

# PLANNING, OPERATING, DELIVERING





# AEMO

AUSTRALIAN ENERGY MARKET OPERATOR

AEMO CONTINUOUSLY STRIVES TO **EVOLVE**, **ADAPT**, AND **PROVIDE** VALUE TO ITS STAKEHOLDERS, WITHIN A CONSTANTLY CHANGING ENERGY LANDSCAPE. DELIVERING VALUE IS CENTRAL TO OUR VISION OF BEING PIVOTAL TO MARKETS AND OUR MISSION, WHICH IS TO **PLAN**, **DEVELOP**, AND **OPERATE** MARKETS THAT ARE RESPONSIVE TO ENERGY SECTOR NEEDS AND SUPPORT LONG-TERM INVESTMENT IN AUSTRALIA. THIS ULTIMATELY BENEFITS ALL ENERGY CONSUMERS, LARGE OR SMALL, ACROSS THE EASTERN SEABOARD.

## OUR VISION

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

## OUR MISSION

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

## WE VALUE

### **Every voice**

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

### **Our stakeholders**

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

### **One team**

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

### **Commitment and delivery**

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

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# CHAIRMAN'S REPORT: THE CHALLENGES AHEAD

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

DR THOMAS PARRY AM

AEMO's vision is to be pivotal to Australia's energy markets and our mission is to plan, develop and operate markets that respond to energy sector needs and support long-term investment. To achieve this, AEMO delivers relevant information and expert advice in the constantly changing energy environment.

The energy market has changed. We are seeing a decline in electricity consumption, a rapid expansion of the eastern and south-eastern gas industry, new and evolving technologies, uncertainty in carbon reduction policies, and a changing economic outlook.

AEMO's work aims to support the energy industry in making sustainable long-term infrastructure investment decisions by providing robust, independent demand forecasts. This year AEMO will continue to work alongside industry to provide electricity demand forecasts at a more granular, connection-point level (the interface between electricity loads and the transmission grid) to provide even greater insight.

Energy market reform continues, with the introduction of a gas supply hub at Wallumbilla in Queensland on schedule for March 2014. As part of a broader suite of market reforms, the gas supply hub aims to increase opportunities to trade gas and create price transparency which should benefit both market participants and domestic consumers in the longer term.

The 2012 Gas Statement of Opportunities showed there are adequate gas reserves on the eastern seaboard but the challenge is developing them in time to meet both domestic and export gas demand. In 2013 AEMO will model the possible impacts and consequences of not developing reserves in a timely way, including the impacts for domestic supply.

The consumer's role in the energy industry is now firmly in the spotlight along with the continuing push to identify further opportunities to improve market efficiency.

The Standing Council on Energy and Resources (SCER) has endorsed the Australian Energy Market Commission's (AEMC) Power of Choice Review recommendations, and tasked AEMO with progressing a number of reform initiatives. These include establishing a Demand Response Mechanism and developing changes to metering arrangements. Such initiatives aim to give consumers the tools they need to make informed decisions about their electricity use, and provide them with competitive electricity products and services.

The Council of Australian Governments (COAG) has also supported the use of a Value of Customer Reliability (VCR) measure to help inform network decisions. This measure, being developed by AEMO, will provide a better indication of consumers' willingness to pay for network augmentations, and will inform revenue price determination and planning decisions by network service providers across the eastern seaboard.

As we look forward to another challenging year, I would like to thank AEMO's members and stakeholders for their continued support, particularly acknowledging the contribution made by The Hon Michael Lavarch AO who retired from the AEMO Board on 1 November 2012, and Dr Mike Sargent AM and Mr Ian Fraser who will both retire on 7 November 2013.

I would also like to thank AEMO's Managing Director and Chief Executive Officer Matt Zema, the leadership team, and all our employees who continue to support our vision and mission.

# CHIEF EXECUTIVE OFFICER'S REPORT: THE YEAR IN REVIEW



MATT ZEMA



AEMO's achievements over the past 12 months have been driven by our continued commitment to delivering value to members, stakeholders, employees and ultimately, Australia's energy consumers. The energy sector continued to evolve throughout 2012-13, and AEMO's work included considering the potential implications of an energy supply system characterised by a decline in electricity consumption and a greater emphasis on renewable technologies.

The 2013 National Electricity Forecasting Report (NEFR) reflects the declining electricity consumption. It also benefitted from our improved approach to developing forecasts, which supports more accurate and robust demand forecasts. Other key developments were introducing independent reviews by external experts, and producing shorter-term (one-to-five-year) forecasts in addition to the 10-year outlook. AEMO also worked more closely with large industrial energy consumers to better understand their expected consumption.

This work was complemented by our ongoing project to develop the Australian Solar Energy Forecasting System (ASEFS) and improve our ability to forecast the solar energy contribution to electricity supply. The National Electricity Market's (NEM) evolving generation mix is also reflected in AEMO's initiative to deliver a series of renewable energy integration studies, the first of which was released in June 2013.

Gas industry growth provides the opportunity for AEMO to drive further market developments to increase transparency and facilitate seamless trade within and between existing and new wholesale demand and supply gas markets. A specific project is the gas supply hub development at Wallumbilla, which is part of the Standing Council on Energy and Resources' (SCER) gas market reform agenda.

Wallumbilla, in southern Queensland, is ideally located to deliver improved market efficiencies, linking with existing infrastructure and coal seam gas fields to support both domestic and export gas trade.

AEMO continues to work with the Australian Energy Market Commission (AEMC) to deliver several Short Term Trading Market (STTM) operational changes resulting from

reviews completed in 2012. The changes, designed to improve market efficiency, will provide better cost-to-cause allocation; and extended eligibility of Market Schedule Variations (MSVs) will reduce participant costs.

Efficient markets remain a focus for AEMO. Projects undertaken in 2012-13 to deliver improved efficiencies for the NEM included several network services procurement reviews to ensure the services we purchase deliver the best possible value to energy consumers, with an appropriate balance of service delivery and cost.

AEMO has been active in contributing to the AEMC's Transmission Frameworks Review, the Productivity Commission's review of electricity networks, the Senate Select Committee on Electricity Prices, and in developing a proposal to improve the Heywood electricity network interconnector between Victoria and South Australia.

AEMO's approach to industry consultation also underwent notable change this year with the completion of a project to streamline industry working groups. The new working group framework is facilitating more efficient collaboration with stakeholders as we work to progress key initiatives.

In the current environment of slowing electricity consumption, AEMO remains conscious of the financial and policy challenges the industry faces. We focused on identifying and driving cost efficiencies in the 2013-14 budget, which is reflected in reduced NEM fees. Our continuing focus on identifying efficiencies and delivering value to stakeholders also resulted in significant reductions in consulting and contractor costs and finance and insurance costs.

The past year has been both exciting and challenging, and characterised by increased collaboration and cooperation. It was another step in our journey to remaining pivotal to Australia's energy sector. For that I would like to acknowledge the ongoing support of our Board, and the commitment and focus of our dedicated employees.

# AEMO'S ROLE IN THE ENERGY INDUSTRY



The Australian Energy Market Operator (AEMO) is an independent organisation responsible for operating eastern and south-eastern Australia's energy markets and systems.

AEMO's ownership structure comprises 60 per cent government members and 40 per cent industry members (including generators, transmission companies, retail and distribution businesses and resource companies, and investment companies).

In addition to the day-to-day management of wholesale and retail energy market operations, AEMO operates the electricity power system on the eastern seaboard and the Victorian gas declared transmission system, and undertakes ongoing market development and long-term system planning.

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

AEMO prepares independent demand forecasts and justifies expenditure on new transmission infrastructure using an economic cost-benefit framework that strikes a balance between network costs, reliability, and market operating benefits.

AEMO reports to the Council of Australian Governments (COAG), comprising Commonwealth and all state and territory jurisdictions, through the Standing Council on Energy and Resources (SCER).

AEMO performs its functions under the National Electricity Law and the National Gas Law. It works alongside the Australian Energy Regulator (AER), which oversees economic regulation and compliance with national laws, rules and procedures; and the Australian Energy Market Commission (AEMC), which makes the rules for energy market regulation.



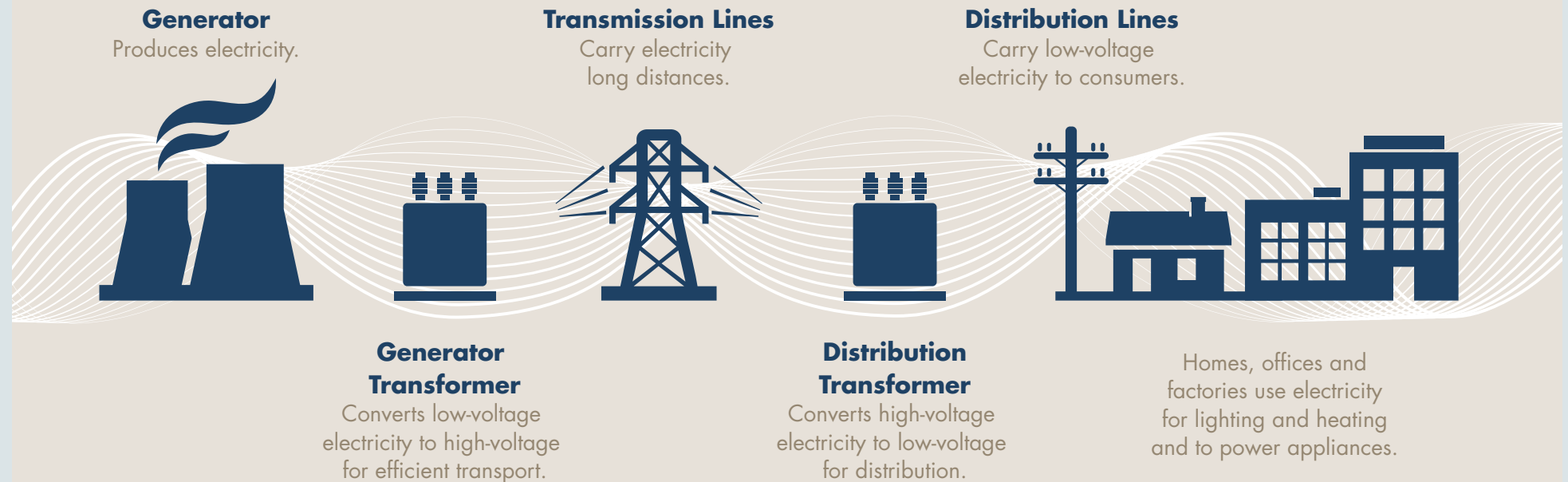
## AEMO MARKETS

### ELECTRICITY

The National Electricity Market (NEM) interconnects five market regions (Queensland, New South Wales (including the Australian Capital Territory), Victoria, South Australia, and Tasmania). The NEM involves the transport of wholesale generation via high-voltage transmission lines to electricity distributors, who deliver it to Australian homes and businesses. The transport of electricity from generators to consumers is facilitated through a "pool", or spot market, where the output from all generators is aggregated and scheduled at five-minute intervals to meet demand. The pool is not a physical entity but a set of procedures that AEMO manages in line with the National Electricity Law and National Electricity Rules.

**FAST FACT** >> The NEM is one of the longest alternating current (AC) systems in the world, extending over 5,000 kilometres.

### ▶ TRANSPORT OF ELECTRICITY



**FAST FACT** >> Total energy traded in 2012-13 (energy purchase value) - NEM: \$11.4 billion, Short Term Trading Market: \$0.92 billion; Declared Wholesale Gas Market: \$1.05 billion.

## GAS

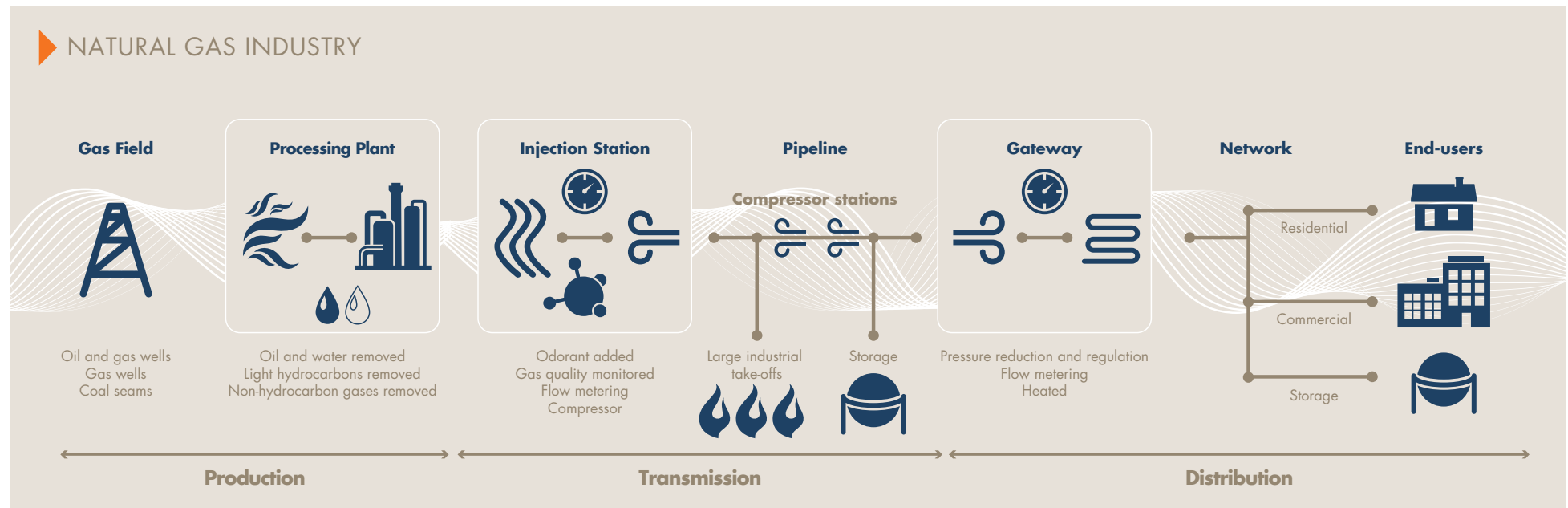
The Victorian Declared Wholesale Gas Market (DWGM) was established in 1999 to enable competitive, dynamic trading based on injections into, and withdrawals from, the transmission system that links producers, major users, and retailers. The DWGM arrangements apply to the Victorian declared transmission system used to transport gas to the majority of Victorian households and businesses supporting the highest residential gas usage in Australia. It supports more than 1.9 million customers consuming more than 202 PJ a year.

