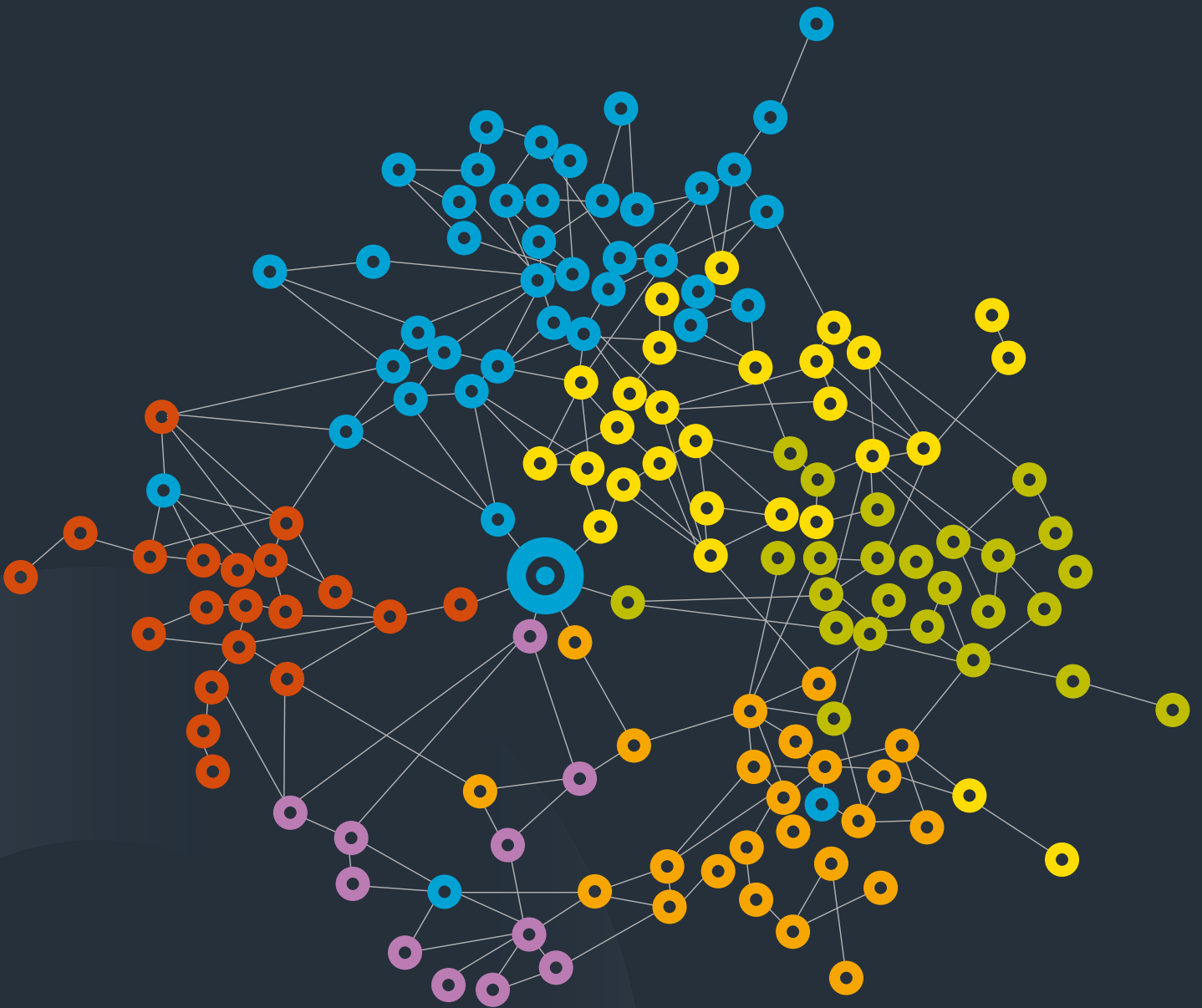




INDEPENDENT
MARKET
OPERATOR

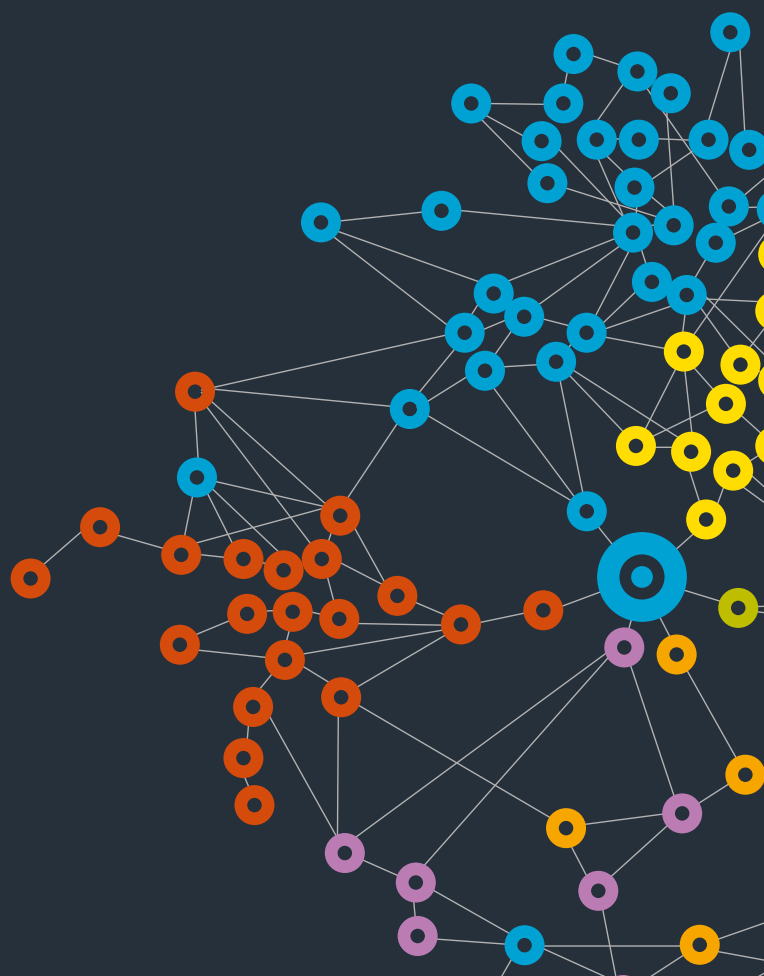


Annual Report 2011/12

Table of Contents

Chairman and Executive Report	01
1. Corporate Profile	02
2. 2011/12 in Review	04
3. Corporate Governance	05
4. Directors' Report	06
5. Financial Statements	08

Independent Market Operator
Level 17 Governor Stirling Tower
197 St George's Terrace, Perth WA 6000
PO Box 7096, Cloisters Square, Perth WA 6850
T (08) 9254 4300
F (08) 9254 4399
E imo@imowa.com.au
W www.imowa.com.au



Chair and Executive Report

2011/12 has proven to be an eventful year for the IMO with the primary focus on the successful delivery of the Market Evolution Program (MEP).

The MEP was established in 2010 to address the priorities in the Market Rules Evolution Plan and the recommendations from the Verve Energy Review.

The MEP included:

- A competitive Balancing market,
- A competitive Load Following Ancillary Services (LFAS) market,
- A review of the effectiveness of the Short Term Energy Market (STEM); and
- A review of the Reserve Capacity Refund Scheme.

In addition the IMO took the opportunity to update and refresh the Wholesale Electricity Market (WEM) systems, extending their life for a further 3 to 5 years.

