imo

INDEPENDENT
MARKET
OPERATOR

Annual Report

2012/13

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Independent Market Operator
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Chair and Executive Report

2012/13 was a year of significant achievements for the Independent Market Operator (IMO). The year commenced with the Market Evolution Program (MEP) implementing the Balancing and Load Following Ancillary Services (LFAS) markets and finished with the Minister for Energy approving the rules for the Gas Services Information Regulations and Rules, with these functions commencing early in the 2013/14 financial year.

The Market Evolution Program was completed in early 2012/13 with the launch of the new Balancing and Load Following Ancillary Services markets, under transitional arrangements, in July 2012. Full implementation was completed on 5 December 2012.

The commencement of the new Balancing and LFAS markets was the most significant evolutionary step in the Wholesale Electricity Market (WEM) since the market commenced in 2006 and will significantly enhance the economic efficiency of dispatch in the WEM.

The new competitive Balancing market moves WEM energy trading into the trading day for the first time and closer to real time with a rolling two hour gate closure. A further feature of the Balancing market is the regular publication of a forecast price and dispatch quantities in advance of dispatch occurring. The Balancing market has also enabled a significant improvement in market transparency, an enhancement welcomed by WEM stakeholders.

The new LFAS market was 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 during 2012.

2012/13 also marks a new direction for the IMO with the commencement of the Gas Services Information (GSI) Regulations and Rules on 29 June 2013.

In May 2011 the Minister for Energy appointed the IMO to implement and operate two new gas information services for the Western Australian natural gas market which were recommendations of the Gas Supply and Emergency Management Committee set up in response to the gas supply disruptions in 2008.

The committee recommended the implementation of a public Gas Bulletin Board (GBB) and a Gas Statement of Opportunities (GSOO) to increase transparency, security, reliability and competitiveness in the WA natural gas market.

The IMO was selected to develop and operate the gas information services. The Gas Information Services Project (GISP) was established within the IMO to deliver:

- the Gas Bulletin Board (GBB);
- the Emergency Management Facility (EMF); and
- a Gas Statement of Opportunities (GSOO).

The initial 2013 GSOO was published on 26 July 2013, the GBB website was active from 1 August 2013 and was officially launched by the Minister for Energy on 2 August 2013.

The IMO would also like to acknowledge the considerable commitment and support of the natural gas industry and in particular the members of the interim Gas Advisory Board (GAB) for their involvement during the development and review of the initial Rules for the GBB and GSOO.

Finally, we would like to acknowledge and thank the dedicated staff at the IMO for what has proven to be a defining year for the IMO. The significant progress made during the year would not have been possible without their substantial 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. In May 2011, the IMO was appointed to administer and operate the Gas Services Information for natural gas in Western Australia.

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

- *Electricity Industry (Independent Market Operator) Regulations 2004*;
- *Electricity Industry (Wholesale Electricity Market) Regulations 2004;*
- Wholesale Electricity Market Rules;
- *Gas Services Information Regulations 2012;* and
- Gas Services Information Rules.

1.1. Electricity Market Objectives

The *Electricity Industry Act 2004* sets the objectives of the Wholesale Electricity Market (WEM). 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. Gas Services Information Objectives

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 being a Gas Bulletin Board (GBB) and a Gas Statement of Opportunities (GSOO).

The *Gas Services Information Act 2012* sets the objectives of the GBB and GSOO. These objectives 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.

The IMO implemented these services as part of the Gas Information Services Project (GISP) during 2012/13, with publication of the initial GSOO in July 2013 and the GBB launched in August 2013, under the regulation and rules made under that Act.

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 2012/13, the IMO Board members were:

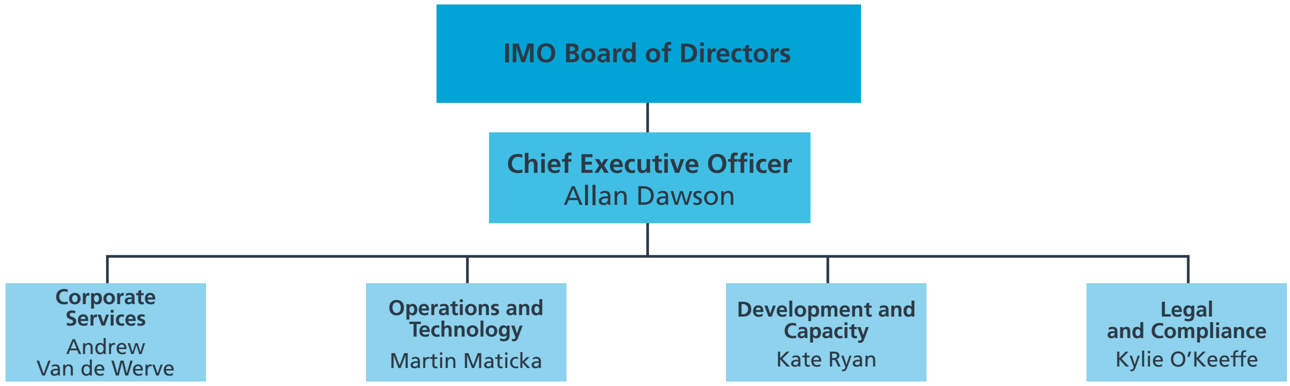
- John Kelly (Chair);
- Shaun Dennison;
- David Huggins; and
- Roland Sleeman.

The appointment of Mr Roland Sleeman as a Director of the IMO Board was made by the Minister for Energy on 18 May 2013 to support the Board's new responsibilities under the Gas Services Information Regulations and Rules, including the implementation and operation of the GBB and GSOO.

Corporate Profile (continued)

1.4 IMO Organisational Structure

Figure 1. IMO Organisational Chart



During 2012/13 the IMO took the opportunity to review its corporate structure. The review resulted in the consolidation of the Market Operations with IT and the consolidation of Market Development with System Capacity. A subsequent restructure of the consolidated teams was also undertaken. The IMO is confident these changes will lead to a more efficient, streamlined business model and will continue to enhance our service delivery to our stakeholders.

1.5. 2013/14 Strategic Objectives

Operating Markets

The IMO operates reliable and efficient markets with integrity and transparency.

Developing the WEM and GSI

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

Establish and Build 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.

2012/13 in Review

2.1 Key Performance Indicators 2012/13

Strategic Objective: Operating the Market

Measure	Performance Expectation	Actual Performance
Number of STEM Market Suspensions	≤ 1	0
STEM Market delay	≤ 5	1
Unscheduled IT outages during Market operation	≤ 0.5%	0.25% Six unscheduled IT outages.
Late Settlement statements (STEM & Non-STEM)	≤ 2	0
Key deadlines for Reserve Capacity Mechanism published on IMO website and met.	IMO adherence to all published deadlines.	Deadlines published on IMO website, 7 out of 8 deadlines met.[1]

1 The IMO is required to issue notices of Certified Reserve Capacity to Market Participants under clause 4.1.12 of the Market Rules. The final notice was sent to Market Participants 30 minutes after the deadline in the Market Rules.