The Short Term Trading Market (STTM) is a wholesale market designed to facilitate short-term gas trading using market-driven, short-term (daily) prices. Market participants tend to purchase the majority of their gas through contracts and buy any additional supply they need through the STTM. The STTM operates at demand hubs currently located in Adelaide, Sydney, and Brisbane. The hubs are transfer points through which gas is transmitted and then delivered to the distribution networks.

Although the DWGM operates on a different basis to the STTM, they meet similar objectives: providing price transparency and facilitating short-term gas trading to balance supply and demand variations.

### FAST FACT

The Victorian DWGM delivers gas to more than 1.9 million customers, supporting the highest residential natural gas usage in Australia.



# SYSTEM OPERATION PERFORMANCE



**FAST FACT** » The amount of energy traded in the NEM in 2012-13: 184 TWh (energy purchased by market customers) and 189 TWh (energy sold by registered market generators).

## ELECTRICITY – THE NATIONAL ELECTRICITY MARKET

AEMO's continued focus on National Electricity Market (NEM) security and supply reliability saw the system security maintained successfully throughout the year.

The NEM is controlled via two control centres; one in Queensland and one in New South Wales. Each can seamlessly assume responsibility for the entire NEM should the other centre become unavailable. Technical enhancements to the NEM's operating and market information systems are designed to ensure the two centres are fully equipped to support the increasing complexity of the NEM, and to accommodate new forms of generation (such as wind and solar) as they enter the market.

In 2012-13, AEMO moved many application servers from physical hardware to virtual servers, improving performance and increasing resilience of the IT systems that support the electricity network. In the unlikely event of an incident preventing access to one AEMO site, operations can easily be continued at another.

There were also a number of IT upgrades to ensure AEMO systems operate on platforms that will continue to support our databases and applications. AEMO adopted new software development platforms and processes to allow for future activities and greater longevity.

AEMO conducts regular operational assessments and system planning to manage the impacts of unplanned transmission or generator outages, and major incidents and emergencies. These include weather-related events that can affect transmission infrastructure. This planning often involves transmission network service providers (TNSPs) and participants (via working groups) to address issues such as power system restarts and ongoing improvements to security.

System robustness was tested by several events during 2012-13, including hot weather and bushfires across several states during the summer.

## GAS – VICTORIAN GAS SYSTEM OPERATIONS

As the operator of Victoria's interconnected declared shared transmission system (DTS) for gas, AEMO maintains system security and ongoing reliability of the gas supply. Victoria's low winter temperatures and high gas demand can present challenges for system operation. However, AEMO's sound operating practices, including a detailed pre-winter strategy for managing any system risks and changes, ensured the winter demand during 2012 was successfully met.

AEMO liaised closely with industry throughout the critical winter operating period and throughout the year.

This year, AEMO unified access to gas systems onto its Market Network, an energy trading network providing access to all participant trading systems. AEMO's gas IT hardware platforms were moved to virtual systems, increasing resilience of the gas markets and providing participants with seamless connectivity between data centres.



## CYBER SECURITY

AEMO's IT systems are vital to ensuring the integrity of the interconnected power grid, which is why AEMO uses a risk management approach in applying security controls, and a "secure by design" approach to implementing and maintaining IT systems.

Throughout 2012-13 AEMO's IT Security Services team partnered with key security organisations, stakeholders and authorities, both domestically and internationally to share information and further improve our cyber security measures and employee awareness.



# STRATEGIC DRIVERS



## ENGAGING OUR STAKEHOLDERS

In 2013 AEMO reinvigorated its approach to stakeholder engagement by implementing a more structured framework for its stakeholder consultative forums and working groups. This provides greater clarity and visibility of purpose, interactions, and outputs. AEMO aims to deliver:

- More efficient collaboration between AEMO and key stakeholders.
- Improved policy outcomes for the energy industry.
- Better sharing of industry expectations and requirements for energy market operation and development.

At a strategic and policy level, a revamped Energy Market Leaders Forum has replaced the previous Gas and Electricity Market Leaders Forums. This facilitates meaningful dialogue between AEMO and senior industry executives about current and future issues of importance across the wholesale gas and electricity markets. A new Retail Market Leaders Forum was created to meet the challenges of significant policy reform in this area.

A National Electricity Market (NEM) Wholesale Consultative Forum was created to provide a focal point to raise and discuss issues associated with the ongoing operation and enhancement of the NEM wholesale market; and a Planning and Modelling Forum was introduced to combine several existing planning and system data management working groups. This forum provides high-level direction for the content and format of AEMO's planning documents, including the formulation of scenarios and planning assumptions, and facilitates data collection for modelling and planning.

## AEMO IS WORKING IN COLLABORATION WITH INDUSTRY TO PRODUCE SOLAR ENERGY FORECASTS THAT WILL HELP INTEGRATE LARGE- AND SMALL-SCALE SOLAR TECHNOLOGIES INTO THE POWER GRID AND ALLOW LARGE SOLAR SYSTEM OPERATORS TO PARTICIPATE IN THE NEM.

AEMO established a special-purpose Stakeholder Advisory Working Group to assist in developing National Electricity Rule proposals to implement a Demand Response Mechanism (DRM), in accordance with recommendations in the Australian Energy Market Commission's (AEMC) Power of Choice Review. This is part of a broader reform agenda to develop efficient demand-side participation in the NEM.

### A NEW APPROACH TO FORECASTING

In October 2012 AEMO presented industry with a three-year plan to develop independent energy forecasts that enable holistic and coordinated decision-making for infrastructure investment across the gas and electricity markets. The Energy Forecasting Industry Reference Group was also established to test the proposed forecasting strategy, and ensure it meets industry needs.

The 2013 National Electricity Forecasting Report (NEFR) released in June 2013 incorporated improvements to last year's inaugural NEFR, including forecasting methodology developments and improved transparency of AEMO's forecasting processes and data. Further enhancements are earmarked for the 2014 report.

The 2013 NEFR found that electricity consumption across the NEM was forecast to be 2.4% lower for 2013-14 than estimated in 2012. Slower growth in electricity consumption across eastern and south-eastern Australia was attributed to continued increases in rooftop PV installations, energy efficiency savings, and lower-than-expected growth in most industrial sectors.

### SOLAR FORECASTS

AEMO is working in collaboration with industry to produce solar energy forecasts that will help integrate large- and small-scale solar technologies into the power grid and allow large solar system operators to participate in the NEM.



## AEMO Information and Support Hub and Training and Information Services

Following the introduction of a single Information and Support Hub in July 2012, AEMO embarked on a continuous improvement program to upgrade the services provided by its Technical Support team and Training and Information Services team.

Improvements were ongoing throughout 2012-13 following an external review, and more changes planned in the coming 12 months will streamline the Support Hub's service delivery to ensure a timely and appropriate response to enquiries.

AEMO introduced an online Overview course to complement the face-to-face training offered to stakeholders on different aspects of eastern and south-eastern Australia's gas and electricity markets. Further training developments are planned for the coming year.

**FAST FACT** In 2012-13 more than 450 people attended AEMO's face-to-face courses and over 180 people completed the new online NEM Overview.



## Emergency and security management

2012-13 saw a number of incidents including fires, hot weather and storms, challenging AEMO with multiple incidents across jurisdictions. Working closely with industry, government and emergency services, and being well prepared for such incidents, AEMO managed to successfully maintain system security, again proving the resilience of the NEM and the benefit of having effective and established relationships.

In collaboration with stakeholders across the jurisdictions, AEMO planned and executed several emergency exercises including a national gas emergency exercise conducted in Canberra as well as two NEM exercises. These exercises ensure AEMO and industry are well prepared and take a coordinated approach to incidents.

## Independent advice

In 2013 AEMO delivered a study to the Commonwealth Government on the potential for 100 per cent renewable electricity generation in the NEM by 2030 and 2050.

AEMO also provided key advice for the New South Wales Mid North Coast Review into the region's electricity requirements. AEMO found that no new network investment was needed for 20 years, based on revised consumption forecasts.

AEMO presented a submission to the South Australian Government's Senate Committee on wind farm development. The submission outlined AEMO's work on integrating wind generation into the NEM, and the market's capacity to respond to the increase in renewable energy technologies in the generation mix.

AEMO also advised the Parliament of Australia's Senate Select Committee on Electricity Prices that capital expenditure growth in networks over the past five years had outstripped growth in both energy and peak demand, contributing to rises in retail electricity prices.





## PEOPLE: EMPOWERED EMPLOYEES

AEMO's people are critical to the organisation's continued success, particularly as it strives to continuously deliver value to its stakeholders and meet the challenges confronting the energy sector. At 30 June 2013, AEMO's headcount was 494 people.



### Strategic workplace planning

In 2012-13 AEMO commenced strategic workforce planning for the first time to help optimise its workforce and ensure the organisation delivers the right skills at the right time and the right cost. This will ultimately enhance AEMO's workforce talent availability, capability, and productivity.

In early 2013 AEMO management analysed the current workforce, modelled potential future scenarios, and developed a people-related action plan aligned to AEMO's strategic objectives.

New strategic workforce planning followed an organisational restructure in July 2012, consolidating AEMO into six main departments. The restructure achieved clearer accountabilities, improved efficiency, and enabled more effective resource management.

### Workplace health, safety, and environment

In 2012-13, AEMO continued to build on the organisation-wide foundation for workplace health safety and environment (WHSE) established in 2011-12. Numerous initiatives to improve safety performance were driven by the national and regional WHSE committees.

These initiatives are designed to build a proactive safety culture and support AEMO's corporate compliance and audit requirements. As part of this shift in culture, all employees are encouraged to take responsibility for their own safety and wellbeing, and that of their colleagues.



### An enhanced Graduate Development Program

In 2012-13 AEMO developed its Graduate Development Program (GDP) to acquire and nurture young talent. AEMO improved its recruitment, induction, rotation, and mentoring experiences; strengthened its relationships with universities and professional associations; and promoted the program at career expos to increase awareness of the opportunities AEMO offers.

Recruiting and retaining the best people for the available roles will deliver greater productivity and value for AEMO's stakeholders. The program also introduced opportunities for the current intake of graduates to meet and present to AEMO's Board of Directors and to shadow the Chief Executive Officer for a day.

AEMO also finalised an innovative marketing plan to recruit the next wave of talent for 2014.

## EFFICIENT MARKETS

### Planning

AEMO continued to improve and develop its planning information for stakeholders, particularly in terms of incorporating energy sector changes affecting policy and investment decisions.

AEMO consolidated its publications to improve their focus and analysis: supporting data and inputs into several key reports were published throughout the year, giving stakeholders access to detailed information as soon as it became available.

Reports released included AEMO's Electricity Statement of Opportunities (ESOO); a key input into energy policy and investment decisions. The 2012 ESoo reported that reduced energy consumption growth had deferred signals for new baseload generation investment for at least four years.

The 2012 Gas Statement of Opportunities (GSOO) provided information about the current state of the gas industry in eastern and south-eastern Australia. This facilitates a competitive market and efficient investment. The report showed there are enough gas resources to meet domestic and export needs as long as industry develops commercially recoverable reserves (known as 2P reserves) in a timely way. The 2013 GSOO will explore the possible impacts and consequences of not developing these reserves, and the potential impacts for domestic supply.

The National Transmission Network Development Plan (NTNDP)—a strategic long-term view of the NEM—presents a least-cost approach to transmission network development over the next 25 years. The 2012 NTNDP included a separate report on the benefits of applying an economic planning approach to network investment.

Other reports included the South Australian Electricity Report (SAER), which looked at South Australian electricity supply and demand outlook; and the Victorian Annual Planning Report (VAPR), which identified constraints in the electricity declared shared network (DSN), the costs associated with network congestion, and possible options to alleviate network limits.

AEMO also published an initial study on wind integration that summarises the technical capabilities of existing wind turbines in the NEM and investigates current developments in turbine capability. The report identified areas where further work is needed to understand potential effects of wind turbine capabilities on the power system as more wind generation enters the market.

### Market development

AEMO's market development activities aim to improve the accessibility and effectiveness of eastern and south-eastern Australia's wholesale and retail markets; identify opportunities to develop the new markets to meet the changing industry environment; and deliver benefits to customers.

For example the Small Generator Framework published in 2010 sets out principles to minimise barriers to cost-effective small generator participation in the NEM. The framework encompasses registration, metering and settlement, power system security and reliability, and information provision.

Elements of this framework which have been introduced in the past year include implementation of a rule change streamlining the classification process for small generator systems; creating a role for third parties in managing small generators, and minimising transaction costs for small generators participating in the NEM.

The Market Settlement and Transfer Solutions (MSATS) system was updated to enable transfers of financial responsibility for small generators between market participants to facilitate choice of market participant for small generator components.

#### FAST FACT

There are 181 registered participants in the NEM, 30 in the STTM, and 35 in Victoria's DWGM.



## PRUDENTIAL REFORM

AEMO is working to identify opportunities to improve the settlement and prudential services associated with the energy markets. AEMO is developing initiatives which support more efficient use of capital in prudential processes, and which would improve energy market resilience in the event of a participant failure.

One such initiative is the improved NEM Prudential Standard, a rule which introduces a new statistical method to calculate market participant collateral requirements that are more in line with the potential risk posed by their possible default. The rule is expected to contribute to achieving the National Electricity Objective and to benefit energy consumers—a core focus for AEMO. It will improve efficiency within the prudential framework, increase market arrangement transparency, and provide greater certainty for market participants and AEMO.



## GAS MARKET DEVELOPMENT

### Short Term Trading Market

AEMO continues to work with the Australian Energy Market Commission (AEMC) to deliver several Short Term Trading Market (STTM) operational changes to implement improvements identified through reviews completed in 2012.