The key deliverable for the MEP has been the new Balancing and LFAS markets. While initially scheduled to commence on 1 April 2012, after receiving advice from Market Participants and System Management, the IMO Board delayed the start to 1 July 2012. Both markets successfully commenced operation on 1 July 2012.

The commencement of the new Balancing and LFAS markets is the most significant evolutionary step in the WEM since market commencement in 2006, and will enhance the economic efficiency of the WEM.

The new Balancing market introduces competition into a market operation that was previously only serviced by Verve Energy. This market moves WEM trading into the trading day and closer to real time with a rolling gate closure of 2 hours. A further feature of the Balancing market is the regular publication of a forecast price and dispatch quantities in advance of the trading period supplemented with a significant enhancement in market transparency.

The new LFAS market will be the first WEM ancillary service market to incorporate competition.

The IMO would like to acknowledge the considerable commitment and support of the electricity industry and in particular the Market Advisory Committee (MAC) and Rules Development Implementation Working Group (RDIWG) in successfully implementing the MEP in 2012.

In late 2010, the IMO Board commissioned a review of the Reserve Capacity Mechanism (RCM) to consider:

- The consistent capacity surpluses secured in the WEM over the last 2 to 3 capacity cycles;
- The extent to which the supply side and demand side capacity should be treated similarly;
- Fuel supply requirements for generators to secure Capacity Credits;
- The alignment of the Reserve Capacity refund regime with other elements of the RCM; and

- The allocation of capacity costs to customers.

The review was completed in 2011 and includes the following recommendations:

- Amend the formula for calculating the Reserve Capacity Price;
- Implement a dynamic Reserve Capacity refund regime, linked to network conditions;
- Harmonise the treatment of supply-side and demand-side Capacity;
- Refine the fuel supply requirements; and
- Refine the method of determining Individual Reserve Capacity Requirements.

The IMO Board has asked the Market Advisory Committee (MAC) to provide advice on the implementation of these RCM Review recommendations.

A Reserve Capacity Mechanism Working Group (RCMWG) has been established to undertake this work program. This Working Group commenced the work program in February 2012 and the IMO expects to receive the advice from the MAC on these recommendations towards the latter half of 2012.

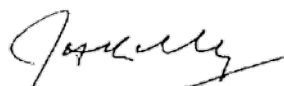
In May 2011 the Minister for Energy announced the appointment of the IMO to operate a Gas Bulletin Board (GBB) and develop a Gas Statement of Opportunities (GSOO) for Western Australia.

The *Gas Services Information Act* was enacted on 10 April 2012 and the *Gas Services Information Regulations*, formally appointing the IMO to operate the GBB and GSOO, were made on the 29 June 2012.

The IMO has now commenced the implementation of the Gas Information Service (GIS). Full implementation is scheduled for 1 July 2013.

The development of a GBB and the regular publication of a GSOO will considerably enhance transparency in the Western Australian natural gas market.

Finally, we would like to acknowledge and thank all the dedicated staff at the IMO for what has proven to be our most challenging year to date. The significant progress made could not have been achieved without their considerable efforts.



JOHN KELLY
CHAIR



ALLAN DAWSON
CHIEF EXECUTIVE OFFICER

Corporate Profile

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

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

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

1.1 Market Objectives

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

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

1.2 New Role – Gas Information Services

In May 2011, the Minister for Energy appointed the IMO as the operator of two new information services for the Western Australian natural gas market:

- a Gas Bulletin Board (GBB), which will be a website the primary purpose of which is to include information relating to short and near term natural gas supply and demand and natural gas transmission and storage capacity in the State, and includes an emergency management facility; and
- a Gas Statement of Opportunities (GSOO), which will be a periodic statement the primary purpose of which is to include information and assessments relating to medium and long term natural gas supply and demand and natural gas transmission and storage capacity in the State.

The IMO is implementing these as part of its Gas Information Services Project. Implementation of these information services are expected in 2012/13, with operation of the services to commence by July 2013.

Establishment of the GBB and GSOO were key recommendations of the Gas Supply and Emergency Management Committee, which was established in response to two major gas supply disruptions in Western Australia in 2008. These initiatives are intended to improve information transparency across the gas supply demand chain and facilitate the security, reliability and competitiveness of the domestic gas supply market in Western Australia.

These new Gas Information Services, will be established under the *Gas Services Information Act 2012* and regulations and rules made under that Act.

The objectives of the GBB and GSOO are to promote the long term interests of consumers and natural gas in relation to:

- The security, reliability and availability of the supply of natural gas in the State;
- The efficient operation and use of natural gas services in the State;
- The efficient investment in natural gas services in the State; and
- The facilitation of competition in the use of natural gas services in the State.

1.3 IMO Governance Framework

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

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

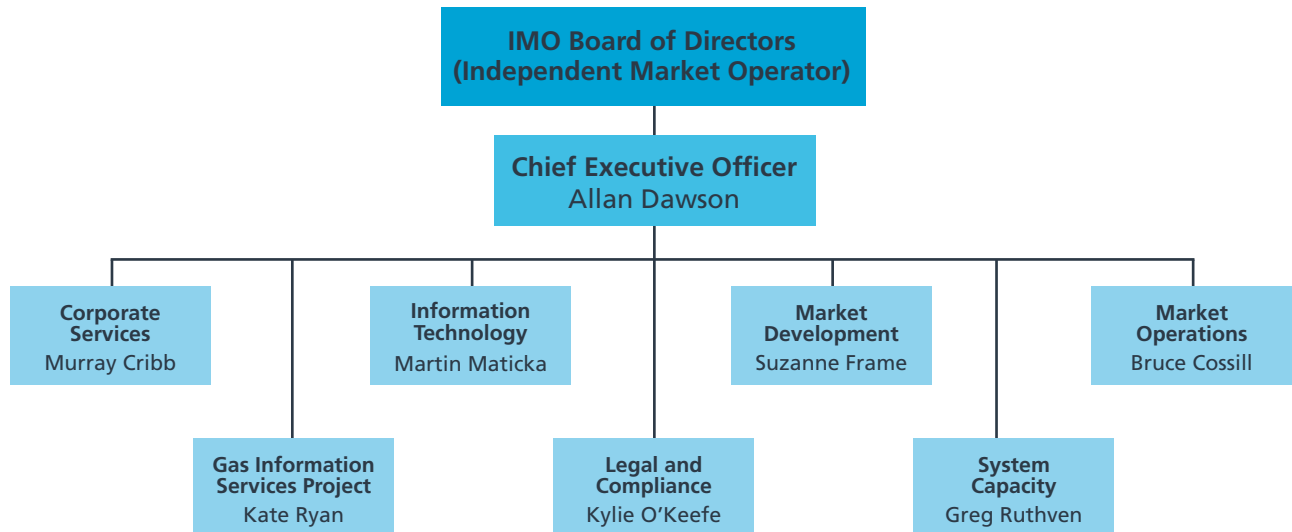
During 2011/12, the IMO Board members were:

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

It is expected an additional Director will be appointed during 2012/13 to support the Board's new responsibility for the implementation and operation of the Gas Information Services.

1.4 IMO Organisational Structure

Figure 1. IMO Organisational Chart



1.5 2011/12 Strategic Objectives

Operating the Market

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

Developing the Market

The IMO leads short term improvement and supports long term evolution of the Market, using robust analysis, objective reasoning and consultation.

Building Strong Relationships

The IMO develops enduring relationships with customers and stakeholders based on trust and open communication.

Financial Responsibility

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

Skills and Resources

The IMO has the skills and resources to operate professionally and meet stakeholders' expectations.

