



ENERGY MARKETS – PIVOTAL TO OUR ENERGY FUTURE

ANNUAL REPORT 2011



OUR MISSION

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

OUR VISION

To be pivotal to markets that secure Australia's energy needs.

OUR VALUES

Every Voice

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

Our Stakeholders

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

One Team

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

Commitment and Delivery

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

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STRATEGIC DRIVERS 2011–12

1. EXTERNAL STAKEHOLDERS

Understanding – to listen and learn more about the specific needs and expectations of all our stakeholders.

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2. PEOPLE

Accountability – to make our people fully and openly accountable for our performance as the operator of Australian energy markets.

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3. MARKETS

Efficiency – to drive coordination, consolidation and integration of systems and processes wherever possible to achieve increased operational efficiencies and effectiveness.

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4. COMMERCIAL MANAGEMENT

Discipline – establishing clarity and certainty around our operating costs and fees in a true commercial manner.

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5. PRODUCTIVITY

Transparency – to clearly explain and communicate the specific role that we play and the means that we employ to create value for the energy sector as a whole.

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THE WAY FORWARD

2010–11 was a year of intense focus for AEMO and highlighted the importance of a strong organisation that will plan, develop and operate markets that are responsive to energy sector needs and support long-term investment in Australia.



CHAIRMAN'S REPORT

A handwritten signature in black ink, appearing to read 'Thomas Parry'.

Dr Thomas Parry AM
Chairman

If those words seem familiar, they are. They form the basis of the mission statement contained in AEMO's Statement of Corporate Intent 2010–11.

The past 12 months were marked by the transition of AEMO moving from an establishment and integration stage to a more mature organisation delivering tangible benefits for all stakeholders.

We are creating a culture of leadership and performance within AEMO ensuring greater accountability to our stakeholders through prescriptive and transparent measures.

Our Statement of Corporate Intent outlines how we will deliver on our mission through engaging with our stakeholders, empowering AEMO employees, operating efficient markets, building our brand and delivering value.

One area AEMO is expected to add considerable value is in the area of independent advice to government and stakeholders on the impacts of key policies such as the Clean Energy Future Plan.

The changing mix of energy generation is a factor in most of AEMO's planning reports and this will become an increasingly important element in future years.

AEMO has established a series of Gas, Electricity and Network Leadership Forums to provide a vehicle for frank industry discussion on key issues. This year those forums have given industry representatives the chance to discuss the impact of the Clean Energy Future Plan, particularly the role gas generators will play. The government has indicated AEMO has a role to play in ensuring that network reliability is maintained as we move to more renewable energy sources in the future.

Stakeholder engagement has been a key focus in 2010–11 with a major project underway to develop streamlined and cost effective processes for connecting generators and loads to Victoria's shared electricity network. The Victorian Connections Industry Reference Group (VCIRG) was formed and is working in partnership with AEMO to address issues and introduce change. The project, which continues in 2011–12, aims to develop a common understanding and look at future terminal station requirements.

The next year will be a challenging one with the further development of the gas industry Short Term Trading Market (STTM). A new Queensland hub will be bedded down and the expanding market will no doubt encounter opportunities and challenges.

AEMO will continue to improve operational efficiencies, building on the successful negotiation of a comprehensive Enterprise Agreement and the consolidation of key functions. We will continue to encourage transparency and accountability with the introduction of a single help desk for our stakeholders and continue to facilitate industry Leadership Forums.

To manage the challenging year ahead we will require strong leadership and our Board has been fortunate to attract such strong and experienced members.

Ms Patricia McKenzie and Ms Kate Spargo resigned from the AEMO Board this year and I thank them both for their significant contributions and wish them both well for the future. We also welcome the appointments of Dr Anthony (Tony) Marxsen and Ms Jane Tongs to the Board, effective 1 July 2011.

Dr Marxsen has extensive expertise in electricity grids and information technology, and Ms Tongs has previously chaired multiple audit and risk committees and has a strong knowledge of capital markets. Their skills and experience complement those of existing Board members and will improve Board's capacity to continue delivering on AEMO's Statement of Corporate Intent.

On behalf of the AEMO Board, I express my gratitude to AEMO's members and stakeholders for your input and contributions to the company as we continue to consolidate and strengthen. We look forward another exciting and successful year, to continued industry engagement and playing our part in securing Australia's energy future.

I would also like to thank Matt Zema for his continued commitment and vision, and all AEMO employees for their hard work and support. Our people are at the core of everything we do and are instrumental in delivering quality services which continue to meet the expectations of our stakeholders.



CHIEF EXECUTIVE OFFICER'S REPORT

Matt Zema
Managing Director
and Chief Executive Officer

THE YEAR IN REVIEW

In its second year of operation, AEMO has matured and is now firmly focused on delivering value to our stakeholders.

During the past 12 months AEMO has consolidated many of the functions delivered by its predecessor organisations and identified synergies throughout our business. AEMO is now better positioned to address the challenges presented by the dynamic political and economic environment we are operating within and this is reflected in our Statement of Corporate Intent.

"A secure, reliable, and sustainable energy supply is the cornerstone of Australia's continued prosperity. The energy industry does, however, operate within a rapidly changing environment, and that poses many challenges to the industry as a whole.

Foremost among these are the sometimes-conflicting objectives of maintaining competitive energy prices, pricing carbon emissions, and delivering appropriate investment in the energy sector. Meeting these challenges will require great vision, dynamism, and commitment."

AEMO has been quick to incorporate government policy direction into key planning and operational reports. In 2010–11 the Electricity Statement of Opportunities, Gas Statement of Opportunities and National Transmission Network Development Plan have explored the impact of a changing fuel mix as Australia

moves towards a less carbon-intense economy. We have applied stakeholder feedback and further developed our suite of planning documents to provide a valuable tool to industry seeking to make informed investment decisions.

The STTM also matured over 2010–11. The STTM was the first new gas wholesale market to be launched since the Victorian Declared Wholesale Gas Market (DWGM) was revised in 2007. Hubs are now operating in New South Wales and South Australia with a third hub coming online in Queensland late in 2011.

There has been considerable industry input into the successful operation of STTM hubs and the development of the Brisbane hub.

Stakeholder participation was also vital to the success of a new project underway to provide streamlined and cost effective processes for connecting generators and loads to Victoria's shared electricity network.

The Connection Initiatives Project has been a key focus for the business in the past 12 months and industry representatives working in partnership with AEMO have been extremely supportive and involved despite tight time frames.

This project is in keeping with AEMO's aim to create a more transparent and open relationship with our stakeholders.

As are the Electricity, Gas and Network Leadership Forums which have provided a valuable vehicle for AEMO to obtain open and honest feedback from stakeholders which then translates to action across all streams of our organisation.

The 2010–11 budget provided a consolidated overview of our operating expenditure over the 12 months and the fees associated with each of the market functions and services. Fees and charges have been ring fenced to provide greater transparency for our stakeholders. AEMO's budgeted net revenue for 2010–11 is \$161.9 million, a \$28.1 million (21 per cent) increase on the previous year.

Much of the last 12 months has been spent making sure we have our own house in order to deliver optimum organisational performance. In 2011 AEMO successfully negotiated its first Enterprise Agreement, consolidating a number of previous employment agreements. The costs associated with this combined agreement, which covers the majority of employees, have been accommodated within our approved budget and will not be passed on to AEMO's members. This new agreement supports AEMO's drive to recruit and retain the best people who will in turn help us deliver the maximum benefit to our stakeholders.

We have consolidated accommodation in several centres with new premises in Melbourne and Adelaide, once again maximising the use of common resources and ensuring our current accommodation meets future requirements.

Without a doubt the success we have enjoyed in 2010–11 has been due to strong support from the AEMO Board and the commitment of every AEMO employee, to whom I extend my sincere thanks. We all now look forward to an equally dynamic year in 2011–12.

WHAT AEMO DOES

INDUSTRY STRUCTURE AND AEMO

For the first time in Australia's history, a collaboration of six industry bodies from both the electricity and gas markets merged in 2009 to create the Australian Energy Market Operator, AEMO.

Focusing on the amalgamation of energy services, AEMO is attuned to the changing needs of Australia's growing population and the issues facing the energy industry such as the Clean Energy Future Plan, including a focus on renewable energy sources, and a changing demand profile for electricity due to population growth, larger homes and more appliances.

AEMO is an independent, member-based organisation whose responsibilities in operating and planning Australia's gas and electricity markets include:

- Day-to-day management of wholesale and retail energy market operations.
- Operation of the electricity power system and Victorian gas declared transmission system (DTS).
- Ongoing market development.
- Long-term market planning via demand forecasting and scenario analysis.
- Planning and procurement of electricity transmission expansions and connections in Victoria.

AEMO operates alongside the Australian Energy Regulator (AER), which oversees economic regulation and compliance, reports on generator bidding behaviour in the National Electricity Market (NEM) and regulates electricity transmission and distribution networks in the NEM; and the Australian Energy Market Commission (AEMC), which makes the rules governing the regulation of the energy markets.

The market institutions operate under the umbrella of the Ministerial Council for Energy (MCE), which is responsible for developing energy policies related to the gas and electricity markets.

FUNCTIONS

Markets

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

Australian energy markets grow and evolve as demand levels change, new infrastructure is built and market participants alter. AEMO manages these market developments through industry collaboration.

Operations

AEMO oversees the vital system operations and security of the NEM and the Victorian gas DTS. This involves systems operation, metering and settlements, market performance reporting, incident analysis and emergency management. AEMO's operational roles are:

- Power system operator (Queensland, New South Wales, Victoria, South Australia, Tasmania).
- National gas bulletin board operator.
- Victorian gas DTS operator.
- Emergency management (electricity and gas).

AEMO also manages the prudential arrangements in the electricity and gas markets to maintain the financial integrity of these markets.

Planning

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

AEMO's detailed energy forecast scenarios consider the effect of energy efficiency improvements, including new technologies such as smart metering, renewable sources and better peak load control.

Victorian electricity transmission planning and procurement

As the Transmission Network Service Provider (TNSP) for the shared network in Victoria, AEMO determines the expansion needs of the transmission network and then contestably procures the services from network asset owners.

AEMO enters into agreements with generators and direct connected customers for connection to the shared transmission network. AEMO also procures network alterations and additions that facilitate efficient connections.

MARKETS

The National Electricity Market (NEM)

At 5,000 km, the NEM is one of the world's longest interconnected power systems. It involves the generation and transmission of high voltage electricity, which distributors then deliver to homes and businesses.

Exchange between producers and consumers of electricity is facilitated via a gross pool where the output from all generators is aggregated and scheduled at five minute intervals to meet demand.

NEM infrastructure comprises both public and private assets managed by multiple participants under the direction of AEMO. The dispatch system uses sophisticated systems that balance supply with demand, maintain reserve requirements, determine spot pricing and facilitate financial settlements.

The Victorian Declared Wholesale Gas Market (DWGM)

Victoria's DWGM was established in 1999 to enable competitive, dynamic trading based on injections into and withdrawals from the transmission system that links producers, major users and retailers. After a review of the market, four-hourly trading intervals were introduced in 2007.

In addition to providing a mechanism to trade imbalances, this structure also enables:

- Information gathering for efficient pipeline operations.
- Maintaining a reliable and secure system for gas transportation.
- Metering data management for operational and market balancing.
- A market-based balancing service that determines price and gas flow quantities.
- Market settlement and prudential risk management.

Short Term Trading Market (STTM)

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

The STTM commenced operation in September 2010 at the New South Wales and South Australian hubs and will expand to other states, including a Queensland hub set to commence operations in late 2011. The hubs are transfer points through which gas is transmitted and then delivered to the distribution networks.

Developed under the MCE, the STTM design was led by the gas industry and implemented by AEMO – a strong partnership vital to the project's success.

Retail markets

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

Interactions encompass customer transfer activities and the metrology activities that support customer billing and the allocation of energy applied in the markets for wholesale settlement.

Fast Facts

Market value traded:	
STTM:	\$319 million (measured as gas market outgoings from 1 Sept 2010)
DWGM:	\$115.7 million (measured as imbalances plus deviations) 44.3 PJ traded (19.4% of system demand plus export)
NEM:	\$6.9 billion (measured as dollar value of customer sales)
New registrations 2010–11:	
STTM:	29
DWGM:	2
NEM:	38
Customer churn rates:	
Gas:	664,000 (across Queensland, New South Wales, Victoria, South Australia)
NEM:	1.72 million
Total number of participants:	
STTM:	22 (trading participants)
DWGM:	20
NEM:	166
Energy 2010–11:	
STTM:	Ex ante scheduled volume: 93 PJ (from 1 Sept 2010)
DWGM:	Total injections 227.9 PJ Total exports 6.3 PJ Total system demand 221.5 PJ (including gas-powered generation)
NEM:	187 TWh (market customer energy) 197 TWh (market generator energy)
MW generation commissioned 2010–11:	
	Wind: around 300 MW of generation around the NEM
The National Electricity Market:	
	Serves 19 million customers. Supplies approximately 200 TWh of energy to businesses and households each year. Extends over 5,000 km. Is one of the longest alternating current (AC) systems in the world.
The Victorian Declared Wholesale Gas Market:	
	Supports the highest residential natural gas usage in Australia. Services about 1.8 million customers.
Facts:	
	Australia is the world's ninth largest energy producer, accounting for around 2.4 per cent of world energy production.

STRATEGIC DRIVER

1. EXTERNAL STAKEHOLDERS

This year, AEMO proactively engaged with stakeholders to provide access to key information and services and improve our knowledge about stakeholder needs. We committed to identifying expectations, developing engagement capabilities, enhancing communication and building active partnerships.

AEMO's comprehensive stakeholder engagement strategy, released in June 2010 after industry consultation, guided our consultation and communication activities. AEMO appreciates the input of industry experts in developing improvements across wholesale and retail gas and electricity markets.

AEMO was also party to consultations by the AEMC and the AER, and provided input via working groups and written submissions.

AEMO's Information Centre responded to over 4,300 stakeholder enquiries during the year.

STRATEGIC LEADERSHIP FORUMS

Three new executive forums commenced in March 2011. The Electricity Market Leadership, Gas Market Leadership, and Network Planning Forums facilitated meaningful dialogue about key developmental, planning, and operational issues and set AEMO's priorities and challenges.

The forums prompted valuable discussion and are key to strategic industry engagement. Critical issues discussed were the Clean Energy Future Plan, impacts on investment and supply capability, and the anticipated growth in gas demand and market development.

PRUDENTIAL REVIEW

In April 2011, AEMO published the Prudential Readiness Review Final Report requested by the MCE to identify – and propose measures to address – risks and issues under the current prudential framework.

AEMO established the industry-based Settlement and Prudential Reference Group to assist, and commissioned advice from consultants and actuaries to examine past performance of the NEM's prudential standard.

Economic advice was also commissioned to assess the options for change against the National Electricity Objective and National Gas Objective.

A program of work was recommended to pursue the potential improvements identified and to address the risk of money being subject to clawback under the Corporations Act should a market participant become insolvent.