Strategic Objective: Developing the Market and Gas Services Information

Measure	Performance Expectation	Actual Performance
Formal Review of Market Rules Evolution Plan	Once per year with Market Participants	Completed in November 2012.
Implementation of MEP	Successfully manage the implementation of the new Balancing and LFAS markets; Support the Rule Participants through the transition arrangements to ensure the Market Objectives are not compromised; and Successfully oversee the end of the transitional arrangements and the move to a 2 hour gate closure.	Balancing and LFAS markets completed transitional period on 5 December 2012. Regular market debriefs sessions were conducted in the lead up to 5 December 2012. A parallel Operations environment was supported to allow trialling of the 2 hour gate closure and increased offer tranches. MEP transition completed on 5 December 2012. Implementation of MEP is now fully completed.
Delivery of the GISP	On time; < Budget; In consultation with gas industry stakeholders; and Consistent with the objectives in the *Gas Services Information Act 2012.*	IMO on track to meet all major milestones. Overall project delayed due to additional time to draft Regulations. Within project budget allocation. Comprehensive consultation undertaken with the gas industry. GSI arrangements appear to be consistent with the objectives.
Management of Market Rule Changes Log	Promptly categorise and prioritise each new issue ensuring the log is regularly presented to stakeholders and published.	Completed for new issues and log regularly reviewed and prioritised.

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2012/13 in Review (continued)

Strategic Objective: Building Strong Relationships

Measure	Performance Expectation	Actual Performance
Number of attendees at market training sessions	≥ 200 Participants	31 training courses held with 472 Participants in attendance.

Strategic Objective: Financial Responsibility

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

Strategic Objective: Skills and Resources

Measure	Performance Expectation	Actual Performance
Training and development undertaken by IMO staff	40 hours per person	Average 44 hours per person.

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*, the Wholesale Electricity Market Rules, the *Gas Services Information Regulations 2012* and the Gas Services Information 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 Public Sector Commissioner.

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

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 Services Information. During 2012/13, the IMO's governing body was a Board of three Directors appointed by the Minister for Energy, with a fourth Director appointed by the Minister for Energy on 18 May 2013.

3.3 Code of Conduct and Human Resource Standards

The Regulations require the Board, in consultation with the Public Sector Commissioner, to develop and establish minimum human resource standards for staff and a Code of Conduct. The Board approved the employee handbook in June 2009 in accordance with the regulations. The employee handbook is reviewed annually to ensure compliance with any legislative changes. The employee handbook was last updated in April 2012.

Under the regulations, a report must be submitted annually to the Minister for Energy and Public Sector Commissioner 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 WA (CCIWA).

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 risk areas of Payroll Processes and Fraud Assessment. 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. A revised Recordkeeping Plan was submitted to the State Records Office in June 2013 for approval.
- 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 $455 was incurred on staff recruitment advertising and $7,191 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 2012-2015 was established in July 2012 and annual reporting obligations for 2012-13 were satisfied in July 2013.

Directors' Report

The Directors of the Independent Market Operator present their report for the twelve months to 30 June 2013.

Directors

The following were Directors of the IMO during the financial year to 30 June 2013:

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 Australian 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 Australian 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.

Roland Sleeman

- Appointed Director May 2013
- Current term ends April 2016

Mr Roland Sleeman has over 34 years' experience in the oil and gas, utilities and infrastructure sectors, advising government and businesses involved in the oil, gas and utilities sectors across Australia. He has also held a number of senior executive positions across these sectors.

Mr Sleeman has a Bachelor of Engineering (Mechanical), a Master of Business Administration and is a Member of the Australian Institute of Company Directors.

Directors' Meetings

Attendances by Directors at meetings held during the financial year ending 30 June 2013 were:

	Meetings Attended	Meetings Eligible
John Kelly	12	12*
Shaun Dennison	12	12*
David Huggins	12	12*
Roland Sleeman	-	-#

* Includes a special meeting held in September 2012.
\# Appointment of Roland Sleeman was made in May 2013, however first meeting attended was July 2013.

Principal Activities

The principal activity of the IMO during the year was the operation of the Wholesale Electricity Market and the implementation of the Gas Services Information including the Gas Bulletin Board and the Gas Statement of Opportunities.

Review of Operations

The IMO has operated during 2012/13 in accordance with its obligations under the *Electricity Industry (Independent Market Operator) Regulations 2004*, the Wholesale Electricity Market Rules, the *Gas Services Information Regulations 2012* and the Gas Services Information Rules.

The Minister for Energy issued no Ministerial Directions to the IMO in 2012/13.

Results of Operations

The Operating Result for the year was a surplus of $901,000 which compares to a budgeted loss of $500,000 (an increase of $1,401,000).

During the reporting period, Market Fees were also higher by $461,000, influenced by higher than forecast electricity volumes attributed to weather impacts and year on year changes in demand.

Directors' Report (continued)

Expenditure was under budget by $940,000, influenced most notably by a lower than budgeted depreciation expenditure ($2,310,000) resulting from the revision of IT hardware and software useful life from three to five years.

This underspend was offset by higher than budgeted expenditure ($1,369,000) for additional rent expenditure not budgeted ($406,000), employee benefits resulting from the organisational restructure ($293,000), increased borrowing costs ($227,000) to realign existing loans with the change in asset useful life, additional leave provisions ($151,000) that had not been taken up in prior years, increased engagement costs ($125,000) from the preparation and submission of the ATO private ruling on the ERA GST issue, additional recruitment, software maintenance and printing costs related to the office relocation ($119,000) and $48,000 in other miscellaneous unbudgeted expenditure.

Additional detail is provided in Note 30: Explanatory Statement in 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

During the 2012/13 financial year, the Market Evolution Program (MEP) was completed with the launch of the new Balancing and Load Following Ancillary Services (LFAS) markets which was fully implemented in December 2012.

The commencement of the Balancing and LFAS markets was the most significant evolutionary step in the Wholesale Electricity Market (WEM) since the market commenced in 2006. The Balancing market moves the WEM energy trading into the trading day for the first time and closer to real time with a rolling two hour gate closure. Another feature was the publishing of forecast pricing and dispatch quantities in advance of dispatch occurring.

2012/13 also marked a new direction for the IMO with the commencement of the Gas Services Information (GSI) Regulations and Rules on 29 June 2013. This included the development of the Gas Bulletin Board (GBB), the Emergency Management Facility (EMF) and a Gas Statement of Opportunity (GSOO).

The initial GSOO was published on 26 July 2013, with the GBB website active from 1 August 2013. The GBB and GSOO were launched by the Minister for Energy on 2 August 2013.

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 2013.

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* or the *Gas Services Information Regulations 2012*, 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 2012/13 are:

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

No emoluments were paid to Roland Sleeman during 2012/13.