2011/12 in Review

2.1 Key Performance Indicators 2011/12

Strategic Objective: Operating the Market

Measure	Performance Expectation	Progress to 30 June 2012
Number of STEM Market Suspensions	≤ 1	0
STEM Market delay	≤ 5	4
Unscheduled IT outages during Market operation ¹	≤ 20 hours outage	15 mins (during 2011/12)
Late Settlement statements (STEM & Non-STEM)	≤ 2	1
Key deadlines for Reserve Capacity Mechanism published on IMO website and met.	IMO adherence to all published deadlines.	Time line published. All deadlines for Certified Reserve Capacity assignment were met.

Strategic Objective: Developing the Market

Measure	Performance Expectation	Progress to 30 June 2012
Review of Market Rules Evolution Plan	Once per year	Review has commenced and draft completed by 30 June.
Delivery of MEP	On time; < Budget; and Consistent with the objectives approved by the IMO Board.	Balancing and LFAS work complete. MEP successfully implemented on 1 July 2012. Project Expenditure within Budget. Market Rules complete and approved by Minister.
High Priority Rule Changes on Market Rule Change log	Each change progressed within 3 months	There were no high Priority Rule Changes submitted in 2011/12.
Conduct Investor Information Briefings	Two national briefings conducted, with potential for one international briefing	Two briefings conducted – one each in Sydney and Melbourne.

Strategic Objective: Building Strong Relationships

Measure	Performance Expectation	Progress to 30 June 2012
Number of market training sessions presented	≥ 25 courses	27 sessions presented.

Strategic Objective: Financial Responsibility

Measure	Performance Expectation	Progress to 30 June 2012
Expenditure Control	\leq Allowable Revenue	Exceeded Allowable Revenue ² .
Capital Expenditure Control	\leq Capital Budget	Within budget.

Strategic Objective: Skills and Resources

Measure	Performance Expectation	Progress to 30 June 2012
Training and development undertaken by IMO staff	40 hours per person	Average 37 hours per person

¹ Market Operating hours are currently 7:00-17:00, 7 days a week

² The Operating Result for the year was a loss of \$1,149,000 which compared to a budgeted loss of \$156,000 (an increase of \$993,000). This was most notably impacted by market fee revenue which was below budget by \$735,000 influenced by significantly lower than forecast electricity volumes. Additional detail is provided in Note 30: Explanatory Statement of the Notes to the Financial Statements (appended).

Corporate Governance

3.1 Legislative Framework

The IMO was established in December 2004 under the *Electricity Industry (Independent Market Operator) Regulations 2004*.

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

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

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

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

3.2 Board of Directors

During 2011/12, the IMO's governing body was a Board of three Directors appointed by the Minister for Energy. From 30 June 2012, the *Electricity Industry (Independent Market Operator) Regulations 2004* enable the appointment of a fourth Director to the IMO Board, reflecting the IMO's new role as the Operator of the Gas Information Services.

3.3 Code of Conduct and Human Resource Standards

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

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

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

3.4 Occupational Safety and Health

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

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

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

3.5 Internal Audit

The IMO's current Strategic Audit Plan covers the period 2011/12 – 2013/14. During the year internal audit reviews were conducted in the significant risk areas of market settlements, IT disaster recovery and business continuity. No issues of note were identified.

3.6 Other

- The IMO is a "notifying authority" for the purposes of the *Corruption and Crime Commission Act* and the *Public Interest Disclosure Act*. There were no incidents requiring disclosure reports under this legislation during the year.
- The provisions of the *Freedom of Information Act 1992* apply to the IMO. During the year, no applications were received. A statement in accordance with the *Freedom of Information Act 1992*, giving information about the IMO and making an FOI request is available on the IMO website.
- The State Records Commission approved the IMO's Recordkeeping Plan in 2008 satisfying the IMO's obligations under the *State Records Act 2000*. Employee responsibilities in respect of record keeping are outlined in the Employee Handbook, form part of formal induction processes for new starters, and are periodically presented to staff in support of the recordkeeping training program.
- Under the *Electoral Act 1907* the IMO is required to report on expenditure on advertising, market research, polling, direct mail and media advertising. Expenditure of \$16,686 was incurred on staff recruitment advertising and \$6,663 on tender advertising.
- The *Equal Opportunity Act 1994* requires the IMO to prepare and implement an equal opportunity management plan and report annually on progress with the plan. An updated EEO Management Plan for the period 2010-2012 was established in December 2009 and annual reporting obligations for 2011-12 were satisfied in July 2012.

Directors' Report

The Directors of the Independent Market Operator present their report for the twelve months to 30 June 2012.

Directors

The following were Directors of the IMO during the financial year to 30 June 2012:

John Kelly

- Appointed Director December 2004
- Appointed Chair April 2006
- Current term ends May 2015

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

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

Shaun Dennison

- Appointed Director March 2006
- Appointed Deputy Chair June 2006
- Current term ends December 2014

Mr Shaun Dennison has over 20 years' experience in advising governments, regulators and business on economic regulation, energy sector reform, strategic business and risk allocation issues, and in providing specialist Project Management services. He is one of two independent members of the Information Exchange Committee, established under the National Electricity Rules, appointed by the electricity industry.

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

David Huggins

- Appointed Director November 2006
- Current term ends December 2013

Mr David Huggins is a lawyer specialising in financial services related dispute resolution and financial services related regulation. He currently has his own legal practice and has previously held positions with the Australian Securities Exchange, Australian Securities Commission and a major law firm.

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

Directors' Meetings

Attendances by Directors at meetings held during the financial year ending 30 June 2012 were:

	Meetings Attended	Meetings Eligible
John Kelly	11	11*
Shaun Dennison	11	11*
David Huggins	11	11*

* Includes a special meeting held in December 2011.

Principal Activities

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

Review of Operations

The IMO has operated during 2011/12 in accordance with its obligations under the *Electricity Industry (Independent Market Operator) Regulations 2004* and the Wholesale Electricity Market Rules.

The Minister for Energy issued no Ministerial Directions to the IMO in 2011/12.

Results of Operations

The Operating Result for the year was a loss of \$1,149,000 which compares to a budgeted loss of \$156,000 (an increase of \$993,000). This was most notably impacted by market fee revenue which was below budget by \$735,000 influenced by significantly lower than forecast electricity volumes. Additional detail is provided in Note 30: Explanatory Statement of the Notes to the Financial Statements (appended).

Dividends

There were no dividends paid or declared by the IMO.

Significant Changes in the IMO's State of Affairs

There were no significant changes to the state of affairs in IMO's operating environment during the financial year under review.

Matters or Circumstances that Arose which May Affect Future Financial Years

The IMO's Directors are of the opinion that no matters or circumstances have arisen since the end of the financial year or are likely to arise that will significantly affect (or have the potential to significantly affect) the IMO's electricity market operations, the results of those operations, or the state of affairs of the IMO in the financial year subsequent to 30 June 2012.

However, the Director's note that the IMO is implementing a new Gas Bulletin Board and Gas Statement of Opportunities as part of its Gas Information Services Project. Implementation of these information services are expected in 2012/13, with operation of the services expected to commence July 2013.

The IMO has entered into a loan funding arrangement with the Western Australian Treasury Corporation to finance the implementation of these services. In accordance with regulations to be made under the *Gas Services Information Act 2012*, the IMO will recover the costs of implementing and operating these information services from gas market participants once the services become operational.

Environmental Regulations

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

Indemnification and Insurance of Officers

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

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

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

Emoluments

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

Directors' Emoluments

The Minister for Energy determines the emolument of the Board of Directors. Details of emoluments provided to Directors during 2011/12 are:

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

Director Benefits

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

Executives' Emoluments

The Board, with the approval of the Minister for Energy, determines the emolument package of the Chief Executive Officer. The Board determined the remuneration of the other senior executives in 2011/12 based on performance, benchmarking with other organisations and competitive requirements.

