

Energy security

for all

Australians

Australian Energy Market Operator
2015 Annual Report

AUSTRALIAN ENERGY MARKET OPERATOR LIMITED
ABN 94 072 010 327



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Performance against 2014–15 value propositions

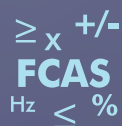
External



**Gas Bulletin Board
redevelopment**



Went live on time and on budget in December 2014.



**Improvements to
Frequency Control
Ancillary Services
(FCAS)**



Completed improvements in July 2014, resulting in substantial savings.



**National transmission
connection point
forecasting**



All remaining regions published by June 2015.



National gas forecasts



Published in December 2014.



LNG readiness



Completed planned contingency gas and emergency exercises, issued revised emergency procedures, and completed commissioning of Winchelsea Compressor Station and pipeline loops.

Internal



**Consultation: changing
our approach**



Completed initiatives to improve stakeholder engagement and stakeholder experience.



**Transforming our
people-related systems
and processes**



Progressed performance, goals and succession initiatives, and expanded the project's scope for greater long-term benefits.



Message from the Chairman



Unprecedented transformational change

The ability to manage change continues to be critical to AEMO's success in an energy sector that is evolving.

AEMO launched a new vision this year – energy security for all Australians. As we look at the short and longer term future for the industry, the challenge of delivering safe, reliable energy to every household, business, and large industrial site in eastern and south-eastern Australia is growing swiftly.

In the National Electricity Market (NEM), the traditional issues of demand, generation, transmission and supply adequacy are increasingly complicated by trends like growth in demand-side management, and the emergence of fuel-switching and technologies for battery storage and electric vehicles. Generation alone is projected to become increasingly diverse and complex, as traditional thermal generation is retired and we continue to see the growth of rooftop photovoltaic (PV) and intermittent generation (such as wind and large-scale solar).

The dynamic, changing eastern and south-eastern Australian gas markets are showing ongoing shifts in consumption and supply positions. Older resources are reaching the later stages of production, as new reserves are opened up, creating new flows and the need to focus on capacity and directional flow so gas can continue to

reach high demand areas. And, dominating all AEMO's forecasts, the ramp-up of export liquefied natural gas (LNG) operations in Queensland will have a major impact on demand, for production facilities and for export markets.

Energy markets will keep changing as consumers become more engaged and active, and as policy directions and economic pressures shift.

Through this transformation, AEMO will encourage increased competition, and will continue to facilitate greater transparency of data and information, so the dynamic, continuing change we anticipate in gas and electricity markets delivers energy security and efficiency to Australian industry, commerce and households.

This year, the process of change also brought a major review, commissioned by the Council of Australian Governments (COAG) Energy Council, into governance arrangements in Australia's energy markets. The review is examining the structure, legislation and bodies set up by COAG – including the Australian Energy Regulator (AER), Australian Energy Market Commission (AEMC) and AEMO – to seek areas for potential improvement. AEMO has welcomed this process. Submissions and public consultation during 2014–15 will lead to a final report to the COAG Energy Council in late 2015.

As we have faced the challenges of 2014–15, I have been fortunate to be surrounded by an experienced and visionary Board of Directors. The breadth and depth of their knowledge and expertise has been invaluable.

“The ability to manage change continues to be critical to AEMO’s success in an energy sector that is evolving.”

We said farewell this year to outgoing directors Mr Les Hosking and Mr Greg Martin, who completed their terms in November 2014. I thank them both for their major contributions to the Board and to the committees on which they served, and wish them well for the future.

We also welcomed Mr Frank Calabria and Dr. Peter Davis to the Board. Both bring extensive energy sector experience to AEMO and have made valuable contributions to Board discussions and decisions, as well as to the deliberations of their Board committees.

This report reflects on the achievements and the changes of the past year. As I retire from the AEMO Board in November, after completing my second term, I am able to look back over a much longer period in AEMO’s history, having been appointed as Chairman even before the AEMO Board was officially established in July 2009. The transformation in the industry in that time has been significant, and I reflect with pride on how expertly and professionally AEMO has responded to, and influenced, these changes.