In January 2013, the IMO Board wrote to the Minister for Energy proposing an emolument increase for the Board Chairman and Non-Executive Directors. On 16 July 2013, the IMO received notification from the Minister for Energy approving an emolument increase of 2.75% for the Board Chairman and Non-Executive Directors. This increase was backdated to 1 April 2013, with the backdated component to be paid during 2013/14.

From 1 July 2013, the Chairman's emolument will increase to $72,731, with Non-Executive Directors increasing to $40,283. These rates are inclusive of post-employment superannuation at 9.25%.

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Directors' Report (continued)

Director Benefits

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

Executives' Emoluments

The Board, with the approval of the Minister for Energy, determines the emolument package of the Chief Executive Officer. The Board determined the remuneration of the other senior executives in 2012/13 based on performance, benchmarking with other organisations and competitive requirements.

Details of emoluments provided to the named officers receiving the highest emolument during 2012/13 are:

	Salary	Post-employment superannuation	Total
Allan Dawson	$351,353	$43,146	$394,499
Kate Ryan	$249,201	$22,428	$271,629
William Street[1]	$247,370	$14,848	$262,218
Suzanne Frame[2]	$225,853	$11,426	$237,279
Martin Maticka	$196,713	$17,704	$214,417

Notes:

1. Employment ended on 31 May 2013. Reported salary figure includes $22,380 accumulated annual leave and $95,240 as redundancy payments.
2. Employment ended on 8 February 2013. Reported salary figure include $22,400 accumulated annual leave and $76,486 as redundancy payments.

Resolution

This report is made in accordance with a resolution of the Board on 15 August 2013.

JOHN KELLY
CHAIR
19 September 2013

SHAUN DENNISON
DEPUTY CHAIR
19 September 2013

Financial Statements
for the Year ended 30 June 2013

Directors' Declaration
for the year ended 30 June 2013

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 2013 and of its performance for the period 1 July 2012 to 30 June 2013;

(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 19th day of September 2013

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Statement of Comprehensive Income
for the year ended 30 June 2013

	Note	2013 $000	2012 $000
INCOME			
User charges and fees	2	16,083	11,853
Interest revenue	3	70	175
Other income	4.1	33	391
Income from state government	4.2	-	5
Total income		**16,186**	**12,424**
EXPENSES			
Employee benefits expense	5	(5,724)	(5,093)
Depreciation and amortisation expense	6	(3,250)	(2,004)
Supplies and services	7	(4,586)	(5,252)
Advertising expense	8	(8)	(8)
Accommodation expense	9	(603)	(358)
Finance costs	10	(819)	(532)
Other expenses	11	(289)	(326)
Loss on disposal of non-current assets	12	(6)	-
Total expenses		**(15,285)**	**(13,573)**
PROFIT/(LOSS) FOR THE PERIOD		**901**	**(1,149)**
OTHER COMPREHENSIVE INCOME			
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**901**	**(1,149)**

The accompanying notes form part of these financial statements.

Statement of Financial Position
as at 30 June 2013

	Note	2013 $000	2012 $000
ASSETS			
Current Assets			
Cash and cash equivalents	13	748	2,216
Trade and other receivables	14	2,750	2,188
Other current assets	15	625	-
Total Current Assets		**4,123**	**4,404**
Non-Current Assets			
Plant and equipment	16	1,860	690
Intangible assets	17	15,582	12,941
Total Non-Current Assets		**17,442**	**13,631**
TOTAL ASSETS		**21,565**	**18,035**
LIABILITIES			
Current Liabilities			
Trade and other payables	18	1,253	1,500
Borrowings	19	3,479	5,109
Other liabilities	20	707	452
Provisions	21	238	246
Total Current Liabilities		**5,677**	**7,307**
Non-Current Liabilities			
Borrowings	19	12,944	7,905
Other liabilities	20	702	1,422
Provisions	21	206	266
Total Non-Current Liabilities		**13,852**	**9,593**
TOTAL LIABILITIES		**19,529**	**16,900**
NET ASSETS		**2,036**	**1,135**
EQUITY			
Accumulated surplus	22	2,036	1,135
TOTAL EQUITY		**2,036**	**1,135**

The accompanying notes form part of these financial statements.

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Statement of Changes in Equity
for the year ended 30 June 2013

	Note	Accumulated Surplus $000
Balance at 1 July 2011		**2,284**
Total comprehensive (loss) for the period		(1,149)
Balance at 30 June 2012	22	**1,135**
Balance at 1 July 2012		**1,135**
Total comprehensive income for the period		901
Balance at 30 June 2013	22	**2,036**

The accompanying notes form part of these financial statements.

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Statement of Cash Flows
for the year ended 30 June 2013

	Note	2013 $000	2012 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Provision of services		15,686	11,490
Interest received		70	175
Other receipts		33	396
Goods and Services Tax (payments)		(165)	(36)
Payments			
Employee benefits expense		(5,796)	(5,155)
Supplies and services		(6,705)	(5,188)
Finance costs		(819)	(532)
Accommodation expense		(197)	(358)
Advertising expense		(8)	(8)
Other expenses		(290)	(326)
Net cash provided by operating activities	23(b)	**1,809**	**458**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of non-current physical assets		(1,123)	(494)
Purchase of intangible assets		(5,563)	(8,251)
Net cash (used in) investing activities		**(6,686)**	**(8,745)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds of borrowings		3,409	6,684
Net cash provided by financing activities		**3,409**	**6,684**
Net (decrease) in cash and cash equivalents		**(1,468)**	**(1,603)**
Cash and cash equivalents at the beginning of period		2,216	3,819
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	23(a)	**748**	**2,216**

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 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 these 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'.

<u>Going Concern</u>

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 five 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

<u>Revenue Recognition</u>

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

Borrowing costs for qualifying assets are capitalised net of any investment income earned on the unexpended portion of the borrowings. All other borrowing costs are expensed when incurred 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.

(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 the assets is expensed (depreciated) over their useful life. 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 life 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, fittings and office equipment	5 years
Computer equipment	5 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	5 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 (refer to Note 1(y) 'Change in Accounting Estimate' for further information on the change in expected useful life).

(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.

Note 1: Summary of Significant Accounting Policies (continued)

(i) Impairment of Assets (continued)

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

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

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

(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 an operating lease 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. Lease incentives are recognised as received and amortised over the term of the lease.

(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 18) 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 uncollectable are written off against the allowance account. The allowance for uncollectable 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

All annual leave and long service leave provisions are in respect of employees' services up to the end of the reporting period.

Annual Leave

The liability for annual leave that is expected to be settled within 12 months after the end of the reporting period is recognised and measured at the undiscounted amounts expected to be paid when the liability is settled.

Annual leave that is not expected to be settled within 12 months after the end of the reporting period is recognised and measured at the present value of amounts expected to be paid when the liabilities are settled using the remuneration rate expected to apply at the time of settlement.

