditors and accruals	8,984	7,780
	<b>66,960</b>	<b>66,929</b>
<b>Non-current</b>		
Lease incentive	2,675	3,068
	<b>2,675</b>	<b>3,068</b>

## 12 BORROWINGS

	2012 \$'000	2011 \$'000
<b>Current</b>		
<b>Bank Loans</b>		
Norwest (current)	1,243	1,243
STTM (current)	4,114	3,449
National Smart Metering (current)	1,190	–
Working Capital	27,000	20,000
FRC Electricity	–	2,500
<b>Government Loan</b>		
AEMO (T) (current)	4,671	–
	<b>38,218</b>	<b>27,192</b>
<b>Non-current</b>		
<b>Bank Loans</b>		
Norwest (non current)	21,613	23,166
STTM (non current)	17,086	18,577
National Smart Metering (non current)	–	426
<b>Government Loan</b>		
AEMO (T) (non current)	–	4,408
	<b>38,699</b>	<b>46,577</b>
<b>TOTAL</b>	<b>76,917</b>	<b>73,769</b>

The above borrowings are unsecured, for details of the borrowings refer to note 3(c).

## 12 BORROWINGS (cont.)

### Financing arrangements

Unrestricted access was available at balance date to the following line of credit:

	2012 \$'000	2011 \$'000
<b>Bank loan facilities</b>		
Total facility	100,000	120,000
Used at balance date	(72,246)	(68,971)
<b>Unused at balance date</b>	<b>27,754</b>	<b>51,029</b>

### Loan Contracts

On 17 February 2012, AEMO signed a \$100,000k Revolving Cash Advance Facility Agreement with the National Australia Bank (NAB) for a five year period.

On 9 March 2012, AEMO settled the outstanding loan principal balance of \$48,014k with the Commonwealth Bank of Australia (CBA), and transferred the loan drawdown to the NAB.

At 30 June 2012, the total drawdown is \$72,246k (\$27,754k undrawn).

#### The drawdown loan details at year end are:

Norwest loan drawdown at 30 June 2012 is \$22,856k. Repayments of principal of \$310k plus interest will be made quarterly for the next five years at a fixed rate of 6.07%.

STTM loan drawdown at 30 June 2012 is \$21,200k. Repayments of principal of \$1,029k plus interest will be made quarterly for the next five years at a fixed rate of 6.07%.

National Smart Metering (NSM) loan drawdown at 30 June 2012 is \$1,190k. Full repayment of principal plus interest is forecast to be made in December 2012. The current variable interest rate for this loan at 30 June 2012 is 5.80%.

Working capital drawdowns are on variable interest rates and repayments are in line with cash flow requirements and vary during the year.

## 13 PROVISIONS

	2012 \$'000	2011 \$'000
<b>Current</b>		
Provision for employee entitlements	16,613	15,798
Provision for PCF legal claims	1,140	–
	<b>17,753</b>	<b>15,798</b>
<b>Non-current</b>		
Provision for employee entitlements (non current)	1,906	1,450
	<b>1,906</b>	<b>1,450</b>
<b>TOTAL</b>	<b>19,659</b>	<b>17,248</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2012

## 14 OTHER CURRENT LIABILITIES

	2012 \$'000	2011 \$'000
Prepaid revenue	2,460	2,499
Other liabilities	578	564
	<b>3,038</b>	<b>3,063</b>

## 15 DERIVATIVE FINANCIAL INSTRUMENTS

	2012 \$'000	2011 \$'000
Derivative financial instruments/swaps	–	336
	<b>–</b>	<b>336</b>

AEMO terminated the CBA swaps in November 2011.

## 16 DEFINED BENEFIT SUPERANNUATION PLAN

Defined benefit members receive lump sum benefits on retirement, death, disablement and withdrawal. Some defined benefit members are also eligible for pension benefits. The defined benefit section of the plan is closed to new members.

The defined benefit superannuation liability was transferred to AEMO as part of the business combination with VENCORP on 1 July 2009.