In my time as Chair, I have seen consistently strong leadership from Matt Zema, as Managing Director and Chief Executive Officer, and from many different members of the executive team. I thank and congratulate them all, and warmly thank every AEMO employee for their efforts and the excellent organisational performance they have delivered, year after year, in a very challenging environment.

AEMO has initiated a formal search for a new Chair, and also to fill an existing vacancy on the Board for a non-executive director.

Looking forward, I am confident that AEMO will continue to pursue improvement in all its operations and services. I have seen that each of our planning and forecasting publications has highlighted opportunities to add more and better quality data and insights next time around. All across AEMO, people bring genuine commitment and vision to lifting performance and supporting market participants, stakeholders and consumers towards more efficient, secure energy outcomes.



Dr. Thomas Parry AM
Chairman

Message from the Chief Executive Officer



Maintaining efficiency in an evolving market

The energy industry has continued to undergo rapid transformation over the past 12 months, and while the electricity and gas sectors are no strangers to large scale developments and advancements in technology, the pace of change makes this a challenging period for both AEMO and our stakeholders.

AEMO has demonstrated diligence and agility throughout this period, and restructured in late 2014 to better position ourselves for future opportunities and challenges. We now have dedicated teams to manage our markets functions, such as wholesale market operation and metering services, together with a newly established Stakeholders and Information team to continually improve the way we engage and share information with our stakeholders.

In 2014–15, AEMO delivered the majority of our value propositions, as well as achieving a number of 'firsts' for the organisation. We completed our first set of independent transmission connection point forecasts for all NEM regions, fulfilling the commitment made to the COAG Energy Council and providing AEMO with a more detailed level of data to feed into our forecasts. We also released our inaugural National Gas Forecasting Report (NGFR), which forecasts domestic gas consumption and LNG exports in Australia's eastern and south-eastern gas markets. The report highlighted the substantial change taking place in Australia's gas markets over the short term, with total consumption (including LNG exports) projected to increase at an average annual rate of 23% to 2019.

Although this will tighten the domestic gas market, AEMO's 2015 Gas Statement of Opportunities (GSOO) reported no expected supply gaps for any region over the same time period.

Renewable energy integration in the NEM continued to be an important topic of discussion for both government and industry. AEMO conducted our first study, in association with transmission business ElectraNet, into the impact of renewable energy integration on power system security and reliability. The report looked specifically at South Australia (SA), as it has the highest wind and solar PV generator penetration of any NEM region. It concluded the SA power system can operate securely and reliably with a high percentage of wind and PV generation, as long as the Heywood Interconnector linking SA and Victoria is operational, and sufficient synchronous generation is connected and operating on the SA power system. AEMO will continue to consult with industry and further investigate options to provide both short-term and longer-term solutions to support higher levels of wind and PV generation in SA.

The increase of wind and solar PV energy generation as a proportion of the total generation mix is not isolated to SA. The 2015 Electricity Statement of Opportunities (ESOO) reported industry has announced approximately 4,500 megawatts (MW) of generation capacity to be withdrawn over the next 10 years, with only wind and solar generation projects committed at this stage for the next decade.

“AEMO has demonstrated diligence and agility throughout this period.”

AEMO also released our inaugural Emerging Technology Information Paper exploring the potential impacts of battery storage, electric vehicles, and fuel switching (from gas to electric appliances) in the NEM over the next 20 years. The study is a starting point for AEMO to further progress work in this area, and explore how each NEM region might respond to these technologies and trends in the future.

Acknowledging the challenges faced by industry, AEMO continued our focus to deliver tangible outcomes relating to system and process improvements. The completion of our System Restart Ancillary Services (SRAS) procurement process, using dynamic modelling to assess the performance of each service, will result in a significant reduction in the cost of SRAS for all regions from 2015–16. We also saw substantial savings in the cost of Network Support and Control Ancillary Services (NSCAS) as the changes from our earlier review took full effect.