EDUCATION PROGRAM

AEMO's education program is open to employees of registered market participant organisations, regulators, jurisdictions, consumer advocates, and AEMO-accredited metering service providers. The program offered a comprehensive suite of courses in 2010–11, including workshops on major market developments and initiatives. Over 600 energy industry participants and almost 130 internal employees attended.

BRUNSWICK TERMINAL STATION

Community consultation was essential in developing the Brunswick Terminal Station's proposed \$271 million upgrade. CitiPower, SP AusNet and AEMO undertook a consultation program including a website, online and phone information services, and community newsletters and information sessions.

Negotiations and consultation culminated with the community feedback on the final design before the planning permit application submission in June 2011. The upgrade is essential to secure reliable power supplies for inner Melbourne.

VICTORIAN CONNECTION INITIATIVES PROJECT

Generator and load connections to Victoria's shared electricity network are being streamlined under a program initiated by AEMO in response to stakeholder feedback. The Connections Initiatives Project will also identify augmentation cost efficiencies.

A web-based information kit will educate applicants about the current connections process; a stakeholder consultation plan will test contractual, technical, and commercial fundamentals; and a contestable procurement framework will investigate the feasibility of new procurement options for augmentations.

Consultation involved industry workshops with the VCIRG, an industry group set up by AEMO specifically to provide feedback for this initiative. Electricity distribution businesses and generators were also involved.

PLANNING REPORTS

AEMO's suite of key annual planning reports provides a comprehensive body of information to government, investors, and stakeholders.

This year AEMO also released the National Transmission Network Development Plan (NTNDP), which is the first publication of its kind in Australia and provides a 20-year projection of development requirements for the NEM.

A summary of the reports is provided on page 7.

	Report Description	Key Outcomes
National Transmission Network Development Plan December 2010	A strategic plan and comprehensive information source for the NEM transmission network that explores a range of scenarios to determine potential future electricity transmission impacts.	<ul style="list-style-type: none"> Based on AEMO's modelling, the NEM requires \$4 to \$9B in transmission network investment, supporting \$35 to \$120B in new electricity generation investment over the next 20 years. Large-scale interconnection may deliver significant operating benefits to the NEM. Climate change policy drives renewable energy investment at sites where renewable resources are closer to the transmission network. The Large-scale Renewable Energy Target (LRET) is met in all scenarios with a carbon price. There is a strong move to both peaking and base load gas-powered generation (GPG).
Electricity Statement of Opportunities August 2010	An information source about demand forecasts, generation capacities, and NEM supply adequacy for the next 10 years.	<ul style="list-style-type: none"> A lack of firm climate policy is creating uncertainty. Growth in the northern states has been faster, with energy and maximum demand projections still showing a slowdown in the southern states. Queensland was identified as the first state to require additional capacity in the NEM, with an indicative need date of 2013–14.
Power System Adequacy August 2010	An assessment of the electricity supply outlook over the next two years, complementing the ES00's 10-year outlook.	<ul style="list-style-type: none"> Adequate reserves are expected for the next two years. Increasing wind generation is not expected to significantly impact power system adequacy. Frequency control during periods of high wind generation and low demand is a potential concern AEMO is addressing.
Gas Statement of Opportunities November 2010	Examines Australia's interconnected gas transmission network, consolidating demand and reserve forecasts and opportunities, and exploring a range of scenarios to determine potential future impacts on gas reserves, processing and storage, transmission pipelines and customer demand.	<ul style="list-style-type: none"> Domestic gas demand may double or treble over the next 20 years. By 2030, investment in lower carbon energy sources could see gas demand for GPG grow from the current 200 PJ to over 1,000 PJ. Projections show increasing reserves in Queensland and New South Wales, and decreasing reserves in Victoria and South Australia. Depending on the scenario, LNG exports could commence in 2015 and grow to between 400 PJ and 2,000 PJ by 2030.
South Australian Supply and Demand Outlook June 2011	An information source about the current and future state of the South Australian electricity market, including demand forecasts, supply capability and fuel supply, analyses of historical trends and wind generation behaviour.	<ul style="list-style-type: none"> Economic coal reserves at Leigh Creek are adequate for approximately 15 years. Gas reserves at Moomba are depleting, but new pipelines to Queensland and Victoria will provide adequate gas supplies for the foreseeable future. Renewable generation now supplies 20% of energy requirements (1,150 MW now installed). There are no new committed projects except the wind farms under construction. Energy and maximum demand is growing more strongly than previously forecast. Generation emissions have fallen due to additional wind generation.
Victorian Annual Planning Report June 2011	Forecasts for energy demand and supply in Victoria that identifies future development needs for both the electricity declared shared network (electricity DSN) and the gas DTS. Provides the consultation for small electricity transmission projects to be procured by AEMO.	<ul style="list-style-type: none"> Gas demand forecasts show higher growth driven by GPG. Electricity demand is forecast to grow more strongly, reflecting a more positive economic outlook. Generation and load growth-related issues exist in south-west Victoria and eastern Melbourne, respectively. AEMO and South Australia's ElectraNet are working to increase interconnector capacity. Gas network improvements are underway to increase capacity in the northern zone. Gas DTS augmentations in the next five years may be needed to address limitations in Melbourne's west. Seven electricity transmission projects for detailed cost/benefit assessment were identified in the report.

2. PEOPLE

In 2010–11, AEMO focused on building a skilled, motivated and collaborative team by identifying skills, connecting employees with a single vision, and establishing a high performance culture.

Board and senior management commitment has commenced the change required to create a culture of leadership and performance, supporting a range of people-focused initiatives to develop employee engagement and skills.

WORK HEALTH, SAFETY, AND ENVIRONMENT (WHSE)

AEMO continued to develop a strong 'we care' culture during the year. As an industry leader, our WHSE practices must align with industry standards. A comprehensive WHSE program, supported by an internal communication campaign, addressed health and safety and encouraged proactive thinking and action.

Senior managers participated in safety leadership training, and additional support developed for all employees means WHSE roles and responsibilities are clear.

New interactive online training modules covering WHSE in the office, manual handling, anti-discrimination, and harassment and bullying prevention were also completed by all employees.

The Health and Wellbeing Program, to support our employees in maintaining their health, was rolled out to all AEMO offices. This program comprised initiatives including flu vaccinations, skin checks, individual health appraisals, stress management advice, fresh fruit deliveries, and healthy eating lunchtime sessions.

ENTERPRISE AGREEMENT

A critical step enabling us to attract and retain talented employees and reward our people for their ongoing efforts was the successful negotiation of a new Enterprise Agreement (EA). The EA was negotiated with three industry unions and employee bargaining representatives and was supported by 82.2% of employees who voted on its acceptance. The conditions took effect on 1 July 2011 following approval by Fair Work Australia.

ATTRACTION AND SELECTION

AEMO's commitment to selecting the 'right people for the job' was reflected in the 80 positions successfully filled this year through a combination of internal and external recruitment.

Three major developments assisted the successful recruitment and retention of talented employees:

- An enhanced 'Careers@AEMO' webpage to better represent AEMO to candidates with a genuine interest in contributing to Australia's energy future.
- A new online induction module providing easy access to essential information.
- A toolkit to assist managers run successful recruitment campaigns and select the most suitable candidates.

TRAINING AND DEVELOPMENT

Professional development, succession planning, and excellent communications help support and retain our workforce, many of whom are highly specialised industry professionals.

Our focus on embedding a high performance culture saw the launch of the Leadership Communication Program for our senior management and executive teams. The program aims to enhance the leadership team's skills in areas such as challenging chats, performance and development conversations, and connecting with their teams. The program will continue during 2011-12 and will also be rolled out to all managers.

Succession planning identifies exposure to and plans to cover the loss of key skills within the organisation, while identifying and developing talented employees. Throughout 2010-11 AEMO facilitated development opportunities including internal and external secondments and senior manager position rotations, challenging and motivating employees.

AEMO's Graduate Development Program sees graduates rotate through a diversity of departments including engineering, IT, and corporate over a three-year period, as well as enjoying a program of speakers, forums, and excursions. An appropriate long-term fit is ultimately identified for each graduate and ongoing training and education continues via a range of mechanisms including the newly established Employee Learning Centre.



CORPORATE RESPONSIBILITY

As a corporate citizen, AEMO supports our community globally and locally. Our portfolio consists of a national charity, an international charity and an environmental charity.

AEMO sponsors two Smith Family children who are given access to education and learning opportunities, and a World Vision child whose community receives access to essential medical, health, and educational resources.

AEMO employees and AEMO also dug deep to support those affected by flooding in Queensland and Victoria earlier this year.

RELOCATION

The successful relocation of AEMO's Melbourne employees to 530 Collins Street was achieved without gas market or operational impact. This move was another step in the establishment of 'one AEMO'. The contemporary, functional and environmentally sound workplace is designed to promote interaction and collaboration between teams.

3. MARKETS

GAS MARKETS AND OPERATIONS

Short Term Trading Market (STTM)

Operations in Sydney and Adelaide for the gas STTM commenced in September 2010 and Brisbane operations are set to commence in December 2011.

The STTM has operated smoothly to date, with the exception of two high price events in late 2010 caused by incorrect data inputs. In response, AEMO facilitated an agreed industry approach to effect changes to the submission and validation of data inputs, and the process for setting prices. AEMO proposed rule, procedure and IT system changes (implemented in June 2011) to avoid a recurrence of these events.

Gas retail market

AEMO is focused on working with the industry to evolve state-based retail gas markets into a single consistent set of market processes across the eastern seaboard of Australia.

Twenty two retail market procedure changes delivered operations with net benefit to the industry during the year, and several design changes supported the STTM introduction in South Australia and New South Wales.

VICTORIAN DECLARED WHOLESALE GAS MARKET (DWGM)

The Victorian DWGM total injections and exports for the year were 227.9 PJ and 6.3 PJ respectively. Total system demand was 221.5 PJ, including GPG.

In addition, rule changes were approved in August 2011 to improve the application of hedging instruments in the DWGM, allowing better financial risk management for market participants.

Following initial consultation on the existing framework for investment in and managing DWGM transmission capacity, a working group was formed to develop and assess market design options. Recommendations will be presented in early 2012.

Operational transparency of gas exports to New South Wales via Culcairn was improved through collaboration with market participants. AEMO worked with APA Group on several DTS augmentation and maintenance projects, including major facility and pipeline upgrades to increase system security and export/import capacity with New South Wales.

ELECTRICITY MARKET AND OPERATIONS

AEMO progressed several new developments including commissioning the Waddamana–Lindisfarne 220 kV transmission lines: the first major transmission project in Tasmania since Basslink.

The Mansfield and Norwest control room wallboard replacements and refurbishments were completed together with the relocation of the Mansfield Dispatcher Training Simulator facility. During the works, the simulator facilities were used as the control room, confirming their capability as backup facilities.

The Current Transformer Testing Working Group was established under the Retail Market Executive Committee to reduce measurement uncertainty and improve meter accuracy-testing efficiencies and review methods for in-service testing of low voltage current transformers used in metering.

The Victorian advanced metering (smart meters) infrastructure rollout saw AEMO complete comprehensive accreditation reviews of all metering data providers implementing new smart meter technology systems to facilitate delivery of metering data services into the NEM.

In April 2011 the AEMC largely endorsed network support and control ancillary services rule changes proposed by AEMO following a major review in 2009–10. AEMO has commenced preparation for the implementation of the amended rules in April 2012, which will see new service definitions and requirements, new service provider contracts and new arrangements for dispatching services acquired either by TNSPs or AEMO.

Dual Marginal Loss Factor Rule changes proposed by AEMO to permit use of dual loss factors to represent connection points that share load and generation were expedited to overcome urgent market issues.

Transparency of market data was achieved with the implementation of close-to-real-time generation data publication, an improvement identified by the Dispatch and Pricing Reference Group.

Market process automation was accomplished with the automatic application of an administered price cap following prolonged high prices in a region.

Policy initiatives on climate change, including the Clean Energy Future Plan, call for more information about carbon generation in NEM. To provide this, AEMO has established the Carbon Dioxide Equivalent Intensity Index (CDEII), which measures carbon dioxide and equivalent greenhouse gases using NEM settlement process data and emission factors from the NTNDP and National Greenhouse Accounts.

EMERGENCY MANAGEMENT

Effective emergency management remains critical to AEMO's roles in operating the national power system and Victorian gas DTS.

This year AEMO:

- Introduced new emergency management practices based on the Australasian Inter-service Incident Management System (AIIMS) – a platform common to agencies and industry partners.



- Joined forces with over 250 people from 30 organisations across Victoria's energy industry for one of the sector's largest emergency exercises. 'Exercise Alianza' was based on a fictitious cyber-terrorism event targeting SCADA systems infrastructure, and tested strategic and operational responses.
- Ran the annual National Gas Emergency Response Advisory Committee (NGERAC) on behalf of the Commonwealth. AEMO will also now provide secretariat and 'on call' support services to NGERAC on contingency planning.
- Ran the National Electricity Market Emergency Management Forum (NEMEMF) – introduced in 2009 – and oversaw the annual NEM emergency exercise.
- Conducted system restart workshops with stakeholders in all regions to advance their understanding of requirements in the unlikely event of a black system condition.
- Introduced new vulnerability management and network intrusion detection systems which expedite identification and remediation of cyber attacks.

Response to weather extremes

AEMO closely monitored the events in Queensland and Victoria in January and February 2011 to ensure the power system was not compromised as severe floods and Cyclone Yasi inflicted widespread damage. AEMO demonstrated its ability to protect power supplies in managing such adversities.

Fluctuating conditions last summer also saw extreme temperatures in New South Wales, South Australia, and Victoria trigger spikes in electricity consumption and record levels of demand. AEMO monitors all shortfall situations closely and can negotiate with generators or draw upon the Reliability and Emergency Reserve Trader process to procure additional supplies if necessary.

Cyber Storm III exercise

The United States Department of Homeland Security sponsors a series of large-scale cyber security exercises collectively called Cyber Storm. The federal Attorney General's Department coordinates the exercise within Australia and AEMO led the energy sector scenario development and coordination.

Conducted over four days, the scenario tested the notional suspension of the NEM and focused on nationwide cyber security incident response processes.

Effectiveness of existing procedures was explored and while the processes in place worked well, a number of improvements across the sector were identified.

FORECASTING

Gas and electricity forecasts for planning

In 2010–11 AEMO commenced developing its own 10-year planning forecasts for the NEM rather than relying solely on TNSP forecasts. Data gathering is underway and a full suite of forecasts delivered during 2011–12 will enable a better understanding of growth drivers for all states, assisting long-term scenario forecasts for the NTNDP.

This will also provide a consistent basis for all forecasts and a better picture of regional supply and demand outlooks.

New operational Demand Forecasting System (DFS)

AEMO's operational demand forecasting capability will be enhanced by the delivery of an automated DFS in December 2011.

This state-of-the-art system will replace AEMO's manual forecasting process and will improve demand forecasting capabilities by generating short-term forecasts, updated every half-hour, up to eight days ahead.