The changes, designed to improve market efficiency, include reducing Market Operation Services (MOS) costs; deviation pricing that will give better allocation of cost-to-cause; and extended eligibility of Market Schedule Variations (MSVs) trade to users to reduce participant costs.



## Victorian Declared Wholesale Gas Market

Work continued throughout 2012-13 to clarify arrangements for allocating and trading Authorised Maximum Daily Quantity (AMDQ) and MDQ Credit Certificates. These are both capacity rights to the declared transmission system (DTS) that can be used to gain market benefits.

This work was requested by stakeholders via the Gas Wholesale Consultative Forum (GWCF). It will lead to rule changes providing clarity around the allocation of the certificates upon augmentation of the DTS, and will allow a new mechanism for trading the underlying market benefits of the certificates. This new development, known as portfolio rights trading, will allow market participants to register these trades. It is expected to deliver significant value to market participants.

AEMO also commenced a review to assess the appropriateness of the Cumulative Price Threshold level. The threshold limits participant risks during extended periods of very high prices. The review is likely to recommend a reduced threshold, providing better risk protection to market participants.

## Wallumbilla Gas Supply Hub

Following approval of the Wallumbilla Gas Supply Hub detailed design in December 2012, the Standing Council on Energy and Resources (SCER) requested that AEMO proceed with implementing the brokerage model, and developing forward-date products and a voluntary shipper-to-shipper capacity trading mechanism.

Establishing the hub represents the next significant step in gas market reforms aimed at increasing transparency and competition. The hub is expected to support the efficient trade and movement of gas between regions, enhance transparency of gas trading, and set a reference price for gas so participants can manage portfolio risk.

AEMO is also developing forward and pipeline capacity trading products for listing on the exchange. This will foster greater trading of gas and create price transparency. AEMO is also developing the legal and regulatory architecture that will underpin the supply hub. A market trial is scheduled for February 2014.



Photo courtesy of APA Group

## Demand Response Mechanism

Since January 2013, AEMO has worked with industry to design detailed plans for implementing a DRM in the NEM. The DRM would provide increased incentives for demand reductions at times of high prices, potentially alleviating requirements for further generation and network investment specifically required to meet peak demand.

AEMO has also been tasked with creating a new category of market participant to unbundle the sale and supply of electricity from non-energy services. This means large electricity consumers can choose entities other than electricity retailers to sell services such as frequency control ancillary services (FCAS), which are needed to maintain electricity system stability.

These initiatives follow recommendations made in the AEMC's Power of Choice report late in 2012. They are part of a broader SCER reform agenda seeking to develop efficient demand-side participation in the NEM.

AEMO aims to submit rule change proposals to the AEMC by the end of 2013, and implement the changes (if approved) in its May 2015 release cycle.

## COMMERCIAL MANAGEMENT

### Finances

AEMO's continued focus on identifying efficiencies and delivering value to stakeholders resulted in reduced consulting, IT, contractor, finance, insurance, and other costs.

AEMO's 2012-13 financial statements highlight an annual surplus of \$67.4 million. This is partly due to the recovery of an accumulated deficit of \$37.7 million from the 2011-12 financial year primarily related to AEMO's Victorian transmission network service provider (TNSP) function; higher-than-expected intra-regional settlement residue income; and lower-than-budgeted expenditure.

AEMO is aware of the challenges facing the industry, including the financial pressures associated with slowing electricity consumption. To this end, AEMO's 2013-14 budget and fees focus on identifying and driving cost efficiencies.

This is reflected in benchmark fees for the NEM (AEMO's largest function representing 40% of the budget in 2012-13), which decreased from \$0.40 to \$0.37 per megawatt hour in 2013-14.



## Sydney CBD office relocation

AEMO's Sydney office relocated in March 2013, improving AEMO's Sydney operations particularly in terms of hosting stakeholder meetings and AEMO's industry training programs.



## Information Management and Technology

Energy market systems and their underlying technologies are fundamental to efficient market operation.

Reliance on IT systems means AEMO's Information Management and Technology department plays a key role in providing AEMO and its stakeholders with services that respond to changing policies and technology.

In 2012-13 AEMO successfully implemented six software releases to improve IT functionality and address issues raised by market participants to improve the day-to-day energy markets operation. AEMO also introduced new software to support the pending gas supply hub at Wallumbilla in Queensland.

To minimise costs for Wallumbilla participants, AEMO investigated global software options and selected a Trayport® exchange trading system already in use overseas.

AEMO continues to build on its existing IT products. Examples include server virtualisation and improving technology to support increasingly mobile employees; these projects deliver greater operating efficiency and a higher level of service to stakeholders.

Where appropriate, AEMO also continues to leverage cloud-based services for improved efficiency, and will continue to seek further opportunities in this area.

AEMO's "secure by design" approach means security is inherent in the systems and services it develops and implements.

**FAST FACT** On average there are 4.3 million transactions to or from electricity market participants each week, and 2.7 million interval meters are updated daily. AEMO also delivers 3.9 million files every week to electricity market participants.

## PRODUCTIVITY

### Information Management and Technology

In 2012-13 AEMO and its industry counterparts implemented the second stage of the Energy Industry Conceptual Data Model (EICDM) to help facilitate IT coordination across the energy markets.

The EICDM allows improved energy market data understanding. The project aims to save time and costs through improved planning, standardisation, knowledge sharing and collaboration, easier multi-directional data flows, and reduced duplication.

Operationally, AEMO implemented server virtualisation. This speeds up server delivery to support IT services and meet business objectives, improves systems availability, reduces the size of data centres, and reduces power consumption. New reporting metrics will be developed to demonstrate the improved IT service delivery performance and availability.



### Ancillary services

In 2012-13, AEMO saved millions of dollars by improving processes to better manage network services procurement.

The improvements followed AEMO's review of a number of services including network support and control ancillary services (NSCAS), a non-market service used to maintain power system security and reliability.

In consultation with industry stakeholders, AEMO also reviewed its approach to procuring system restart ancillary services (SRAS). In the unlikely event of a significant network blackout, SRAS restore generating units to operation without relying on power from the transmission network.

The review identified possible procurement process improvements, with potentially significant cost efficiencies. AEMO will finalise the review and make appropriate changes in 2013-14.



### AEMO's National Electricity Forecasting Report

The 2013 NEFR incorporated several improvements designed to contribute to more accurate and robust demand forecasts. Models used to develop the 2013 forecasts were independently reviewed by external experts, and there is now a greater focus on short-term (one-to-five year) forecasts in addition to the 10-year outlook. AEMO also worked more closely with large industrial energy consumers to better understand their expected consumption.

#### FAST FACT

In 2012-13 there were 55 new registrations in the NEM, two in the STTM, and five in Victoria's DWGM.

# KEY INITIATIVES



## EFFICIENT TRANSMISSION

In 2012-13 AEMO focused on facilitating more efficient network regulation, investment, and development to promote the right assets being built in the right place at the right time.

AEMO's 2012 National Transmission Network Development Plan (NTNDP) included a study on the case for an economic approach to network planning rather than a regional approach based on a traditional deterministic redundancy standard. AEMO's study showed the economic planning approach will defer investment, particularly where the cost of building infrastructure is high, with minimal impact on reliability.

The study indicated that changes are needed to achieve a balance between a reliable electricity supply and electricity prices. Subsequently AEMO began developing

a Value of Customer Reliability (VCR) measure for use across the National Electricity Market (NEM) as requested by the Standing Council on Energy and Resources (SCER) in December 2012.

The VCR is an input into determining region-specific reliability standards that more accurately reflect customers' willingness to pay for uninterrupted power supply and network augmentations. It will inform revenue price determination and planning decisions by network service providers across the eastern seaboard.

AEMO also made submissions to several reviews including the Australian Energy Market Commission's (AEMC) Transmission Frameworks Review (TFR) and the Productivity Commission's inquiry into electricity network regulation. Both reviews outlined AEMO's fundamental role in providing independent national information to inform planning decisions and network regulation.



## AEMO'S 2012 NATIONAL TRANSMISSION NETWORK DEVELOPMENT PLAN INCLUDED A STUDY ON THE CASE FOR AN ECONOMIC APPROACH TO NETWORK PLANNING RATHER THAN A REGIONAL APPROACH BASED ON A TRADITIONAL DETERMINISTIC REDUNDANCY STANDARD.

The AEMC is continuing to investigate reliability settings across the NEM, using AEMO's economic analysis as an input. It will provide its findings to the SCER by December 2013.

In 2013 AEMO assisted prominent engineer Robert Rollinson complete an independent review of the New South Wales Mid North Coast's energy needs in light of changing consumption forecasts. The review was commissioned by the NSW Minister for Resources and Energy to help determine optimal energy supply for the area in the long-term interest of consumers. AEMO found that no significant new network investment was required for the next 20 years based on peak demand forecasts.

At its December 2012 meeting, the Council of Australian Governments (COAG) requested that AEMO play a greater role in connection point forecasting. Such forecasting transparency will enable the Australian Energy Regulator (AER) to better assess revenue reset proposals from network service providers and should result in more efficient infrastructure investment and lower long-term costs for end-use consumers. AEMO is collaborating with industry to develop a methodology to refine forecasts at both regional and connection point levels.

The TFR recommended AEMO review the justification for significant network investment through the Regulatory Investment Test-Transmission (RIT-T) process in which a range of investment options are analysed before selecting the most efficient option. It also recommended AEMO provide specialist, independent advice to the AER for its revenue reset process.

In relation to identified constraints causing network congestion, the TFR also recommended further work on the Optional Firm Access (OFA) proposal, which allows generators to pay for network augmentations in exchange for transmission network access rights. Currently, customers fund the shared transmission network; the proposed OFA model allows generators to fund part of the network in return for improved access, and aims to minimise barriers to entry by increasing competition for providing and owning network services.

In the 2013 Victorian Annual Planning Report (VAPR), AEMO used an existing constraint in the Latrobe Valley to demonstrate how the OFA proposal—which enables generators to decide who builds the necessary augmentations under Victoria's contestable model—might work.

### FAST FACT

In 2012-13 new connections to the grid included the 420 MW Macarthur and 19.5 MW Mortons Lane wind farms in Victoria, and the 168 MW Musselroe Wind Farm in Tasmania. A 38 MW steam turbine was added at Mackey Sugar's Racecourse Mill facility, and the German Creek Power Station in Queensland added increased capacity by 13 MW.



## DEMAND-SIDE PARTICIPATION: BALANCING THE ENERGY EQUATION

AEMO is working collaboratively with industry to design a detailed Demand Response Mechanism (DRM)—one way for consumers to respond to periods of high energy prices.

This project will be a landmark NEM development. The DRM aims to alleviate requirements for generation and network investment by allowing large consumers to see the value of changing their energy use in line with market signals, such as the spot price. If market participants choose to reduce their energy use at certain times, they will be paid the spot price for the level of reduced consumption.

AEMO has also been tasked with creating a new category of market participant to unbundle the sale and supply of electricity from non-energy services. This means large consumers can choose entities other than electricity retailers to sell services such as frequency control ancillary services (FCAS), which is needed to maintain electricity system stability.

The DRM project arose from the AEMC's Power of Choice Review, which is part of a broader reform agenda to develop efficient demand-side participation in the NEM.

The SCER presented AEMO with terms of reference to establish an advisory stakeholder working group, and industry subject matter experts are progressing five key project areas with AEMO's support.

The AEMC also recommended that electricity customers should be able to accept services from more than one retailer or service provider. For example, a customer could potentially choose one retailer for their general household use, another for their air conditioning load, and a third for charging an electric vehicle. Competition at the appliance level represents a new paradigm in energy market competition. It will also require complex changes to customer metering and settlement. AEMO will be involved in the work required to realise this long-term vision.



## GAS MARKET REFORM: IMPLEMENTING A GAS SUPPLY HUB

AEMO is leading the development of an Australian-first gas supply hub at Wallumbilla, Queensland, at the request of the SCER.

Establishing the Wallumbilla Gas Supply Hub is the next significant step in COAG-led gas market reforms aimed at increasing transparency and competition. Other reforms included introducing the Gas Market Bulletin Board (GMB) and Short Term Trading Market (STTM).

The supply hub is being developed in close consultation with gas industry stakeholders for delivery by March 2014.

The impetus for an upstream trading hub comes as Queensland's gas sector faces a period of unprecedented growth, driven by the development of a significant liquefied natural gas (LNG) export program. Queensland's gas demand is expected to increase from 240 PJ in 2012 to over 1,500 PJ by 2016.

International gas markets have introduced spot gas exchanges similar to the Wallumbilla hub to enhance trading liquidity. This has developed gradually in North America and Europe through appropriate policy settings and the evolution of trading markets to meet participant needs. While Australia's gas markets operate on a smaller scale, AEMO expects the Wallumbilla hub to bring similar long-term benefits. These benefits are expected to further achieve the National Gas Objective and Gas Market Leaders Group's market development principles, and include:

- Enhanced transparency of gas trading.
- Strengthened participant short-term ability to allocate and price gas efficiently.
- Reference pricing that would support the evolution of financial products to manage portfolio risk.
- A generic and flexible national framework for a supply hub that can evolve with industry needs and be applied at any location by introducing new products.
- Support of efficient trade and movement of gas between regions.

The new commodity market will use an electronic platform, or exchange, to match commodity gas trades between buyers and sellers. The system chosen to support trading at the hub has been demonstrated to industry participants in Sydney, Melbourne, and Brisbane. Participant feedback has been positive, and there will be opportunities to road test the exchange first-hand during a market trial early in 2014.

The SCER also requested that AEMO proceed with developing a voluntary shipper-to-shipper capacity trading mechanism to complement the hub's objective to enable greater trading of gas and price transparency. AEMO and industry members of the Gas Supply Hub Reference Group are investigating how this trading mechanism might be implemented.

The group will focus on ways to reduce the transaction costs associated with trading, and provide more transparent market information to enable parties to seek counterparties to trade with.

As part of this, AEMO, in collaboration with industry, will look to develop a set of standardised terms and conditions that could be used for trading capacity at the hub.