In late 2014, AEMO worked closely with industry to deliver the redeveloped Gas Bulletin Board (GBB). The GBB aims to increase the transparency, accuracy, and volume of readily available system and market information to the benefit of gas market participants, and in the long term, lead to efficiency benefits in upstream and downstream gas commodity markets.

I would like to make a special acknowledgment to AEMO’s inaugural Chairman Dr. Thomas (Tom) Parry AM, who retires in November 2015 following the conclusion of his second term. As well as playing a major role in setting the direction for AEMO, Tom has provided ongoing advice and support to me and the broader Executive Leadership Team since AEMO’s establishment in 2009. On behalf of AEMO, I would like to thank Tom for his considerable contribution and wish him continued success in his future endeavours.

Our Executive Leadership Team, together with our workforce of more than 500 employees, have demonstrated resilience, pride and passion in delivering pleasing results over the past 12 months, and I thank them for their considerable effort. As one team, we are committed to delivering our 2015–17 strategic initiatives and ultimately, our vision to ensure energy security for all Australians.



Matt Zema
Managing Director and Chief Executive Officer

AEMO overview

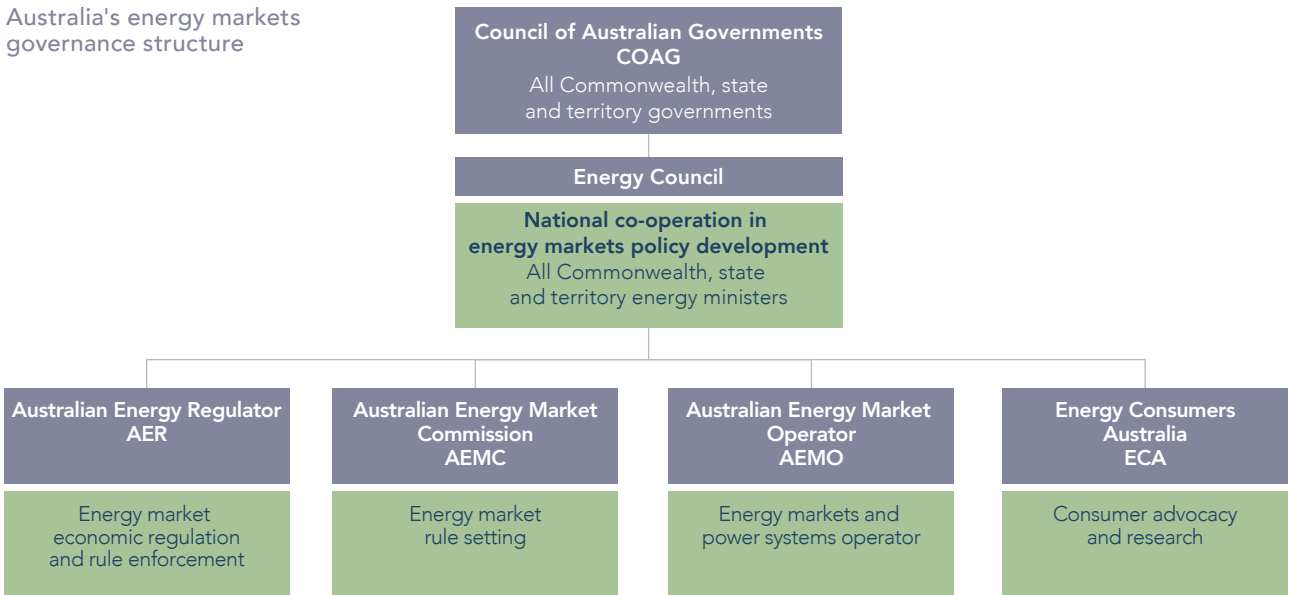
AEMO is essential to Australia’s energy needs being met securely and efficiently.