Forecasts will cover AEMO's five regions as well as sub-regions that impact on constraints, and will deliver greater accuracy and more timely regional forecasts during extreme demand conditions. Using a range of data inputs including actual demand and historical load patterns combined with weather and other climate information from a range of meteorological services, the new system will provide improved interconnection constraints forecasting which in turn will improve the accuracy of spot pricing and reserve forecasting.

Seamless integration with AEMO's wind generation forecasting systems means load forecasts will reflect the impact of wind generation.

4. COMMERCIAL MANAGEMENT

CORPORATE INTENT, BUDGET, FEES

During the year, AEMO finalised its 2011–12 Statement of Corporate Intent, budget and fees. Together, these outline our value proposition and highlight our commitment to deliver value through specific initiatives in each functional area.

The 2011–12 budget provides a consolidated overview of our operating expenditure for the next 12 months and outlines the fees associated with each market function and service.

Stakeholders were invited to comment on the draft document and this feedback was considered when finalising the papers, which were approved by the AEMO Board in May 2011.

The NEM Determination was completed and issued in March 2011, and took effect on 1 July 2011. AEMO sought stakeholder feedback to a draft Determination paper and an issues paper. The NEM Determination applies to electricity fees for the five-year period ending June 2016.

BUSINESS INTEGRATION

This year saw the final steps in the Business Integration Program (BIP), commenced in July 2010, to streamline the systems, activities and processes of six separate market entities to create 'one AEMO' and deliver improved services to stakeholders.

The AEMO domain migration and document management projects delivered a single AEMO environment, migrating users, workstations, servers, and document repositories from legacy domains.

Business IT Virtualised Infrastructure (Norwest and Mansfield) was implemented and achieved a reduction from 54 to eight physical servers.

MANAGING RISK AND COMPLIANCE

Following the implementation of AEMO's risk management framework, a centralised repository to capture risk and compliance issues is now in place, bringing an integrated approach to identifying risks and audit issues and compliance breaches.

The rotation of auditors undertaking these reviews, and their increased levels of engagement with participants, brings fresh perspectives and knowledge diversification which has yielded positive results and improved participant relevance.

Negotiations have also commenced on strategic, long-term arrangements for AEMO's main insurance covers (previously renewed annually) that will bring process and cost efficiencies.

IT SOLUTIONS

Addressing expectations of greater efficiencies and savings, several IT system solutions, improvements, and builds have seen AEMO improve performance, functionality and security, and reduce costs and complexity.

MarketNet is a new service providing a single point of entry into AEMO's gas and electricity data systems. It has drawn praise from industry participants, saving them time and money and improving performance availability. MarketNet was developed with industry consultation and serves dual fuel participants particularly well.

The STTM was augmented with two special builds: a fully functional test environment and incorporating electricity market tools into gas market systems.

The Market Clearing Engine for the Victorian DWGM was migrated to a new server architecture, reducing solution time by 25 percent.

A self-service function has been added to the electricity retail system, giving participants version control of transaction files sent to and from third parties and the AEMO retail system.

A challenging upgrade of AEMO's Energy Management System (EMS) was completed to better manage the power network and deliver crucial services to the NEM. Benefits include maintaining vendor support; improved system performance, functionality, flexibility, and security; and reduced costs and support effort.

A paradigm shift from current power system security issue alerts to pre-issue alerts, giving operators more time to respond, occurred when AEMO introduced an application to create a power system model an hour into the future and perform a system analysis on that model.

Voltage stability problems contribute to the majority of major blackouts globally, so the Voltage Stability Assessment Tool (VSAT), which went live this year, is crucial. VSAT assesses voltage stability security in real time and alerts operators to security issues. It also enables voltage stability assessments for past and future conditions.

The Energy Information Model (EIM), a joint initiative between AEMO and the energy industry, presents a framework for targeted long-term systems investment. This collaboration has resulted in a resource that all stakeholders can use to assist with the discovery of information needs and opportunities.

5. PRODUCTIVITY

SETTING THE SCENE

AEMO's future productivity will be well-served by the completion of our inaugural EA. This critical item brings certainty and cohesion to AEMO, applying consistency and equity across employment conditions for all employees and establishing a firm platform for future planning and output.

A satisfactory outcome involved balancing conditions that will maximise employee productivity within a budget that enabled AEMO to uphold existing financial commitments to stakeholders.

The consolidation of multiple previous employment agreements into a single EA streamlines processes, saving time and costs.

The EA establishment was one of the major activities required to finalise 'one AEMO', and this has now been achieved.

ORGANISATIONAL STRUCTURE

During the year, changes to the organisational structure were implemented as required, allowing AEMO to deliver more value to stakeholders.

AEMO's evolving structure reflects the changing industry, and strongly aligns AEMO's outputs with our strategy. Gas and electricity, metering and settlements – combined into a single division in 2010 – underwent a comprehensive

functional review that prompted recommendations for their further integration. Opportunities to rationalise and integrate the gas and electricity settlement functions and systems continue to be actively pursued where potential productivity improvements are identified.

Further organisational changes currently underway include the appointment of a chief information officer and chief operations officer. These roles will see a continued focus on the pivotal markets and critical functions that will secure Australia's energy requirements.

SETTLEMENTS

In March 2011, AEMO implemented a web-based system, Settlements Direct, to provide participants with improved access to settlement invoices, statements, data reports, and prudential correspondence.

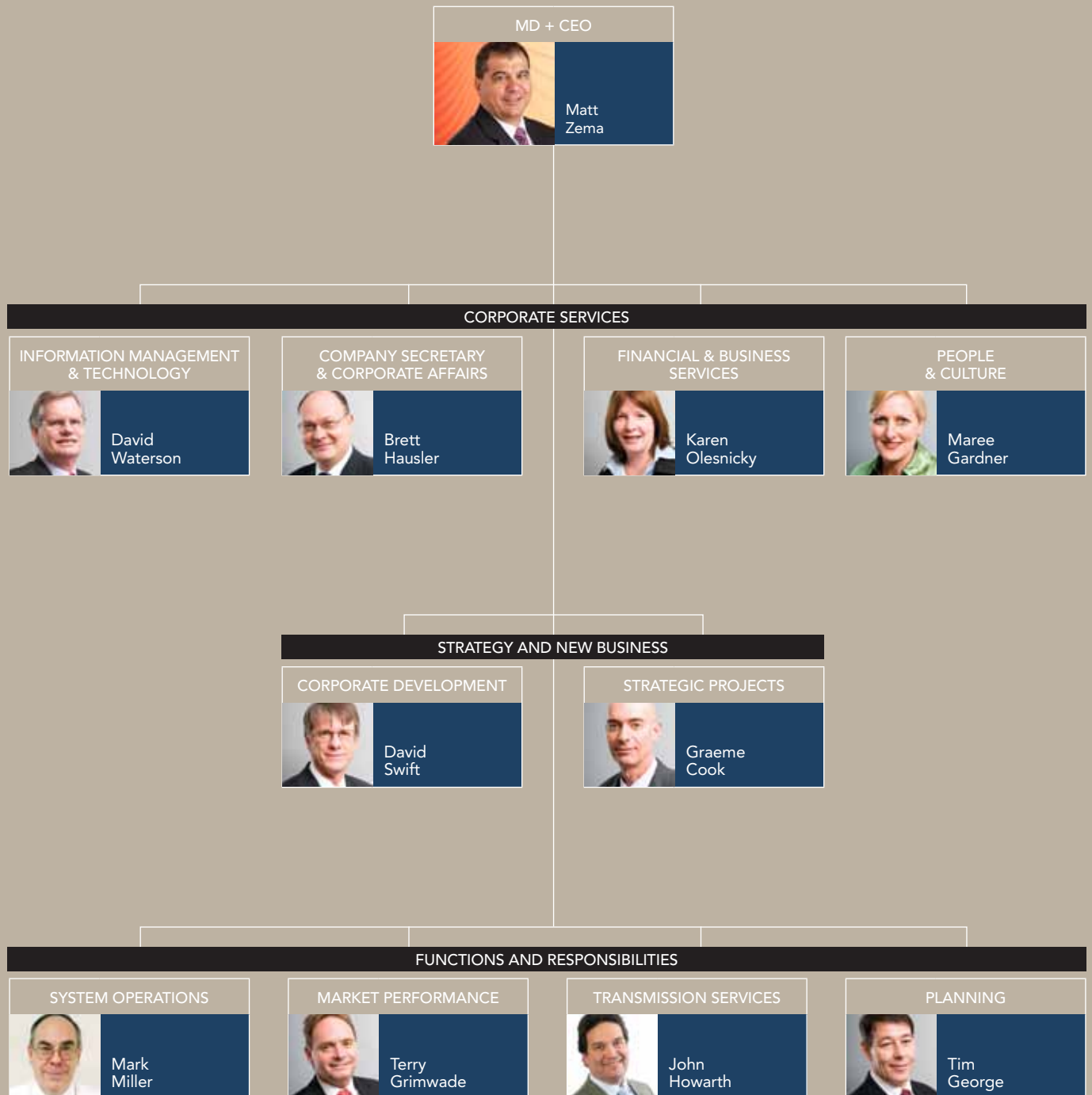
Settlements Direct provides online retrieval of information, as well as automatic, secure delivery via email and SMS notifications. It integrates gas and electricity settlement activities, providing a consistent delivery mechanism across the NEM, DWGM, and Queensland retail markets.



AEMO ORGANISATION STRUCTURE

AEMO’s organisational structure is comprised of 10 departments, each led by an Executive General Manager, who – together with Managing Director and Chief Executive Officer, Matt Zema – form the Executive Leadership Team.

The organisational framework aligns similar or corresponding business areas and houses them within one of three functional streams: Corporate Services; Strategy and New Business; and Functions and Responsibilities.



AEMO MEMBERS

AEMO's membership structure is comprised of both government and industry members on a respective 60 percent and 40 percent basis.

Government members include the Commonwealth, state governments of Queensland, New South Wales, Victoria, South Australia and Tasmania, and the Australian Capital Territory. AEMO's industry members are registered participants in the gas and electricity markets. They are drawn from across the energy sector and represent a diversity of interests.

Members include electricity generating businesses, energy retailers, traders, gas producers and pipeline operators, transmission network service providers and distribution businesses.

AEMO members play a vital role in shaping the future direction of the energy market operator. They provide input to key governance processes and constitutional changes with respect to existing and new AEMO functions.

At 30 June 2011, AEMO's industry members are:

Acciona Energy Oceania Pty Ltd	Essential Energy
AGL Energy Ltd	Hydro-Electric Corporation
APA GasNet Australia (Operations) Pty Ltd	Infigen Energy Markets Pty Ltd
APT Allgas Energy Pty Ltd	Infratil Energy Australia Pty Ltd
APT Petroleum Pipelines Pty Ltd	Jemena Ltd
APT Pipelines (NSW) Pty Ltd	Loy Yang Marketing Management Company Pty Ltd
Attunga Capital Pty Ltd	Macquarie Generation
Aurora Energy (Tamar Valley) Pty Ltd trading as AETV Power	Marubeni Australia Power Services Pty Ltd
Aurora Energy Pty Ltd	Millmerran Energy Trader
Ausgrid	Murraylink Transmission Company Pty Ltd
Australian Power & Gas Pty Ltd	N P Power Pty Ltd
BBI TGP Pty Ltd	OneSteel Manufacturing Pty Ltd
Central Ranges Pipeline Pty Ltd	Origin Energy Electricity Ltd
CitiPower Pty	Pacific Hydro Clements Gap Pty Ltd
Click Energy Pty Ltd	Pacific Hydro Challicum Hills Pty Ltd
Delta Electricity	Pacific Hydro Portland Wind Farm Pty Ltd
Diamond Energy Pty Ltd	Powercor Australia Ltd
Directlink Joint Venture (ABN 16 779 340 889) (Directlink (No. 1) Pty Ltd ABN 85 085 123 468, Directlink (No. 2) Pty Ltd ABN 87 095 439 222, and Directlink (No. 3) Pty Ltd ABN 86 095 449 817 trading as Directlink Joint Venture)	Queensland Electricity Transmission Corporation Ltd
Dodo Power & Gas Pty Ltd	Rocky Point Power Project Pty Ltd
East Australian Pipeline Pty Ltd	Roverton Pty Ltd
EDL Group Operations Pty Ltd	Santos Ltd
ElectraNet Pty Ltd	South East Australia Gas Pty Ltd
Endeavour Energy	SPI Electricity Pty Ltd
Energex Ltd	Transend Networks Pty Ltd
Energy Pacific (Victoria) Pty Ltd	TransGrid
Energy Response Pty Ltd	TRUenergy Gas Storage Pty Ltd
Envestra Ltd	TRUenergy Pty Ltd
Envestra (NSW) Pty Ltd	TRUenergy Yallourn Pty Ltd
Epic Energy Holdings Pty Ltd	Vicpower Trading (State Electricity Commission of Victoria trading as Vicpower Trading)
Eraring Energy	Westpac Banking Corporation
ERM Power Pty Ltd	
ERM Power Retail Pty Ltd	



BOARD OF DIRECTORS

THE AEMO BOARD (FROM LEFT): GREG MARTIN, LES HOSKING, KAREN MOSES, JANE TONGS, MATT ZEMA, TONY MARXSEN, MICHAEL SARGENT, IAN FRASER, TOM PARRY, AND MICHAEL LAVARCH

Dr Thomas (Tom) Parry AM

Chairman

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

Mr Matt Zema

Managing Director and Chief Executive Officer

Mr Zema was the Chief Executive Officer of the Victorian Energy Networks Corporation (VENCorp), which was responsible for operating the declared transmission system for gas in Victoria and for the planning, procurement and augmentation of the Victorian electricity transmission network. Prior to joining VENCorp in 1999, he worked in general management roles with PowerNet Victoria, GPU PowerNet and GPU International. He has a long history in strategic planning, asset management, corporate governance, and financial management, gained over two decades in executive roles in the public and private sectors.

Mr Ian Fraser

Non-executive Director

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

Mr Leslie (Les) Hosking

Non-executive Director

Mr Hosking was the CEO and Managing Director of NEMMCO 2003–2008 and a director of the company between 1997 and 2003. He is currently a non-executive director of AGL Energy Ltd. Having been in the Australian futures industry for over 30 years, Mr Hosking was CEO and Managing Director of the Sydney Futures Exchange Ltd for 15 years, from 1985 to 2000.

Professor the Hon. Michael Lavarch

Non-executive Director

Professor Lavarch is the Chairman of the Financial Services Ombudsman Ltd and was previously a director of NEMMCO and ASX Supervisory Review Pty Ltd. He has significant experience in the private and public sectors and is currently the Executive Dean of the Faculty of Law at the Queensland University of Technology.

Mr Greg Martin

Non-executive Director

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

Ms Karen Moses

Non-executive Director

Ms Moses is currently Executive Director, Finance and Strategy at Origin Energy Ltd. She is a director of the Energy and Water Ombudsman (Victoria) Ltd, Origin Energy Ltd, Australia Pacific LNG Pty Ltd and Contact Energy Ltd (New Zealand). Ms Moses was a director of VENCORP and has nearly 30 years of experience in the energy industry.