### Reconciliation of the assets and liabilities recognised in the statement of financial position

	2012 \$'000	2011 \$'000
As at		
Defined Benefit Obligation <sup>1</sup>	31,470	28,187
(–) Fair value of plan assets	(18,098)	(20,576)
<b>Net superannuation liability</b>	<b>13,372</b>	<b>7,611</b>

1 includes contributions tax provision

### Reconciliation of the Present Value of the defined benefit obligation

	2012 \$'000	2011 \$'000
Financial year ended		
Present value of defined benefit obligations at beginning of the year	28,187	25,768
(+) Current service cost	555	565
(+) Interest cost	1,216	1,053
(+) Contributions by plan participants	185	192
(+) Actuarial (gains)/losses	4,881	1,272
(–) Benefits paid	(3,369)	(547)
(–) Taxes & premiums paid	(185)	(116)
<b>Present value of defined benefit obligations at end of the year</b>	<b>31,470</b>	<b>28,187</b>



## 16 DEFINED BENEFIT SUPERANNUATION PLAN (cont.)

### Reconciliation of the fair value of plan assets

Financial year ended	2012 \$'000	2011 \$'000
Fair value of plan assets at beginning of the year	20,576	18,036
(+) Expected return on plan assets	1,411	1,193
(+) Actuarial gains/(losses)	(1,529)	1,340
(+) Employee contributions	1,009	478
(+) Contributions by plan participants	185	192
(-) Benefits paid	(3,369)	(547)
(-) Taxes & premiums paid	(185)	(116)
<b>Fair value of plan assets at end of the year</b>	<b>18,098</b>	<b>20,576</b>

### Expense recognised in surplus or deficit

Financial year ended	2012 \$'000	2011 \$'000
Current service cost	555	565
Interest cost	1,216	1,053
Expected return on assets	(1,411)	(1,193)
Actuarial losses/(gains)	6,410	(68)
<b>Superannuation expense</b>	<b>6,770</b>	<b>357</b>

### Plan assets

As at	2012 %	2011 %
Australian Equity	35	35
International Equity	27	27
Fixed Income	11	12
Property	10	10
Growth Alternatives	8	8
Defensive Alternatives	2	2
Cash	7	6

### Fair value of plan assets

The fair value of plan assets does not include any amounts relating to:

- Any of the company's own financial instruments; and
- Any property occupied by, or other assets used by, the organisation.

### Expected rate of return on plan assets

The expected rate of return on fund assets is determined by weighing the expected long-term return for each asset class by the benchmark allocation of assets to each class and allowing for correlations of the investment returns between asset classes. The returns used for each asset class are net of investment tax and investment fees. An allowance for administration expenses has also been deducted from the expected return. The expected return on assets assumption for pension assets has not been reduced for investment tax, as earnings on the assets supporting the pension liability are tax free.

# NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2012

## 16 DEFINED BENEFIT SUPERANNUATION PLAN (cont.)

### Actual return on plan assets

	2012	2011
Financial year ended	\$'000	\$'000
Actual return on plan assets	(118)	2,533

### Principal actuarial assumptions at the balance sheet date

	2012	2011
As at	% p.a.	% p.a.
Discount rate (active members)	2.5	4.6
Discount rate (pensioners)	2.8	5.1
Expected rate of return on plan assets (active members)	7	7
Expected rate of return on plan assets (pensioners)	7.5	7.5
Expected salary increase rate	4.3	5
Expected pension increase rate	3	3

### Historical Information

Financial year ended 30 June	2012	2011	2010	2009	2008
2012	\$'000	\$'000	\$'000	\$'000	\$'000
Defined benefit obligation	31,470	28,187	25,768	23,318	19,583
Fair value of plan assets	18,098	20,576	18,036	17,771	20,928
Deficit/(surplus) in plan	13,372	7,611	7,732	5,547	(1,345)
Experience adjustments losses/(gains) – plan assets	1,529	(1,340)	(445)	3,823	2,801
Experience adjustments losses/(gains) – plan liabilities	695	1,264	1,597	374	2,118

### Expected contributions

Financial year ended	2013
	\$'000
Expected employer contributions	910

AEMO has recognised a liability in respect of its defined benefit superannuation arrangements.

AEMO may at any time by notice to the trustee terminate its contributions. AEMO has a liability to pay the contributions due prior to the effective date of the notice, but there is no requirement for AEMO to pay any further contributions, irrespective of the financial condition of the plan. The directors have no intention of terminating contributions.

## 17 RESERVES

### Nature and purpose of reserves

#### Participant Compensation Fund Reserve

AEMO maintains the following participant compensation funds:

##### *National Electricity Market*

Established under the National Electricity Rules, the purpose of this fund is to pay compensation to certain types of participants for scheduling errors as determined by the Dispute Resolution Panel. The funding requirement for each financial year is the lesser of \$1,000k and \$5,000k minus the amount which AEMO reasonably estimates will be the balance of the PCF at the end of the relevant financial year. At 30 June 2012 the balance of the fund is \$4,228k (2011:\$4,096k).