- We operate wholesale and retail gas and electricity markets across eastern and south-eastern Australia. This includes scheduling energy at the lowest available price, settling trades, and facilitating greater transparency in the flow of data and information, in the NEM, the Declared Wholesale Gas Market (DWGM) in Victoria, the gas Short Term Trading Market (STTM), the Wallumbilla Gas Supply Hub, and energy retail markets.
- We oversee the vital system operations and security of the NEM power system and the Victorian Gas Declared Transmission System, through 24/7 control rooms, to make sure residential, commercial and industrial consumers get secure, reliable supply.
- We develop and regularly publish independent energy forecasting and planning information to support efficient network investment and operations, and long-term benefits to consumers, across the NEM and the eastern and south-eastern Australian gas network.
- We support emergency response systems and initiatives in the eastern and south-eastern Australian gas and electricity networks.
- We work collaboratively with industry participants, the AER, the AEMC and the COAG Energy Council, and provide expert technical support for reform initiatives that are improving innovation, competition, efficiency and productivity to benefit Australian energy consumers.

AEMO’s costs are fully recovered through fees paid by industry participants. Our ownership structure is shared between government (60%) and industry (40%), with members representing federal and state governments, and generation, distribution, transmission, retail and resources businesses, across Australia’s eastern and south-eastern states.

In 2014–15, AEMO launched a new vision, mission, values, and set of strategic initiatives for 2015–17. Coming five years since we were established, these reflect continuing transformational change in the energy sector. They also refine what our stakeholders expect from AEMO and how we can keep contributing most effectively to meeting Australia’s energy security needs.

Australia's energy markets governance structure

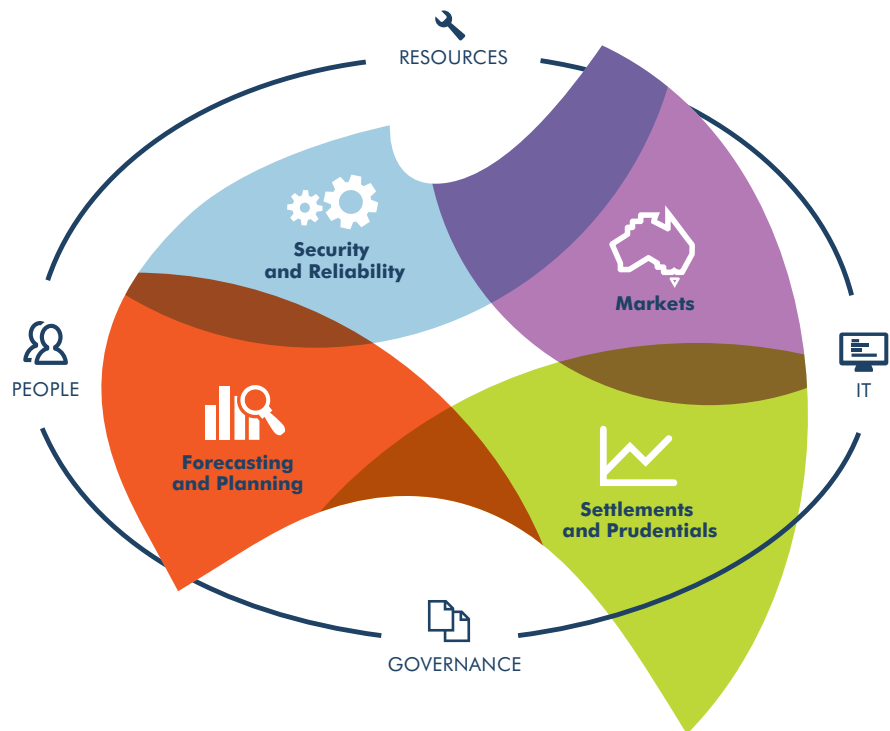


Our vision

Energy security for all Australians

Our values

- Stakeholder-focused
- One team
- Accountable
- Pride and passion



AEMO 2015–17 Strategic Initiatives



Forecasting and planning

Publish forecasts and planning information to a frequency and quality that meet stakeholder needs.