Dr Michael Sargent AM

Non-executive Director

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

Dr Anthony (Tony) Marxsen

Non-executive Director

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

Ms Jane Tongs

Non-executive Director

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

CORPORATE GOVERNANCE

The Australian Energy Market Operator

AEMO incorporates management of the NEM and the retail and wholesale gas markets of eastern and southern Australia. We oversee system security of the NEM electricity grid and the Victorian gas DTS and are responsible for national electricity transmission planning.

AEMO is a company limited by guarantee incorporated under the Corporations Act (2001). Ownership of AEMO is divided between government members (comprising 60% of voting rights) and industry members (comprising 40% of voting rights). AEMO operates under the governance of a Board comprised of nine skills-based, non-executive directors and the Managing Director and Chief Executive Officer. AEMO's responsibilities are defined by both Commonwealth and State acts and the AEMO Constitution (Constitution). The day-to-day management of the company is delegated to the Managing Director and Chief Executive Officer with support from Board Committees as appropriate. Following consideration by the members, the non-executive directors are appointed by the MCE. The Managing Director and Chief Executive Officer are appointed by the Board.

AEMO's responsibilities include integrity of market transactions, secure operation of the power system, predictability and transparency of decision-making and full representation of relevant parties in the ongoing process of market development. Extensive involvement by registered participants through advisory committees and consultation processes assist in governance issues being quickly identified and resolved in ways that reflect the long-term interests of Australian energy consumers. AEMO also consults extensively with government policy makers.

Market structure

AEMO operates within a broader market governance structure alongside the AEMC and the AER. The AEMC undertakes reviews that help shape the development of Australia's energy markets and approves changes to the regulatory framework, which set the operating requirements and obligations of registered participants. The AER oversees economic regulation and compliance with the National Electricity Law and Rules and the National Gas Law and Rules. The AEMC is responsible to the Council of Australian Governments (COAG) through the MCE, while the AER is accountable to the Commonwealth Government as a constituent entity of the Australian Competition and Consumer Commission (ACCC).

Strategic direction

Meeting the challenges facing the energy industry requires vision and commitment. AEMO's 2011–12 annual Statement of Corporate Intent reaffirms our commitment to maintaining Australia's secure, reliable, and sustainable energy supply and outlines the key activities that underpin this. Continued market efficiency gains, improved productivity and commercial management, and strong stakeholder and employee engagement will drive our activities during 2011–12.

The key focus for each of our strategic areas is:

- **External stakeholders.** AEMO will continue to proactively engage with our stakeholders. We will strengthen communications by improving stakeholders' access to AEMO and furthering our knowledge of stakeholders. We will engage on our future plans to create greater commonality between gas markets, provide national planning services, and create an information hub for gas and electricity.
- **People.** Empowered employees are central to our success, and AEMO is committed to building a team of enthusiastic, engaged employees. We will ensure that the right people are selected for the right job, work to establish strong leadership at all levels, and optimise performance through our ongoing focus on our people.
- **Markets.** Efficient markets are our key focus for 2011–12. This will be driven by further consolidating gas markets, providing transparent market operations, coordinating emergency response and providing critical information to support investment.
- **Commercial management.** Strong commercial discipline underpins our ability to deliver value to stakeholders. AEMO will continue to apply commercial discipline to position the organisation for the future. In setting annual fee targets, we will engage in transparent and open dialogue with the energy sector. We will also focus on building the AEMO brand and will demonstrate the value that AEMO offers by delivering on transparent, measurable initiatives.
- **Productivity.** To deliver value to our stakeholders, AEMO will establish productivity targets to achieve productivity gains. We will maximise the value of our products and services, and communicate this to the industry.

The 2011–12 Statement of Corporate Intent also presents our Value Proposition, which highlights our commitment to delivering several key initiatives:

- Simplifying Victorian transmission connections.
- Progressing consolidation of gas retail market systems.
- Improving transparency of our market operations with reviews of market events and outcomes.
- Implementing the Queensland STTM.
- Providing a single helpdesk for gas, electricity, business and IT.

Corporate governance principles

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

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

Composition of the Board

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

To assist the Board with carrying out its duties, the Board has established four committees:

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

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

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

The selection process for new directors is overseen by the People and Remuneration Committee with the interview process and recommendations being made by the independent MCE Selection Panel. The recommendations of the MCE Selection Panel are considered by the members, who approve the submission of the recommendations to the MCE for approval.

In relation to retiring directors, the Chairman reviews all directors whose term of appointment is due to expire and then compiles a list of all such directors who are eligible for reappointment and who the Chairman recommends to be reappointed for a further term. The list is then submitted to the members seeking their approval for the list to be submitted to the MCE for approval. Non-executive directors are limited under the Constitution to one further term after their initial term.

Review of the Board, Managing Director and Executive Leadership Team

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

People and Remuneration Committee, assesses the performance of the Managing Director and Chief Executive Officer and the Executive Leadership Team.

The Board also undertakes annually an assessment of its own performance. During the 2010–11 period a detailed review was undertaken that considered the performance of the Board and Board Committee including: strategy and planning; Board structure and role; meeting processes; performance monitoring; Board and Directors' responsibilities; and Board culture and relationships.

Director independence

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

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

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

Responsibilities

The Board has specific responsibility for the following:

- Oversight of the company's activities to achieve the objectives set out in the Constitution.
- Setting the company's goals and strategy.
- Determining the financial, operational, human, technological and administrative resources required by AEMO to meet our objectives and goals.
- Establishing and maintaining adequate and effective reporting lines and procedures, which enable all material matters and information to be identified and reported to the Board.
- Approving company budgets and monitoring compliance with financial reporting obligations.
- Appointing the Managing Director.
- Reviewing and assessing the performance of AEMO's management.
- Establishing and approving the charters of the Board Committees.
- Establishing effective controls and procedures to enable risks to AEMO to be identified, assessed and managed.
- Monitoring compliance with legislative and regulatory requirements including occupational health and safety, equal opportunity, environmental, corporate governance and reporting obligations.
- Reporting to stakeholders of the company.

These responsibilities are set out in the Board Charter.

CORPORATE GOVERNANCE

Directors' access to information and advice

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

Conflicts of interest

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

Directors are required to immediately declare any interest or duty that might be construed as a conflict of interest so as to avoid any actual, potential, or perceived conflict of interest. AEMO considers a director to be independent if the director is independent of management and is free

of any business relationship that might materially interfere with (or be perceived to interfere with) the exercise of an unfettered and independent judgement on matters relating to AEMO. Conflicts of Interest are managed in accordance with the Directors' Interests Protocol.

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

Board Committees

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

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

The table below provides a summary of the current membership of the Board Committees.

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

All directors are entitled to attend Board Committee meetings. The Managing Director attends all Board Committee meetings.

The Board Charter describes the procedures for the operation of each of the Board Committees. The purpose of each Board Committee and some of their respective areas of focus during the 2010–11 year are described below.

Board Committee	Focus Areas
<p>Risk and Audit Committee</p> <p>This Committee met five times during the year. It considered matters including the internal audit plan and reports, market audit reports, financial statements, budget forecasts, treasury management, risk management, legislative compliance, corporate governance and insurance arrangements.</p>	<ul style="list-style-type: none"> • Reviewing the Annual Financial Report and reviewing the appropriateness of AEMO's material accounting policies and procedures. • Internal audit, including approving the audit plan for the internal auditor, considering the findings of the internal auditor and the effectiveness of the internal audit function. • Market audits, including considering the findings of the market auditors for gas and electricity and the effectiveness of the market audit function. • Risk management, including reviewing the system of identifying, assessing, monitoring and managing material risk throughout the company, reviewing the Risk Register and assessing the company's insurance requirements. • Compliance, including monitoring the development and ongoing review of appropriate legislative and regulatory compliance programmes where applicable. • Corporate governance, including ensuring that an appropriate set of corporate governance policies and principles applicable to the Company are developed and reviewed on a regular basis. • Reviewing the post implementation reviews of Board approved projects.
<p>People and Remuneration Committee</p> <p>This Committee met three times during the year. It considered matters including organisational development and training initiatives, performance reviews, occupational health and safety, and industrial relations.</p>	<ul style="list-style-type: none"> • Reviewing strategies for resourcing, the recruitment and retention of people, including their health, safety and wellbeing. • Reviewing remuneration strategies, including performance payments and other monetary and non-monetary benefits. • Reviewing and endorsing: <ul style="list-style-type: none"> – employment terms and conditions, – annual remuneration reviews and performance payment reviews for Board approval. • Monitoring performance targets. • Monitoring AEMO's compliance with workplace, health, safety and environmental obligations. • Evaluating the performance of AEMO's people, including that of the Managing Director and the Executive Leadership Team. • Reviewing succession planning. • Considering the approach for Board evaluations. • Monitoring the selection process for new directors.
<p>Technical Committee</p> <p>This Committee met six times during the year. It considered matters including AEMO's major planning publications, incident reports, operational readiness reports, and the Information Technology Strategic Plan.</p>	<ul style="list-style-type: none"> • Reviewing the strategic direction and high level structure and content of AEMO planning publications. • Reviewing the findings of the Victorian Gas Safety Case audits. • Reviewing operating incidents and events including operating incident statistics.

CORPORATE GOVERNANCE

Board Committee

Focus Areas

Policy and Regulatory Committee

This Committee met four times during the year. It considered matters such as procedures for determining market price caps, prudential readiness, climate change policies, transmission planning and development, and network support and control services.

- Consider changes in the policy and regulatory environment in which AEMO operates and identify the regulatory, policy and industry developments that may impact on AEMO and the energy markets for which it has responsibility.
- Review analysis undertaken by AEMO to identify the likely impacts of these developments on AEMO and energy markets, and identify those of importance to AEMO for which the Committee will monitor and manage with AEMO Board approval.
- Review key AEMO policy and regulatory papers summarising AEMO's position on policy, legal, regulatory and market developments, and the strategies and action plans required in response to these issues.
- Monitor major reviews of energy markets to improve AEMO's efficiency as market operator.
- Monitor international trends and reviews of energy market policy and regulation.

Risk management

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

AEMO faces a wide variety of risks due to the nature of its operations, including asset, market, IT security, regulatory, compliance, financial, prudential, reputational, and operational risks.

At AEMO, risk management includes the culture, processes and structures that are directed to taking advantage of potential opportunities and managing potential threats or adverse consequences.

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

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

During the financial year 2010–11 AEMO maintained a strong focus on proactively identifying and managing all classes of risk. Improvements were made to the processes and systems that support risk management, including risk identification and assessment and occupational health and safety practices. AEMO has implemented new processes to facilitate the reporting of risks at the Board, Risk and Audit Committee and the Executive Leadership Team levels.

AEMO also has a number of policies that directly or indirectly serve to reduce, manage, or mitigate risk. These policies encompass, but are not limited to, responsibilities relating to:

- Fraud and corruption.
- Occupational health and safety.
- IT security.
- Site security.
- Legislative compliance.
- Financial compliance.
- Financial information management.
- Risk Management Policy.
- Privacy Policy.
- Trade Practices Policy.
- Workplace Health Safety and Environment Policy.
- Whistleblower Policy.

Ethical standards and Code of Conduct

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

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

The Code of Conduct provides guidance on the following:

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

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

Continuous disclosure and financial reporting

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

The internal auditor assisted the Board and executive management to meet their regulatory obligations. The internal auditor reported to the Risk and Audit Committee on matters including the implementation of policy, the adequacy and appropriateness of processes, its review of AEMO's document management arrangements and recommendations, and the effectiveness of accounting and financial controls.

Make timely and balanced disclosure

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

Respect the rights of members and stakeholders

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

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

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

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

Remunerate fairly and responsibly

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

The Board's People and Remuneration Committee consists of four non-executive directors. The current Chairman of the Committee is Professor the Hon. Michael Lavarch.

The People and Remuneration Committee monitors matters concerning the remuneration, development, health and safety, and rights of the company's employees. It also reviews the performance of the company, the Managing Director and Chief Executive Officer and the members of the Executive Leadership Team.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

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DIRECTORS' REPORT

Your directors present their report on the Australian Energy Market Operator Limited (AEMO) for the year ended 30 June 2011.

DIRECTORS

The following persons were directors of AEMO during the whole financial year and up to the date of this report, with the exception of P.M. McKenzie and K.D. Spargo who resigned effective 30 June 2011:

Dr. T.G. Parry AM
I.L. Fraser
L.V. Hosking
M.H. Lavarch
G.J.W. Martin
P.M. McKenzie
K.A. Moses
Dr. M.A. Sargent AM
K.D. Spargo
M. Zema

The following persons were appointed directors of AEMO, effective 1 July 2011, and are continuing as directors at the date of this report:

Dr. A. L. Marxsen
J. A. Tongs

MISSION AND VISION

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

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

AEMO's focus in 2011–12 is on five key strategic drivers, each with a set of clear business objectives, which determine our operational direction and strategic roadmap over the next year. These five key strategic drivers are:

- **External stakeholders:**

AEMO will proactively engage with stakeholders, including providing access to key information and services, and undertakes to improve our knowledge of stakeholder needs.

- **People:**

AEMO recognise that engaged and empowered employees contribute to optimal performance for our company. AEMO will appoint the right people for the right job and ensure leadership through accountability at all levels.

- **Markets:**

AEMO will develop efficient markets through transparent operations, consolidation of gas markets, coordinated emergency response efforts and information to support investment.

- **Commercial management:**

AEMO will build trust in our company's brand by applying commercial discipline and setting annual fee targets.

- **Productivity**

AEMO commits to delivering value by establishing productivity targets, communicating the value of our products and services and maximising value for our stakeholders.

PRINCIPAL ACTIVITIES

AEMO continued to manage wholesale and retail gas and electricity markets across eastern and south-eastern Australia. AEMO oversaw the power system operations and security of Australia's National Electricity Market (NEM). It also continued to operate the Victorian gas Declared Transmission System (DTS). In September 2010 the Short-term Trading Market (STTM) for natural gas was introduced in Adelaide and Sydney. Readiness work commenced to introduce a Brisbane hub for the STTM in late 2011.

AEMO is the Transmission Network Service Provider (TNSP) for Victoria and continued to review and approve the connection of new and upgraded generation to the state's shared electricity transmission network. AEMO commenced a new program of initiatives in March 2011 to improve and streamline the transmission connections process in Victoria. This program is also designed to allow Generators to choose the provision of transmission services and greater economic efficiency of transmission augmentations.

In its role as the National Transmission Planner (NTP), AEMO delivered planning advice to guide long-term investment in Australia's energy network infrastructure and resource management. This is provided through the National Transmission Network Development Plan (NTNDP), which is the first publication of its kind in Australia that provides a 20-year projection of development requirements for the NEM interconnected electricity grid. AEMO produced key energy outlook reports in 2010 for both electricity and gas. These publications included the Electricity Statement of Opportunities (ESOO) and Gas Statement of Opportunities (GSOO), and two state-based planning reports: the South Australian Supply and Demand Outlook (SASDO) and the Victorian Annual Planning Reports (VAPR). AEMO also introduced a new report being the Power System Adequacy (PSA) – Two Year Outlook. This report focuses on the electricity supply/demand outlook for the next two years.