## 17 RESERVES (cont.)

### Nature and purpose of reserves (cont.)

#### Participant Compensation Fund Reserve (cont.)

##### Victorian Declared Wholesale Gas Market

Established under the National Gas Rules, the purpose of this fund is to pay compensation to market participants for unintended scheduling results as determined by the dispute resolution process. The funding requirement for each financial year is the lesser of \$500k or \$1,000k minus the amount AEMO reasonably expects to be the balance of the fund at the end of the financial year. At 30 June 2012 the balance of the fund is \$3,096k (2011:\$2,920k).

##### Queensland FRC Gas

Established under the Queensland Gas Retail Market Procedures, the purpose of this fund is to pay compensation to retailers in accordance with the dispute resolution process.

On 3 November 2011 the Queensland Retail Market Procedures were amended to abolish the Queensland FRC Gas participant compensation fund. AEMO distributed the amounts remaining in the fund to Retailers on 1 May 2012. At 30 June 2012 the balance of the fund is \$nil (2011:\$1,568k).

##### ShortTerm Trading Market

Established under the National Gas Rules, the purpose of these funds is to pay compensation to market participants for unintended scheduling results as determined by the dispute resolution process. The funding requirement for each financial year is:

- i. **Sydney hub:** the lesser of \$335k or \$670k minus the amount AEMO reasonably expects to be the balance of the fund at the end of the financial year. At 30 June 2012 the balance of the fund is \$677k (2011:\$338k).
- ii. **Adelaide hub:** the lesser of \$115k or \$330k minus the amount AEMO reasonably expects to be the balance of the fund at the end of the financial year. At 30 June 2012 the balance of the fund is \$174k (2011:\$57k).
- iii. **Brisbane hub:** the lesser of \$50k or \$100k minus the amount AEMO reasonably expects to be the balance of the fund at the end of the financial year. At 30 June 2012 the balance of the fund is \$50k (2011:\$nil). Trading in the Brisbane hub commenced on 1 December 2011.

	PCF NEM \$'000	PCF Vic Wholesale Gas \$'000	PCF QLD FRC Gas \$'000	PCF STTM Sydney hub \$'000	PCF STTM Adelaide hub \$'000	PCF STTM Brisbane hub \$'000	TOTAL \$'000
<b>2011</b>							
Balance 1 July 2010	3,162	2,779	931	–	–	–	<b>6,872</b>
Net transfer from retained surplus of contributions and interest earned by the Participant Compensation Fund during the year	1,181	165	637	338	57	–	<b>2,378</b>
Claim payments made from the Participant Compensation Fund during the year	(247)	(24)	–	–	–	–	<b>(271)</b>
<b>Balance 30 June 2011</b>	<b>4,096</b>	<b>2,920</b>	<b>1,568</b>	<b>338</b>	<b>57</b>	<b>–</b>	<b>8,979</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2012

## 17 RESERVES (cont.)

### Nature and purpose of reserves (cont.)

#### Participant Compensation Fund Reserve (cont.)

#### ShortTerm Trading Market (cont.)

	PCF NEM \$'000	PCF Vic Wholesale Gas \$'000	PCF QLD FRC Gas \$'000	PCF STTM Sydney hub \$'000	PCF STTM Adelaide hub \$'000	PCF STTM Brisbane hub \$'000	TOTAL \$'000
<b>2012</b>							
Balance 1 July 2011	4,096	2,920	1,568	338	57	–	8,979
Net transfer from retained surplus of contributions, interest earned and re-distribution of funds by the Participant Compensation Fund during the year	1,272	176	(1,568)	339	117	50	386
Claim provision made from the Participant Compensation Fund during the year (Note 20)	(1,140)	–	–	–	–	–	(1,140)
<b>Balance 30 June 2012</b>	<b>4,228</b>	<b>3,096</b>	<b>–</b>	<b>677</b>	<b>174</b>	<b>50</b>	<b>8,225</b>

#### Land Reserve

AEMO has established the Land Reserve for the purpose of recovering from participants the cost of the purchase of land for Buildings – Norwest.

#### AWEFS Reserve

AEMO has established the AWEFS Reserve in order to reflect the carrying value of assets acquired from grant funding provided by the government.