Details of emoluments provided to the named officers receiving the highest emolument during 2011/12 are:

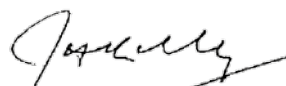
	Salary	Post-employment superannuation	Total
Allan Dawson ¹	\$350,186	\$43,003	\$393,189
Bruce Cossill	\$211,704	\$19,053	\$230,757
Suzanne Frame ²	\$179,887	\$16,190	\$196,077
Martin Maticka	\$167,185	\$15,047	\$182,232
Murray Cribb	\$162,402	\$23,804	\$186,206

Notes:

1. Payment during 2011/12 also included backdated portion of salary increase that related to 2010/11 of \$4,098 salary and \$503 superannuation.
2. Commenced employment 18 July 2011.

Resolution

This report is made in accordance with a resolution of the Board on 15 August 2012.



JOHN KELLY
CHAIR
25 September 2012



SHAUN DENNISON
DEPUTY CHAIR
25 September 2012

Financial Statements for the Year ended 30 June 2012

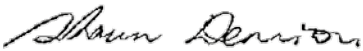
The Directors of the Independent Market Operator declare that the financial statements and notes:

- (a) comply with applicable accounting standards and the *Corporations Regulations 2001*;
- (b) give a true and fair view of the financial position of the Independent Market Operator as at 30 June 2012 and of its performance for the period 1 July 2011 to 30 June 2012;
- (c) are in accordance with *Electricity Industry (Independent Market Operator) Regulations 2004*; and
- (d) in the Directors' opinion there are reasonable grounds to believe that the Independent Market Operator will be able to pay its debts as and when they become due and payable.

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



John Kelly
DIRECTOR



Shaun Dennison
DIRECTOR

Dated this 25th day of September 2012

	Note	2012 \$000	2011 \$000
INCOME			
User charges and fees	2	11,853	11,459
Interest revenue	3	175	153
Other income	4	391	66
Income from state government	4	5	6
Total income		12,424	11,684
EXPENSES			
Employee benefits expense	5	(5,093)	(4,650)
Depreciation and amortisation expense	6	(2,004)	(1,424)
Supplies and services	7	(5,252)	(5,106)
Advertising expense	8	(8)	(25)
Accommodation expense	9	(358)	(335)
Finance costs	10	(532)	(178)
Other expenses	11	(326)	(238)
Total expenses		(13,573)	(11,956)
(LOSS) FOR THE PERIOD	30	(1,149)	(272)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income		-	-
TOTAL COMPREHENSIVE (LOSS) FOR THE PERIOD		(1,149)	(272)

The accompanying notes form part of these financial statements.

	Note	2012 \$000	2011 \$000
ASSETS			
Current Assets			
Cash and cash equivalents	12	2,216	3,819
Trade and other receivables	13	2,188	1,902
Other current assets	14	-	47
Total Current Assets		4,404	5,768
Non-Current Assets			
Plant and equipment	15	690	580
Intangible assets	16	12,941	6,310
Total Non-Current Assets		13,631	6,890
TOTAL ASSETS		18,035	12,658
LIABILITIES			
Current Liabilities			
Trade and other payables	17	1,500	1,663
Borrowings	18	5,109	1,622
Other liabilities	19	452	496
Provisions	20	246	281
Total Current Liabilities		7,307	4,062
Non-Current Liabilities			
Borrowings	18	7,905	4,708
Other liabilities	19	1,422	1,422
Provisions	20	266	182
Total Non-Current Liabilities		9,593	6,312
TOTAL LIABILITIES		16,900	10,374
NET ASSETS		1,135	2,284
EQUITY			
Accumulated surplus	21	1,135	2,284
TOTAL EQUITY		1,135	2,284

The accompanying notes form part of these financial statements.

	<u>Note</u>	<u>Accumulated Surplus \$000</u>
Balance at 1 July 2010		2,556
Total comprehensive (loss) for the period		(272)
Balance at 30 June 2011	21	<u>2,284</u>
Balance at 1 July 2011		2,284
Total comprehensive (loss) for the period		(1,149)
Balance at 30 June 2012	21	<u>1,135</u>

The accompanying notes form part of these financial statements.

	2012	2011
Note	\$000	\$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts		
Provision of services	11,490	11,133
Interest received	175	153
Other receipts	396	72
Goods and Services Tax (payments)	(36)	(67)
Payments		
Employee benefits expense	(5,155)	(4,642)
Supplies and services	(5,188)	(2,594)
Finance costs	(532)	(178)
Accommodation expense	(358)	(335)
Advertising expense	(8)	(25)
Other expenses	(326)	(238)
Net cash provided by operating activities	458	3,279
22(b)		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of non-current physical assets	(494)	(243)
Purchase of intangible assets	(8,251)	(5,660)
Net cash (used in) investing activities	(8,745)	(5,903)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of borrowings	6,684	3,791
Net cash provided by financing activities	6,684	3,791
Net (decrease)/increase in cash and cash equivalents	(1,603)	1,167
Cash and cash equivalents at the beginning of period	3,819	2,652
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	2,216	3,819
22(a)		

The accompanying notes form part of these financial statements.

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

Note 1: Summary of Significant Accounting Policies

(a) General Statement

The IMO is a not for profit entity that prepares general purpose financial statements prepared in accordance with Australian Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board ("AASB"), the *Corporations Regulations 2001* and the *Electricity Industry (Independent Market Operator) Regulations 2004*.

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

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

(b) Basis of Preparation

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

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

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

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

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

Going Concern

The financial report has been prepared on a going concern basis which assumes the IMO will be able to generate sufficient positive cash flows to meet its financial obligations and realise its assets and extinguish its liabilities in the normal course of business.

Borrowings are provided in advance for system development and are progressively paid back, over the life of the systems (typically three years), from market fees paid by market participants. This arrangement is provided for through the IMO's annual budgetary processes.

In view of the above, the IMO believes that it is reasonably foreseeable that the IMO will continue as a going concern.

(c) Reporting Entity

The reporting entity comprises the Independent Market Operator.

(d) Revenue and Other Income

Revenue Recognition

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

User Charges and Fees

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

Interest

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

Gains

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

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

(e) Income Tax

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

Note 1: Summary of Significant Accounting Policies (continued)

(f) Borrowing Costs

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

(g) Plant and Equipment

Capitalisation/Expensing of Assets

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

Initial Recognition and Measurement

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

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

Subsequent Measurement

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

Depreciation

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

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

Estimated useful lives for each class of depreciable asset are:

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

(h) Intangible Assets

Capitalisation/Expensing of Assets

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

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

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

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

The expected useful lives for each class of intangible asset are:

Software	3 years
----------	---------

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

(i) Impairment of Assets

Plant and equipment and intangible assets are tested for any indication of impairment at the end of each reporting period. Where there is an indication of impairment, the recoverable amount is estimated.

Where the recoverable amount is less than the carrying amount, the asset is considered impaired and is written down to the recoverable amount and an impairment loss is recognised.

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

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

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

Note 1: Summary of Significant Accounting Policies (continued)

(i) Impairment of Assets (continued)

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

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

(j) Leases

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

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

(k) Financial Instruments

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

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

Financial instruments have been disaggregated into the following classes:

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

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

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

(l) Cash and Cash Equivalents

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

(m) Accrued Salaries

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

(n) Trade and Other Receivables

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

(o) Trade and Other Payables

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

(p) Borrowings

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

(q) Provisions

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

Note 1: Summary of Significant Accounting Policies (continued)

(q) Provisions (continued)

Provisions – Employee Benefits

Annual Leave and Long Service Leave

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

When assessing expected future payments consideration is given to expected future wage and salary levels including non salary components such as employer superannuation contributions.