- Publish quarterly electricity insights from June 2016.
- Publish quarterly gas insights by December 2016.



Information

Deliver information and data services that enable greater customer choice.

- Work with stakeholders to understand changing information and data services requirements.
- Develop an implementation plan to deliver relevant data services.



AEMO fees

Structure our fees to better reflect the changing environment.

- Restructure NEM fee(s) by April 2016.
- Restructure all other fees by mid-2018.



Emerging technologies and developments

Adapt AEMO's capability to maintain security and reliability of Australia's power system in a changing market environment.

- Review technical standards and operating arrangements to ensure these allow for changing technologies.
- The roles and responsibilities of all parties to deliver security are clear.
- AEMO has the information it requires to maintain system security and market reliability.



Gas markets

Facilitate the effective trade of gas across eastern and south-eastern Australia.

- Enhancement of and access to system information on the Gas Bulletin Board by June 2016.
- Harmonise New South Wales and Australian Capital Territory B2B gas retail procedures and market systems.



Stakeholder management

AEMO is impartial, balanced and thorough.

- AEMO engages stakeholders on solutions and ideas.
- Stakeholder relationships are collaborative and proactive.

Forecasting and planning

AEMO provides detailed, independent forecasting and planning information to help industry participants, governments and regulators make informed decisions in the interests of efficiency and, ultimately, to the benefit of Australian consumers.

In this transparent, continuous cycle, AEMO publishes detailed gas and electricity forecasting data and also uses its forecast data extensively in planning reports.

During 2014–15, AEMO's forecasting and planning teams delivered:

- Short, medium, and long-term projections for electricity and gas networks across eastern and south-eastern Australia, in each region, and at a local level.
- Detailed data and information based on a range of scenarios representing different market conditions.
- Comparisons with previous forecasts and historical trends.
- Online, interactive access to forecasting and modelling data.

Key insights from AEMO's major 2014–15 forecasting and planning publications are summarised on the following pages.

AEMO took a number of major steps forward this year, to improve our forecasting and planning support for the energy sector.

Forecasting improvements and innovations included:

- **Publishing our first National Gas Forecasting Report (NGFR)** (December 2014), giving the gas industry independent, detailed 20-year forecasts of annual consumption and maximum demand.
- **Improving modelling of gas-powered generation (GPG)** to include a profitability measure that looks at plants' bidding behaviour, and including this in the 2014 NGFR.
- **Publishing a report on the potential impacts, over the next 20 years, of emerging technologies and trends** – storage, electric vehicles and fuel switching – as part of the 2015 National Electricity Forecasting Report (NEFR).
- **Modelling minimum demand** in South Australia to investigate the impact on the electricity network of high uptake of residential and commercial rooftop PV.
- **Launching a system to include all rooftop PV in energy forecasts**, providing greater forecasting accuracy by including data about the location and capacity of all rooftop PV generation in the NEM. The system also delivers separate forecasts for rooftop PV systems in the residential and commercial sectors, which, in the 2015 NEFR, reflected different drivers in these sectors and facilitated more detailed analysis.
- **Launching a dynamic interface with the 2015 NEFR**, so users could access and review the forecasting data, and apply their own filters to it.
- **As another first, publishing independent individual electricity Transmission Connection Point Forecasts for Victoria, South Australia and Queensland**, to complete the cycle of all NEM regions and provide detailed insights about projected local level changes in maximum demand over a 10-year outlook period.

In our planning role, we introduced:

- **An interactive online planning map**, that provides current and transparent information about the NEM transmission system including emerging limitations, fault levels and transmission connection point forecasts (see below).
- **Independent planning reviews** of transmission network investment needs, aligned with the regulatory cycle in each region. By applying our independent view of future demand growth and a nationally consistent assessment methodology, we can engage with Transmission Network Service Providers (TNSPs) to rigorously assess potential network limitations and encourage efficient investment in the long-term interests of consumers. In 2014–15 we provided independent planning reviews for New South Wales and Tasmania, with other NEM regions planned for future years.