## 18 KEY MANAGEMENT PERSONNEL DISCLOSURES

### Directors

The following persons were directors of AEMO during the financial year:

#### Chairman – Non-executive

Dr. T.G. Parry AM

#### Chief Executive Officer and Managing Director

M. Zema

## 18 KEY MANAGEMENT PERSONNEL DISCLOSURES (cont.)

### Directors (cont.)

#### Non-executive directors

I.L. Fraser  
L.V. Hosking  
M.H. Lavarch AO  
G.J.W. Martin  
Dr. A. L. Marxsen  
K.A. Moses  
Dr. M.A. Sargent AM  
J. A. Tongs

All of the above persons were Directors for the full financial year.

#### Key Management Personnel Compensation

	2012 \$'000	2011 \$'000
<b>Directors' compensation</b>		
Short-term employee benefits	1,727	1,689
Post-employee benefits	130	146
	<b>1,857</b>	<b>1,835</b>
<b>Other key management personnel</b>		
Short-term employee benefits	2,724	3,115
Post-employee benefits	880	409
	<b>3,604</b>	<b>3,524</b>
	<b>5,461</b>	<b>5,359</b>

#### Chairman and the Board members:

The remuneration of the chairman and board members for the board and board committees was initially determined by the Ministerial Council on Energy based on advice received from an external consultant. At the Annual General Meeting in 3 November 2011, the members endorsed the base remuneration and committee fees to be increased in line with advice received on director remuneration within the energy sector.

#### Managing Director and Chief Executive Officer:

The position of the Managing Director and Chief Executive Officer is evaluated based on advice received from a number of Remuneration and Benefits specialists. The Board approves the Total Employment Cost based on this advice. The Board approves any increase to be applied based on both market movement and individual performance.

In addition to standard remuneration, there is a performance reward of up to 25% based on a combination of company and individual performance against agreed criteria.

#### Key Management Personnel (excluding the Managing Director & Chief Executive Officer):

All positions have a job profile that is evaluated using the Hay Group evaluation methodology. This determines their Total Employment Cost. Each year AEMO seeks remuneration advice from Hay Group regarding market movements for this group. Increases based on both market movement and individual performances are approved by the Board.

There is also an up to 25% performance component based on a combination of company, department and individual performance against agreed criteria.

# NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2012

## 19 REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the entity, its related practices and Non-related audit firms.

	2012 \$'000	2011 \$'000
<b>Statutory audit services</b>		
<b>Services provided by the external auditor Grant Thornton (2011:BDO)</b>		
Statutory audit of the financial statements of the Company	108	105
<b>Other services</b>		
Other Non-statutory audit services *	2,069	3,021

\* Other non related audit activities include gas and electricity market audit services which include the review of AEMO's control procedures and its compliance with the Rules. A significant portion of these services are on behalf of registered participants and the review reports are distributed to them. This balance also includes internal audits of the Company, review and accreditations, and other advisory services. None of these services were performed by the external auditor during the year.

## 20 CONTINGENCIES

AEMO assigned its lease for level 12, 15 William Street, Melbourne to a third party on the basis that the option for an additional 5 years was exercised. The landlord consented to the assignment on the basis that AEMO remained contingently liable for any default by the assignee. As at 30 June 2012 the contingent liability is equivalent to rent for 4½ years.

From time to time AEMO may be involved in disputes with registered participants. Where the probable outcome against the company can be measured, an appropriate liability is recognised in the financial statements. Where the outcome is unknown and the company is defending the action, or it is unlikely that any significant liability will arise, an amount is not recognised in the financial statements. Disclosure of details of claims are not provided where the Directors consider that this would be prejudicial to AEMO in resolving the disputes.

Some participants have lodged scheduling error dispute claims to AEMO in relation to:

- An electricity scheduling error that occurred from March 2009. The claim against the National Electricity Market Participant Compensation fund are to be heard before a Dispute Resolution Panel in the 2012-13 financial year.

AEMO has raised a NEM scheduling error provision of PCF legal claims at 30 June 2012 of \$1,140k based on the company's best estimate at the time of this report.

AEMO is not aware of any other potential disputes at this time.

## 21 COMMITMENTS

### Capital commitments

Total capital commitments at 30 June 2012 relate to contracted acquisition of plant and equipment. The commitments as at 30 June 2011 primarily relate to the development of the STTM Brisbane hub.