DIRECTORS' REPORT (continued)

Through its market development function, AEMO continued to work with industry and government to further identify opportunities for developing and improving Australia's gas and electricity markets. This was enhanced by the creation of three Strategic Leadership Forums focused respectively on electricity markets, gas markets and network planning. The executive-level forums will meet three times a year to discuss issues of interest to industry and AEMO, and to highlight priorities and future challenges for Australia's energy markets.

In summary, AEMO's principal activities over the 2010–11 year comprised the following:

- Market operation of the NEM and Victorian Declared Wholesale Gas Market (DWGM).
- System operation and security of the NEM interconnected grid and the Victorian gas DTS.
- Emergency management responsibilities for electricity and gas and the National Gas Emergency Response Advisory Committee.
- Victorian electricity TNSP responsibilities (transmission network connections and procurement services).
- Facilitation of Full Retail Contestability (FRC) for electricity and gas in eastern and south-eastern Australia.
- Operation of the STTM for gas at the Adelaide and Sydney hubs.
- Management of the national gas market Bulletin Board.
- National transmission planning, including the production of key energy planning reports.
- Additional major projects including the development of a Brisbane STTM hub, a review of energy market settlement and prudential arrangements, the development of a new automated Demand Forecasting System and the commencement of a project to improve transmission network connections in Victoria.

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

REVIEW OF OPERATIONS

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

Registered participants are eligible to become members of AEMO.

AEMO has statutory powers to recover all costs as well as under and over recoveries in any of the specific functions in the next financial year or subsequent financial years. It does this by including surpluses or deficits in future budgets and applying these to future recoveries for specific AEMO functions. The operating result of \$22,780k deficit is primarily related to the under recovery of expenses in the Victorian TNSP and will be recovered in 2011–12 and 2012–13. The net asset deficiency of \$670k recorded at the end of this reporting period is also supported by AEMO's statutory powers and contracts to recover all of its costs and does not impact AEMO's operations as a going concern. All amounts related to participant compensation funds have been transferred to a separate reserve.

The STTM, as a wholesale gas market driven by daily pricing, commenced operation on 1 September 2010 at hubs in Adelaide and Sydney. Following approval by the former Ministerial Council on Energy (now the Standing Council on Energy and Resources) to extend the market into Queensland, an establishment project commenced in 2010 to develop and implement a Brisbane-based hub. The total cost of the STTM Queensland project is \$8,363k of which \$4,111k was expended during the reporting period. Expenditure incurred for the development of the STTM in Brisbane will be recovered over periods in line with STTM recoveries as agreed with stakeholders.

The Australian Wind Energy Forecasting System (AWEFS) was fully implemented in June 2010, funded by a \$9,000k Commonwealth grant from the Department of Resources, Energy and Tourism. The unspent portion of the grant, along with accumulated interest from investment of the total funds over the duration of the project was returned to the Department in September 2010.

During the reporting period, AEMO continued to provide secretariat services to support the National Stakeholder Steering Committee in the design and implementation of the National Smart Metering framework.

During the year, AEMO published the fees associated with each of its market functions and services for 2011–12. These fees include cost recovery for the operation of the NEM and Victorian DWGM, electricity and gas FRC, Victorian TNSP responsibilities, and operation of the STTM in Sydney and Adelaide (in addition to Brisbane hub costs from 1 December 2011).

PERFORMANCE MEASUREMENT

AEMO evaluates its performance through a set of detailed key performance measures. The measures are reported monthly to the Board and executive to monitor AEMO's delivery against the measures.

DIRECTORS' REPORT (continued)

DIRECTORS' QUALIFICATIONS AND EXPERIENCE

The Directors' Board Appointments are as at 30 June 2011.

Name, Qualifications and Responsibilities	Age	Current Board Appointments
Dr. Thomas G. Parry <i>BEC (Hons), MEd, PhD</i> Chairman	62	Chairman, Sydney Water Corporation; Director, ASX Compliance Pty Ltd; Chairman, First State Super Trustee Corporation; Director, Sydney Opera House Trust; Director, Powerco NZ; Director, Dalacon Pty Ltd; Chairman, Australian Energy Market Operator (Transitional) Ltd.
Mr Ian L. Fraser <i>FCPA, FAICD</i> Non-executive Director	66	Director, PMP Ltd; Director, Legend Corporation Ltd; Director, Structural Systems Ltd; Director, Forest Place Group Ltd.
Mr Leslie V. Hosking Non-executive Director	66	Director, Adelaide Brighton Ltd; Director, AGL Energy Ltd; Chairman, Carbon Market Institute Ltd; Member, Innovation Australia Board.
Professor the Honourable Michael H. Lavarch <i>LLB</i> Non-executive Director	50	Chairman, Financial Ombudsman Service Ltd; Director, Lavarch Consulting Pty Ltd; Director, Cambia.
Mr Gregory J.W. Martin <i>BEC, LLB, FAIM, MAICD</i> Non-executive Director	51	Director, Energy Developments Ltd; Director, Santos Ltd; Committee Member, Council on Australia-Latin America Relations; Managing Director, Murchison Metals Ltd; Chairman, NSW Royal Botanic Gardens & Domain Trust; Chairman, Grant Samuel Infrastructure Partners Pty Ltd.
Ms Patricia M. McKenzie <i>LLB</i> Non-executive Director (to 30 June 2011)	55	Director, APA Group; Chairman, Diabetes Australia.
Ms Karen A. Moses <i>BEC, DipEd</i> Non-executive Director	53	Director, Origin Energy Ltd; Director, Origin Energy Ltd Group; Director, Contact Energy Ltd; Director, Australia Pacific LNG Pty Ltd; Director, Australia Pacific LNG Pty Ltd Group.
Dr. Michael A. Sargent <i>BE (Hons), PhD</i> Non-executive Director	68	Director, M.A. Sargent & Associates Pty Ltd; Director, Epicorp Ltd; Director, Epicorp Seed Fund Pty Ltd; Director, eCommerce Standards Pty Ltd; Director, Heart Foundation ACT; Chairman, Lighthouse Business Innovation Centre Ltd; Director, Australian Solar Institute Ltd.
Ms Kathryn D. Spargo <i>LLB (Hons), BA, FAICD</i> Non-executive Director (to 30 June 2011)	59	Director, Pacific Hydro Pty Ltd; Director, Transfield Services Infrastructure Fund; Director, Investec Bank (Aust); Director, Suncorp Portfolio Services Ltd; Director, Colinvest Ltd; Director, Accounting Professional and Ethical Standards Board; Director, Franklyn Scholar Pty Ltd; Director, Australian Unity Ltd; Director, Snowy Mountains Engineering Corporation; Director, Sonic Healthcare Ltd; Director, UGL Limited; Director, Australian Energy Market Operator (Transitional) Ltd.
Mr Matt Zema <i>BE, FIEAust</i> Managing Director and Chief Executive Officer	51	Director, Zema Estate Pty Ltd and Associated Trusts; Director, ANC-Cigre; Director, Australian Energy Market Operator (Transitional) Ltd.
Dr. Anthony Marxsen <i>PhD, BEng</i> Non-executive Director (from 1 July 2011)	65	Director, Sustainability Victoria; Director, Marxsen Consulting Pty Ltd; Director, Jancomax Pty Ltd.
Ms Jane Tongs <i>EMBA, B.Bus (Acc), FICAA, FCPA, MAICD</i> Non-executive Director (from 1 July 2011)	51	Director, Catholic Care; Director, Catholic Church Insurances Ltd (and related companies); Director, LCM Calvary Health Care Holdings Ltd (and related companies); Director, Leadership Victoria Ltd; Director, Netwealth Holdings Ltd (and related companies); Director, RUN Corp Ltd (and related companies); Director, Warakirri Holdings Pty Ltd (and related companies).

DIRECTORS' REPORT (continued)

Information pertaining to directors' benefits is detailed in the following notes to the financial statements:

- a) Note 19 – Key Management Personnel Disclosures.

COMPANY SECRETARY

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

MEETINGS OF DIRECTORS

The number of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2011, and the number of meetings attended by each director were:

	Full meetings of directors		People and Remuneration		Risk and Audit		Technical		Policy and Regulatory	
	A	B	A	B	A	B	A	B	A	B
I.L. Fraser	10	10			5	6	3	3		
L.V. Hosking	9	9	3	3	6	6				
M.H. Lavarch	10	10	3	3					4	5
G.J.W. Martin	9	10			6	6			4	5
P.M. McKenzie	10	10	2	3			3	3		
K.A. Moses	7	9					1	3	5	5
Dr. T.G. Parry	9	10	3	3					5	5
Dr. M.A. Sargent	8	10			5	6	2	3		
K.D. Spargo	9	10			6	6			3	5
M. Zema	10	10								

A = Number of meetings attended.

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

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

ROUNDING

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

AUDITOR'S INDEPENDENCE DECLARATION

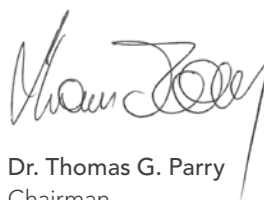
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 29.

AUDITOR

On 2 June 2011, the members of AEMO approved the removal of PKF as external auditor of AEMO and BDO was appointed external auditor of AEMO and continues in office in accordance with section 327 of the *Corporations Act 2001*.

RESOLUTION

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



Dr. Thomas G. Parry
Chairman

Melbourne
1 September 2011

AUDITOR'S INDEPENDENCE DECLARATION



Tel: +61 3 8320 2222
Fax: +61 3 8320 2200
www.bdo.com.au

The Rialto, 525 Collins St
Melbourne VIC 3000
GPO Box 4736 Melbourne VIC 3001
Australia

The Board of Directors
Australian Energy Market Operator Limited
Level 22, 530 Collins Street
MELBOURNE VIC 3000

DECLARATION OF INDEPENDENCE BY MICHAEL CLIMPSON TO THE DIRECTORS OF AUSTRALIAN ENERGY MARKET OPERATOR LIMITED

As lead auditor of Australian Energy Market Operator Limited for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Australian Electricity Market Operator Limited during the period.

Michael Climpson
Director

BDO Audit (NSW-VIC) Pty Ltd

Melbourne, 1 September 2011

BDO Audit (NSW-VIC) Pty Ltd ABN 17 114 671 510

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STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 \$'000	2010 \$'000
Revenue			
Transmission income	5	430,858	416,725
Settlement residue	5	39,009	54,141
Electricity Market income	5	92,612	85,618
Gas Market income	5	28,868	23,497
Other Revenue	5	14,180	16,226
		605,527	596,207
Gain on Acquisition		–	25,657
	5	605,527	621,864
Expenses			
Network charges		(491,641)	(469,839)
Employee benefits	6	(67,606)	(65,913)
Depreciation	9	(5,425)	(5,346)
Amortisation	10	(9,949)	(7,387)
Consulting, contracting and outsourcing		(18,787)	(22,688)
Information technology and maintenance		(12,443)	(11,992)
Insurance		(3,578)	(3,467)
Finance costs	6	(4,671)	(4,765)
Travel and accommodation		(1,915)	(2,052)
Participant Compensation Fund expenses		(271)	(647)
Actuarial gain/(loss) – defined benefit superannuation plan	17	68	(2,338)
Other expenses		(12,089)	(10,225)
		(628,307)	(606,659)
(Deficit)/Surplus before income tax		(22,780)	15,205
Income tax expense		–	–
(Deficit)/Surplus for the year		(22,780)	15,205
Other comprehensive income			
		–	–
Total comprehensive (deficit)/surplus for the year		(22,780)	15,205

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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

	Notes	2011 \$'000	2010 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	7	32,467	28,355
Trade and other receivables	8	62,380	87,009
Total current assets		94,847	115,364
Non-current assets			
Trade and other receivables	8	1,324	2,648
Property, plant and equipment	9	36,322	36,809
Intangible assets	10	38,861	37,086
Total non-current assets		76,507	76,543
Total assets		171,354	191,907
LIABILITIES			
Current liabilities			
Trade and other payables	11	66,929	66,035
Borrowings	12	27,192	28,278
Provisions	13	15,798	13,251
Other current liabilities	14	3,063	1,652
Government grant	15	–	2,045
Derivative financial instruments	16	336	847
Defined benefit superannuation	17	7,611	7,732
Total current liabilities		120,929	119,840
Non-current liabilities			
Trade and other payables	11	3,068	114
Borrowings	12	46,577	48,249
Provisions	13	1,450	1,594
Total non-current liabilities		51,095	49,957
Total liabilities		172,024	169,797
Net (deficiency)/assets		(670)	22,110
EQUITY			
Capital contribution of members		7,093	7,093
Participant compensation fund reserve	18	8,979	6,872
AWEFS reserve	18	2,632	3,656
Land reserve	18	1,133	906
Accumulated (deficit)/surplus	24	(20,507)	3,583
Total equity		(670)	22,110

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2011

	Capital Contribution of Members	PCF Reserve	Working Capital Reserve	AWEFS Reserve	Land Reserve	Accumulated Surplus/ (Deficit)
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2009	7,093	2,616	5,000	2,920	680	(11,404)
Surplus for the year						15,205
Transfer to/(from) reserves						
— PCF Reserve		4,256				(4,256)
— AWEFS Reserve				736		(736)
— Working Capital Reserve			(5,000)			5,000
— Land Reserve					226	(226)
Year ended 30 June 2010	7,093	6,872	–	3,656	906	3,583
At 1 July 2010	7,093	6,872	–	3,656	906	3,583
Deficit for the year						(22,780)
Transfer to/(from) reserves						
— PCF Reserve		2,107				(2,107)
— AWEFS Reserve				(1,024)		1,024
— Working Capital Reserve						–
— Land Reserve					227	(227)
As at 30 June 2011	7,093	8,979	–	2,632	1,133	(20,507)

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 \$'000	2010 \$'000
Cash Flows From Operating Activities			
Receipts from customers		692,639	585,646
Payments to suppliers and employees		(663,967)	(584,590)
Payments from the PCF		(271)	(647)
		28,401	409
Interest Received		1,879	1,799
Interest and other finance costs paid		(4,463)	(3,388)
Net Cash Inflow/(Outflow) from Operating Activities	26	25,817	(1,180)
Cash Flows From Investing Activities			
Net negative settlement residue funding provided		–	(22,431)
Net repayment of participant security deposits		(2,283)	(113,798)
Net cash received on business combination		–	25,114
Payments for property, plant and equipment		(16,664)	(25,476)
Proceeds from sale of property, plant and equipment		–	344
Net Cash Outflow from Investing Activities		(18,947)	(136,247)
Cash Flows From Financing Activities			
Proceeds from borrowings		29,913	40,300
Repayment of borrowings		(32,671)	(7,541)
Net Cash (Outflow)/Inflow from Financing Activities		(2,758)	32,759
Net Increase/(Decrease) in Cash and Cash Equivalents		4,112	(104,668)
Cash and Cash Equivalents at the beginning of the financial year		28,355	133,023
Cash and Cash Equivalents at End of the Financial Year	7	32,467	28,355

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

1 INTRODUCTION

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

AEMO
Level 22, 530 Collins Street
Melbourne, Victoria, 3000

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Basis of preparation

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

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

Historical cost convention

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

Going Concern

At reporting date, AEMO has net working capital deficiency of \$26,082k and a net asset deficiency of \$670k. AEMO operates on a break even funding basis which does not enable the accumulation of significant working capital. Rules under the National Electricity Law (NEL) and National Gas Law (NGL) ensure AEMO's ability to recover expenditure

through the participant fee mechanisms. AEMO's current liabilities in the Statement of Financial Position reflect loans and obligations to be repaid within the next 12 months with funds yet to be received from participants. It also reflects AEMO's assessment of its obligations and confirms its intentions to make repayments. To guarantee ongoing liquidity AEMO has a significant debt facility which ensures project funding and support for variations in the timing of cash flows. This facility is only partially utilised with \$51,029k available to be drawn which ensures AEMO's operation as a going concern.