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

The provision for annual leave is classified as a current liability as the IMO does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Long Service Leave

A liability for long service leave is recognised after an employee has completed four years of service based on remuneration rates current as at the end of the reporting period.

An actuarial assessment of long service leave undertaken by Pricewaterhouse Coopers Securities Ltd at 30 June 2013 determined that the liability measured using the short-hand measurement technique above was not materially different from the liability determined using the present value of expected future payments. This calculation is consistent with the IMO's experience of employee retention and leave taken.

Unconditional long service leave provisions are classified as current liabilities as the IMO does not have an unconditional right to defer the settlement of the liability for at least 12 months after the end of the reporting period. Pre-conditional and conditional long service leave provisions are classified as non-current liabilities because the IMO has an unconditional right to defer the settlement of the liability until the employee has completed the requisite years of service.

Sick leave

Liabilities for sick leave are recognised when it is probable that sick leave paid in the future will be greater than the entitlement that will accrue in the future.

Past history indicates that on average, sick leave taken each reporting period is less than the entitlement accrued. This is expected to continue in future periods. Accordingly, it is unlikely that existing accumulated entitlements will be used by employees and no liability for unused sick leave entitlements is recognised. As sick leave is non-vesting, an expense is recognised in the Statement of Comprehensive Income for this leave as it is taken.

Superannuation

The Government Employees Superannuation Board (GESB) and other fund providers in accordance with legislative requirements, administers public sector superannuation arrangements in Western Australia. Eligibility criteria for membership in particular schemes for public sector employees vary according to commencement and implementation dates.

Eligible employees may contribute to the Pension Scheme, a defined benefit pension scheme closed to new members since 1987, or the Gold State Superannuation Scheme (GSS), a defined benefit lump sum scheme closed to new members since 1995.

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. From 30 March 2012, existing members of the WSS or GESBS and new employees have been able to choose their preferred superannuation fund provider. The IMO makes concurrent contributions to GESB or other fund providers on behalf of employees in compliance with the Commonwealth Government's *Superannuation Guarantee (Administration) Act 1992*. Contributions to these accumulation schemes extinguish the IMO's liability for superannuation charges in respect of employees who are not members of the Pension Scheme or GSS.

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

Note 1: Summary of Significant Accounting Policies (continued)

(q) Provisions (continued)

Superannuation (continued)

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 21.

(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 profit or loss.

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

(s) Assets and Services Received Free of Charge or for Nominal Cost

Assets or services received free of charge or for nominal cost that can be reliably measured are recognised as income at the fair value of the assets and/or the fair value of those services that the IMO would otherwise pay for. A corresponding expense is recognised for services received. Receipts of assets are recognised in the Statement of Financial Position.

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 a lease for a building for branch office accommodation. This lease relates to a building of a temporary nature and it has been determined that the lessor retains substantially all the risks and rewards incidental to ownership. Accordingly, the lease has been classified as an operating lease.

(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 2012 that impacted on the IMO.

AASB 2011-9	*Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]* 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). There is no financial impact resulting from the application of this Standard to the IMO.

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

The IMO can not early adopt an *Australian Accounting Standard* unless specifically permitted by *TI 1101 Application of Australian Accounting Standards and Other Pronouncements*. 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	*Financial Instruments* This standard supersedes *AASB 139 - Financial Instruments: Recognition and Measurement*, introducing a number of changes to accounting treatments. *AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures* amended the mandatory application date of this Standard to 1 January 2015. The IMO has not yet determined the application or the potential financial impact of the Standard.	1 Jan 2015
AASB 13	*Fair Value Measurement* This Standard defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurements. There is no financial impact resulting from the application of this Standard to the IMO.	1 Jan 2013
AASB 119	*Employee Benefits* This Standard supersedes *AASB 119* (October 2010), making changes to the recognition, presentation and disclosure requirements. Actuarial gains and losses of the defined benefit plans will be recognised in other comprehensive income (currently in profit or loss). This will impact profit or loss but not total comprehensive income for the period. The effect of discounting annual leave and long service leave liabilities that were previously measured at the undiscounted amounts is not material.	1 Jan 2013
AASB 1053	*Application of Tiers of Australian Accounting Standards* This Standard establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements. There is no financial impact resulting from the application of this Standard to the IMO.	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 2010-2	*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]* This Standard makes amendments to *Australian Accounting Standards* and *Interpretations* to introduce reduced disclosure requirements for certain types of entities. There is no financial impact resulting from the application of this Standard to the IMO.	1 Jul 2013
AASB 2010-7	*Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]* This Standard makes consequential amendments to other *Australian Accounting Standards* and *Interpretations* as a result of issuing *AASB 9 - Financial Instruments* in December 2010. *AASB 2012-6* amended the mandatory application date of this Standard to 1 January 2015. The IMO has not yet determined the application or potential financial impact of the Standard.	1 Jan 2015
AASB 2011-2	*Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements [AASB 101 & 1054]* 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. There is no financial impact resulting from the application of this Standard to the IMO.	1 Jul 2013
AASB 2011-8	*Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 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]* This Standard replaces the existing definition and fair value guidance in other *Australian Accounting Standards* and *Interpretations* as the result of issuing *AASB 13 – Fair Value Measurement* in September 2011. There is no financial impact resulting from the application of this Standard to the IMO.	1 Jan 2013
AASB 2011-10	*Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) [AASB 1, 8, 101, 124, 134, 1049 & 2011-8 and Interpretation 14]* This Standard makes amendments to other *Australian Accounting Standards* and *Interpretations* as a result of issuing *AASB 119 - Employee Benefits* in September 2011. There is limited potential financial impact resulting from the application of this Standard to the IMO.	1 Jan 2013
AASB 2011-11	*Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements* This Standard gives effect to *Australian Accounting Standards – Reduced Disclosure Requirements* for *AASB 119 – Employee Benefits* (September 2011). There is no financial impact resulting from the application of this Standard to the IMO.	1 Jan 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 2012-1	*Amendments to Australian Accounting Standards – Fair Value Measurement – Reduced Disclosure Requirements [AASB 3, 7, 13, 140 & 141]* This Standard establishes and amends reduced disclosure requirements for additional and amended disclosures arising from *AASB 13 – Fair Value Measurement* and the consequential amendments implemented through *AASB 2011-8*. There is no financial impact resulting from the application of this Standard to the IMO.	1 Jul 2013
AASB 2012-2	*Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities [AASB 7 & 132]* This Standard amends the required disclosures in *AASB 7 – Financial Instruments: Disclosures* to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. There is no financial impact resulting from the application of this Standard to the IMO.	1 Jan 2013
AASB 2012-3	*Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities [AASB 132]* This Standard adds application guidance to *AASB 132 – Financial Instruments: Presentation* to address inconsistencies identified in applying some of the offsetting criteria, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. There is no financial impact resulting from the application of this Standard to the IMO.	1 Jan 2014
AASB 2012-5	*Amendments to Australian Accounting Standards arising from Annual Improvements 2009-11 Cycle [AASB 1, 101, 116, 132 & 134 and Interpretation 2]* This Standard makes amendments to the *Australian Accounting Standards* and *Interpretations* as a consequence of the annual improvements process. There is no financial impact resulting from the application of this Standard to the IMO.	1 Jan 2013
AASB 2012-6	*Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures [AASB 9, 2009-11, 2010-7, 2011-7 & 2011-8]* This Standard amends the mandatory effective date of *AASB 9 - Financial Instruments* to 1 January 2015. Further amendments are also made to consequential amendments arising from *AASB 9* that will now apply from 1 January 2015 and to consequential amendments arising out of the Standards that will still apply from 1 January 2013. There is no financial impact resulting from the application of this Standard to the IMO.	1 Jan 2013
AASB 2012-7	*Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 7, 12, 101 & 127]* This Standard adds to or amends the *Australian Accounting Standards* to provide further information regarding the differential reporting framework and the two tiers of reporting requirements for preparing general financial statements. There is no financial impact resulting from the application of this Standard to the IMO.	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 2012-11	*Amendments to Australian Accounting Standards – Reduced Disclosure Requirements and Other Amendments [AASB 1, 2, 8, 10, 107, 128, 133, 134 & 2011-4]* This Standard makes various editorial corrections to *Australian Accounting Standards – Reduced Disclosure Requirements (Tier 2)*. These corrections ensure that the Standards reflect decisions of the AASB regarding the Tier 2 requirements. This Standard also extends the relief from consolidation and the equity method (in the new Consolidation and Joint Arrangements Standards) to entities complying with *Australian Accounting Standards – Reduced Disclosure Requirements.* There is no financial impact resulting from the application of this Standard to the IMO.	1 Jan 2013