	2012 \$'000	2011 \$'000
Not later than one year	270	1,964
Later than one year but not later than five years	–	–
Later than five years	–	–
	<b>270</b>	<b>1,964</b>

## 21 COMMITMENTS (cont.)

### Operating lease commitments

Total operating leases in respect of rental properties contracted for at balance date but not recognised as liabilities, are:

	2012 \$'000	2011 \$'000
Not later than one year	4,224	4,361
Later than one year but not later than five years	15,707	17,434
Later than five years	7,544	10,246
	<b>27,475</b>	<b>32,041</b>

Lease commitments payable are based on AEMO's current lease rates multiplied by the lease agreement percentage increments. Lease commitments payable are based on AEMO's current lease rates and includes agreed future increments.

The Leases relate to the following:

- Melbourne CBD premises – lease agreement to 31 October 2018
- Sydney CBD premises – lease agreement to March 2013. There is a 14-month rent free period (Note 2(e)).
- Brisbane CBD premises – lease agreement to 30 June 2016
- Brisbane Control Centre – lease agreement to 31 December 2018
- Adelaide CBD premises – lease agreement to 15 July 2019. There is an option to extend a further 5 years.

## 22 FINANCIAL INSTRUMENTS

### Net Fair Value of Financial Assets and Liabilities

The net fair value of cash and borrowings, Non-interest bearing monetary financial assets and financial liabilities of AEMO are not materially different from their carrying amounts.

### Interest Rate Swap Contracts

On 8 November 2005 AEMO negotiated two interest rate swaps to hedge part of the NEM and electricity FRC debt and the Norwest debt with the CBA. The interest rate AEMO was obligated to pay was fixed for the period of the swap at 6.08% for NEM and electricity FRC and 6.14% for Norwest. The variable interest rate was based on the AUD bank bill swap rate. The contracts require settlement of interest each 182 days, and coincides with the dates on which interest was payable on the underlying debt. From 7 July 2009 the swap continues for the existing electricity FRC and Norwest debt only.

In November 2011, AEMO terminated the swaps in full with the CBA.

The notional principal amounts and periods of expiry of the interest rate swap contract are as follows:

	2012 \$'000	2011 \$'000
Less than 1 year	–	4,994
1-2 years	–	21,350
2-3 years	–	–
3-4 years	–	–
4-5 years	–	–
More than 5 years	–	–
	<b>–</b>	<b>26,344</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2012

## 23 ACCUMULATED SURPLUS/(DEFICIT)

The accumulated surplus or deficit attributable to each of AEMO's functions is detailed below:

	2012 \$'000	2011 \$'000
NEM	219	197
Electricity FRC	1,950	3,713
National Smart Metering	(2,833)	(5,757)
TNSP	(35,482)	(20,967)
DWGM	6,325	7,838
Gas FRC	1,754	2,525
STTM	(10,122)	(7,733)
NTP	30	(961)
Other Functions	484	638
	<b>(37,675)</b>	<b>(20,507)</b>

AEMO has statutory powers to recover all costs as well as under and over recoveries in any of the specific functions in the next financial year or subsequent financial years. It does this by including surpluses or deficits in future budgets and applying these to future fee recoveries for specific AEMO functions. Accordingly, the accumulated surplus/deficit attributable to each of AEMO's functions is reconciled and monitored on an annual basis as per above.

## 24 EVENTS OCCURRING AFTER BALANCE SHEET DATE

AEMO is not aware of any events occurring after balance sheet date materially impacting the 30 June 2012 financial year.

## 25 RECONCILIATION OF DEFICIT FOR THE YEAR TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2012 \$'000	2011 \$'000
Deficit for the year	(18,685)	(22,780)
Depreciation and amortisation	16,966	15,374
Gain on fair value for financial liabilities held at fairvalue through the profit and loss	–	(252)
Discounted on AEMO(T) loan	263	32
Actuarial loss/(gain) – defined benefit superannuation plan	6,410	(68)
Actuarial adjustment to defined benefit fund contributions	(649)	–
<b>Change in operating assets and liabilities</b>		
(Increase)/decrease in trade and other receivables	(1,744)	25,953
(Decrease)/increase in creditors and accruals	(960)	4,867
(Decrease)/increase in provisions	1,498	2,691
<b>Net Cash Inflow Provided by Operating Activities</b>	<b>3,099</b>	<b>25,817</b>

## 26 RELATED PARTY TRANSACTIONS

A number of Directors occupy roles in other energy companies which pay fees to AEMO. All related party transactions for the year ended 30 June 2012 were transacted at arms length.