In addition, the long service leave liability also considers the experience of employee departures and periods of service.

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

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

Superannuation

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

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

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

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

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

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

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

The IMO offers choice of superannuation fund provider for its employees, with GESB being the IMO’s default superannuation fund provider.

Provisions – Other

Employment On-Costs

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

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

(r) Superannuation Expense

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

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

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

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

Note 1: Summary of Significant Accounting Policies (continued)

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

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

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

(t) Comparative Figures

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

(u) Judgements Made by Management in Applying Accounting Policies

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

Operating Lease Commitments

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

(v) Key Sources of Estimation Uncertainty

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

Long Service Leave

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

Note 1: Summary of Significant Accounting Policies (continued)

(w) Initial Application of an Australian Accounting Standard

The IMO has applied the following *Australian Accounting Standards* effective for annual reporting periods beginning on or after 1 July 2011 that impacted on the IMO.

AASB 1054	<p><i>Australian Additional Disclosures</i></p> <p>This Standard, in conjunction with <i>AASB 2011-1 - Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project</i>, removes disclosure requirements from other Standards and incorporates them in a single Standard to achieve convergence between Australian and New Zealand Accounting Standards. There is no financial impact resulting from the application of this standard to the IMO.</p>
AASB 2009-12	<p><i>Amendments to Australian Accounting Standards [AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]</i></p> <p>This Standard makes editorial amendments to a range of Australian Accounting Standards and Interpretations. There is no financial impact resulting from the application of this standard to the IMO.</p>
AASB 2010-4	<p><i>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, 7, 101 & 134 and Interpretation 13]</i></p> <p>The amendments to <i>AASB 7</i> clarify financial instrument disclosures in relation to credit risk. The carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is no longer required to be disclosed. There is no financial impact resulting from the application of this standard to the IMO.</p> <p>The amendments to <i>AASB 101</i> clarify the presentation of the Statement of Changes in Equity. The disaggregation of other comprehensive income reconciling the carrying amount at the beginning and the end of the period for each component of equity is no longer required. There is no financial impact resulting from the application of this standard to the IMO.</p>
AASB 2010-5	<p><i>Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]</i></p> <p>This Standard makes editorial amendments to a range of Australian Accounting Standards and Interpretations. There is no financial impact resulting from the application of this standard to the IMO.</p>
AASB 2010-6	<p><i>Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & 7]</i></p> <p>This Standard introduces additional disclosure relating to transfers of financial assets in <i>AASB 7 – Financial Instruments: Disclosures</i>. An entity shall disclose all transferred financial assets that are not derecognised and any continuing involvement in a transferred asset existing at the reporting date, irrespective of when the related transfer transaction occurred. There is no financial impact resulting from the application of this standard to the IMO.</p>
AASB 2011-1	<p><i>Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project [AASB 1, 5, 101, 107, 108, 121, 128, 132 & 134 and Interpretations 2, 112 & 113]</i></p> <p>This Standard, in conjunction with <i>AASB 1054 – Australian Additional Disclosures</i>, removes disclosure requirements from other Standards and incorporates them in a single Standard to achieve convergence between Australian and New Zealand Accounting Standards. There is no financial impact resulting from the application of this standard to the IMO.</p>

Note 1: Summary of Significant Accounting Policies (continued)

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

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

		Operative for reporting periods beginning on/after
AASB 9	<p><i>Financial Instruments</i></p> <p>This standard supersedes <i>AASB 139 - Financial Instruments: Recognition and Measurement</i>, introducing a number of changes to accounting treatments. The standard was reissued in December 2010 and the IMO has not yet evaluated the application or potential financial impact of the Standard.</p>	1 Jan 2013
AASB 13	<p><i>Fair Value Measurement</i></p> <p>This Standard defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurements. The IMO has not yet evaluated the application or potential financial impact of the Standard.</p>	1 Jan 2013
AASB 119	<p><i>Employee Benefits</i></p> <p>This Standard supersedes <i>AASB 119 - Employee Benefits</i>, introducing a number of changes to accounting treatments.</p> <p>The Standard was issued in September 2011 and the IMO has not yet evaluated the application or potential financial impact of the Standard.</p>	1 Jan 2013
AASB 1053	<p><i>Application of Tiers of Australian Accounting Standards</i></p> <p>This standard establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements.</p> <p>The standard is not expected to have any financial impact on the IMO. However, it may affect disclosures in the financial statements of the IMO if the reduced disclosure requirements apply. The IMO has not yet evaluated the application or potential financial impact of the Standard.</p>	1 Jul 2013
AASB 2009-11	<p><i>Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12].</i></p> <p>[Modified by AASB 2010-7].</p>	1 Jul 2013
AASB 2010-2	<p><i>Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052]</i></p> <p>This Standard makes amendments to <i>Australian Accounting Standards</i> and Interpretations to introduce reduced disclosure requirements for certain types of entities. The standard is not expected to have any financial impact on the IMO. However, the standard may reduce some note disclosures in the financial statements of the IMO. The IMO has not yet evaluated the application or potential financial impact of the Standard.</p>	1 Jul 2013

Note 1: Summary of Significant Accounting Policies (continued)

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

		Operative for reporting periods beginning on/after
AASB 2010-7	<p><i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118 120, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]</i></p> <p>This Standard makes consequential amendments to other Australian Accounting Standards and Interpretations as a result of issuing AASB 9 - <i>Financial Instruments</i> in December 2010. The IMO has not yet evaluated the application or potential financial impact of the Standard.</p>	1 Jan 2013
AASB 2011-2	<p><i>Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements [AASB 101 & AASB 1054]</i></p> <p>This Standard removes disclosure requirements from other Standards and incorporates them in a single Standard to achieve convergence between Australian and New Zealand Accounting Standards for reduced disclosure reporting. The IMO has not yet evaluated the application or potential financial impact of the Standard.</p>	1 Jul 2013
AASB 2011-8	<p><i>Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009-11, 2010-7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132]</i></p> <p>This Standard replaces the existing definition and fair value guidance in other <i>Australian Accounting Standards</i> and Interpretations as the result of issuing AASB 13 – <i>Fair Value Measurement</i> in September 2011. The IMO has not yet evaluated the application or potential financial impact of the Standard.</p>	1 Jan 2013
AASB 2011-9	<p><i>Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]</i></p> <p>This Standard requires to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The IMO has not yet evaluated the application or potential financial impact of the Standard.</p>	1 Jul 2012
AASB 2011-10	<p><i>Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) [AASB 1, 8, 101, 124, 134, 1049 & 2011-8 and Interpretation 14]</i></p> <p>This Standard makes amendments to other <i>Australian Accounting Standards</i> and Interpretations as a result of issuing AASB 119 - <i>Employee Benefits</i> in September 2011. The IMO has not yet evaluated the application or potential financial impact of the Standard.</p>	1 Jan 2013
AASB 2011-11	<p><i>Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements</i></p> <p>This Standard gives effect to <i>Australian Accounting Standards – Reduced Disclosure Requirements</i> for AASB 119 – <i>Employee Benefits</i> (September 2011). The IMO has not yet evaluated the application or potential financial impact of the Standard.</p>	1 Jan 2013

Note 2: User Charges and Fees

	2012	2011
	\$000	\$000
Regulatory charge – registration fees	41	24
Regulatory charge – market fees	11,812	11,435
	11,853	11,459

Note 3: Interest Revenue

Interest received from bank	175	153
	175	153

Note 4: Other Revenue

Market participant training	6	6
Income from state government (a)	5	6
Gas Information Services Project (GISP) – reimbursement from Public Utilities Office (b)	350	-
Other revenue	35	60
	396	72

- (a) Services provided free of charge by the Department of Treasury and Finance (“DTF”) for accommodation related services.
- (b) In May 2011, the Minister for Energy appointed the IMO to operate two new Gas Information Services – a Gas Bulletin Board and a Gas Statement of Opportunities. The IMO received \$350,000 in 2011/12 from the Public Utilities Office to reimburse expenditure related to preliminary work on the GISP. This revenue offsets matching expenditure shown under Supplies and Services (see Note 7).