(y) Change in Accounting Estimate

As a result of the conclusion of the Market Evolution Program (MEP) and the associated enhancements to the IMO's IT systems, the IMO reassessed the effective life of its computer hardware and software assets. The reassessment of the effective life of the enhanced computer hardware and software systems was evaluated at five years, up from the original three year effective life.

The change in effective life from three to five years is considered preferable as it will more accurately reflect the pattern of usage and the expected benefits to be derived from these major technology enhancements. This provides greater consistency with the longer life expectancy of the IMO's IT systems before the next major upgrade is undertaken.

The revised five year effective life of the IMO's computer hardware and software systems took effect from 1 July 2012. The revision of the effective life is accounted for prospectively as a change in accounting estimate in accordance with *AASB 108 – Accounting Policies, Changes in Accounting Estimates and Errors.* As a result, the depreciation and amortisation charges of the IMO for the current financial year end have decreased by $2,339,000. The impact of the change in effective life on future financial years is impracticable to estimate the effect.

Note 2: User Charges and Fees

	2013 $000	2012 $000
Regulatory charge – registration fees	6	41
Regulatory charge – market fees	16,077	11,812
	16,083	**11,853**

Note 3: Interest Revenue

	2013 $000	2012 $000
Interest received from bank	70	175
	70	**175**

Note 4: Other Revenue

4.1 Other income

	2013 $000	2012 $000
Market participant training	8	6
Gas Information Services Project (GISP) – reimbursement from Public Utilities Office (a)	-	350
Other revenue	25	35
	33	**391**

4.2 Income from state government

	2013 $000	2012 $000
Income from state government (b)	-	5
Other revenue	**33**	**396**

(a) 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).

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

Note 5: Employee Benefits Expense

	2013 $000	2012 $000
Wages and salaries (a)	5,122	4,430
Superannuation - defined contribution plans (b)	439	403
Superannuation - defined benefit plans (Note 21 'Provisions')	96	162
Annual leave (c)	129	(18)
Long service leave (c)	(62)	116
	5,724	**5,093**

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

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

(c) Includes a superannuation contribution component.

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

The employment on-costs liability is included at Note 21.

Note 6: Depreciation and Amortisation Expense

	2013 $000	2012 $000
Depreciation		
Computer equipment	146	216
Office equipment	7	11
Office fit-out	139	154
Furniture & Fittings	36	3
Total depreciation	**328**	**384**
Amortisation		
Computer software	2,922	1,620
Total amortisation	**2,922**	**1,620**
Total depreciation and amortisation expense	**3,250**	**2,004**

Note 7: Supplies and Services

Communications and data processing costs	348	325
Consultants and contractors:		
- market system maintenance and support (a)	1,155	1,037
- corporate IT maintenance and support (b)	489	384
- Gas Information Services Project (GISP) (c)	-	350
- ERA GST issue (d)	150	-
- other	1,650	2,136
Recruitment costs	169	229
Other	625	791
	4,586	**5,252**

(a) Additional expenditure in 2013 resulting from the market commencing 24 hour trading and requiring support to be available outside business hours.

(b) Additional expenditure in 2013 from the retendering of the IT maintenance and support agreements.

(c) 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).

(d) Professional costs incurred from Ernst & Young accountants in regards to advice provided on the treatment of GST on the Market, Regulator and System Operator Fee components in relation to invoicing the Economic Regulation Authority (ERA) and preparation of a submission to the ATO for a private ruling.

Note 8: Advertising Expense

Advertising staff vacancies	1	2
Advertising general	7	6
	8	**8**

Note 9: Accommodation Expense

	2013 $000	2012 $000
Lease rental	503	244
Car bay rental	57	67
Electricity	25	14
Repairs and maintenance	3	17
Lease administration	-	5
Cleaning and security	15	11
	603	**358**

Note 10: Finance Costs

Interest expense on financial liabilities not at fair value through profit or loss:		
- external	819	532
Finance costs expensed	**819**	**532**

Note 11: Other Expenses

Software maintenance	89	76
Repairs and maintenance	6	24
Training	130	133
Other	64	93
	289	**326**

Note 12: Loss on Disposal of Non-Current Assets

Loss on disposal of non-current assets	6	-
	6	**-**

Note 13: Cash and Cash Equivalents

Cash at bank	748	794
Cash at bank – Market settlement default (a)	-	1,422
	748	**2,216**

(a) Corresponds to offsetting liability – see Note 20.

Note 14: Trade and Other Receivables

Current		
Trade receivables	1	205
Other receivables	3	-
GST receivable - Australian Taxation Office	208	43
Accrued revenue	2,538	1,940
	2,750	**2,188**

Note 15: Other Current Assets

	2013 $000	2012 $000
Current		
GST reimbursement from market participants (a)	500	-
Prepayments	125	-
	625	**-**

(a) Corresponds to offsetting liability – see Note 20 (GST reimbursement to ATO). This is to be recouped from market participants through market fees over the 2013/14 financial year.