Research commissioned by AEMO identifies that several approaches to capacity trading internationally have evolved over time. AEMO is working with industry stakeholders to apply the learnings of overseas markets to Wallumbilla.

The research findings can also be used more broadly by industry and government in relation to other government gas market reviews.



Photo courtesy of APA Group

# AEMO ORGANISATIONAL STRUCTURE

AEMO's organisational structure comprises six departments, each led by an executive. The six executives and the Managing Director and Chief Executive Officer together form the Executive Leadership Team. AEMO will continue to review, assess, and reshape its business to remain relevant and responsive to changing industry conditions.

## INFORMATION MANAGEMENT AND TECHNOLOGY



**CHRIS FORD**  
Chief Information Officer  
(Resigned September 2013)

## GOVERNANCE



**BRETT HAUSLER**  
Company Secretary and  
General Counsel

## CORPORATE SERVICES



**KAREN OLESNICKY**  
Chief Financial Officer



**MATT ZEMA**  
Managing Director and  
Chief Executive Officer

## PEOPLE AND CULTURE



**MAREE GARDNER**  
Executive General Manager

## OPERATIONS



**MIKE CLEARY**  
Chief Operating Officer

## CORPORATE DEVELOPMENT



**DAVID SWIFT**  
Executive General Manager

# AEMO MEMBERS

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

## Government members include:

Commonwealth Government  
Queensland Government  
South Australian Government  
Tasmanian Government  
Victorian Government  
Legislative Assembly of the Australian Capital Territory

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

## At 30 June 2013, AEMO's industry members are:

Acciona Energy Oceania Pty Ltd  
AGL Energy Ltd  
AGL Loy Yang Marketing Pty Ltd  
APA GasNet Australia (Operations) Pty Limited

Allgas Energy Pty Limited  
APT Petroleum Pipelines Pty Limited  
APT Pipelines (NSW) Pty Limited  
Attunga Capital Pty Ltd  
Aurora Energy (Tamar Valley) Pty Ltd trading as AETV Power  
Aurora Energy Pty Ltd  
Aus Gas Trading Pty Ltd  
Ausgrid

Australian Power and Gas Pty Ltd  
Central Ranges Pipeline Pty Limited  
CitiPower Pty  
Click Energy Pty Ltd  
Delta Electricity  
Diamond Energy Pty Ltd

Directlink Joint Venture (Directlink (No. 1) Pty Limited, Directlink (No. 2) Pty Limited, and Directlink (No. 3) Pty Limited trading as Directlink Joint Venture)

Dodo Power & Gas Pty Ltd  
East Australian Pipeline Pty Limited  
EDL Group Operations Pty Limited

ElectraNet Pty Ltd  
Endeavour Energy  
Energex Limited  
EnergyAustralia Gas Storage Pty Ltd  
EnergyAustralia Pty Ltd  
EnergyAustralia Yallourn Pty Ltd  
Energy Pacific (Vic) Pty Ltd  
EnerNOC Pty Ltd  
Envestra Limited  
Envestra (NSW) Pty Ltd  
Epic Energy Holdings Pty Ltd  
Eraring Energy  
ERM Power Limited  
ERM Power Retail Pty Ltd  
Essential Energy  
FPC 30 Limited  
Hydro-Electric Corporation  
Infigen Energy Markets Pty Ltd  
Infratil Energy Australia Pty Ltd  
Jemena Limited  
Macquarie Generation  
Marubeni Australia Power Services Pty Ltd  
Millmerran Energy Trader Pty Ltd  
Murraylink Transmission Company Pty Ltd  
N. P. Power Pty Ltd  
OneSteel Manufacturing Pty Ltd  
Origin Energy Electricity Limited  
Pacific Hydro Clements Gap Pty Ltd  
Pacific Hydro Challicum Hills Pty Ltd  
Pacific Hydro Portland Wind Farm Pty Ltd

Pacific Hydro Retail Pty Ltd  
People Energy Pty Ltd  
Powercor Australia Ltd

Queensland Electricity Transmission Corporation Limited (trading as Powerlink Queensland)

Roverton Pty Limited  
Santos Ltd

South East Australia Gas Pty Ltd  
SPI Electricity Pty Ltd  
Tasmanian Gas Pipeline Pty Ltd  
Transend Networks Pty Ltd  
TransGrid

Vicpower Trading  
(State Electricity Commission of Victoria trading as Vicpower Trading)

Westpac Banking Corporation  
WINenergy Pty Ltd

# BOARD OF DIRECTORS



## **DR THOMAS (TOM) PARRY AM** Chairman (Independent Director)

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

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

**MR IAN FRASER Non-executive Director (Independent 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 Chief Executive Officer and Managing Director of NEMMCO 2003-08 and a director of the company between 1997 and 2008. He is currently a non-executive director of AGL Energy Ltd and Chairman of Adelaide Brighton Ltd. He has over 30 years' experience in the Australian futures industry, including as Chief Executive Officer and Managing Director of the Sydney Futures Exchange Ltd for 15 years, from 1985 to 2000.

**PROFESSOR THE HON. MICHAEL LAVARCH AO Non-executive Director (Retired 1 November 2012)**

Professor Lavarch is the Chairman of the Financial Ombudsman Service Ltd and was previously a director of NEMMCO and ASX Supervisory Review Pty Ltd. He has significant experience in the private and public sectors and is currently a Commissioner with the Australian Skills Quality Authority. Prior to this he was the Executive Dean of the Faculty of Law at the Queensland University of Technology. He retired from the AEMO Board on 1 November 2012.

**MR GREG MARTIN Non-executive Director**

Mr Martin is a non-executive director of a number of listed and unlisted companies including Santos Ltd, Iluka Resources Ltd, and Energy Developments Ltd. Mr Martin is a previous Chief Executive Officer and Managing Director of AGL and has nearly 30 years' experience in the utilities, energy, and energy-related infrastructure sectors in Australia, and internationally.

**DR ANTHONY (TONY) MARXSEN Non-executive Director (Independent Director)**

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

**MR STEPHEN ORR Non-executive Director**

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

**DR MICHAEL SARGENT AM Non-executive Director (Independent Director)**

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

**MS JANE TONGS Non-executive Director (Independent Director)**

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

**The AEMO Board comprises (left to right):** Dr Anthony (Tony) Marxsen, Mr Ian Fraser, Mr Matt Zema (Managing Director and Chief Executive Officer), Ms Jane Tong, Mr Stephen Orr, Dr Michael Sargent AM, Mr Greg Martin, Mr Leslie (Les) Hosking, Dr Thomas (Tom) Parry AM (Chairman).

# CORPORATE GOVERNANCE



## CORPORATE GOVERNANCE PRINCIPLES

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

AEMO has used a range of sources to develop its approach to corporate governance, including the Australian Securities Exchange (ASX) Corporate Governance Principles and Recommendations to the extent that they are applicable to its corporate structure, as well as considering overseas developments in corporate governance. The Board has established corporate governance policies and charters; these are outlined later in this report.

## Composition of the Board

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

There are currently nine members on AEMO's Board: an independent Chairman, the Managing Director (who is also the Chief Executive Officer), and seven non-executive directors. Collectively the Board possesses the core skills and experience prescribed in the AEMO Constitution.

The selection process for new directors is overseen by the Nomination Committee with the interview process and recommendations being made by the independent



## AEMO BELIEVES THERE IS A CLEAR CORRELATION BETWEEN A CULTURE FOCUSED ON ACHIEVING AND MAINTAINING HIGH STANDARDS OF CORPORATE GOVERNANCE, AND CREATING VALUE FOR OUR MEMBERS AND THE BROADER COMMUNITY.

Standing Council on Energy and Resources (SCER) Appointments Selection Panel. In addition to the required core skills and experience, other factors such as diversity and succession planning are considered as part of the selection process.

AEMO's members (government and industry) approve the SCER Appointments Selection Panel's recommendations, before they are submitted for SCER approval.

Regarding retiring directors, the Chairman reviews all directors whose term of appointment is due to expire and then compiles a list of all those eligible for reappointment and whom the Chairman recommends for reappointment.

The list is then submitted to AEMO's members, who approve submission for SCER approval. Non-executive directors are limited under the Constitution to one further term after their initial term.

### Director induction and continuing education

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

Directors are encouraged by the Board to continue their education by attending training and education relevant to their role. Regular briefings are also held in conjunction with Board meetings.

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

The Board is committed to the ongoing development of individual directors and the Board as a whole. The Board regularly undertakes an assessment of its performance. This assessment can be:

- Qualitative, quantitative, or both.
- Informal or formal.
- A whole of Board review, or individual directors.
- Self-administered, administered by the Chairman, or administered by an independent expert.
- Focused internally on the directors or involving the wider body of corporate stakeholders including, but not limited to, AEMO members.

A Board performance assessment was not undertaken in 2012-13; it is scheduled for March/April 2014.

### Director independence

The Constitution requires a majority of directors to be independent, and includes a definition of independence. A director is considered 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 exercising unfettered and independent judgement, or could reasonably be perceived to do so.

Directors must 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, Dr Marxsen, Dr Sargent AM, and Ms Tongs.

## Responsibilities

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

The Board's responsibilities include:

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

These responsibilities are set out in the Board Charter.

## Directors' access to information and advice

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

## Conflicts of interest

Directors are required to avoid conflicts of interest and breaches of duty. Specifically, they are required to act in good faith in the best interests of the company. Directors must not use their positions for personal benefit or the advantage of another person or organisation at AEMO's expense or use AEMO property inappropriately or place themselves in positions where they owe 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 unfettered and independent judgement on matters relating to AEMO. Conflicts of interest are managed in accordance with the Directors' Interests Protocol.

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

## Board committees

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

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

The table below provides a summary of the membership of the Board committees for 2012-13:

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

The purpose of each Board committee and some of their respective areas of focus during 2012-13 are described below.

## BOARD COMMITTEE FOCUS AREAS

### Risk and Audit Committee

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

The committee met five times during 2012-13 and considerations included:

- Reviewing the Annual Financial Report and reviewing the appropriateness of AEMO's material accounting policies and procedures, significant estimates, judgements, and notes to the financial statements.
- Approving the audit plan for the internal auditor, considering the findings of the internal auditor and the effectiveness of the internal audit function.
- The approach for the market audits, findings of the market auditors for gas and electricity, and the effectiveness of the market audit function.
- Risk management strategy and reporting, including reviewing the system of identifying, assessing, monitoring and managing material risk throughout the company, reviewing the Risk Register, and assessing the company's insurance requirements.
- Compliance reporting and analysis, including monitoring the development and ongoing review of appropriate legislative and regulatory compliance programs where applicable.
- Reviewing various matters including the fraud and corruption prevention framework, monitoring of market manipulation, document management, and the transfer of business functions between differing business units.
- Reviewing the post implementation reviews of Board approved projects.
- Reviewing the management of information technology and physical security.

## People and Remuneration Committee

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

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

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

## Technical and Regulatory Committee

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

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

- The Information Technology Strategy.
- The strategic direction and high level structure and content of AEMO planning publications, such as the National Electricity Forecasting Report.
- Reviewing various areas including energy settlement in the National Electricity Market (NEM), IT Security Strategy, network congestion in Queensland, the 100 per cent Renewables Study, and Transmission Network Service Provider (TNSP) operating agreements.
- The quarterly wholesale market performance and system operating incidents.
- The summer supply outlook for the NEM and the Victorian Gas Winter Strategy.
- The findings of the Victorian Gas Safety case audits.

## Nomination Committee

The committee assists the Board in the effective discharge of its responsibilities in relation to nominating new directors.

The committee met twice during 2012-13 to consider:

- The type of skills required to fill an existing Board vacancy and two further vacancies that will arise when two directors retire at the 2013 Annual General Meeting.
- The search firm to engage to assist with the search for new directors.
- Identifying a suitable list of candidates to be interviewed by the SCER Appointments Selection Panel.

## 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 variety of risks given the nature of its operations. These include 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 and compliance frameworks have been implemented by AEMO to provide the systems and processes for managing risks and AEMO's compliance obligations.

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

During 2012-13 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 implemented new processes for reporting risks at the Board, Risk and Audit Committee, and the Executive Leadership Team levels.

The Board received dedicated monthly risk management reporting during 2012-13. It also received management's assessment of risks associated with strategic and operational matters considered by the Board.

AEMO also has several 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 prevention.
- 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 whistle-blower arrangement that reports directly to the Chairman of the Risk and Audit Committee.

## Financial reporting

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

## Make timely and balanced disclosure

AEMO adopts the approach that all company announcements are factual and balanced, and that timely access to material is 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. AEMO's governance framework recognises that its interests and those of its stakeholders are served by fostering cooperation and interaction.

AEMO's industry and government members 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. Further, member briefings are conducted following Annual General Meetings to advise and seek input from members on 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 establishing leadership forums; strategies also facilitate Board engagement with stakeholders.

AEMO provides all relevant stakeholders with a fair and full opportunity to participate in the ongoing operation, development, and planning of Australian energy markets. AEMO strives to serve as a constructive facilitator bringing stakeholders together so that all viewpoints are considered in the effort to agree on the right way forward.

AEMO fulfils this role by providing and disseminating information and market data to market stakeholders and by facilitating processes, programs, committees, and other representative forums where stakeholders provide feedback and collectively address energy market issues and opportunities. Industry consultations are used to gain stakeholder feedback about emerging issues and about AEMO's operational performance.

This consultation process is vital to maintaining effective day-to-day operations, to developing and refining 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. At the Annual General Meeting on 1 November 2012, the members approved an increase to remuneration and committee fees based on forecast CPI.

During 2012-13, the Board's People and Remuneration Committee consisted of five non-executive directors. The People and Remuneration Committee monitors matters concerning the remuneration, development, health and safety, and rights of company employees.

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

A graphic element on the left side of the page, consisting of several curved, overlapping lines in shades of red and orange, resembling a stylized flame or a dynamic shape.

# AEMO

AUSTRALIAN ENERGY MARKET OPERATOR

# FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2013



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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 2013.