Critical accounting estimates

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

b) Currency

Functional and presentation currency

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

Foreign currency translation

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Revenue

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

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

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

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

The National Electricity Rules, National Gas Rules and Queensland Gas Retail Market Rules each require AEMO to establish and maintain a Participant Compensation Fund. In the case of the NEM, and the Victorian DWGM Market for the purpose of paying compensation for scheduling errors, and in the case of the Queensland Gas Retail Market for the purpose of paying complainant retailers as determined by the Dispute Resolution Panel. Accordingly, contributions to the funds and interest earned on fund investments are recognised as revenue and transferred to the Participant Compensation Fund Reserve.

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

d) Income tax

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

e) Leases

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

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

f) Acquisition of assets

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

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

g) Impairment of assets

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Impairment of assets (continued)

Where the future economic benefits of the asset are not primarily dependant on the asset's ability to generate net cash inflows and the asset would be replaced, value in use is determined as the depreciated replacement cost of the asset. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non financial assets that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

h) Cash and cash equivalents

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

i) Fair value estimation

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

j) Property, plant and equipment

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

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

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

k) Financial assets and Derivative financial instruments

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Intangible assets

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

i NEM establishment costs

NEM Establishment Costs Recoverable represents the operational establishment expenditure incurred as at 13 December 1998. These costs were recovered from registered participants over a 10 year period commencing 13 December 1998 and ending 31 December 2008. The straight line method of amortisation was used with the asset now fully amortised.

ii Electricity FRC costs

FRC Costs represent operations, depreciation, interest and development costs incurred during the period January 2002 to June 2003 to develop and implement the electricity FRC market. These costs are being recovered from FRC market participants over a 10 year period commencing 1 July 2003 and ending 30 June 2013. The straight line method of amortisation is used with two years of amortisation remaining.

iii Software

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

Assets that have been transferred are amortised over remaining useful life.

- NEM and FRC Market Management Systems Software: 5 years
- NEM Energy Management Systems Software: 5 years
- Gas IT System Software: 5 years
- Short-term Trading Market System Software: 7 years
- IT Systems Software: 3 years
- Business Applications Software: 5 years

m) AEMO Transition Fees Receivable

AEMO transition fees receivable represent costs incurred during the period September 2008 to June 2009 by AEMO(T) and the receivable was acquired as part of the business combination on 1 July 2009. These costs are to be recovered from market participants over a three year period commencing 1 July 2010 and ending 30 June 2013.

n) Trade and other payables

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

o) Borrowings

Borrowing costs are recognised as expenses in the period in which they are incurred, except where they are included in the costs of qualifying assets (assets under construction). The capitalisation rate used to determine the amount to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year: in this case 5.37% (2010: 4.19%).

p) Provisions

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

q) Employee Benefits

i Wages and salaries, annual leave and sick leave

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

ii Long service leave

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Superannuation

i Defined contribution plans

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

ii Defined benefit plans

Through the business combination that occurred on 1 July 2009 AEMO acquired responsibility for the defined benefit superannuation plan from VENCORP. No new members are permitted to join the plan, however it is continuing for the benefit of existing members. The defined benefit plan comprises 26 employees and 5 pension members.

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

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

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of the Commonwealth Government body that terms to maturity approximating to the terms of the related obligation. Actuarial gains and losses are recognised immediately in profit and loss in the years in which they occur. Note 17 provides further details on the company's defined benefit plan.

s) Goods and Services Tax (GST)

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

t) Negative Settlement Residues

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

u) New accounting standards and interpretations

Changes in accounting policy and disclosures

The company has adopted all of the new and/or revised Accounting Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on 1 July 2010.

Accounting standards and interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the company for the annual reporting period ending 30 June 2011, are outlined in the table below:

Reference	Title	Details of New Standard/ Amendment/Interpretation	Impact on Company	Application date for the Company
AASB 9	Financial Instruments	This standard includes the requirements for the classification and measurement of financial assets resulting from Phase 1 of the Project to replace AASB 139 <i>Financial Instruments; Recognition and Measurement</i> .	(iii)	1 July 2013
AASB 124	Related Party Disclosures	The main amendments simplify and clarify the intended meaning of the definition of a related party and provide partial exemption for the disclosure requirements of government-related entities.	(i)	1 July 2011
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 7]	Deletion of various disclosures relating to credit risk, renegotiated loans and receivables and the fair value of collateral held.	(ii)	1 July 2011
AASB 2	Amendments to Australian Accounting Standards arising from the Reduced Disclosure Requirements	Entities classified as Tier 2 entities in AASB 1053 <i>Application of Tiers of Australian Accounting Standards</i> that currently apply full IFRSs as adopted in Australia are able to adopt the Reduced Disclosure Requirements.	(iv)	1 July 2013
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets	Additional disclosures required for entities that transfer financial assets, including information about the nature of financial assets involved and the risks associated with them.	(i)	1 July 2011

- (i) The Company's current accounting policy complies with the requirements of the amendment.
- (ii) There will be no impact on financial statements on initial adoption as these requirements are required to be applied prospectively and likely to result in fewer disclosures.
- (iii) The Company has not yet determined the potential effect of the standard.
- (iv) The Company has considered the new amendment and is not complying with the reduced disclosure requirements and will continue to provide full disclosure at 30 June 2011.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2011

3 FINANCIAL RISK MANAGEMENT

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

AEMO is required to operate efficiently on a self-funding break even basis with fees to fund operations levied against participants. Cashflow is relevant as an extension of the efficiency concept materialising in interest rate expense and therefore risk. AEMO has entered into a swap arrangement in accordance with a Board approved policy to manage exposure to fluctuating interest rates and their impact on cashflow. In relation to financial instruments, AEMO does not have exposure to foreign currency fluctuations or changes in market prices.

Financial Assets and Liabilities

	2011 \$'000	2010 \$'000
Financial Assets		
Cash and cash equivalents	32,467	28,355
Participant Fees Receivable	52,104	52,659
Other Receivables	4,147	8,114
Prepayments	2,851	2,789
Settlement residue receivable	–	22,431
	91,569	114,348
Financial Liabilities		
Accounts Payable	6,687	1,088
Other creditors and accruals	54,993	52,159
Financial costs – accrued interest	1,424	1,217
Electricity Market Participant Security Deposits	4,546	6,828
Gas Market Participant Prepayments	2,694	1,184
Borrowings	73,769	76,527
Derivative financial instruments	336	847
	144,449	139,850

a) Market risk

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

Interest rate risk arises from long-term borrowings issued at variable rates. AEMO manages its cashflow interest rate risk by using floating to fixed interest rate swaps. AEMO maintains a swap arrangement over part of the borrowings with agreed repayment terms to achieve a fixed rate. This increases certainty in interest expense in relation to budgeting for participant fees and hence cashflow. The remaining unhedged portion of the borrowings enables a balance against the lost opportunity afforded by the market potentially lowering interest rates.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2011

3 FINANCIAL RISK MANAGEMENT (continued)

a) Market risk (continued)

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

Interest Rate Risk 30 June 11		-75bps			+75bps	
	Notional Amount \$'000	Carrying Amount \$'000	Surplus \$'000	Equity \$'000	Surplus \$'000	Equity \$'000
Financial Assets						
Cash and cash equivalents	32,467	32,467	(244)	(244)	244	244
	32,467	32,467	(244)	(244)	244	244
Financial Liabilities						
Borrowings	74,032	73,769	(553)	(553)	553	553
Interest rate SWAPS	26,344	336	(146)	(146)	146	146
	100,376	74,105	(699)	(699)	699	699
Interest Rate Risk 30 June 10		-75bps			+75bps	
	Notional Amount \$'000	Carrying Amount \$'000	Surplus \$'000	Equity \$'000	Surplus \$'000	Equity \$'000
Financial Assets						
Cash and cash equivalents	28,355	28,355	(213)	(213)	213	213
	28,355	28,355	(213)	(213)	213	213
Financial Liabilities						
Borrowings	76,822	76,527	(360)	(360)	360	360
Interest rate SWAPS – valuation	31,338	847	(439)	(439)	433	433
	108,160	77,374	(799)	(799)	793	793

b) Credit risk

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

AEMO approaches the risk in relation to cash, cash equivalents and derivative financial instruments by banking with two of the four major banks. These are the CBA for both transactional banking and deposits and the NAB for term deposits.

Exposure to credit risk is mitigated by a market prudential regime that requires credit support from either a bank guarantee or deposit equivalent to the level required by the Rules. In addition to this a trading limit is set for each Participant at a level that provides a reasonable exposure buffer from the credit support provided. This affords a margin so that trading can continue while action is being taken to reduce outstanding fees receivable back to an acceptable level, before the full amount of the guarantee is exceeded by the Market Participant's liability to AEMO. In the event of a margin call NEM participants are required to provide further credit support and in the DWGM, participants can either provide additional security in the form of a bank guarantee or a prepayment of their settlement amount.

AEMO can default a Market Participant if payment is not made by the appointed time. It can further suspend a Market Participant if the default notice is not complied with.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2011

3 FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

Guarantees will only be accepted from banks that have an acceptable credit rating which is either: 1) a rating of A-1 or higher for short-term unsecured counterparty obligations of the entity, as rated by Standard and Poor's (Australia) Pty Ltd; or 2) a rating of P-1 or higher for short-term unsecured counterparty obligations of the entity, as rated by Moody's Investor Service Pty Ltd. If there is to be a change to the credit support (expiry or termination) then at least 10 business days prior to the time at which the existing credit support is due to expire or terminate the Market Participant must procure a replacement.

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

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

c) Liquidity risk

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

To manage this risk AEMO continually forecasts and monitors cashflow and invests surplus funds in highly liquid markets. To mitigate this risk AEMO has a \$120,000k Multi Option Facility provided by the Commonwealth Bank of Australia (Note 12).

Undrawn borrowing facilities

The CBA multi-option Facility has two parts, known as Facility A and Facility B.

The below table represents the used and unused portion of the facilities:

CBA Multi Option Facility at 30 June 2011			
	Limit	Balance	Undrawn
	\$ '000	\$'000	\$'000
Limit: \$120,000,000			
Facility A			
Overdraft/Contingent liability facility	10,000	(390) [^]	10,390
Cash advance	63,091		39,210
<i>Cash advance drawdown comprise of:</i>			
Working Capital		20,000	
STTM – Brisbane		3,455	
National Smart Metering		426	
	73,091	23,491	49,600
Facility B			
Cash advance	46,909		1,429
<i>Cash advance drawdown comprises of:</i>			
Norwest (NSW Control Centre)		24,409	
FRC Establishment		2,500	
STTM – Sydney, Adelaide		18,571	
	46,909	45,480	1,429
	120,000	68,971	51,029

[^] At 30 June 2011, AEMO had cash funds of \$390k in the Overdraft Facility.

AEMO also has an AEMO Transition loan from the Commonwealth Government outstanding at 30 June 2011. This loan will be repaid in full in October 2012 as agreed with the Commonwealth Government.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2011

3 FINANCIAL RISK MANAGEMENT (continued)

c) Liquidity risk (continued)

The table below represents the loan repayment commitments including interest on principal at 30 June 2011:

Facility			< 1 year \$'000	1-5 years \$'000	Over 5 years \$'000
CBA	Facility A	Working Capital	20,285	–	–
		STTM – Brisbane	762	3,104	–
		NSM	–	458	–
	Facility B	Norwest	2,623	9,704	25,675
		STTM – Syd, Adel	3,903	13,934	4,537
		FRC Establishment	2,573	–	–
CTH GOVT	AEMO (T)	–	4,671	–	
Total			30,146	31,871	30,212

d) Fair Value Estimation

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

a) Defined Benefit Superannuation

Actuarial assumptions are utilised in the determination of the defined benefit obligations and the related carrying amounts are discussed in Note 17.

b) Depreciation and Amortisation

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

c) Use of assets for network services

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2011

5 REVENUE

	2011 \$'000	2010 \$'000
From continuing operations		
TUoS income	419,596	410,790
Funded augmentation income	11,262	5,935
Transmission income	430,858	416,725
Settlement residue (TNSP)	22,133	33,927
Settlement residue auctions (TNSP)	16,876	20,214
Settlement residue	39,009	54,141
NEM fees	73,865	75,080
FRC tariffs – electricity	8,782	10,392
Registration fees	210	146
National Smart Metering	2,359	–
National Transmission Planner	7,396	–
Electricity market income	92,612	85,618
Commodity tariff	15,241	13,093
FRC tariffs – gas	5,912	7,763
STTM – Sydney, Adelaide	4,440	–
Gas SOO	1,278	–
Registration fees	512	247
Other gas revenues	1,485	1,083
System security fees	–	1,311
Gas market income	28,868	23,497
FRC Electricity – establishment recovery	2,942	3,026
PCF interest	420	270
PCF contributions received	2,593	1,771
Interest	1,512	1,677
Government grant revenue	–	1,778
Fair value of derivative	443	730
Other	6,270	6,974
	14,180	16,226
Gain on acquisition	–	25,657
	605,527	621,864

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2011

6 EXPENSES

	2011 \$'000	2010 \$'000
Surplus/(deficit) before income tax includes:		
Wages and salaries	51,328	53,369
Defined contribution superannuation expense	4,978	4,054
Defined benefit superannuation expense	425	354
Other employee benefits expense	10,875	8,136
Employee benefits	67,606	65,913
Bank fees	1,353	2,246
Interest expense	3,318	2,519
Finance Costs	4,671	4,765
Rent & outgoings expense	3,528	2,830
Net loss on disposal of property, plant and equipment	-	(55)

7 CASH AND CASH EQUIVALENTS

	2011 \$'000	2010 \$'000
Cash at bank and on hand	25,256	21,638
Participant Compensation Fund (PCF)	7,211	6,717
	32,467	28,355

Cash and Cash Equivalents at the end of the year includes \$4,546k (2010: \$6,828k) of participant security deposits not available for use.