Note 16: Plant and Equipment

PLANT AND EQUIPMENT		
Office Equipment		
At cost	9	66
Accumulated depreciation	-	(59)
	9	**7**
Computer Equipment		
At cost	1,070	1,011
Accumulated depreciation	(501)	(531)
	569	**480**
Office Fit-out		
At cost	1,137	761
Accumulated depreciation	(95)	(606)
	1,042	**155**
Furniture & Fittings		
At cost	274	54
Accumulated depreciation	(34)	(6)
	240	**48**
Total		
At cost	2,490	1,892
Accumulated depreciation	(630)	(1,202)
	1,860	**690**

Note 16: Plant and Equipment (continued)

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
2013					
Carrying amount at start of year	7	480	155	48	690
Additions	9	235	1,026	234	1,504
Disposals	-	-	-	(6)	(6)
Depreciation	(7)	(146)	(139)	(36)	(328)
Carrying amount at end of year	**9**	**569**	**1,042**	**240**	**1,860**
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**

There were no indications of impairment of plant and equipment as at 30 June 2013.

Note 17: Intangible Assets

	2013 $000	2012 $000
INTANGIBLES		
Computer Software		
At cost	27,306	15,439
Accumulated amortisation	(15,241)	(12,319)
	12,065	**3,120**
Reconciliation:		
Carrying amount at start of year	3,120	2,617
Additions	11,867	2,123
Disposals	-	-
Amortisation expense	(2,922)	(1,620)
Carrying amount at end of year	**12,065**	**3,120**
Work in progress – Market Evolution Program (a)		
At cost	-	9,821
Accumulated amortisation	-	-
	-	**9,821**
Reconciliation:		
Carrying amount at start of year	9,821	3,693
Additions	-	6,128
Capitalised to computer software	(9,821)	-
Amortisation expense	-	-
Carrying amount at end of year	**-**	**9,821**
Work in progress – Gas Information Services Project (b)		
At cost	2,254	-
Accumulated amortisation	-	-
	2,254	**-**
Reconciliation:		
Carrying amount at start of year	-	-
Additions	2,254	-
Disposals	-	-
Amortisation expense	-	-
Carrying amount at end of year	**2,254**	**-**
Work in progress – Market Rule Changes DSP (c)		
At cost	763	-
Accumulated amortisation	-	-
	763	**-**
Reconciliation:		
Carrying amount at start of year	-	-
Additions	763	-
Disposals	-	-
Amortisation expense	-	-
Carrying amount at end of year	**763**	**-**

Note 17: Intangible Assets (continued)

	2013 $000	2012 $000
Work in progress – MSGP/MSGPI Replacement (d)		
At cost	393	-
Accumulated amortisation	-	-
	393	**-**
Reconciliation:		
Carrying amount at start of year	-	-
Additions	393	-
Disposals	-	-
Amortisation expense	-	-
Carrying amount at end of year	**393**	**-**
Work in progress – Data Provision (e)		
At cost	107	-
Accumulated amortisation	-	-
	107	**-**
Reconciliation:		
Carrying amount at start of year	-	-
Additions	107	-
Disposals	-	-
Amortisation expense	-	-
Carrying amount at end of year	**107**	**-**
Total		
At cost	30,823	25,260
Accumulated depreciation	(15,241)	(12,319)
	15,582	**12,941**

(a) The Market Evolution Program (MEP) emerged during the 2011 financial year as a new work program necessary to improve the Wholesale Electricity Market (WEM). 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 was capitalised and is depreciated over the financial years 2012/13 to 2016/17, with the effective implementation date 1 July 2012.

(b) The Gas Information Services Project (GISP) emerged during the previous year as a new work program necessary to improve transparency in gas supply and demand in Western Australia's natural gas market including the implementation of the Gas Bulletin Board (GBB) and the Gas Statement of Opportunities (GSOO). In line with the established practice, expenditure on the GISP will be capitalised and will be depreciated over the financial years 2013/14 to 2018/19, with the effective implementation date 1 August 2013.

(c) The Market Rule Change DSP work in progress emerged during the year as a new IT project necessary to comply with the market rule number 2010_29 relating to a change from curtailable load to demand side program. In line with the established practice, expenditure on the Market Rule Change DSP will be capitalised and will be depreciated over the financial years 2013/14 to 2017/18, with the effective implementation date 1 July 2013.

(d) The MSGP/MSGPI Replacement work in progress emerged during the year as a new IT project necessary to improve the post settlement processes and market transactions of the WEMS. This includes the management and reporting of payables, receivables and Austraclear advices. In line with the established practice, expenditure on the MSGP/MSGPI Replacement will be capitalised and will be depreciated over the financial years 2013/14 to 2018/19, with the effective implementation date 1 September 2013.

Note 17: Intangible Assets (continued)

(e) The Data Provision work in progress emerged during the year as a new IT project necessary to improve market transparency and the efficient operation of the market. The program will be run as a set of prioritised projects targeting improvements to how information is presented for market analysis and to fulfil market rule obligations. In line with the established practice, expenditure on the Data Provision work will be capitalised and will be depreciated over the financial years 2013/14 to 2020/21, with the initial effective implementation date 1 October 2013 and the complete program with the effective implementation date 30 June 2016.

There were no indications of impairment to intangible assets as at 30 June 2013.

Note 18: Trade and Other Payables

	2013 $000	2012 $000
Current		
Trade payables	679	1,006
Accrued expenses	444	360
Accrued salaries	130	134
	1,253	**1,500**

Note 19: Borrowings

	2013 $000	2012 $000
Current		
Western Australian Treasury Corporation (WATC) loan	3,479	5,109
Non-Current		
Western Australian Treasury Corporation (WATC) loan	12,944	7,905
	16,423	**13,014**

Financing Arrangements

IMO has access to the following Lines of Credit:

	2013 $000	2012 $000
Total facilities available:		
Liquid facility and direct borrowings (a)	16,538	13,056
	16,538	**13,056**
Facilities utilised at the end of the reporting period:		
Liquid facility and direct borrowings	16,423	13,014
	16,423	**13,014**
Total facilities not utilised at the end of the reporting period:		
Liquid facility and direct borrowings	115	42
	115	**42**

At reporting date, IMO has an approved financing facility debt ceiling from Western Australian Treasury Corporation (WATC) for 2014 of $13.394 million.

(a) Total facility available is based on the Western Australian Government approved budget debt ceiling although the total facility available under the Master Lending Agreement is higher.

Note 19: Borrowings (continued)

Financing Arrangements (continued)

(i) Master Lending Agreement (MLA)

For the purposes of accessing a simplified and flexible borrowing arrangement, the IMO has entered into a MLA with the WATC on 19 July 2012 which consolidates all agreements into one facility. The total limit on this facility is $25 million.

(ii) Significant terms and conditions

Direct borrowings comprise of:

(1) A loan of $3.68m with fixed monthly principal and interest repayments that will result in the loan being fully settled in June 2016. The effective interest rate on the loan is 3.16%.