## 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 Professor the Honourable M.H. Lavarch AO who retired effective 1 November 2012:

Dr. T.G. Parry AM

L.V. Hosking

G.J.W. Martin

S. Orr

J.A. Tongs

I.L. Fraser

M.H. Lavarch AO

Dr. A.L. Marxsen

Dr. M.A. Sargent AM

M. Zema

## 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 MISSION IS TO PLAN, DEVELOP AND OPERATE MARKETS THAT ARE RESPONSIVE TO ENERGY SECTOR NEEDS AND SUPPORT LONG-TERM INVESTMENT IN AUSTRALIA. OUR VISION IS TO BE PIVOTAL TO MARKETS THAT SECURE AUSTRALIA'S ENERGY NEEDS.**

### Principal activities

AEMO's principal activities over the 2012-13 year comprised the following:

- Market operation of the National Electricity Market (NEM) and Victorian Declared Wholesale Gas Market (DWGM).
- System operation and security of the NEM interconnected grid and the Victorian gas Declared Transmission System (DTS).
- Emergency management responsibilities for electricity and gas and the National Gas Emergency Response Advisory Committee.
- Victorian electricity Transmission Network Service Provider (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 Short Term Trading Market for gas at the Adelaide, Sydney and Brisbane hubs.
- Management of the national Gas Bulletin Board.
- National transmission planning, including the production of key energy planning reports.
- Modifications to the TNSP operating arrangements.

In its second year of publication, the 2013 National Electricity Forecasting Report (NEFR) provided essential information to inform energy industry participants and the broader community of the changes taking place in Australia's electricity demand profile.

New short-term (one-to-five-year) modelling outcomes were introduced; these are expected to provide more accurate and robust demand forecasts over the 10-year outlook period. AEMO has worked collaboratively with industry on the methodology needed to further refine forecasts at a state and connection point level.

AEMO progressed development of the Wallumbilla Gas Supply Hub in Queensland—the first of its type in Australia. Late in 2012 the Standing Council on Energy and Resources (SCER) endorsed AEMO's proposed brokerage model, which uses an electronic platform or exchange to match gas trades between buyers and sellers. This aligns with the SCER's gas market reform agenda to progress improved gas market transparency and flexibility. Trading will begin on schedule in March 2014.

Throughout 2012-13 AEMO focused on facilitating more efficient network regulation, investment and development. The 2012 National Transmission Network Development Plan (NTNDP) took a least-cost view of developing the transmission network over the next 25 years and AEMO outlined the case for taking this economic approach to network planning. AEMO played an active role in the Australian Energy Market Commission's (AEMC) Transmission Frameworks Review and the Productivity Commission's review of electricity network regulation.

In 2013, AEMO and ElectraNet—the South Australian TNSP—completed a Regulatory Investment Test-Transmission (RIT-T) to increase South Australian wind energy exports and lower generation cost, especially at times of peak demand.

Work has begun on developing a Demand Response Mechanism (DRM), a landmark NEM development that will enable both supply and demand market participants to respond to high electricity demand by altering their behaviour with the aim of delivering efficient market results.

Other major projects included delivery of the 100% renewables study commissioned by the Commonwealth Government, completion of the New South Wales Mid North Coast Review for the New South Wales Government, and continued development of the Australian Solar Energy Forecasting System.

These activities align with AEMO's mission and vision. They deliver on the organisation's core functions and commitment to market and system operations, planning and energy market development, and stakeholder engagement.

## Review of operations

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

Registered participants are eligible to become members of AEMO.

AEMO has statutory powers to recover all costs including under- and over-recoveries in any of its functions in the next or subsequent financial years. This is achieved by including surpluses or deficits in future budgets and applying these to future recoveries for specific AEMO functions.

AEMO's 2012-13 surplus of \$67.4 million is due to the recovery of the previous financial year's deficit of \$18.7 million (mainly in the Victorian TNSP function), high intra-regional settlement residue income, and lower general expenditure. This year's actuarial gain on the defined benefit superannuation scheme also contributed to the 2012-13 surplus.

During the year, AEMO published the fees associated with each of its market functions and services for 2013-14. These fees include cost recovery for operating the NEM and Victorian DWGM, electricity and gas FRC, Victorian TNSP responsibilities, and operation of the STTM in Sydney, Adelaide, and Brisbane hubs.

## Directors' qualifications and experience

The directors' Board appointments are as at 30 June 2013.

Name, qualifications and responsibilities	Age	Current Board appointments
<b>Dr. Thomas G. Parry AM</b> BEc (Hons), MEd, PhD Chairman Independent Director	64	Chairman, Sydney Water Corporation; Non-executive Director, ASX Compliance Pty Ltd; Chairman, First State Super Trustee Corporation; Non-executive Director, Powerco NZ; Director, Dalacon Pty Ltd; Non-executive Director, Brisbane Airport Corporation; Member, Advisory Council of the SMART Infrastructure Facility at the University of Wollongong; Chairman, Health Super Financial Services Pty Ltd (a wholly owned subsidiary of the First State Super); Consultant, Queensland Investment Corporation (QIC).
<b>Mr Ian L. Fraser</b> FCPA, FAICD Non-executive Director Independent Director	68	Non-executive Director, Legend Corporation Ltd; Non-executive Director, Structural Systems Ltd; Non-executive Director, Sunnyfield.
<b>Mr Leslie V. Hosking</b> Non-executive Director	68	Chairman, Adelaide Brighton Ltd; Non-executive Director, AGL Energy Ltd; Chairman, Carbon Market Institute Ltd; Board Member, Innovation Australia (Retired 30 September 2012).

Name, qualifications and responsibilities	Age	Current Board appointments
Mr Gregory J.W. Martin BEc, LLB, FAIM, MAICD Non-executive Director	53	Non-executive Director, Energy Developments Ltd; Non-executive Director, Santos Ltd; Committee Member, Council on Australia-Latin America Relations (tenure concluded 30 June 2013); Non-executive Director, Calix Ltd; Chairman, Prostar Capital; Chairman, Freshwater Capital; Chairman, Sydney Desalination Plant; Non-executive Director, Iluka Resources Ltd; Non-executive Director, Australian Davos Connection Limited.
Dr. Anthony Marxsen PhD, BEng Non-executive Director Independent Director	67	Director, Marxsen Consulting Pty Ltd; Director, Jancomax Pty Ltd.
Mr Stephen C. Orr BEng (Mech) Non-executive Director	61	Strategy and Regulation Consultant, GDF SUEZ Australian Energy (was International Power); Partnership Representation on Management Committee, Simply Energy Retail Partnership; Director, various companies associated with GDF SUEZ Energy Australia: Director, Canunda Power Holdings Pty Ltd; Director, Hazelwood Power Finance Pty Ltd; Director, Hazelwood Pacific Pty Ltd; Director, International Power (Energy) Pty Ltd; Director, International Power (Australia) Pty Ltd; Director, International Power (Australia) Holdings Pty Ltd; Director, International Power (Australia) Holdings 2 Pty Ltd; Director, IPA FIFL Pty Ltd; Director, IPower Pty Ltd; Director, IPower 2 Pty Ltd; Director, Pelican Point Power Ltd; Director, Synergen Power Pty Ltd.

Name, qualifications and responsibilities	Age	Current Board appointments
Dr. Michael A. Sargent AM BE (Hons), PhD Non-executive Director Independent Director	70	Director, M.A. Sargent & Associates Pty Ltd; Non-executive Director, Epicorp Ltd; Non-executive Director, Epicorp Seed Fund Pty Ltd; Chairman, Lighthouse Business Innovation Centre Ltd; Member, Clean Energy Regulator.
Ms Jane A. Tongs EMBA, B.Bus (Acc), FACA, FCPA, MAICD Non-executive Director Independent Director	53	Non-executive Director, Catholic Church Insurances Ltd (and related companies); Chair, Netwealth Holdings Ltd (and related companies); Non-executive Director, RUN Corp Ltd (and related companies); Non-executive Director Warakirri Holdings Pty Ltd (and related companies); Council member, Brighton Grammar School; Chair, Australian Prime Property Fund Investor Board.
Mr Matt Zema BE, FIEAust Managing Director and Chief Executive Officer	53	Director, Zema Estate Pty Ltd and Associated Trusts; Director, ANC-Cigre; Non-executive Director, Melbourne University Dental Clinic.

A majority of directors, including the Chair, must be independent directors.

The AEMO Constitution defines the independence requirements for directors.

Information pertaining to directors' benefits is detailed in Note 17 – 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 2013, and the number of meetings attended by each director were:

	Full meetings of directors		People and Remuneration		Risk and Audit		Technical and Regulatory	
	A	B	A	B	A	B	A	B
I.L. Fraser	8	9	3	4	4	5		
L.V. Hosking	9	9			5	5	3	3
M.H. Lavarch	4	4	2	2	2	3		
G.J.W. Martin	8	9	4	4			3	3
Dr. A. Marxsen	9	9	3	4			3	3
S.C. Orr	8	9			4	5	2	3
Dr. T.G. Parry	8	9	4	4			3	3
Dr. M.A. Sargent	9	9			5	5	3	3
J. A. Tongs	9	9	4	4	5	5		
M. Zema	9	9						

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.

The Nominations Committee meets when required and is comprised of the members of the People and Remuneration Committee and is chaired by the AEMO Chairman.

## 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 47.

## Auditor

Grant Thornton continues in office in accordance with Section 327 of the Corporations Act 2001.

## Resolution

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

Dr. Thomas G Parry  
Chairman, Melbourne



5 September 2013



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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Australian Energy Market Operator Limited for the year ended 30 June 2013, I declare that, to the best of my knowledge and belief, there have been:

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

*Grant Thornton*

GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants

*Michael Climpson*

Michael Climpson  
Partner

Melbourne, 5 September 2013

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**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2013**

	Notes	2013 \$'000	2012 \$'000
<b>REVENUE</b>			
Transmission income	5	539,621	466,655
Settlement residue	5	54,017	37,009
Electricity market income	5	90,598	92,114
Gas market income	5	39,215	32,908
Other revenue	5	8,727	8,543
	5	<b>732,178</b>	<b>637,229</b>
<b>EXPENSES</b>			
Network charges		(532,817)	(505,880)
Employee benefits	6	(73,712)	(75,554)
Depreciation	9	(5,604)	(5,580)
Amortisation	10	(11,709)	(11,386)
Consulting, contracting and outsourcing		(11,343)	(14,492)
Information technology and maintenance		(14,164)	(13,887)
Insurance		(2,724)	(2,929)
Finance costs	6	(2,964)	(4,392)
Travel and accommodation		(1,970)	(1,695)
Participant Compensation Fund expenses		(170)	(2,153)
Actuarial gain/(loss) - defined benefit superannuation plan	15	3,725	(6,410)
Other expenses		(11,282)	(11,556)
		<b>(664,734)</b>	<b>(655,914)</b>
<b>Surplus/(deficit) before income tax</b>		<b>67,444</b>	<b>(18,685)</b>
Income tax expense		-	-
<b>Surplus/(deficit) for the year</b>		<b>67,444</b>	<b>(18,685)</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Total comprehensive income/(deficit) for the year</b>		<b>67,444</b>	<b>(18,685)</b>

The Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2013

	Notes	2013 \$'000	2012 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	82,810	27,331
Trade and other receivables	8	79,494	65,448
<b>Total current assets</b>		<b>162,304</b>	<b>92,779</b>
<b>Non-current assets</b>			
Property, plant and equipment	9	32,172	34,200
Intangible assets	10	32,325	36,287
<b>Total non-current assets</b>		<b>64,497</b>	<b>70,487</b>
<b>Total assets</b>		<b>226,801</b>	<b>163,266</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	11	106,757	66,960
Borrowings	12	5,357	38,218
Provisions	13	17,087	17,753
Other current liabilities	14	2,198	3,038
Defined benefit superannuation	15	8,524	13,372
<b>Total current liabilities</b>		<b>139,923</b>	<b>139,341</b>
<b>Non-current liabilities</b>			
Trade and other payables	11	3,407	2,675
Borrowings	12	33,343	38,699
Provisions	13	2,039	1,906
<b>Total non-current liabilities</b>		<b>38,789</b>	<b>43,280</b>
<b>Total liabilities</b>		<b>178,712</b>	<b>182,621</b>
<b>Net assets/(deficiency)</b>		<b>48,089</b>	<b>(19,355)</b>

STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2013

	Notes	2013 \$'000	2012 \$'000
<b>EQUITY</b>			
Capital contribution of members		7,093	7,093
Participant Compensation Fund reserve	16	8,610	8,225
Australian Wind Energy Forecasting System reserve	16	656	1,642
Land reserve	16	1,587	1,360
Accumulated surplus/(deficit)	21	30,143	(37,675)
<b>Total equity</b>		<b>48,089</b>	<b>(19,355)</b>

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



**STATEMENT OF CHANGES IN EQUITY**  
 FOR THE YEAR ENDED 30 JUNE 2013

	Capital contribution of members	PCF reserve	AWEFS reserve	Land reserve	Accumulated surplus/ (deficit)	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>At 1 July 2011</b>	7,093	8,979	2,632	1,133	(20,507)	(670)
Deficit for the year					(18,685)	(18,685)
Transfer to/(from) reserves						
- Participant Compensation Fund (PCF) reserve		(754)			754	-
- AWEFS reserve			(990)		990	-
- Land reserve				227	(227)	-
<b>Year ended 30 June 2012</b>	<b>7,093</b>	<b>8,225</b>	<b>1,642</b>	<b>1,360</b>	<b>(37,675)</b>	<b>(19,355)</b>
<b>At 1 July 2012</b>	<b>7,093</b>	<b>8,225</b>	<b>1,642</b>	<b>1,360</b>	<b>(37,675)</b>	<b>(19,355)</b>
Surplus for the year					67,444	67,444
Transfer to/(from) reserves						
- PCF reserve		385			(385)	-
- AWEFS reserve			(986)		986	-
- Land reserve				227	(227)	-
<b>As at 30 June 2013</b>	<b>7,093</b>	<b>8,610</b>	<b>656</b>	<b>1,587</b>	<b>30,143</b>	<b>48,089</b>

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

**STATEMENT OF CASH FLOWS**  
 FOR THE YEAR ENDED 30 JUNE 2013

	Notes	2013 \$'000	2012 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		787,929	697,514
Payments to suppliers and employees		(695,753)	(690,177)
Payment claims from the PCF		(1,311)	-
		<b>90,865</b>	<b>7,337</b>
Interest received		1,834	1,380
Interest and other finance costs paid		(3,066)	(5,618)
<b>Net cash inflow from operating activities</b>	23	<b>89,633</b>	<b>3,099</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Receipts of participant security deposits		383,804	40,592
Repayment of participant security deposits		(368,416)	(39,442)
Payments for property, plant and equipment and intangible assets		(11,325)	(12,270)
<b>Net cash inflow/(outflow) from investing activities</b>		<b>4,063</b>	<b>(11,120)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings		-	77,410
Repayment of borrowings		(38,217)	(74,525)
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(38,217)</b>	<b>2,885</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>55,479</b>	<b>(5,136)</b>
Cash and cash equivalents at the beginning of the financial year		27,331	32,467
<b>Cash and cash equivalents at end of the financial year</b>	7	<b>82,810</b>	<b>27,331</b>

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

Receipts and prepayments of participant security deposits have increased in 2013 due to the higher electricity spot prices, predominantly driven by the price on carbon.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013



## 1 INTRODUCTION

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

Level 22, 530 Collins Street

Melbourne, Victoria, 3000

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### A) BASIS OF PREPARATION

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

The company complies with International Financial Reporting Standards (IFRS), except that it applies accounting for government grants and other non-reciprocal transfers received in accordance with the applicable Australian Accounting Standard, which differs from IFRS.