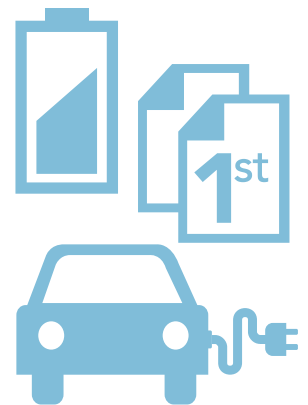
We also increased our engagement with stakeholders, including getting specific feedback about what they would like to see improved in AEMO's forecasting and planning reports, and getting more extensive, confidential input to modelling data from large industrial consumers.

1st
First-ever National Gas Forecasting Report.

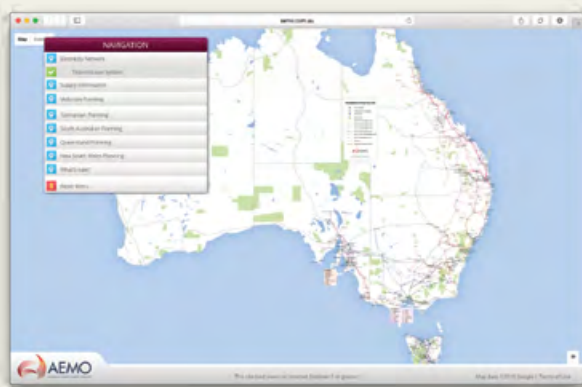


Introduced AEMO's first interactive online planning map for the NEM.

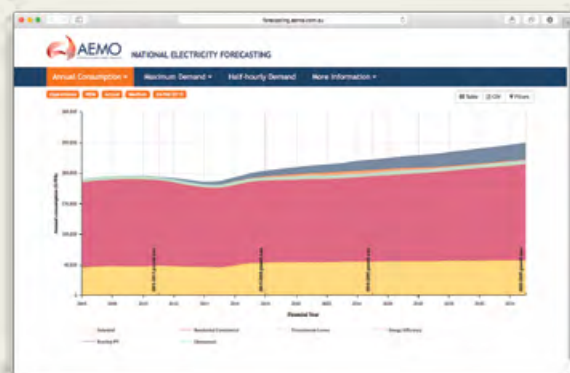
Published NEFR Emerging Technologies Information Paper.



Dynamic electricity market information



AEMO's NEM interactive planning map provides immediate access to current information on the NEM transmission system, including emerging limitations, fault levels and transmission connection point forecasts.



AEMO's online dynamic interface to the 2015 NEFR provides a simple and intuitive way to view, download and filter data to answer questions about forecast operational consumption and maximum demand.

Forecasting and planning

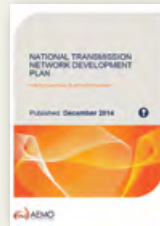
Key publications

AEMO provides detailed, independent forecasting and planning information to help industry participants, governments and regulators make informed decisions in the interests of efficiency and, ultimately, to the benefit of Australian consumers.



JULY 2014
Transmission Connection Point Forecasting Report for New South Wales and Tasmania

First time published. 10-year forecasts of local level, connection point maximum demand. Local variability, but average maximum demand growth rates moderate due to (New South Wales) population growth offset by load transfers, rooftop PV uptake and energy efficiency savings, and (Tasmania) new industrial and commercial loads, offset by load closures, rooftop PV uptake and energy efficiency savings. Updates published in February 2015 (Tasmania) and June 2015 (New South Wales).



DECEMBER 2014
National Transmission Network Development Plan (NTNDP)

20-year outline of challenges and opportunities in NEM transmission network. Most expenditure towards replacing ageing assets, and rooftop PV uptake may further defer augmentation. Opportunities for lower-cost outcomes focused on customer needs and choices.