(2) Two loans totalling $3.52m with fixed monthly principal and interest repayments that will result in the loans being fully settled in June 2017. The effective interest rate on the loans is 3.34%.

(3) Two loans totalling $2.87m with fixed monthly principal and interest repayments that will result in the loans being fully settled in December 2016. The effective interest rate on the loans is 3.25%.

(4) A loan of $0.87m with fixed monthly principal and interest repayments that will result in the loan being fully settled in July 2022. The effective interest rate on the loan is 3.86%.

(5) A loan of $0.50m with fixed monthly principal and interest repayments that will result in the loan being fully settled in May 2018. The effective interest rate on the loan is 3.21%.

(6) A loan of $0.47m with fixed monthly principal and interest repayments that will result in the loan being fully settled in January 2018. The effective interest rate on the loan is 3.40%.

(7) A loan of $0.45m with fixed monthly principal and interest repayments that will result in the loan being fully settled in December 2017. The effective interest rate on the loan is 3.40%.

(8) A loan of $0.41m with fixed monthly principal and interest repayments that will result in the loan being fully settled in April 2018. The effective interest rate on the loan is 3.49%.

(9) A loan of $0.33m with fixed monthly principal and interest repayments that will result in the loan being fully settled in June 2016. The effective interest rate on the loan is 3.16%.

(10) A loan of $0.30m with fixed monthly principal and interest repayments that will result in the loan being fully settled in May 2018. The effective interest rate on the loan is 3.16%.

(11) A loan of $0.13m with fixed monthly principal and interest repayments that will result in the loan being fully settled in May 2015. The effective interest rate on the loan is 5.67%.

Direct borrowings also consist of a liquidity drawdown facility of $2.89m, interest is paid at a fixed rate on the rollover maturity date. During 2013/14, two separate fixed interest rate loans will be taken out, one being for $2.35m with a maturity date of July 2018 and an effective interest rate on the loan of 3.15% and a second loan of $0.54m with a maturity date of December 2018. The effective interest rate on the second loan is not known at the time of this report.

Increase in borrowings between the two years is influenced by the requirement to access loan funding to support implementation of the Gas Information Services Project and various IT project enhancements (see Note 17).

As a result of the change in effective life in IT hardware and software assets, the loan facilities that funded these assets were refinanced to extend the timeframe over which the loans would be repaid. The loan terms now match the effective life of the assets.

Note 20: Other Liabilities

	2013 $000	2012 $000
Current		
Amounts due to market participants (a)	120	452
Receipts in advance	2	-
GST reimbursement to ATO (b)	500	-
Lease incentive liability (c)	85	-
	707	**452**
Non-Current		
Amounts due to market participants (d)	-	1,422
Lease incentive liability (c)	702	-
	702	**1,422**
	1,409	**1,874**

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

(b) 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 (ERA) by the IMO in relation to the Regulator Fees. The ruling requires the IMO to refund excess GST monies collected from the ERA, giving rise to the liability of $499,551. This liability is due to be repaid monthly over the next 12 months and is subject to general interest charges currently accruing at the ATO interest rate of 9.82%. Corresponds to offsetting asset – see Note 15 (GST reimbursement from market participants). This is to be repaid to the ATO through market fees recouped from market participants over the 2013/14 financial year.

(c) The lease incentive liability relates to the lease entered into for the premises at Level 17, 197 St Georges Terrace, Perth which will be amortised over the term of the lease; being a ten year period.

(d) Relates to the relinquishing of a 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. This was returned back to the market in November 2012 as the three year default period had lapsed.

Note 21: Provisions

	2013 $000	2012 $000
Current		
Employee benefits provision		
Annual leave (a)	175	175
Long service leave (b)	30	39
	205	**214**
Other provisions		
Employment on-costs (c)	33	32
	33	**32**
	238	**246**
Non-Current		
Employee benefits provision		
Long service leave (b)	177	234
	177	**234**
Other provisions		
Employment on-costs (c)	29	32
	29	**32**
	206	**266**
	444	**512**

(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	168	172
More than 12 months after the reporting period	7	3
	175	**175**

(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	30	39
More than 12 months after the reporting period	177	234
	207	**273**

(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	64	62
Additional provisions recognised	-	2
Payments of economic benefits	(2)	-
Carrying amount at end of year	**62**	**64**

Note 22: 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.

	2013 $000	2012 $000
Accumulated Surplus		
Balance at start of year	1,135	2,284
Result for the period	901	(1,149)
Balance at end of year	**2,036**	**1,135**

Note 23: 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	**748**	**2,216**

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

Profit/(Loss) for the period	**901**	**(1,149)**
Non-cash items:		
Depreciation and amortisation expense	3,250	2,004
Rent expense	406	-
Loss on disposal of non-current assets	6	-
(Increase)/decrease in assets:		
Trade and other receivables	(397)	(322)
Other assets	(625)	47
GST (receivable)/payable	(165)	36
Increase/(decrease) in liabilities:		
Trade and other payables	(377)	(164)
Provisions	(68)	49
Other liabilities	(1,122)	(43)
Net cash provided by operating activities	**1,809**	**458**

Note 24: Commitments

Non-Cancellable Operating Lease Commitments

Commitments for minimum lease payments are payable as follows:

	2013 $000	2012 $000
Within 1 year	499	406
Later than 1 year and not later than 5 years	1,787	2,141
Later than 5 years	-	145
	2,286	**2,692**

The property lease for office accommodation at Level 17, 197 St Georges Terrace is for an initial term of ten years, including a non-cancellable term of five years, with rent payable monthly in advance. Contingent rent provisions within the lease agreement require that the minimum lease payments shall be increased by 4% per annum. An option exists to renew the lease at the end of the ten year term for a further five year term.

Other Expenditure Commitments

Other expenditure commitments contracted for at the end of the reporting period but not recognised as liabilities, are payable as follows		
Within 1 year	90	-
	90	**-**

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 14 'Trade and Other Receivables'.

The IMO has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

In addition, receivable balances are monitored on an ongoing basis with the result that the IMO's exposure to bad debts is minimal. At the end of the reporting period there were no significant concentrations of credit risk.

Liquidity Risk

Liquidity risk arises when the IMO is unable to meet its financial obligations as they fall due. The IMO is exposed to liquidity risk through its trading in the normal course of business.

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

Note 26: Financial Instruments (continued)

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

Liquidity Risk (continued)

The IMO manages this risk through the following mechanisms:

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

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

		Within 1 Year	
	Note	2013 $000	2012 $000
Financial liabilities due for payment			
Trade and other payables (excluding accrued salaries)	18	1,123	1,366
		1,123	**1,366**

Market Risk

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

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

The IMO's borrowings are all obtained through the WATC and are at fixed rates with varying maturities.

The risk is managed by WATC through portfolio diversification and variation in maturity dates.