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

### Historical cost convention

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

### Net asset position

At reporting date, AEMO has net working capital of \$22,381k (net current assets), and net total assets of \$48,089k.

AEMO is required to operate on a break-even funding basis that 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.

AEMO's accumulated surplus of \$30,143k at 30 June 2013 predominantly relates to the Victorian TNSP function. AEMO includes any surplus/deficits for each of its functions when setting fees for the next financial year or subsequent financial years.

To guarantee ongoing liquidity AEMO has a significant debt facility which ensures project funding and support for variations in the timing of cash flows. This facility is partially utilised, with \$61,300k available to be drawn at 30 June 2013, which ensures AEMO's operation as a going concern.

### Critical accounting estimates

Preparation of financial statements that conform with the Australian equivalents to International Financial Reporting Standards (AIFRS) requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the

process of applying the company's accounting policies. 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 the rate of exchange at the balance date. Foreign currency gains and losses from the settlement of such transactions are recognised in profit and loss.

## C) REVENUE

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

- Victorian Electricity transmission network service provider (TNSP) responsibilities.
- National Electricity Market (NEM).
- Electricity Full Retail Contestability (FRC).
- Victorian Declared Wholesale Gas Market (DWGM).
- Gas FRC in Victoria, South Australia, New South Wales, and Queensland.
- Short Term Trading Market (STTM).
- National Transmission Planning.
- 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 and National Gas Rules each require AEMO to establish and maintain a Participant Compensation Fund. Note 16 provides further details of AEMO's participant compensation funds. Contributions to the funds and interest earned on fund investments are recognised as revenue and transferred to the Participant Compensation Fund reserve.

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

AEMO will on occasion receive government grants to assist in funding-specific projects such as the project to develop the Australian Solar Energy Forecasting System. In accordance with AASB1004, such grants are recognised as revenue once AEMO gains control of the funds and has achieved all criteria relating to the milestones set out in the funding agreement.

## D) INCOME TAX

AEMO is exempt from income tax on the basis that it qualifies as a public authority constituted under an Australian law as described in item 5.2 of section 50-52 of the Income Tax Assessment Act 1997. This exemption applies until 30 June 2018 at which time it is due for review. Taxes for which AEMO is liable under federal and state legislation include Fringe Benefits Tax, Goods and Services Tax (GST) and Payroll Tax.

## E) LEASES

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

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

## F) ACQUISITION OF ASSETS

The purchase cost method of accounting is used for all acquisitions. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs directly attributable to the acquisition. Subsequent costs are included in the asset's carrying amount or are 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 expenses during the financial period in which they are incurred.

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

## G) IMPAIRMENT OF ASSETS

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

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that 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 include cash on hand; and deposits held at call with financial institutions that are readily convertible to cash on hand and are subject to an insignificant risk if they change in value.

## I) FAIR VALUE ESTIMATION

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

## J) PROPERTY, PLANT, AND EQUIPMENT

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

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

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

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

IT systems hardware	3–5 years
Furniture and equipment	3–5 years
Office and technology infrastructure	7–10 years
Building infrastructure	10–15 years
Buildings – Norwest	30 years

## 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 substantially transferred 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 profit or loss and other 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 arms-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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

## L) INTANGIBLE ASSETS

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

### i. NEM establishment costs

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

### ii. Electricity FRC costs

Electricity FRC costs represent the expenditure incurred during the period January 2002 to June 2003 to develop and implement the electricity FRC market. These costs were 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 was used and the asset is now fully amortised.

### iii. Software

#### Acquired software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and install the specific software.

#### Internally developed software

Expenditure on the research phase of the projects to develop new customised software for IT and telecommunication systems is recognised as an expense as incurred.

Costs that are directly attributable to a project's development phase are recognised as intangible assets, provided they meet the recognition requirements of AASB138. Development costs not meeting these criteria for capitalisation are expensed as incurred.

Directly attributable costs include (other than directors) costs incurred on software development along with an appropriate portion of relevant overheads.

Subsequent expenditure on computer software maintenance is expensed as incurred. Software asset useful lives vary according to the type of asset.

Assets are amortised over its estimated useful life.

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

## M) AEMO TRANSITION FEES RECEIVABLE

AEMO transition fees receivable represent costs incurred during the period September 2008 to June 2009 to establish AEMO. These costs were 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 that remain unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

## O) BORROWING COSTS

Borrowing costs are recognised as expenses in the period in which they are incurred, except where they are included in the costs of qualifying assets (assets under construction).

## P) PROVISIONS

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

## Q) EMPLOYEE BENEFITS

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

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

### ii. Long service leave

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

## R) SUPERANNUATION

### i. Defined contribution plans

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

### ii. Defined benefit plans

Through the business combination that occurred on 1 July 2009 AEMO acquired responsibility for the defined benefit superannuation plan from VENCORP. No new members are permitted to join the plan; however, it is continuing for the benefit of existing members. The defined benefit plan comprises 22 employees and six 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 Position 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 bonds with terms to maturity approximating to the terms of the related obligation. Actuarial gains and losses are recognised immediately in profit and loss in the years in which they occur. Note 15 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 that are recoverable from, or payable to, the taxation authority, are presented as an operating cash flow.

## T) 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 2012.

### 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 2013, are outlined in the table below:

Reference	Title	Details of new standard/amendment/interpretation	Impact on company	Application date for the company
AASB 9	Financial Instruments	AASB 9 amends the classification and measurement of financial assets. The effect on the entity will be that more assets may be held at fair value and the need for impairment testing has been limited to financial assets held at amortised cost only.  Minimal changes have been made in relation to the classification and measurement of financial liabilities, except that the effects of "own credit risk" are recognised in other comprehensive income.	(i)	30 June 2016
AASB 1053	Application of Tiers of Australian Accounting Standards	Entities classified as Tier 2 entities that prepare general purpose financial statements will be able to apply the reduced disclosures.	(ii)	30 June 2014
AASB 2010-2	Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements	AASB 2010-2 sets out the relevant disclosures that will not be required to be made if a Tier 2 entity applies the Reduced Disclosure Requirements.	(ii)	30 June 2014
AASB 2011-4	Amendments to Australian Accounting Standards to remove individual key management personnel disclosure requirements [AASB 124]	The standard makes amendments to remove the individual key management personnel disclosure requirements, as these are considered to be more in the nature of corporate governance and are generally covered in the Corporations Act and disclosed within the Directors and/or Remuneration Report.	(iii)	30 June 2014



Reference	Title	Details of new standard/amendment/interpretation	Impact on company	Application date for the company
AASB 13	Fair Value Measurement	<p>AASB 13 has been issued to:</p> <ul style="list-style-type: none"> <li>- Establish a single source of guidance for all fair value measurements.</li> <li>- Clarify the definition of fair value and related guidance.</li> <li>- Enhance disclosures about fair value measurements (new disclosures increase transparency about fair value measurements, including the valuation techniques and inputs used to measure fair value).</li> </ul>	(iv)	30 June 2014
AASB 119	Employee Benefits	<p>The main changes for accounting for defined benefit plans are:</p> <ul style="list-style-type: none"> <li>- Elimination of the "corridor" approach for deferring gains/losses for defined benefit plans.</li> <li>- Actuarial gains/losses on remeasuring the defined benefit plan obligation/asset to be recognised in Other Comprehensive Income rather than in profit or loss, and cannot be reclassified in subsequent periods.</li> </ul> <p>Other changes include:</p> <ul style="list-style-type: none"> <li>- Subtle amendments to timing for recognition of liabilities for termination benefits.</li> <li>- Employee benefits "expected to be settled" (as opposed to "due to be settled" under current standard) within 12 months of the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used within 12 months of the end of reporting period will in future be discounted when calculating leave liability.</li> </ul>	(v)	30 June 2014

- (i) The company has not yet determined the potential effect of the standard.
- (ii) The entity is a Tier 2 entity and therefore eligible to apply the Reduced Disclosure Requirements of AASB 2010-2. The Reduced Disclosure Requirements are not mandatory for Tier 2 entities and the company is not intending to apply the reduced disclosure requirements and intends to continue to provide full disclosures at 30 June 2014.
- (iii) There will be no impact on the financial statements on initial adoption as these requirements only relate to disclosing entities.

- (iv) For financial assets, AASB 13's guidance is broadly consistent with existing practice. The company has no assets other than financial assets that are measured at fair value. There will be no significant changes to disclosures about fair values.
- (v) AEMO does not use the "corridor" approach and therefore those changes will not impact AEMO. AEMO currently recognises actuarial gains and losses in profit and loss. As part of this change AEMO will be required to reclassify these amounts into Other Comprehensive Income. AEMO does not expect that this will impact calculation of these items. AEMO has reviewed the changes to recognition of termination benefits and current employee benefits and does not believe that the changes will be significant.

### 3 FINANCIAL RISK MANAGEMENT

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

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

FINANCIAL ASSETS AND LIABILITIES		
	2013 \$'000	2012 \$'000
<b>FINANCIAL ASSETS</b>		
Cash and cash equivalents	82,810	27,331
Participant fees receivable	71,154	54,841
Other receivables	1,716	3,536
Prepayments	2,766	3,264
	<b>158,446</b>	<b>88,972</b>
<b>FINANCIAL LIABILITIES</b>		
Accounts payable	1,560	1,686
Other creditors and accruals	75,309	55,004
Financial costs - accrued interest	96	198
Electricity market participant security deposits	21,081	5,695
Gas market participant prepayments	1,388	2,089
Borrowings	38,700	76,917
	<b>138,134</b>	<b>141,589</b>

### A) MARKET RISK

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

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

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

On occasion AEMO enters into contracts denominated in foreign currency. AEMO will enter into a hedging arrangement if necessary.

Interest rate risk	30 June 2013		-75bps		+75bps	
	Notional amount \$'000	Carrying amount \$'000	Surplus \$'000	Equity \$'000	Surplus \$'000	Equity \$'000
<b>FINANCIAL ASSETS</b>						
Cash and cash equivalents	82,810	82,810	(621)	(621)	621	621
	<b>82,810</b>	<b>82,810</b>	<b>(621)</b>	<b>(621)</b>	<b>621</b>	<b>621</b>
<b>FINANCIAL LIABILITIES</b>						
Floating rate borrowings	-	-	-	-	-	-
	-	-	-	-	-	-

Interest rate risk	30 June 2012		-75bps		+75bps	
	Notional amount \$'000	Carrying amount \$'000	Surplus \$'000	Equity \$'000	Surplus \$'000	Equity \$'000
<b>FINANCIAL ASSETS</b>						
Cash and cash equivalents	27,331	27,331	(205)	(205)	205	205
	<b>27,331</b>	<b>27,331</b>	<b>(205)</b>	<b>(205)</b>	<b>205</b>	<b>205</b>
<b>FINANCIAL LIABILITIES</b>						
Floating rate borrowings	28,406	28,190	(211)	(211)	211	211
	<b>28,406</b>	<b>28,190</b>	<b>(211)</b>	<b>(211)</b>	<b>211</b>	<b>211</b>

## B) CREDIT RISK

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

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

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

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

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

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

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

## C) LIQUIDITY RISK

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

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

### UNDRAWN BORROWING FACILITIES

#### NAB REVOLVING CASH ADVANCE FACILITY AT 30 JUNE 2013 AT CARRYING AMOUNT

Limit: \$100,000,000	Limit	Balance \$'000	Undrawn \$'000
Cash advance facility	100,000	38,700	61,300
	<b>100,000</b>	<b>38,700</b>	<b>61,300</b>

AEMO also had a loan from the Commonwealth Government that was provided to establish AEMO. This loan was repaid in full in October 2012 as agreed with the Commonwealth Government.

### Loan repayment commitments

As at 30 June 2013, total loan repayment (combining both principal and interest components) commitments are as follows:

LOAN REPAYMENT COMMITMENTS					
Institution	Loan name	< 1 year \$'000	1–5 years \$'000	> 5 years \$'000	Total \$'000
NAB	Norwest	2,271	22,893	-	25,164
	STTM	4,873	14,041	-	18,914
	Working Capital	-	-	-	-
<b>TOTAL COMMITMENTS</b>		<b>7,144</b>	<b>36,934</b>	<b>-</b>	<b>44,078</b>

AEMO intends to seek an extension to its current loan agreement when it expires in March 2017.

## 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 company 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 outlined below.

### A) DEFINED BENEFIT SUPERANNUATION

Actuarial assumptions are utilised in determining the defined benefit obligations and the related carrying amounts are discussed in Note 15.