All directors comply with the Directors Interests Protocol adopted by the Board, which abides by the *Corporations Act 2001* provisions and sets out the policy for each Directors responsibility to disclose conflicts of interests, declaration of interest, and management of conflicts.

These transactions are not considered related party transactions and are therefore not disclosed in this note, as the relevant directors of AEMO are not considered to have significant control over any of the entities with which AEMO transacts.



# DIRECTORS' DECLARATION

The Directors of Australian Energy Market Operator Limited declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, and accompanying notes, are in accordance with the *Corporations Act 2001* and:
  - (a) comply with Accounting Standards as described in Note 2 to the financial statements and the *Corporations Regulations 2001*; and
  - (b) give a true and fair view of the company's financial position as at 30 June 2012 and of its performance for the year ended on that date in accordance with the accounting policies described in Note 2 to the financial statements.
2. The company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



Dr. Thomas G Parry  
Chairman

Melbourne  
6 September 2012

# INDEPENDENT AUDITOR'S REPORT



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## **Independent Auditor's Report To the Members of Australian Energy Market Operator Limited**

We have audited the accompanying financial report of Australian Energy Market Operator Limited (the "Company"), which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the company.

### **Directors responsibility for the financial report**

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view of the financial report and have determined that the accounting policies used and described in Note 2 to the financial report, are appropriate to meet the requirements of the Corporations Act 2001 and the needs of the members in accordance with Australian Accounting Standards. This responsibility includes such internal controls as the Directors determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### **Auditor's responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

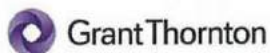
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial report 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 Company's internal control.

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An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Independence**

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

**Auditor's opinion**

In our opinion:

- a the financial report of Australian Energy Market Operator Limited is in accordance with the Corporations Act 2001, including:
  - i giving a true and fair view of the Company's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

*Grant Thornton*  
GRANT THORNTON AUDIT PTY LTD

  
Michael Climpson  
Partner - Audit & Assurance

Melbourne, 6 September 2012

# ABBREVIATIONS

AC	Alternating current	NECF	National Energy Customer Framework
AEMC	Australian Energy Market Commission	NEFR	National Electricity Forecasting Report
AEMO	Australian Energy Market Operator	NEL	National Electricity Law
AER	Australian Energy Regulator	NEM	National Electricity Market
AM	Member of the Order of Australia	NEMMCO	National Electricity Market Management Company
AO	Officer of the Order of Australia	NGL	National Gas Law
ASI	Australian Solar Institute	NSCAS	Network Support and Control Ancillary Services
ASX	Australian Securities Exchange	NTNDP	National Transmission Network Development Plan
COAG	Council of Australian Governments	NTP	National Transmission Planner
CSIRO	Commonwealth Scientific and Industrial Research Organisation	OCGT	Open Cycle Gas Turbine
DCCEE	Department of Climate Change and Energy Efficiency	PASA	Projected Assessments of System Adequacy
DFS	Demand Forecasting System	PJ	Petajoule
DNSP	Distribution Network Service Provider	PV	Photovoltaic
DTS	Declared Transmission System	RET	Department of Resources, Energy and Tourism
DWGM	Declared Wholesale Gas Market	RIT-T	Regulatory Investment Test for Transmission
ESOO	Electricity Statement of Opportunities	RoLR	Retailer of Last Resort
FRC	Full Retail Contestability	SCER	Standing Council on Energy and Resources
GBB	Gas Bulletin Board	ST PASA	Short term Projected Assessments of System Adequacy
GCAP	Gas Consumer Advocacy Panel	STTM	Short Term Trading Market
GSOO	Gas Statement of Opportunities	TNSP	Transmission Network Service Provider
IPART	Independent Pricing and Regulatory Tribunal of NSW	TWh	Terawatt Hour
LNG	Liquefied Natural Gas	VENCorp	Victorian Energy Networks Corporation
LRET	Large-scale Renewable Energy Target	WHSE	Workplace Health Safety and Environment
MCE	Ministerial Council on Energy (now SCER)		
MT PASA	Medium term Projected Assessments of System Adequacy		
MW	Megawatt		

# DIRECTORY

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**Statutory Auditor**

Grant Thornton

**Market Auditor**

RSM Bird Cameron  
PricewaterhouseCoopers

**Internal Auditor**

RSM Bird Cameron

**Banker**

NAB

**Solicitor**

Principal Advisors:  
Allens Arthur Robinson  
herbertgeer

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