Other than as detailed in the interest rate sensitivity analysis table at Note 26(c), the IMO is not exposed to interest rate risk.

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

(b) Categories of Financial Instruments

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

	Note	2013 $000	2012 $000
Financial Assets			
Cash and cash equivalents	13	748	2,216
Receivables (a)	14	2,542	2,145
Total financial assets		**3,290**	**4,361**
Financial Liabilities			
Trade and other payables	18	1,253	1,500
Borrowings	19	16,423	13,014
Total financial liabilities		**17,676**	**14,514**

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

Note 26: Financial Instruments (continued)

(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.

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

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

	Interest rate exposure					Past Due but Not Impaired (Days Overdue)				
Financial Assets	**Weighted Average Effective Interest Rate**	**Fixed Interest Bearing**	**Variable Interest Bearing**	**Non-Interest Bearing**	**Total**	**< 30**	**31 - 60**	**61 - 90**	**> 90**	**Within Initial Trade Terms**
2013	**%**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Cash and cash equivalents	2.50%	-	747	1	**748**	-	-	-	-	-
Receivables	N/A	-	-	2,542	**2,542**	-	-	-	1	1
		-	**747**	**2,543**	**3,290**	**-**	**-**	**-**	**1**	**1**
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**

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

	Interest rate exposure					Maturity date				
Financial liabilities	**Weighted Average Effective Interest Rate**	**Fixed Interest Bearing**	**Variable Interest Bearing**	**Non-Interest Bearing**	**Total**	**Up to 3 months**	**3-12 months**	**1-2 years**	**2-3 years**	**More than 3 years**
2013	**%**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Payables	N/A	-	-	1,253	**1,253**	1,253	-	-	-	-
Borrowings	3.29%	13,535	2,888	-	**16,423**	226	3,253	4,366	4,308	4,270
		13,535	**2,888**	**1,253**	**17,676**	**1,479**	**3,253**	**4,366**	**4,308**	**4,270**
2012	**%**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
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**

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 1% 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
2013	$000	$000	$000	$000	$000
Financial Assets					
Cash and cash equivalents	747	(7.5)	(7.5)	7.5	7.5
Total increase/(decrease)		**(7.5)**	**(7.5)**	**7.5**	**7.5**
2012					
Financial Assets					
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**

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: Remuneration of Members of the Accountable Authority and Senior Officers

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

	2013 $000	2012 $000
Remuneration paid or payable to the Auditor General in respect of the audit for the current financial year is as follows:		
Auditing the accounts and financial statements	**24**	**23**

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 2013 amounted to $11,481,548 (2012: $25,907,646), 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 2013 amounted to $103,413,562 (2012: $118,886,194), is also excluded from the Statement of Financial Position.

Note 30: Explanatory Statement

The operating result for the year was a profit of $901,000 which compared to a budgeted loss of ($500,000) approved in the 2012/13 Operational Plan.

Market fees and other revenue exceeded budget by $461,000 (2.9%), influenced by higher than forecast electricity volumes. This is attributed to weather impacts and year on year changes in demand.

Expenditure was under budget by $940,000 (5.8%), influenced most notably by a lower than budgeted depreciation expense ($2,310,000) resulting from the revision of IT hardware and software effective life from 3 years to 5 years.

This underspend was offset by higher than budgeted expenditure ($1,369,000) on employee benefits resulting from the organisational restructure ($293,000) undertaken during the year and recognition of the current and prior year leave liabilities ($151,000), additional office rent which was budgeted to be received as a rent free period ($411,000). This will now be amortised over the lease term resulting in additional expenditure being recognised during 2012/13.

Increased borrowing costs ($227,000) were incurred to refinance the loan facilities that fund the IT hardware and software assets to match the revised effective life. Increased engagement costs resulted ($125,000) from the preparation and submission of the ATO private ruling on the ERA GST issue, additional administration expenditure ($119,000) related to recruitment, software maintenance and printing costs related to the office relocation. Other miscellaneous expenditure ($43,000) was incurred in relation to the physical office relocation.

The IMO is required under the market rules to return or recoup operating surpluses or deficits to market participants via adjustments to subsequent year budgets. A surplus of $500,000 was recorded against the 2010/11 budget, which was reflected in the 2012/13 operating result.

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 2013, 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.

7th Floor Albert Facey House 469 Wellington Street Perth MAIL TO: Perth BC PO Box 8489 Perth WA 6849 TEL: 08 6557 7500 FAX: 08 6557 7600

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 2013 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 2013 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. This audit does not provide assurance 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
20 September 2013

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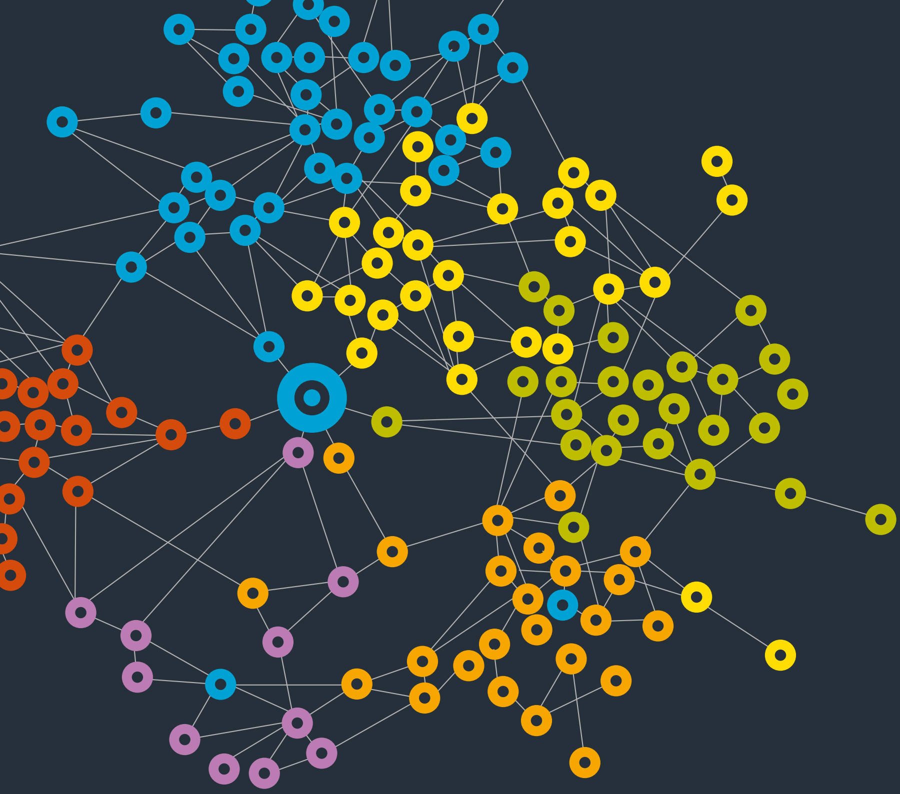

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Annual Report
2012/13

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