Note 5: Employee Benefits Expense

Wages and salaries (a)	4,430	3,933
Superannuation - defined contribution plans (b)	403	357
Superannuation - defined benefit plans (Note 20 ‘Provisions’)	162	176
Annual leave (c)	(18)	99
Long service leave (c)	116	85
	5,093	4,650

- (c) Includes value of the fringe benefit to the employee plus the fringe benefits tax component.
- (d) Defined contribution plans include West State, Gold State and GESB Super Scheme (contributions paid).
- (e) Includes a superannuation contribution component.

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

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

Note 6: Depreciation and Amortisation Expense

	2012 \$000	2011 \$000
<u>Depreciation</u>		
Computer equipment	216	167
Office equipment	11	12
Office fit-out	154	157
Furniture & Fittings	3	3
<i>Total depreciation</i>	384	339
<u>Amortisation</u>		
Computer software	1,620	1,085
<i>Total amortisation</i>	1,620	1,085
Total depreciation and amortisation expense	2,004	1,424

Note 7: Supplies and Services

Communications and data processing costs	325	333
Consultants and contractors:		
- market system maintenance and support (a)	1,037	1,118
- renewal energy working group (b)	-	89
- corporate IT maintenance and support (c)	384	296
- review of Verve Energy (d)	-	248
- Gas Information Services Project (GISP) (e)	350	-
- other	2,136	2,105
Recruitment costs (f)	229	194
Other	791	723
	5,252	5,106

- (f) Settlements system maintenance and support contract arrangements modified to enable billing to occur on a financial year instead of a calendar year basis. This had the effect of only six months expenditure in 2012 compared to twelve months in 2011.
- (g) Consultancy expenditure in support of a special project established to evaluate the impact of renewable energy targets on the Wholesale Electricity Market. The project concluded in 2010/11.
- (h) Additional expenditure in 2012 resulting from retendering of the IT infrastructure arrangements.
- (i) Consultancy support in initially responding to issues flowing from the Government's review of Verve Energy (the Oates Review). Activity relating to improvements to the Wholesale Electricity Market was subsequently incorporated in the Market Evolution Program.
- (j) In May 2011, the Minister for Energy appointed the IMO to operate two new Gas Information Services – a Gas Bulletin Board and a Gas Statement of Opportunities. The IMO incurred expenditure of \$350,000 in 2011/12 related to preliminary work on the GISP. Matching revenue of \$350,000 was subsequently received from the Public Utilities Office as reimbursement (see Note 4).
- (k) Increase in expenditure influenced by engaging a professional recruitment agency to provide a more targeted, professional recruitment function. The seniority of the recruitment was also a contributing factor.

Note 8: Advertising Expense

Advertising staff vacancies	2	17
Advertising general	6	8
	8	25

Note 9: Accommodation Expense

	2012	2011
	\$000	\$000
Lease rentals	244	239
Car bay rental	67	64
Electricity	14	10
Repairs and maintenance	17	5
Lease administration	5	6
Cleaning and security	11	11
	358	335

Note 10: Finance Costs

Interest expense on financial liabilities not at fair value through profit or loss:

- external	532	178
Finance costs expensed	532	178

Note 11: Other Expenses

Software maintenance	76	71
Repairs and maintenance	24	56
Training	133	54
Other	93	57
	326	238

Note 12: Cash and Cash Equivalents

Cash at bank	794	2,397
Cash at bank – Market settlement default (a)	1,422	1,422
	2,216	3,819

(a) Corresponds to offsetting liability – see Note 19.

Note 13: Trade and Other Receivables

Current

Trade receivables	205	1
GST receivable - Australian Taxation Office	43	79
Accrued revenue	1940	1,822
	2,188	1,902

Note 14: Other Current Assets

Current

Prepayments	-	47
	-	47

Note 15: Plant and Equipment

	2012	2011
	\$000	\$000
PLANT AND EQUIPMENT		
<u>Office Equipment</u>		
At cost	66	66
Accumulated depreciation	(59)	(48)
	7	18
<u>Computer Equipment</u>		
At cost	1,011	674
Accumulated depreciation	(531)	(315)
	480	359
<u>Office Fit-out</u>		
At cost	761	641
Accumulated depreciation	(606)	(452)
	155	189
<u>Furniture & Fittings</u>		
At cost	54	17
Accumulated depreciation	(6)	(3)
	48	14
<u>Total</u>		
At cost	1,892	1,398
Accumulated depreciation	(1,202)	(818)
	690	580

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

	Office equipment \$000	Computer equipment \$000	Office fit-out \$000	Furniture & Fittings \$000	Total \$000
2012					
Carrying amount at start of year	18	359	189	14	580
Additions	-	337	120	37	494
Disposals	-	-	-	-	-
Depreciation	(11)	(216)	(154)	(3)	(384)
Carrying amount at end of year	7	480	155	48	690
2011					
Carrying amount at start of year	30	334	312	-	676
Additions	-	192	34	17	243
Disposals	-	-	-	-	-
Depreciation	(12)	(167)	(157)	(3)	(339)
Carrying amount at end of year	18	359	189	14	580

There were no indications of impairment of plant and equipment as at 30 June 2012.

Note 16: Intangible Assets

	2012	2011
	\$000	\$000
INTANGIBLES		
<u>Computer Software</u>		
At cost	15,439	13,316
Accumulated amortisation	(12,319)	(10,699)
	3,120	2,617
Reconciliation:		
Carrying amount at start of year	2,617	1,735
Additions	2,123	1,967
Disposals	-	-
Amortisation expense	(1,620)	(1,085)
Carrying amount at end of year	3,120	2,617
<u>Work in progress – Market Evolution Program (a)</u>		
At cost	9,821	3,693
Accumulated amortisation	-	-
	9,821	3,693
Reconciliation:		
Carrying amount at start of year	3,693	-
Additions	6,128	3,693
Disposals	-	-
Amortisation expense	-	-
Carrying amount at end of year	9,821	3,693
<u>Total</u>		
At cost	25,260	17,009
Accumulated depreciation	(12,319)	(10,699)
	12,941	6,310

(a) The Market Evolution Program (“MEP”) emerged during the previous year as a new work program necessary to improve the Wholesale Electricity Market. Following industry endorsement, the State Government approved for an increase in the IMO’s loan facility to fund the implementation of the MEP. In line with the established practice, expenditure on the MEP will be capitalised and will be depreciated over the financial years 2012/13 to 2014/15, with the effective implementation date being 1 July 2012.

There were no indications of impairment to intangible assets as at 30 June 2012.

Note 17: Trade and Other Payables

	2012	2011
	\$000	\$000
<i>Current</i>		
Trade payables	1,006	1,080
Accrued expenses	360	438
Accrued salaries	134	145
	1,500	1,663

Note 18: Borrowings

<i>Current</i>		
Western Australian Treasury Corporation ("WATC") loan	5,109	1,622
<i>Non-Current</i>		
Western Australian Treasury Corporation ("WATC") loan	7,905	4,708
	13,014	6,330

Borrowings are cash advances and fixed rate term Australian Dollar loans from the WATC with a weighted average interest rate of 4.49% (2011: 5.14%).