8 TRADE AND OTHER RECEIVABLES

	2011 \$'000	2010 \$'000
Current		
Participant fees receivable	15,100	13,595
TUoS revenue receivable	37,004	38,664
AEMO transition – fees receivable	1,324	1,324
Other receivables	6,101	8,206
Negative settlement residue recoverable	-	22,431
Prepayments	2,851	2,789
	62,380	87,009
Non-current		
AEMO Transitional Limited – fees receivable	1,324	2,648
	1,324	2,648

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2011

9 PROPERTY, PLANT AND EQUIPMENT

	Electricity Systems (NEM and FRC)	Gas Systems (Wholesale and FRC)	Short-term Trading Market	Other Plant & Equipment	Land and Building	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2009						
Cost	19,740	2,320	–	19,379	25,022	66,461
Accumulated depreciation	(17,558)	(2,157)	–	(14,378)	(2,234)	(36,327)
Net book amount	2,182	163	–	5,001	22,788	30,134
Year ended 30 June 2010						
Opening net book amount	2,182	163	–	5,001	22,788	30,134
Transfers:						
Internal Transfers	670	–	–	(2,355)	1,813	128
Additions	1,829	238	207	5,049	3,108	10,431
Additions as a result of Business Combination	–	602	–	1,106	153	1,861
Total	2,499	840	207	3,800	5,074	12,420
Disposals	–	–	–	(399)	–	(399)
Depreciation charge	(2,425)	(325)	(61)	(1,285)	(1,250)	(5,346)
Closing net book amount	2,256	678	146	7,117	26,612	36,809
At 1 July 2010						
Cost	20,743	3,159	207	21,231	32,231	77,571
Accumulated depreciation	(18,487)	(2,481)	(61)	(14,114)	(5,619)	(40,762)
Net book amount	2,256	678	146	7,117	26,612	36,809
Year ended 30 June 2011						
Opening net book amount	2,256	678	146	7,117	26,612	36,809
Additions	1,345	62	140	539	2,854	4,940
Total	1,345	62	140	539	2,854	4,940
Disposals	(2)	–	–	–	–	(2)
Depreciation charge	(2,068)	(311)	(87)	(1,149)	(1,810)	(5,425)
Closing net book amount	1,531	429	199	6,507	27,656	36,322
At 30 June 2011						
Cost	21,143	3,222	346	20,464	35,084	80,259
Accumulated depreciation	(19,612)	(2,793)	(147)	(13,957)	(7,428)	(43,937)
Net book amount	1,531	429	199	6,507	27,656	36,322

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2011

10 INTANGIBLE ASSETS

	NEM Establish- ment Costs	FRC Establish- ment Costs	Software – Electricity (NEM & FRC)	Software – Gas (Wholesale & FRC)	Software – Short-term Trading Market	Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2009							
Cost	44,473	27,330	66,976	–	–	–	138,779
Accumulated amortisation	(44,473)	(17,014)	(56,903)	–	–	–	(118,390)
Net book amount	–	10,316	10,073	–	–	–	20,389
Year ended 30 June 2010							
Opening net book amount	–	10,316	10,073	–	–	–	20,389
Transfers:							
Internal Transfers	–	–	(128)	–	–	–	(128)
Additions	–	–	3,891	378	9,573	1,205	15,047
Additions as a result of Business Combination	–	–	–	3,115	5,869	181	9,165
Amortisation charge	–	(2,733)	(3,296)	(1,196)	(21)	(141)	(7,387)
Closing net book amount	–	7,583	10,540	2,297	15,421	1,245	37,086
At 1 July 2010							
Cost	44,473	27,330	70,999	3,493	15,442	1,385	163,122
Accumulated amortisation	(44,473)	(19,747)	(60,459)	(1,196)	(21)	(140)	(126,036)
Net book amount	–	7,583	10,540	2,297	15,421	1,245	37,086
Year ended 30 June 2011							
Opening net book amount	–	7,583	10,540	2,297	15,421	1,245	37,086
Additions	–	–	6,247	368	3,590	1,519	11,724
Amortisation charge	–	(2,733)	(3,597)	(1,248)	(1,912)	(459)	(9,949)
Closing net book amount	–	4,850	13,190	1,417	17,099	2,305	38,861
At 30 June 2011							
Cost	44,473	27,330	77,243	3,861	19,032	2,903	174,842
Accumulated amortisation	(44,473)	(22,480)	(64,053)	(2,444)	(1,933)	(598)	(135,981)
Net book amount	–	4,850	13,190	1,417	17,099	2,305	38,861

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2011

11 TRADE AND OTHER PAYABLES

	2011 \$'000	2010 \$'000
Current		
Accrued network charges	41,794	40,554
Accounts payable	6,687	1,088
Employee incentives payable	4,698	6,175
Financial costs – accrued interest	1,424	1,217
Participant security deposits	4,546	6,828
Other creditors and accruals	7,780	10,173
	66,929	66,035

Due to the short-term nature of these payables, the carrying value is not materially different to fair value.

	2011 \$'000	2010 \$'000
Non-current		
Lease incentive	3,068	114
	3,068	114

12 BORROWINGS

	2011 \$'000	2010 \$'000
Current		
Bank loans	27,192	28,278
	27,192	28,278
Non-current		
Bank loans	42,169	43,873
Government loan	4,408	4,376
	46,577	48,249

The above borrowings are allocated to the following functions within AEMO:

	2011 \$'000	2010 \$'000
Current		
FRC Electricity	2,500	4,500
STTM – Sydney, Adelaide	2,857	2,036
STTM – Brisbane	592	–
Norwest (NSW control centre)	1,243	1,242
Other	20,000	20,500
	27,192	28,278
Non-current		
FRC Electricity	–	2,500
STTM – Sydney, Adelaide	15,714	16,964
STTM – Brisbane	2,863	–
AEMO (T)	4,408	4,376
Norwest (NSW Control Centre)	23,166	24,409
National Smart Metering	426	–
	46,577	48,249

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2011

12 BORROWINGS (continued)

Financing arrangements

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

	2011 \$'000	2010 \$'000
Bank loan facilities		
Total facility	120,000	120,000
Bank Guarantee	–	(412)
Used at balance date	(68,971)	(76,526)
Unused at balance date	51,029	43,062

Loan Contracts

On 7 July 2009 AEMO signed a \$150,000k Multi Option Facility Agreement with the Commonwealth Bank of Australia for a 3 year period, expiring July 2012. On 18 June 2010, the Multi Option Facility was reduced to \$120,000k following a review of ongoing requirements. The Facility has two parts, Facility A and Facility B. Facility A is a cash advance to assist with working capital requirements, including overdraft (\$5,000k) and contingent liability (\$5,000k). Facility B is a cash advance for projects with agreed repayment arrangements.

At 30 June 2011, total facilities drawn down are \$68,971k (\$51,029k undrawn). Amounts drawn down in Facility A at 30 June 2011 are to finance the National Smart Metering Project (\$426k) and STTM Queensland Project (\$3,455k) and working capital requirements (\$20,000k). Amounts drawdown in Facility B at 30 June 2011 includes FRC Establishment Project (\$2,500k), the Norwest loan (\$24,408k) and the STTM Project (\$18,571k). Available funds for project related loans are retained in Facility A and transferred to Facility B as projects are finalised and repayment terms agreed. These terms are designed to match the timing of project cost recovery through market fees. The overdraft facility has a positive balance of \$390k at 30 June 2011. Both the overdraft and contingent liability facility has not been drawn down at 30 June 2011.

The loan agreement requires one final principal repayment in September 2011 for the FRC loan of \$2,500k and requires semi-annual principal repayments in January and July of \$621k for the Norwest loan. The STTM loan requires semi-annual principal repayments in March and September of \$1,428k.

The FRC loan expires on 30 September 2011, the STTM loan on 1 September 2017, and the Norwest loan on 20 January 2031. The loans are bearing a variable interest rate reset at each rollover date.

Repayment and drawdown of debt are in line with cash flow requirements and vary during the year.

13 PROVISIONS

	2011 \$'000	2010 \$'000
Current		
Provision for employee entitlements	15,798	13,251
Non-current		
Provision for employee entitlements	1,450	1,594

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2011

14 OTHER CURRENT LIABILITIES

	2011 \$'000	2010 \$'000
Prepaid revenue	2,499	1,184
Other liabilities	564	468
	3,063	1,652

15 GOVERNMENT GRANT

	2011 \$'000	2010 \$'000
Government grant – DRET AWEFS project	–	2,045
	–	2,045

AEMO entered into a contract with and received a grant from the Commonwealth Government to develop an AWEFS. Government grants are recognised at fair value where there is reasonable assurance that all conditions will be complied with and that the grants will be received. The project delivered an operational system in October 2008, and further enhancements occurred during 2009/10. The project was completed during June 2010 and the unspent portion was returned to the Government in September 2010.

16 DERIVATIVE FINANCIAL INSTRUMENTS

	2011 \$'000	2010 \$'000
Derivative financial instruments/swaps	336	847
	336	847

17 DEFINED BENEFIT SUPERANNUATION PLAN

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

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

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

As at	2011 \$'000	2010 \$'000
Defined Benefit Obligation ¹	28,187	25,768
(–) Fair value of plan assets	(20,576)	(18,036)
Net superannuation liability	7,611	7,732

1 includes contributions tax provision

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2011

17 DEFINED BENEFIT SUPERANNUATION PLAN (continued)

Reconciliation of the Present Value of the defined benefit obligation

Financial year ended	2011 \$'000	2010 \$'000
Present value of defined benefit obligations at beginning of the year	25,768	23,318
(+) Current service cost	565	495
(+) Interest cost	1,053	1,059
(+) Contributions by plan participants	192	148
(+) Actuarial (gains)/losses	1,272	2,783
(-) Benefits paid	(547)	(1,923)
(-) Taxes & premiums paid	(116)	(112)
Present value of defined benefit obligations at end of the year	28,187	25,768

Reconciliation of the fair value of plan assets

Financial year ended	2011 \$'000	2010 \$'000
Fair value of plan assets at beginning of the year	18,036	17,771
(+) Expected return on plan assets	1,193	1,200
(+) Actuarial (gains)/losses	1,340	445
(+) Employee contributions	478	507
(+) Contributions by plan participants	192	148
(-) Benefits paid	(547)	(1,923)
(-) Taxes & premiums paid	(116)	(112)
Fair value of plan assets at end of the year	20,576	18,036

Expense recognised in surplus or deficit

Financial year ended	2011 \$'000	2010 \$'000
Current service cost	565	495
Interest cost	1,053	1,059
Expected return on assets	(1,193)	(1,200)
Actuarial (gains)/losses	(68)	2,338
Superannuation expense	357	2,692

Plan assets

As at	2011 %	2010 %
Australian Equity	35	37
International Equity	27	25
Fixed Income	12	13
Property	10	10
Growth Alternatives	8	7
Defensive Alternatives	2	2
Cash	6	6

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2011

17 DEFINED BENEFIT SUPERANNUATION PLAN (continued)

Fair value of plan assets

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

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

Expected rate of return on plan assets

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

Actual return on plan assets

Financial year ended	2011 \$'000	2010 \$'000
Actual return on plan assets	2,533	1,645

Principal actuarial assumptions at the balance sheet date

As at	2011 % pa	2010 % pa
Discount rate (active members)	4.6	4.5
Discount rate (pensioners)	5.1	4.9
Expected rate of return on plan assets (active members)	7.0	7.0
Expected rate of return on plan assets (pensioners)	7.5	7.5
Expected salary increase rate	5.0	5.0
Expected pension increase rate	3.0	3.0

Historical Information

Financial year ended 30 June	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000
Defined benefit obligation	28,187	25,768	23,318	19,583	19,573
Fair value of plan assets	20,576	18,036	17,771	20,928	24,935
(Surplus)/deficit in plan	7,611	7,732	5,547	(1,345)	(5,362)
Experience adjustments (gains)/losses – plan assets	(1,340)	(445)	3,823	2,801	(2,289)
Experience adjustments (gains)/losses – plan liabilities	1,264	1,597	374	2,118	(402)

Expected contributions

Financial year ended	2012 \$'000
Expected employer contributions	553

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2011

18 RESERVES

Nature and purpose of reserves

Participant Compensation Fund Reserve

AEMO maintains the following participant compensation funds:

National Electricity Market

Established under the National Electricity Rules, the purpose of this fund is to pay compensation to certain types of participants for scheduling errors as determined by the Dispute Resolution Panel. The funding requirement for each financial year is the lesser of \$1,000k or the amount to bring the balance of the fund to \$5,000k. At 30 June 2011 the balance of the fund is \$4,096k.

Victorian Declared Wholesale Gas Market

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

QLD FRC Gas

Established under the Queensland Gas Market Rules, the purpose of this fund is to pay compensation to complainant retailers in accordance with the dispute resolution process. All payments in respect of exceedance amounts must be paid into the fund. If the balance of the fund exceeds \$250k at the time the annual fees are being determined for the upcoming year, the amount by which the fund exceeds \$250k must be used to offset fees for the coming year equitably among retailers. At 30 June 2011 the balance of the fund is \$1,568k.

A rule change ceasing PCF receipts is in effect from 1 July 2011. The balance of the PCF reserve is not required to be drawn down as a fee offset will be refunded to participants during 2011–12.

Short-term Trading Market

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

- i *Sydney hub*: the lesser of \$335k or \$670k minus the amount AEMO reasonably expects to be the balance of the fund at the end of the financial year. At 30 June 2011 the balance of the fund is \$338k.
- ii *Adelaide hub*: the lesser of \$115k or \$330k minus the amount AEMO reasonably expects to be the balance of the fund at the end of the financial year. At 30 June 2011 the balance of the fund is \$57k.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2011

18 RESERVES (continued)

	\$'000	\$'000	\$'000	\$'000	\$'000
	PCF NEM	PCF Vic Wholesale Gas	PCF Qld FRC Gas	PCF STTM	Total
Balance 1 July 2009	2,616	–	–	–	2,616
Transfer from retained surplus of contributions and interest earned by the Participant Compensation Fund during the year	1,118	180	737	–	2,035
Payments made from the Participant Compensation Fund during the year	(572)	(75)	–	–	(647)
Transfer from profit to establish the PCF reserves acquired on 1 July 2009 on the transfers of businesses as described in note 28.	–	2,674	194	–	2,868
Balance 30 June 2010	3,162	2,779	931	–	6,872
Balance 1 July 2010	3,162	2,779	931	–	6,872
Transfer from retained surplus of contributions and interest earned by the Participant Compensation Fund during the year	1,181	165	637	395	2,378
Payments made from the Participant Compensation Fund during the year	(247)	(24)	–	–	(271)
Balance 30 June 2011	4,096	2,920	1,568	395	8,979

Land Reserve

AEMO has established the Land Reserve for the purpose of recovering from participants the cost of the purchase of land for the NSW Control Centre.