AUGUST 2014
Electricity Statement of Opportunities (ESOO)

10-year assessment of adequacy of NEM generation to supply forecast operational consumption and maximum demand. If generating capacity remains available, supply adequate to meet demand with surplus capacity in all regions. Opportunities in renewable generation and localised needs.



DECEMBER 2014
Transmission Connection Point Forecasting Report for South Australia

First time published. 10-year forecast of local level, connection point maximum demand. Local variability, but aggregate maximum demand flattening due to load transfers, rooftop PV uptake and energy efficiency savings.

2014



AUGUST 2014
South Australian Electricity Report

10-year summary of South Australia's consumption, generation and supply adequacy. No reserve shortfall, and surplus capacity by 2023–24. Consumption and maximum demand declining due to lower industrial consumption, rooftop PV and energy efficiency. Generation outlook focused on wind projects.



DECEMBER 2014
National Gas Forecasting Report (NGFR)

First time published. 20-year gas operational consumption and maximum demand forecasts for eastern and south-eastern Australia. Short-term consumption up 23% (Queensland LNG projects' consumption and exports offsetting declining consumption in all other regions), then plateauing. Long-term maximum demand growing in Queensland and, due to increasing gas-powered generation (GPG), in New South Wales and South Australia.



SEPTEMBER 2014
Transmission Connection Point Forecasting Report for Victoria

First time published. 10-year forecast of local level, connection point maximum demand. Local variability, but aggregate maximum demand flattening due to load transfers, rooftop PV uptake and energy efficiency savings.



APRIL 2015
Gas Statement of Opportunities (GSOO)

20-year assessment of adequacy of gas markets to supply forecast operational consumption and maximum demand. No short-term supply gaps, due to lower consumption and increased capacity. Medium and long-term demand will largely be met, though extraction from undeveloped reserves may be needed.



JUNE 2015
Victorian Annual Planning Report

10-year summary of supply, demand, capability and network information for Victoria's electricity shared network. Some identified investment opportunities to address constraints where growth in maximum demand is forecast. Transmission network charges (first forecast in 2015) projected to reduce under high and medium scenarios.



JUNE 2015
Transmission Connection Point Forecasting Report for Queensland

First time published, completing cycle of first reports for all NEM regions. 10-year forecast of local level, connection point maximum demand. Local variability, but aggregated maximum demand rising 4.7% in the short term, driven by LNG projects, and more slowly in the rest of the period, due to population growth.

2015



JUNE 2015
National Electricity Forecasting Report (NEFR)

20-year NEM operational consumption and maximum demand forecasts. Operational consumption recovering, driven mainly by Queensland LNG project consumption. Queensland exceeding historic maximum demand in 2016–17, maximum demand moving later in the day in Queensland and Victoria, following South Australia. South Australian minimum demand record low in 2014–15. By 2023–24, rooftop PV could offset 100% of demand in South Australia at minimum demand times.



JUNE 2015
NEFR Emerging Technologies Information Paper

First time published. 20-year forecast of potential impacts on operational consumption and maximum demand in NEM regions of battery storage systems (significant in Victoria and New South Wales), electric vehicles (negligible impact) and fuel switching (low impact).

Security and reliability

As the energy market operator, AEMO continues to work with industry and governments to manage gas and electricity systems and deliver secure, reliable energy supply across eastern and south-eastern Australia. The rapidly changing energy environment demands new approaches and constant re-evaluation of what needs to be done to secure energy supplies, now and into the future.

Security in a changing energy environment

The increasing contribution of renewable technologies to Australia's energy supply mix is one key aspect of the transforming environment. In 2014–15, AEMO continued to work closely with industry and government to understand the potential impacts of this growth in renewables on NEM operations, and manage the potential risks to security of supply to consumers. One AEMO initiative in this ongoing process was publishing the inaugural Emerging Technologies Information Paper as part of the 2015 NEFR.

Much of AEMO's collaboration with industry and government continues to focus on South Australia, which has the highest uptake of wind and PV generation (compared to total capacity) of all NEM regions, and where AEMO provides the state government with a range of reports and advisory support under Section 50B of the National Electricity Law.