### 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 ongoing Transmission Network Service Provider Agreements under which SP AusNet and Murraylink provides network services to AEMO in relation to the Victorian electricity transmission network. The charges levied on AEMO by SP AusNet and Murraylink for the provision of transmission services under the agreements are regulated by the Australian Energy Regulator (AER). AEMO incorporates these charges into its fees to network users.

AEMO has determined that these arrangements are not, and do not contain, a lease in accordance with AASB Interpretation 4 *Determining whether an Arrangement contains a Lease*.

## 5 REVENUE

	2013 \$'000	2012 \$'000
<b>FROM CONTINUING OPERATIONS</b>		
<b>Electricity transmission income</b>	<b>539,621</b>	<b>466,655</b>
Settlement residue – intra-regional (TNSP)	40,091	21,208
Settlement residue auctions (TNSP)	13,926	15,801
<b>Settlement residue</b>	<b>54,017</b>	<b>37,009</b>
NEM fees	71,620	72,234
FRC electricity fees	7,196	6,855
FRC electricity - establishment recovery	2,089	2,649
Registration fees	410	189
National Smart Metering	2,750	3,439
National transmission planner	6,533	6,748
<b>Electricity market income</b>	<b>90,598</b>	<b>92,114</b>
DWGM fees	18,340	14,908
FRC gas fees	7,963	6,864
STTM fees	10,269	7,627
GSOO fees	1,705	1,163
Registration fees	462	669
Other gas revenues	476	1,677
<b>Gas market income</b>	<b>39,215</b>	<b>32,908</b>
PCF interest	399	526
PCF contributions received	157	1,481
Bank interest revenue	1,241	827
Other	6,930	5,709
<b>Other revenue</b>	<b>8,727</b>	<b>8,543</b>
	<b>732,178</b>	<b>637,229</b>

## 6 EXPENSES

	2013 \$'000	2012 \$'000
<b>Surplus/(deficit) before income tax includes:</b>		
<b>Amortisation expense</b>	<b>11,709</b>	<b>11,386</b>
<b>Depreciation expense</b>	<b>5,604</b>	<b>5,580</b>
Wages and salaries	55,460	56,144
Defined contribution superannuation expense	6,498	6,870
Defined benefits superannuation expense	11	360
Other employee benefits expense	11,743	12,180
<b>Employee benefits</b>	<b>73,712</b>	<b>75,554</b>
<b>Capitalised employee costs</b>	<b>5,185</b>	<b>4,774</b>
Bank fees	232	1,157
Interest expense	2,732	3,235
<b>Finance costs</b>	<b>2,964</b>	<b>4,392</b>
<b>Defined benefits actuarial (gain)/loss</b>	<b>(3,725)</b>	<b>6,410</b>
<b>Rental expenses related to operating leases</b>	<b>3,823</b>	<b>3,756</b>

## 7 CASH AND CASH EQUIVALENTS

	2013 \$'000	2012 \$'000
Cash at bank and on hand	28,595	8,730
Security deposits and early settlement proceeds not available for use	45,716	9,565
Participant Compensation Fund (PCF)	8,499	9,036
	<b>82,810</b>	<b>27,331</b>

## 8 TRADE AND OTHER RECEIVABLES

Current	2013 \$'000	2012 \$'000
Participant fees receivable	28,587	17,668
TUOS revenue receivable	42,566	37,173
AEMO transition - fees receivable	-	1,324
Other receivables	5,575	6,019
Prepayments	2,766	3,264
	<b>79,494</b>	<b>65,448</b>

## 9 PROPERTY, PLANT, AND EQUIPMENT

	Electricity Systems (NEM and FRC)	Gas Systems Wholesale and FRC)	Short-term Trading Market	Plant and Equipment	Land and Buildings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>AT 30 JUNE 2012</b>						
Cost	21,527	3,862	290	20,322	35,564	<b>81,565</b>
Accumulated depreciation	(19,604)	(3,100)	(239)	(15,192)	(9,230)	<b>(47,365)</b>
<b>Net book value at 30 June 2012</b>	<b>1,923</b>	<b>762</b>	<b>51</b>	<b>5,130</b>	<b>26,334</b>	<b>34,200</b>
<b>Reconciliation of carrying amount:</b>						
<b>Year ended 30 June 2012</b>						
Carrying amount at 1 July 2011	1,531	429	199	6,507	27,656	<b>36,322</b>
Transfers	1,474	17	(79)	(1,414)	2	-
Additions	916	630	28	1,405	479	<b>3,458</b>
Depreciation	(1,644)	(314)	(97)	(1,722)	(1,803)	<b>(5,580)</b>
<b>Carrying amount at 30 June 2012</b>	<b>2,277</b>	<b>762</b>	<b>51</b>	<b>4,776</b>	<b>26,334</b>	<b>34,200</b>
<b>Reconciliation of cost:</b>						
Cost amount at 1 July 2011	21,143	3,222	346	20,464	35,084	<b>80,259</b>
Transfers	1,513	10	(84)	(1,440)	1	-
Additions	916	630	28	1,405	479	<b>3,458</b>
Disposals	(2,045)	-	-	(107)	-	<b>(2,152)</b>
<b>Cost amount at 30 June 2012</b>	<b>21,527</b>	<b>3,862</b>	<b>290</b>	<b>20,322</b>	<b>35,564</b>	<b>81,565</b>

	Electricity Systems (NEM and FRC)	Gas Systems Wholesale and FRC)	Short-term Trading Market	Plant and Equipment	Land and Buildings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>AT 30 JUNE 2013</b>						
Cost	17,954	3,159	429	18,062	35,642	<b>75,246</b>
Accumulated depreciation	(15,978)	(2,806)	(307)	(13,748)	(10,235)	<b>(43,074)</b>
<b>Net book value at 30 June 2013</b>	<b>1,976</b>	<b>353</b>	<b>122</b>	<b>4,314</b>	<b>25,407</b>	<b>32,172</b>
<b>Reconciliation of carrying amount:</b>						
<b>Year ended 30 June 2013</b>						
Carrying amount at 1 July 2012	2,277	762	51	4,776	26,334	<b>34,200</b>
Transfers	-	-	-	-	-	-
Additions	960	(103)	172	1,586	963	<b>3,578</b>
Disposals	-	-	-	(1)	-	<b>(1)</b>
Depreciation	(1,261)	(306)	(101)	(2,047)	(1,889)	<b>(5,604)</b>
<b>Carrying amount at 30 June 2013</b>	<b>1,976</b>	<b>353</b>	<b>122</b>	<b>4,314</b>	<b>25,407</b>	<b>32,172</b>
<b>Reconciliation of cost:</b>						
Cost amount at 1 July 2012	21,527	3,862	290	20,322	35,564	<b>81,565</b>
Transfers	-	-	-	-	-	-
Additions	960	(103)	172	1,586	963	<b>3,578</b>
Disposals	(4,533)	(600)	(33)	(3,846)	(885)	<b>(9,897)</b>
<b>Cost amount at 30 June 2013</b>	<b>17,954</b>	<b>3,159</b>	<b>429</b>	<b>18,062</b>	<b>35,642</b>	<b>75,246</b>

## 10 INTANGIBLE ASSETS

	NEM Entitlement cost	FRC Entitlement cost	Software Electricity (NEM and FRC)	Software – Gas (Wholesale and FRC)	Software – Short- term Trading Market	Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>AT 30 JUNE 2012</b>							
Cost	44,473	27,330	82,165	5,097	20,088	4,448	<b>183,601</b>
Accumulated amortisation	(44,473)	(25,213)	(68,286)	(3,452)	(4,594)	(1,296)	<b>(147,314)</b>
<b>Net book value at 30 June 2012</b>	-	<b>2,117</b>	<b>13,879</b>	<b>1,645</b>	<b>15,494</b>	<b>3,152</b>	<b>36,287</b>
<b>Reconciliations: Year ended 30 June 2012</b>							
Carrying amount at 1 July 2011	-	4,850	13,190	1,417	17,099	2,305	<b>38,861</b>
Transfers	-	-	(159)	(4)	4	159	-
Additions	-	-	5,139	1,236	1,052	1,385	<b>8,812</b>
Amortisation	-	(2,733)	(4,291)	(1,004)	(2,661)	(697)	<b>(11,386)</b>
<b>Carrying amount at 30 June 2012</b>	-	<b>2,117</b>	<b>13,879</b>	<b>1,645</b>	<b>15,494</b>	<b>3,152</b>	<b>36,287</b>
<b>Reconciliation of cost:</b>							
Cost amount at 1 July 2011	44,473	27,330	77,243	3,861	19,032	2,903	<b>174,842</b>
Transfers	-	-	(164)	-	4	160	-
Additions	-	-	5,139	1,236	1,052	1,385	<b>8,812</b>
Disposals	-	-	(53)	-	-	-	<b>(53)</b>
<b>Cost amount at 30 June 2012</b>	<b>44,473</b>	<b>27,330</b>	<b>82,165</b>	<b>5,097</b>	<b>20,088</b>	<b>4,448</b>	<b>183,601</b>

	NEM Entitlement cost	FRC Entitlement cost	Software Electricity (NEM and FRC)	Software – Gas (Wholesale and FRC)	Software – Short- term Trading Market	Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>AT 30 JUNE 2013</b>							
Cost	44,473	27,330	86,440	6,903	20,760	5,442	<b>191,348</b>
Accumulated amortisation	(44,473)	(27,330)	(73,195)	(4,011)	(7,537)	(2,477)	<b>(159,023)</b>
<b>Net book value at 30 June 2013</b>	-	-	<b>13,245</b>	<b>2,892</b>	<b>13,223</b>	<b>2,965</b>	<b>32,325</b>
<b>Reconciliations: Year ended 30 June 2013</b>							
Carrying amount at 1 July 2012	-	2,117	13,879	1,645	15,494	3,152	<b>36,287</b>
Transfers	-	-	-	-	-	-	-
Additions	-	-	4,275	1,807	671	994	<b>7,747</b>
Amortisation	-	(2,117)	(4,909)	(559)	(2,943)	(1,181)	<b>(11,709)</b>
<b>Carrying amount at 30 June 2013</b>	-	-	<b>13,245</b>	<b>2,892</b>	<b>13,223</b>	<b>2,965</b>	<b>32,325</b>
<b>Reconciliations of cost:</b>							
Cost amount at 1 July 2012	44,473	27,330	82,165	5,097	20,088	4,448	<b>183,601</b>
Transfers	-	-	-	-	-	-	-
Additions	-	-	4,275	1,806	672	994	<b>7,747</b>
Disposals	-	-	-	-	-	-	-
<b>Cost amount at 30 June 2013</b>	<b>44,473</b>	<b>27,330</b>	<b>86,440</b>	<b>6,903</b>	<b>20,760</b>	<b>5,442</b>	<b>191,348</b>

## 11 TRADE AND OTHER PAYABLES

	2013 \$'000	2012 \$'000
<b>CURRENT</b>		
Accounts payable	1,560	1,686
Accrued network charges	45,327	43,614
Employee incentives payable	6,228	6,783
Finance costs payable	96	198
Participant security deposits	21,081	5,695
Electricity settlement prepayments	24,635	3,870
Other creditors and accruals	7,830	5,114
	<b>106,757</b>	<b>66,960</b>
<b>NON-CURRENT</b>		
Lease incentive	3,407	2,675
	<b>3,407</b>	<b>2,675</b>

## 12 BORROWINGS

	2013 \$'000	2012 \$'000
<b>CURRENT</b>		
<b>Bank loans</b>		
Norwest	1,243	1,243
STTM	4,114	4,114
National Smart Metering	-	1,190
Working Capital	-	27,000
<b>Government loan</b>		
AEMO (T)	-	4,671
	<b>5,357</b>	<b>38,218</b>
<b>NON-CURRENT</b>		
<b>Bank loans</b>		
Norwest	20,371	21,613
STTM	12,972	17,086
	<b>33,343</b>	<b>38,699</b>
<b>TOTAL</b>	<b>38,700</b>	<b>76,917</b>

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

### FINANCING ARRANGEMENTS

UNRESTRICTED ACCESS WAS AVAILABLE AT BALANCE DATE TO THE FOLLOWING LINE OF CREDIT:

	2013 \$'000	2012 \$'000
<b>Bank loan facilities</b>		
Total facility	100,000	100,000
Used at balance date	(38,700)	(72,246)
<b>Unused at balance date</b>	<b>61,300</b>	<b>27,754</b>



## LOAN CONTRACTS

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

At 30 June 2013, the total drawdown is \$38,700k (\$61,300k undrawn).

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

Norwest loan drawdown at 30 June 2013 is \$21,614k. Repayments of principal of \$311k plus interest will be made quarterly for the next four years at a fixed rate of 6.07%.

STTM loan drawdown at 30 June 2013 is \$17,086k. Repayments of principal of \$1,029k plus interest will be made quarterly for the next four years at a fixed rate of 6.07%.