Increase in borrowings between the two years influenced by the requirement to access loan funding to support implementation of the Market Evolution Program (see Note 16).

Note 19: Other Liabilities

<i>Current</i>		
Amounts due to market participants (a)	452	496
<i>Non-Current</i>		
Amounts due to market participants (b)	1,422	1,422
	1,874	1,918

(a) Relates to outstanding settlements due to be reimbursed to market participants as at 30 June.

(b) Relates to relinquishing of security deposit by a market participant as compensation to the market for failing to operate a facility in accordance with clause 4.13.11 of the market rules.

Note 20: Provisions

	2012 \$000	2011 \$000
<u>Current</u>		
<i>Employee benefits provision</i>		
Annual leave (a)	175	223
Long service leave (b)	39	20
	214	243
<i>Other provisions</i>		
Employment on-costs (c)	32	38
	32	38
	246	281
<u>Non-Current</u>		
<i>Employee benefits provision</i>		
Long service leave (b)	234	158
	234	158
<i>Other provisions</i>		
Employment on-costs (c)	32	24
	32	24
	266	182
	512	463

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

Within 12 months of the end of the reporting period	172	173
More than 12 months after the reporting period	3	50
	175	223

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

Within 12 months of the end of the reporting period	39	20
More than 12 months after the reporting period	234	158
	273	178

(c) The settlement of annual and long service leave liabilities gives rise to the payment of employment on-costs including workers' compensation insurance. The provision is the present value of expected future payments. The associated expense, apart from the unwinding of the discount (finance cost), is disclosed in Note 7 'Other Expenses'.

Movements in Other Provisions

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

Employment On-Cost Provision

Carrying amount at start of year	62	47
Additional provisions recognised	2	15
Payments of economic benefits	-	-
Carrying amount at end of year	64	62

Note 21: Equity

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

	2012	2011
	\$000	\$000
Accumulated Surplus		
Balance at start of year	2,284	2,556
Result for the period	(1,149)	(272)
Balance at end of year	1,135	2,284

Note 22: Notes to the Statement of Cash Flows

(a) Reconciliation of cash

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

Cash and cash equivalents	2,216	3,819
---------------------------	--------------	--------------

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

Loss for the period	(1,149)	(272)
<i>Non-cash items:</i>		
Depreciation and amortisation expense	2,004	1,424
<i>(Increase)/decrease in assets:</i>		
Trade and other receivables	(322)	(234)
Other assets	47	(27)
GST (receivable)/payable	36	(67)
<i>Increase/(decrease) in liabilities:</i>		
Trade and other payables	(164)	939
Provisions	49	97
Other liabilities	(43)	1,419
Net cash provided by operating activities	458	3,279

Note 23: Commitments

Non-Cancellable Operating Lease Commitments

Commitments for minimum lease payments are payable as follows:

	2012	2011
	\$000	\$000
Within 1 year (a)	49	306
Later than 1 year and not later than 5 years	2,490	-
Later than 5 years	3,850	-
	6,389	306

The property leases for office accommodation for Level 3, 197 St Georges Terrace and 190 St Georges Terrace are non-cancellable leases which both expired on 30 June 2012. The leases have been renegotiated to expire on 31 August 2012 and 15 August 2012 respectively whilst construction is completed for the new office premises at Level 17, 197 St Georges Terrace. The new office premises lease is for an initial term of ten years with the rent payable monthly in advance. Contingent rental provisions within the lease agreement require that the minimum lease payments shall be increased by 4% per annum on each anniversary of the lease commencement date. An option exists to renew the lease at the end of the ten year term for a further five year term.

(a) Includes a lease incentive reduction of \$470,000 negotiated through the lease for Level 17, 197 St George's Terrace to be applied as "rent free" during 2012/13.

Capital Commitments

Expenditure in relation to the Market Evolution Program (MEP) is being capitalised and will be depreciated over the financial years 2012/13 to 2014/15 (see Note 16 for further information).

Capital commitments in respect of the MEP as at 30 June 2012 were as follows:

Within 1 year	-	1,847
Later than 1 year and not later than 5 years	-	-
	-	1,847

Note 24: Contingent Liabilities and Contingent Assets

On 19th September 2012, the IMO received from the Commissioner of Taxation a GST private ruling which covered, amongst other things, the treatment of GST in relation to the payment of the Market Participant Fee (comprising the Market Fee, Regulator Fee and the System Operator fee) by Market Participants to the IMO, and the creditable acquisitions that could be made to the Economic Regulation Authority by the IMO in relation to the Regulator Fees. If the approach set out in the GST private ruling is followed, the IMO may look to recover monies paid to the Authority by way of excess GST paid; and correspondingly, the IMO may need to refund excess GST monies collected from the Market Participants, giving rise to a contingent liability. The IMO expects that this would be offset by a contingent asset, being the equivalent amount to be recovered from the Authority.

The IMO is currently quantifying any amount of contingent liabilities and assets following the issue of the GST ruling.

It is also considering whether to appeal the GST private ruling.

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

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

Note 26: Financial Instruments

(a) Financial Risk Management Objectives and Policies

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

Credit Risk

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

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

The IMO has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. In addition, receivable balances are monitored on an ongoing basis with the result that the IMO's exposure to bad debts is minimal. At the end of the reporting period there were no significant concentrations of credit risk.

Liquidity Risk

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

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

The IMO's objective is to maintain a balance between continuity of funding and flexibility through the use of WATC borrowings. The IMO has appropriate procedures to manage cash flows by monitoring forecast cash flows to ensure that sufficient funds are available to meet its commitments.

The IMO manages this risk through the following mechanisms:

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

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

	Note	Within 1 Year	
		2012 \$000	2011 \$000
Financial liabilities due for payment			
Trade and other payables (excluding accrued salaries)	17	1,366	1,518
		1,366	1,518

Market Risk

Market risk is the risk that changes in market prices such as foreign exchange rates and interest rates will affect the IMO's income or the value of its holdings of financial instruments.

Note 26: Financial Instruments (continued)

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

Market Risk (continued)

The IMO does not trade in foreign currency and is not materially exposed to other price risks. The IMO's exposure to market risk for changes in interest rates relates primarily to the long-term debt obligations.

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

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

(b) Categories of Financial Instruments

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

	Note	2012 \$000	2011 \$000
Financial Assets			
Cash and cash equivalents	12	2,216	3,819
Receivables (a)	13	2,145	1,823
Total financial assets		4,361	5,642
Financial Liabilities			
Trade and other payables	17	1,500	1,663
Borrowings	18	13,014	6,330
Total financial liabilities		14,514	7,993

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

(c) Financial Instrument Disclosures

Credit risk and interest rate exposures

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

Note 26: Financial Instruments (continued)

(c) Financial Instrument Disclosures (continued)

Credit risk and interest rate exposures (continued)

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

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

Financial Assets	Interest rate exposure				Total	Past Due but Not Impaired (Days Overdue)				Within Initial Trade Terms
	Weighted Average Effective Interest Rate	Fixed Interest Bearing	Variable Interest Bearing	Non-Interest Bearing		< 30	31 - 60	61 - 90	> 90	
	%	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
2012										
Cash and cash equivalents	3.46%	-	2,215	1	2,216	-	-	-	-	-
Receivables	N/A	-	-	2,145	2,145	114	-	91	-	205
		-	2,215	2,146	4,361	114	-	91	-	205
2011										
Cash and cash equivalents	4.62%	-	3,818	1	3,819	-	-	-	-	-
Receivables	N/A	-	-	1,823	1,823	1	-	-	-	1
		-	3,818	1,824	5,642	1	-	-	-	1