AWEFS Reserve

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2011

19 KEY MANAGEMENT PERSONNEL DISCLOSURES

Directors

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

Chairman – non-executive

Dr. T.G. Parry AM

Chief Executive Officer and Managing Director

M. Zema

Non-executive directors

I.L. Fraser

L.V. Hosking

M.J. Lavarch

G.J.W. Martin

P.M. McKenzie

K.A. Moses

Dr. M.A Sargent AM

K.D. Spargo

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

Key Management Personnel Compensation

	2011 \$'000	2010 \$'000
Directors' compensation		
Short-term employee benefits	1,689	1,483
Post-employment benefits	146	145
Total	1,835	1,628
Key management personnel		
Short-term employee benefits	3,115	3,366
Post-employment benefits	409	405
Total	3,524	3,771
	5,359	5,399

Chairman and the Board members:

The remuneration of the chairman and board members for the board and board committees was initially determined by the Ministerial Council on Energy based on advice received from an external consultant. At the Annual General Meeting in November 2010, the members endorsed the base remuneration and committee fees to be increased in line with advice received on director remuneration within the energy sector.

Managing Director and Chief Executive Officer:

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2011

20 REMUNERATION OF AUDITORS

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

	2011 \$'000	2010 \$'000
Statutory audit services		
Services provided by the external auditor BDO (2010: PKF)		
Statutory audit of the accounts of the Company	105	99
Other services		
Other non-statutory audit services *	3,021	3,510

* Other non related audit activities include Gas and Electricity market audit services which include the review of AEMO's control procedures and its compliance with the Rules. A significant portion of these services are on behalf of registered participants and the review reports are distributed to them. This balance also includes internal audits of the Company, review and accreditations, and other advisory services. These services are not performed by the external auditor.

21 CONTINGENCIES

AEMO assigned its lease for level 12, 15 William Street, Melbourne to a third party on the basis that the option for an additional 5 years was exercised. The landlord consented to the assignment on the basis that AEMO remained contingently liable for any default by the assignee. As at 30 June 2011 the contingent liability is equivalent to rent for 5½ years.

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

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

22 COMMITMENTS

Capital commitments

Total capital commitments at 30 June 2011 relate to the development of the STTM Brisbane project and the commitments in 2010 relate to acquisitions of plant and equipment including the development of the AWEFS.

	2011 \$'000	2010 \$'000
Not later than one year	1,964	1,373
Later than one year but not later than five years	–	–
Later than five years	–	–
	1,964	1,373

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2011

22 COMMITMENTS (continued)

Operating lease commitments

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

	2011 \$'000	2010 \$'000
Not later than one year	4,361	4,619
Later than one year but not later than five years	17,434	16,209
Later than five years	10,246	12,934
	32,041	33,762

Lease commitments payable are based on AEMO's current lease rates multiplied by the lease agreement percentage increments. AEMO has entered into a lease agreement for new Melbourne premises, for the period 1 August 2010 to 31 October 2018. AEMO was able to occupy the premises from 2 July 2010. The Sydney office lease agreement was renegotiated in April 2006 for seven years with a 14-month rent free period (Note 2(e)). There are also lease agreements for the Brisbane CBD office and control centre which extend to 2018. The Adelaide CBD office lease commenced for the period July 2011 to 2019, with an option to extend a further 5 years.

Expense commitments

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

The term of Agreement is indefinite, with charges set by the AER for 5 year blocks (currently set to 2014). The value of commitments has not been disclosed in table format as the amount of the charges are only made known to AEMO for each coming year. The charges for the year were \$491,641k (2010: \$469,839k).

23 FINANCIAL INSTRUMENTS

Net Fair Value of Financial Assets and Liabilities

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

Interest Rate Swap Contracts

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

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

	2011 \$'000	2010 \$'000
Less than 1 year	4,994	4,994
1-2 years	21,350	4,994
2-3 years	–	21,350
3-4 years	–	–
4-5 years	–	–
More than 5 years	–	–
	26,344	31,338

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2011

24 ACCUMULATED SURPLUS / (DEFICIT)

The accumulated surplus or deficit attributable to each ring-fenced business is detailed below:

	2011 \$'000	2010 \$'000
National Electricity Market	197	(2,854)
FRC – Electricity	3,713	2,780
National Smart Metering	(5,757)	(5,399)
VIC – TNSP	(20,967)	7,688
VIC – DWGM	7,838	6,240
FRC – Gas	2,525	3,669
Short-term Trading Market	(7,733)	(5,018)
Gas Statement of Opportunities	(408)	(1,017)
National Transmission Planner	(961)	(3,401)
Other Functions	1,046	895
	(20,507)	3,583

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

25 EVENTS OCCURRING AFTER BALANCE SHEET DATE

Carbon Tax

Details of the Carbon Tax initiative were announced by the Australian Government on 10 July 2011. AEMO will consider implications of the scheme once the legislation is enacted.

Network charges rate increase

AEMO's 2011–12 Transmission Use of System (TUoS) fees were based on forecast network charges provided by the network asset owner.

Following the publication of AEMO's 2011–12 TUoS fees, the network asset owner has advised that the final 2011–12 network charges will increase by \$7,900k in comparison to the original amount included in AEMO's budget.

The 2012–13 fees will be increased to cover the 2011–12 shortfall. This shortfall of \$7,900k for network charges represents approximately 2% of the annual TUoS fees for 2011–12 of \$460,000k. An interest charge for funding this shortfall will be allocated to the 2012–13 TUoS fees.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2011

26 RECONCILIATION OF SURPLUS / (DEFICIT) FOR THE YEAR TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2011 \$'000	2010 \$'000
(Deficit) / Surplus after income tax	(22,780)	15,205
Depreciation and amortisation	15,374	12,731
Loss on sale of non-current assets	–	55
Gain on fair value for financial liabilities held at fair value through the profit and loss	(252)	(726)
Government Grant Revenue	–	(1,778)
Discounted on AEMO(T) loan	32	166
Actuarial (gain)/loss – defined benefit superannuation plan	(68)	2,338
Actuarial adjustment to defined benefit fund contributions	–	(153)
Gain on acquisition (note 28)	–	(25,657)
Change in operating assets and liabilities		
Decrease/(increase) in trade and other receivables	25,953	(7,666)
Decrease in inventory	–	242
Increase in creditors and accruals	4,867	2,807
Increase in provisions	2,691	1,256
Net Cash Inflow/(Outflow) Provided by Operating Activities	25,817	(1,180)

27 RELATED PARTY TRANSACTIONS

A number of Directors occupy roles in other energy companies which pay fees to AEMO. All related party transactions (outlined in Note 19) for the year ended 30 June 2011 were transacted at arms length.

28 BUSINESS COMBINATIONS

As part of the establishment of AEMO as a single, industry-funded national energy market operator, various functions of the Victorian Energy Networks Corporation (VENCorp), the Electricity Supply Industry Planning Council (ESIPC), the Gas Market Company (GMC), the Gas Retail Market Operator (GRMO), and the Australian Energy Market Operator (Transitional) (AEMO(T)) were transferred, under legislation, to AEMO on 1 July 2009. Transfer of the South Australian functions of the Retail Energy Market Company Limited (REMCo) transferred to AEMO on 1 October 2009. As part of the transfer, amendments to the constitution of AEMO effective from 1 July 2009, changed the membership structure of AEMO such that the Government members hold 60% of the membership and industry members hold 40%.

Details of the transferred operators are:

- VENCorp was responsible for the operation of the principal gas transmission network and the development and operation of the Victorian gas 'spot' market. It provided gas planning services to the industry, and services that facilitate gas retail competition in Victoria. VENCorp was also the Transmission Network Service Provider for the Victorian electricity industry with primary responsibility for planning and directing expansion of Victoria's electricity transmission system.

VENCorp also occupied the role of GRMO to provide retail gas market services for Full Retail Contestability (FRC) in Queensland. As the GRMO, VENCorp's role involved development, maintenance and administration of retail rules and the provision of services to assist FRC, including operating the centralised IT systems.

- ESIPC provided independent advice to the Minister for Energy and the Essential Services Commission of South Australia (ESCOSA) in relation to South Australia's electricity supply industry. ESIPC's functions include participation in proposals for future augmentations and extensions to the transmission network and publication of information related to these matters, and performing a planning role under the National Electricity Rules. Only those functions of ESIPC conferred on AEMO under National Electricity Law were transferred to AEMO.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2011

28 BUSINESS COMBINATIONS (continued)

- GMC was the operator of the New South Wales and Australian Capital Territory Gas Retail Market. Its primary aim was to develop and operate cost efficient and effective retail market arrangements, which are fair and equitable, to facilitate competition in the gas retail market.
- REMCo was the market administrator for the South Australian gas retail market.
- AEMO(T) was established to manage the transition to a single, industry-funded national energy market operator and incurred a significant portion of the costs associated with the transition related activity.

On 1 July 2009, assets and liabilities associated with the functions of VENCORP, ESIPC, GMC, GRMO and AEMO(T) were transferred to AEMO for nil purchase consideration. The directors of AEMO have determined that the transfer of assets and liabilities to AEMO did not give rise to a contribution from owners, accordingly, the directors of AEMO have determined that the transfer of these functions should be accounted for as a business combination and have recognised a gain on the transfer of these net assets equivalent to the fair value of the net assets acquired. This is presented as a separate line item in the profit and loss component of the Statement of Comprehensive Income, entitled Gain on Acquisition.

The table below describes the fair values of the assets and liabilities transferred to AEMO.

	VENCORP \$'000	AEMO(T) \$'000	Other * \$'000	Total \$'000
Assets				
Cash	22,831	1,354	929	25,114
Receivables	45,033	4,065	24	49,122
Prepayments	261	–	–	261
Gas inventory	242	–	–	242
Plant and equipment	1,867	–	86	1,953
Intangible assets	9,074	–	–	9,074
Liabilities				
Payables	44,961	741	347	46,049
Employee benefits	4,033	–	270	4,303
Defined benefit superannuation	5,547	–	–	5,547
Loan payable to Commonwealth	–	4,209	–	4,209
Long-term provision	–	–	1	1
Net assets acquired (Gain on acquisition)	24,767	469	421	25,657

* 'Other' aggregates the assets, liabilities and contingent liabilities acquired from ESIPC and GMC. No assets and liabilities were acquired from REMCo.

Acquired receivables comprise:

	VENCORP \$'000	AEMO(T) \$'000	Other * \$'000
Assets			
Electricity transmission fees	34,562	–	–
Gas market settlement	1,883	–	–
Trade receivables	8,265	–	–
Other	323	4,065	24
	45,033	4,065	24

The legislation affecting the transfer of ESIPC and VENCORP functions to AEMO included a 'claw back' clause which expired on 1 July 2010 with no impact to the fair value of assets and liabilities acquired.

Similarly, the Energy Legislation Amendment (Australian Energy Market Operator) Act 2009 permitted the Governor in Council to make regulations that may have a retrospective effect for or with respect of matters of a savings or transitional nature up until 1 July 2010. No regulations have been made which have impacted the fair value of assets and liabilities acquired.

DIRECTORS' DECLARATION

The Directors of Australian Energy Market Operator Limited declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, and accompanying notes, are in accordance with the *Corporations Act 2001* and:
 - a) comply with Accounting Standards as described in Note 2 to the financial statements and the *Corporations Regulations 2001*; and
 - b) give a true and fair view of the company's financial position as at 30 June 2011 and of its performance for the year ended on that date in accordance with the accounting policies described in Note 2 to the financial statements.
2. The company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Dr. Thomas G. Parry
Chairman

Melbourne
1 September 2011

INDEPENDENT AUDIT REPORT



Tel: +61 3 8320 2222
Fax: +61 3 8320 2200
www.bdo.com.au

The Rialto, 525 Collins St
Melbourne VIC 3000
GPO Box 4736 Melbourne VIC 3001
Australia

INDEPENDENT AUDITOR'S REPORT

To the members of Australian Energy Market Operator Limited

We have audited the accompanying financial report of Australian Energy Market Operator Limited, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* 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

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* was given to the directors of Australian Energy Market Operator Limited as at the time of this auditor's report.

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INDEPENDENT AUDIT REPORT (continued)



Opinion

In our opinion:

- (a) the financial report of Australian Energy Market Operator Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

BDO

BDO Audit (NSW-VIC) Pty Ltd

A handwritten signature in blue ink, appearing to read 'Michael Climpson', is written over a faint, light blue horizontal line.

Michael Climpson

Director

Melbourne, 1 September 2011

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ABBREVIATIONS

AEMC	Australian Energy Market Commission	NGERAC	National Gas Emergency Response Advisory Committee
AEMO	Australian Energy Market Operator	NGL	National Gas Law
AER	Australian Energy Regulator	NGR	National Gas Rules
AIIMS	Australasian Inter-service Incident Management System	NTNDP	National Transmission Network Development Plan
AM	Member of the Order of Australia	NTP	National Transmission Planner
AMDQ	Authorised Maximum Daily Quantity	NTS	National Transmission Statement
ASX	Australian Securities Exchange	PMO	Program Management Office
AWEFS	Australian Wind Energy Forecasting System	PSA	Power System Adequacy
BIP	Business Integration Program	RERT	Reliability and Emergency Reserve Trader
CDEII	Carbon Dioxide Equivalent Intensity Index	RMEC	Retail Market Executive Committee
COAG	Council of Australian Governments	ROLR	Retailer of Last Resort
DSN	(Electricity) Declared Shared Network	SASDO	South Australian Supply and Demand Outlook
DTS	Declared Transmission System	SCI	Statement of Corporate Intent
DWGM	Declared Wholesale Gas Market	STTM	Short Term Trading Market
EA	Enterprise Agreement	TNSP	Transmission Network Service Provider
EAAP	Energy Adequacy Assessment Projection	VAPR	Victorian Annual Planning Report
EIM	Energy Information Model	VCIRG	Victorian Connections Industry Reference Group
ELT	Executive Leadership Team	VENCorp	Victorian Energy Networks Corporation
EMS	Energy Management System	VSAT	Voltage Stability Assessment Tool
ESOO	Electricity Statement of Opportunities	WHSE	Workplace Health Safety and Environment
GMLG	Gas Market Leaders' Group		
GPG	Gas-powered Generation		
GSOO	Gas Statement of Opportunities		
IEC	Information Exchange Committee		
kV	Kilovolt		
LRET	Large-scale Renewable Energy Target		
MCE	Ministerial Council on Energy		
MW	Megawatt		
NECF	National Energy Customer Framework		
NEL	National Electricity Law		
NEM	National Electricity Market		
NEMEMF	NEM Emergency Management Forum		
NEMMCO	National Electricity Market Management Company		
NER	National Electricity Rules		

DIRECTORY

Australian Energy Market Operator Limited
ABN: 94 072 010 327

Head office

Level 22, 530 Collins Street
Melbourne Victoria 3000

GPO Box 2008
Melbourne Victoria 3001

Telephone: 1300 858 724

Overseas callers: +61 3 9609 8000

AEMO Information Centre: 1300 361 011

Statutory Auditor
BDO

Market Auditor
RSM Bird Cameron
PricewaterhouseCoopers

Internal Auditor
RSM Bird Cameron

Banker
CBA

Solicitor
Principal Advisors:
Allens Arthur Robinson
herbertgeer