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

## 13 PROVISIONS

	2013 \$'000	2012 \$'000
<b>CURRENT</b>		
Provision for employee entitlements	17,087	16,613
Provision for PCF claims	-	1,140
	<b>17,087</b>	<b>17,753</b>
<b>NON-CURRENT</b>		
Provision for employee entitlements	2,039	1,906
	<b>2,039</b>	<b>1,906</b>
<b>TOTAL</b>	<b>19,126</b>	<b>19,659</b>

## 14 OTHER CURRENT LIABILITIES

	2013 \$'000	2012 \$'000
Prepaid revenue	1,443	2,460
Other liabilities	755	578
	<b>2,198</b>	<b>3,038</b>

## 15 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	2013 \$'000	2012 \$'000
Defined Benefit Obligation <sup>1</sup>	30,570	31,470
(-) Fair value of plan assets	(22,046)	(18,098)
<b>Net superannuation liability</b>	<b>8,524</b>	<b>13,372</b>

1. Includes contributions tax provision

### RECONCILIATION OF THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION

Financial year ended	2013 \$'000	2012 \$'000
Present value of defined benefit obligations at beginning of the year	31,470	28,187
(+) Current service cost	536	555
(+) Interest cost	729	1,216
(+) Contributions by plan participants	176	185
(+) Actuarial (gains)/losses	(1,839)	4,881
(-) Benefits paid	(299)	(3,369)
(-) Taxes and premiums paid	(203)	(185)
<b>Present value of defined benefit obligations at end of the year</b>	<b>30,570</b>	<b>31,470</b>

### RECONCILIATION OF THE FAIR VALUE OF PLAN ASSETS

Financial year ended	2013 \$'000	2012 \$'000
Fair value of plan assets at beginning of the year	18,098	20,576
(+) Expected return on plan assets	1,254	1,411
(+) Actuarial gains/(losses)	1,886	(1,529)
(+) Employee contributions	1,134	1,009
(+) Contributions by plan participants	176	185
(-) Benefits paid	(299)	(3,369)
(-) Taxes and premiums paid	(203)	(185)
<b>Fair value of plan assets at end of the year</b>	<b>22,046</b>	<b>18,098</b>

### EXPENSE RECOGNISED IN SURPLUS OR DEFICIT

Financial year ended	2013 \$'000	2012 \$'000
Current service cost	536	555
Interest cost	729	1,216
Expected return on assets	(1,254)	(1,411)
Actuarial (gains)/losses	(3,725)	6,410
<b>Superannuation expense</b>	<b>(3,714)</b>	<b>6,770</b>

### PLAN ASSETS

As at	2013 %	2012 %
Australian equity	29	35
International equity	30	27
Fixed income	12	11
Property	9	10
Growth alternatives	8	8
Defensive alternatives	7	2
Cash	5	7

## 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.
- 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	2013 \$'000	2012 \$'000
Actual return on plan assets	3,140	(118)

### PRINCIPAL ACTUARIAL ASSUMPTIONS AT THE BALANCE SHEET DATE

Assumptions to determine superannuation expense	2013 % p.a.	2012 % p.a.
Discount rate (active members)	2.5	4.6
Discount rate (pensioners)	2.8	5.1
Expected rate of return on plan assets (active members)	7	7
Expected rate of return on plan assets (pensioners)	7.5	7.5
Expected salary increase rate	4.3	5
Expected pension increase rate	3	3

Assumptions to determine defined benefit obligation	2013 % p.a.	2012 % p.a.
Discount rate (active members)	3.1	2.5
Discount rate (pensioners)	3.4	2.8
Expected salary increase rate	4	4.3
Expected pension increase rate	3	3

Note: The discount rate for active members is net of investment tax for seven-year government bond yield and the discount rate for pensioners is gross of investment tax for seven-year government bond rate.

### HISTORICAL INFORMATION

Financial year ended 30 June 2013	2013 \$'000	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000
Defined benefit obligation	30,570	31,470	28,187	25,768	23,318
Fair value of plan assets	22,046	18,098	20,576	18,036	17,771
Deficit/(surplus) in plan	8,524	13,372	7,611	7,732	5,547
Experience adjustments					
losses/(gains) - plan assets	(1,886)	1,529	(1,340)	(445)	3,823
Experience adjustments					
losses/(gains) - plan liabilities	658	695	1,264	1,597	374

## EXPECTED CONTRIBUTIONS

Financial year ended	2014 \$'000
Expected employer contributions	832

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.

## 16 RESERVES

### NATURE AND PURPOSE OF RESERVES

#### Participant Compensation Fund Reserve

AEMO maintains the following participant compensation funds:

##### National Electricity Market

Established under the National Electricity Rules, the purpose of this fund is to pay compensation to certain types of participants for scheduling errors as determined by the Dispute Resolution Panel. The funding requirement for each financial year is the lesser of \$1,000k and \$5,000k minus the amount which AEMO reasonably estimates will be the balance of the PCF at the end of the relevant financial year. At 30 June 2013 the balance of the fund is \$4,251k (2012: \$4,228k).

#### 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 and \$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 2013 the balance of the fund is \$3,246k (2012: \$3,096k).

#### 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 and \$670k minus the amount AEMO reasonably expects to be the balance of the fund at the end of the financial year. At 30 June 2013 the balance of the fund is \$717k (2012: \$677k).
- II. **Adelaide hub:** The lesser of \$115k and \$330k minus the amount AEMO reasonably expects to be the balance of the fund at the end of the financial year. At 30 June 2013 the balance of the fund is \$297k (2012: \$174k).
- III. **Brisbane hub:** A rule change effective 7 March 2013 amended the funding requirement to be the lesser of \$225k and \$450k minus the amount AEMO reasonably expects to be the balance of the fund at the end of the financial year. At 30 June 2013 the balance of the fund is \$99k (2012: \$50k).

	PCF NEM \$'000	PCF Vic Wholesale Gas \$'000	PCF QLD FRC Gas \$'000	PCF STTM Sydney hub \$'000	PCF STTM Adelaide hub \$'000	PCF STTM Brisbane hub \$'000	TOTAL \$'000
<b>2012</b>							
Balance 1 July 2011	4,096	2,920	1,568	338	57	-	<b>8,979</b>
Net transfer from retained surplus of contributions and interest earned by the PCF during the year	1,272	176	(1,568)	339	117	50	<b>386</b>
Claim payments made from the PCF during the year	(1,140)	-	-	-	-	-	<b>(1,140)</b>
<b>Balance 30 June 2012</b>	<b>4,228</b>	<b>3,096</b>	<b>-</b>	<b>677</b>	<b>174</b>	<b>50</b>	<b>8,225</b>
<b>2013</b>							
Balance 1 July 2012	4,228	3,096	-	677	174	50	<b>8,225</b>
Net transfer from retained surplus of contributions, interest earned and re-distribution of funds by the PCF during the year	193	150	-	40	123	49	<b>555</b>
Claim payments made from the PCF during the year	(170)	-	-	-	-	-	<b>(170)</b>
<b>Balance 30 June 2013</b>	<b>4,251</b>	<b>3,246</b>	<b>-</b>	<b>717</b>	<b>297</b>	<b>99</b>	<b>8,610</b>

### Land reserve

AEMO has established the Land Reserve to recover the cost of the purchase of land and buildings at Norwest from participants.

### AWEFS reserve

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

## 17 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.H. Lavarch AO

G.J.W. Martin

Dr. A. L. Marxsen

S.C. Orr

Dr. M.A. Sargent AM

J. A. Tongs

All of the above persons were directors for the full financial year with the exception of Professor the Honourable M.H.Lavarch AO who retired effective 1 November 2012.

### KEY MANAGEMENT PERSONNEL COMPENSATION

	2013 \$'000	2012 \$'000
<b>DIRECTORS' COMPENSATION</b>		
Short-term employee benefits	1,747	1,727
Post-employee benefits	155	130
	<b>1,902</b>	<b>1,857</b>
<b>OTHER KEY MANAGEMENT PERSONNEL</b>		
Short-term employee benefits	2,119	2,724
Post-employee benefits	212	880
	<b>2,331</b>	<b>3,604</b>
	<b>4,233</b>	<b>5,461</b>

### Chairman and the Board members:

The remuneration of the chairman and Board members for the Board and Board committees was initially determined by the Ministerial Council on Energy based on advice received from an external consultant. At the Annual General Meeting on 1 November 2012, the members approved an increase to remuneration and committee fees based on forecast CPI.

### 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 and 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.

## 18 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:

	2013 \$'000	2012 \$'000
<b>Statutory audit services</b>		
<b>Services provided by the external auditor Grant Thornton</b>		
Statutory audit of the financial statements of the company	111	108
<b>Other services</b>		
Other non-statutory audit services not provided by AEMO's external auditor *	1,225	2,069

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

## 19 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 five 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 2013 the contingent liability is equivalent to rent for 3.5 years.

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

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

## 20 COMMITMENTS

### Capital commitments

Total capital commitments at 30 June 2013 and 30 June 2012 relate to contracted acquisition of plant and equipment.

	2013 \$'000	2012 \$'000
Not later than one year	711	270
Later than one year but not later than five years	366	-
Later than five years	-	-
	<b>1,077</b>	<b>270</b>

### Operating lease commitments

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

	2013 \$'000	2012 \$'000
Not later than one year	3,389	4,224
Later than one year but not later than five years	13,557	15,707
Later than five years	5,312	7,544
	<b>22,258</b>	<b>27,475</b>

Lease commitments payable are based on AEMO's current lease rates and includes agreed future increments.

The leases relate to the following:

- Melbourne CBD premises – lease agreement to 31 October 2018.
- Sydney CBD premises – lease agreement to February 2021.
- Brisbane CBD premises – lease agreement to 30 June 2016.
- Mansfield premises – lease agreement to 31 December 2018.
- Adelaide CBD premises – lease agreement to 15 July 2019.

## 21 ACCUMULATED SURPLUS/(DEFICIT)

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

	2013 \$'000	2012 \$'000
NEM	5,602	219
Electricity FRC	907	1,950
National Smart Metering	(118)	(2,833)
Victorian TNSP	17,941	(35,482)
DWGM	7,999	6,325
Gas FRC	2,506	1,754
STTM	(7,674)	(10,122)
NTP	1,809	30
Other functions	1,171	484
	<b>30,143</b>	<b>(37,675)</b>

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

The significant change in the accumulated surplus position from the previous year predominantly relates to the Victorian TNSP function due to the recovery of the prior year deficit and higher than expected intra-regional settlement residue income.

## 22 EVENTS OCCURRING AFTER BALANCE SHEET DATE

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorisation of these financial statements.



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

	2013 \$'000	2012 \$'000
Surplus/(deficit) for the year	67,444	(18,685)
Depreciation and amortisation	17,313	16,966
Discounted on AEMO(T) loan	-	263
Actuarial loss/(gain) - defined benefit superannuation plan	(3,725)	6,410
Actuarial adjustment to defined benefit fund contributions	(1,134)	(649)
<b>Change in operating assets and liabilities</b>		
(Increase)/decrease in trade and other receivables	(13,852)	(1,744)
(Decrease)/increase in creditors and accruals	24,120	(960)
(Decrease)/increase in provisions	(533)	1,498
<b>Net cash inflow provided by operating activities</b>	<b>89,633</b>	<b>3,099</b>

## 24 RELATED PARTY TRANSACTIONS

A number of directors occupy roles in other energy companies which pay fees to AEMO. All related party transactions for the year ended 30 June 2013 were transacted at arms-length.

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

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

# DIRECTORS' DECLARATION



The directors of Australian Energy Market Operator Limited declare that:

1. The financial statements, comprising the statement of profit or loss and other 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 2013 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. 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

5 September 2013



Grant Thornton Audit Pty Ltd  
ACN 130 913 594

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

We have audited the accompanying financial report of Australian Energy Market Operator Limited (the "Company"), which comprises the statement of financial position as at 30 June 2013, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the company.

**Directors' responsibility for the financial report**

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and 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 us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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In making those risk assessments, the auditor considers internal control relevant to the Company'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 Company'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.

**Auditor's opinion**

In our opinion, 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 2013 and of its performance for the year ended on that date; and
- ii complying with Australian Accounting Standards and the Corporations Regulations 2001

*Grant Thornton*

GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants

*Michael Climpson*

Michael Climpson  
Partner

Melbourne, 5 September 2013

# ABBREVIATIONS

AC	Alternating Current	MSV	Market Schedule Variations
AEMC	Australian Energy Market Commission	MT PASA	Medium Term Projected Assessments of System Adequacy
AEMO	Australian Energy Market Operator	MW	Megawatt
AER	Australian Energy Regulator	NAB	National Australia Bank
AM	Member of the Order of Australia	NECF	National Energy Customer Framework
AMDQ	Authorised Maximum Daily Quantity	NEFR	National Electricity Forecasting Report
AO	Officer of the Order of Australia	NEL	National Electricity Law
ASEFS	Australian Solar Energy Forecasting System	NEM	National Electricity Market
ASX	Australian Securities Exchange	NEMMCO	National Electricity Market Management Company
COAG	Council of Australian Governments	NGL	National Gas Law
CSIRO	Commonwealth Scientific and Industrial Research Organisation	NSCAS	Network Support and Control Ancillary Services
DCCEE	Department of Climate Change and Energy Efficiency	NTNDP	National Transmission Network Development Plan
DFS	Demand Forecasting System	NTP	National Transmission Planner
DNSP	Distribution Network Service Provider	OFA	Optional Firm Access
DRM	Demand Response Mechanism	PASA	Projected Assessments of System Adequacy
DSN	Declared Shared Network	PCF	Participant Compensation Fund
DTS	Declared Transmission System	PJ	Petajoule
DWGM	Declared Wholesale Gas Market	PV	Photovoltaic
EICDM	Energy Industry Conceptual Data Model	RIT-T	Regulatory Investment Test for Transmission
ESOO	Electricity Statement of Opportunities	RoLR	Retailer of Last Resort
FCAS	Frequency Control Ancillary Services	SCER	Standing Council on Energy and Resources
FRC	Full Retail Contestability	SRAS	System Restart Ancillary Services
GBB	Gas Bulletin Board	ST PASA	Short Term Projected Assessments of System Adequacy
GCAP	Gas Consumer Advocacy Panel	STTM	Short Term Trading Market
GSOO	Gas Statement of Opportunities	TFR	Transmission Frameworks Review
GWCF	Gas Wholesale Consultative Forum	TNSP	Transmission Network Service Provider
IPART	Independent Pricing and Regulatory Tribunal of NSW	TUOS	Transmission Use of System
LNG	Liquefied Natural Gas	TWh	Terawatt Hour
LRET	Large-scale Renewable Energy Target	VAPR	Victorian Annual Planning Report
MCE	Ministerial Council on Energy (now SCER)	VCR	Value of Customer Reliability
MOS	Market Operative Services	VENCorp	Victorian Energy Networks Corporation
MSATS	Market Settlement and Transfer Solutions	WHSE	Workplace Health, Safety, and Environment



# DIRECTORY

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## Statutory Auditor

Grant Thornton

## Market Auditor

RSM Bird Cameron  
PricewaterhouseCoopers

## Internal Auditor

RSM Bird Cameron

## Banker

NAB

## Solicitor

Principal Advisors:  
Allens Linklaters  
Herbert Geer





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