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

Credit risk and interest rate exposures (continued)

Financial liabilities	Interest rate exposure				Total	Maturity date				
	Weighted Average Effective Interest Rate	Fixed Interest Bearing	Variable Interest Bearing	Non-Interest Bearing		Up to 3 months	3-12 months	1-2 years	2-3 years	More than 3 years
	%	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
2012										
Payables	N/A	-	-	1,500	1,500	1,500	-	-	-	-
Borrowings	4.49%	13,014	-	-	13,014	1,268	3,841	4,505	3,396	4
		13,014	-	1,500	14,514	2,768	3,841	4,505	3,396	4
2011										
Payables	N/A	-	-	1,663	1,663	1,663	-	-	-	-
Borrowings	5.14%	6,330	-	-	6,330	384	1,238	2,324	1,484	900
		6,330	-	1,663	7,993	2,047	1,238	2,324	1,484	900

Note 26: Financial Instruments (continued)

(c) Financial Instrument Disclosures (continued)

Interest rate sensitivity analysis

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

	Carrying amount	-100 basis points		+100 basis points	
		Surplus	Equity	Surplus	Equity
	\$000	\$000	\$000	\$000	\$000
2012					
<i>Financial Assets</i>					
Cash and cash equivalents	2,215	(22.2)	(22.2)	22.2	22.2
Total increase/(decrease)		(22.2)	(22.2)	22.2	22.2
2011					
<i>Financial Assets</i>					
Cash and cash equivalents	3,818	(38.2)	(38.2)	38.2	38.2
Total increase/(decrease)		(38.2)	(38.2)	38.2	38.2

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

Fair value

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

Note 27: Key Management Personnel Compensation

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

Note 28: Auditors' Remuneration

	2012	2011
	\$000	\$000
Remuneration payable to the Auditor General for the financial year:		
Auditing the accounts and financial statements	23	22

Note 29: Bank Security Deposits and Guarantees

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

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

Bank Security Deposits

The security deposits are held on trust by the IMO and are not the IMO's monies, although the IMO has the conditional right to draw on the funds, as disclosed above. Accordingly, the value of the security deposits which as at 30 June 2012 amounted to \$25,907,646 (2011: \$31,644,673), is not included in the asset values reported in the Statement of Financial Position in these financial statements.

Bank Guarantees

Similarly, the value of bank undertakings which as at 30 June 2012 amounted to \$118,886,194 (2011: \$97,284,676), is also excluded from the Statement of Financial Position.

Note 30: Explanatory Statement

The operating result for the year was a loss of \$1,149,000, which compared to a budgeted loss of \$156,000 approved in the 2011/12 Operational Plan.

The operating result included \$350,000 expenditure on the Gas Information Services Project (GISP) which was subsequently reimbursed by the Public Utilities Office – with the reimbursement included as revenue. As a consequence, the Statement of Comprehensive Income includes \$350,000 as both income and expenditure – these offset each other.

For ease of disclosure, the additional explanatory comments below exclude both the expenditure and revenue of \$350,000 related to the GISP project.

Market fee and other revenue was \$622,000 (4.9%) under budget, influenced by significantly lower than forecast electricity volumes. This was contributed to by three significant new block loads that were included in the load forecasts for 2011/12, all of which experienced delays. In addition, many of the hottest days in Perth over the summer period were experienced on non-business days.

Expenditure exceeded budget by \$370,000 influenced most notably by higher than budgeted expenditure on recruitment (resulting from engaging a professional recruitment agency to provide a more targeted, professional recruitment function), engaging additional resources to provide project oversight and capability related to curtailable loads and their transition to demand side programs, increased costs related to the market audit (including an increased scope in the system management audit), and additional expenditure over the last six months of the year related to new IT infrastructure arrangements.

The IMO is required under the market rules to recoup operating deficits to market participants via adjustments to subsequent year budgets. A surplus against the budget of \$156,000 was recorded for 2009/10, which offsets against the 2011/12 operational loss of \$1,149,000.



Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Parliament of Western Australia

INDEPENDENT MARKET OPERATOR

I have audited the financial report of the Independent Market Operator. The financial report comprises the Statement of Financial Position as at 30 June 2012, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, a summary of significant accounting policies, other explanatory Notes and the Directors' Declaration.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Independence

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

Opinion

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

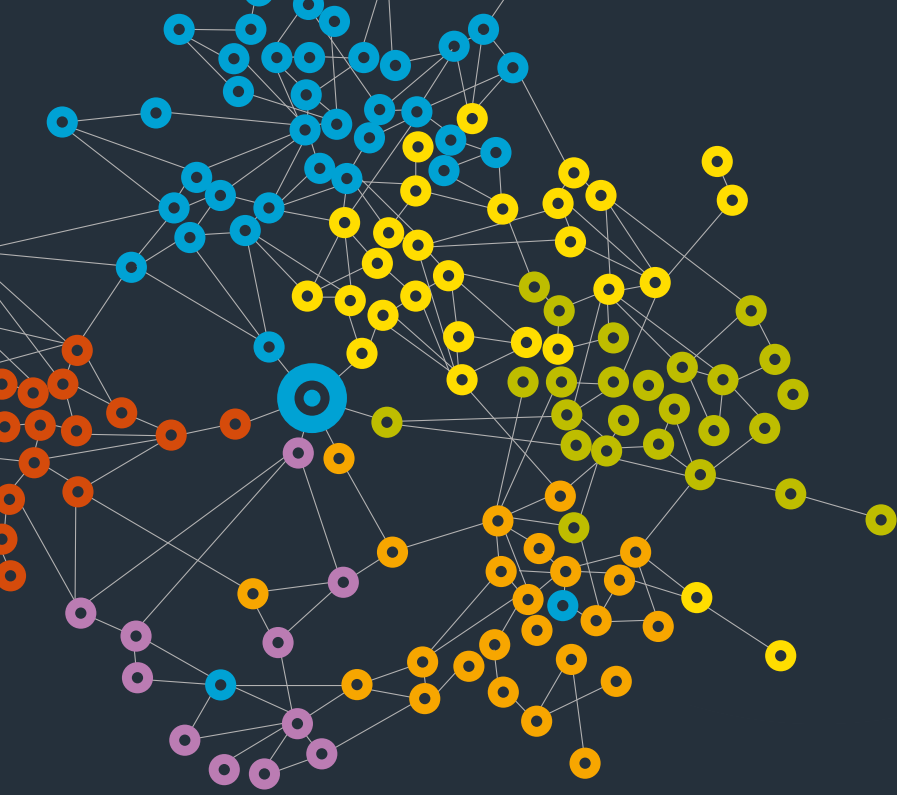
- (a) giving a true and fair view of the Independent Market Operator's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of the Independent Market Operator for the year ended 30 June 2012 included on the Independent Market Operator's website. The Independent Market Operator's management is responsible for the integrity of the Independent Market Operator's website. I have not been engaged to report on the integrity of the Independent Market Operator's website. The auditor's report refers only to the financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from this financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.



DON CUNNINGHAME
ASSISTANT AUDITOR GENERAL ASSURANCE SERVICES
Delegate of the Auditor General for Western Australia
Perth, Western Australia
26 September 2012



INDEPENDENT
MARKET
OPERATOR

Annual Report 2011/12

www.imowa.com.au



Mixed Sources
Product group from well-managed
forests, controlled sources and
recycled wood or fiber
www.fsc.org Cert no. SGS-COC-2262
© 1996 Forest Stewardship Council