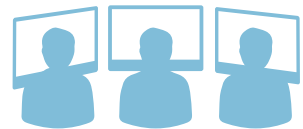
During 2014–15, AEMO completed a range of investigations and reports, including:

- Publishing the 2015 South Australian Fuel and Technology Report (January 2015) to outline the range of fuel resources and power generation technologies available in South Australia now and in the future, their comparative future costs, and energy projects being developed, and to explore how new technologies are being integrated, particularly in the evolving area of renewable energy generation.
- Publishing a joint Renewable Energy Integration in South Australia report, with ElectraNet (October 2014), to investigate and analyse the impact of non-synchronous wind and PV generation on South Australia's power network. This report concluded that the state's power system can operate securely and reliably with a high percentage of wind and PV generation, even at times where wind generates more than 100% of demand, as long as South Australia can call on enough synchronous generation operating on its power system, or on imports from Victoria through the Heywood Interconnector.
- Investigating the operation of the South Australian power system with low levels of thermal synchronous generation online.
- Reporting on power system frequency control in South Australia, particularly under conditions when the state's power system is or could become separated from the NEM.
- Launching a roadshow in mid-2015 to invite discussion with industry on the integration of renewables.

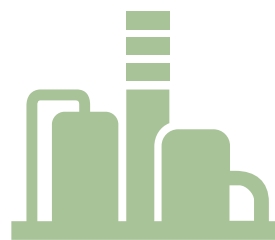
Major improvements during 2014–15 included:

- **Completing the commissioning of the Winchelsea Compressor Station** in the Victorian gas transmission system. This joint project between AEMO and APA Group engineers increases the capacity of the South West Pipeline, which in turn increases available winter gas supply for Melbourne from gas plants in Port Campbell including the Iona Underground Gas Storage facility, supports increased flows to New South Wales, and enhances system security.
- **Undertaking the first stage of a project to implement a new, world-leading automated volt-ampere reactive (VAr) dispatch and scheduling system**, so the NEM control rooms can more efficiently manage voltage control in the power system. Once implemented, the new system will automatically determine and electronically communicate a schedule for the dispatch of VAr plant to reactive plant operators, to keep system levels between required limits after any credible contingency.
- **Beginning work on a new Brisbane control room**, with a dedicated high speed data link and upgraded technology and equipment, to continue providing system security and market services to the NEM.

Commenced work on a new Brisbane control room.



Completed the commissioning of the Winchelsea Compressor Station.



Began implementation of world-leading automated volt-ampere reactive (VAr) dispatch and scheduling system.



Delivering better value security

AEMO continued to fulfil our responsibility for procuring and facilitating ancillary services in the NEM, with an ongoing focus on delivering cost savings and improved value for consumers. Ancillary services are a range of services that AEMO procures, either through the market or via off-market contracts, to maintain system stability and energy security through different kinds of potentially disruptive contingencies and events.

During 2014–15, AEMO initiated changes to ancillary services that will deliver ongoing savings. AEMO achieved these savings through new, confidential arrangements including:

- Improving AEMO's data and models to refine our processes for procuring System Restart Ancillary Services (SRAS). SRAS minimise the market costs of major supply disruptions by contracting with generators that can restart without grid power if needed.
- Refining the volume of Frequency Control Ancillary Services (FCAS) needed to secure system reliability in Tasmania. FCAS increases and decreases generation to maintain power system frequency in a required band close to 50 hertz at all times.

Markets

The energy market is changing fast, for providers and consumers.

Consumers demand greater control and choice, while technologies and consumer behaviour are driving changes in generation, metering, storage, products and services.

AEMO again worked with stakeholders to identify issues and opportunities for strengthening energy markets into the future, focusing on:

- A holistic and proactive approach.
- The long-term best interests of consumers.
- Flexible market solutions for a rapidly changing environment.

Gas

Gas market initiatives during 2014–15 included:

- Marking the first anniversary of the Wallumbilla Supply Hub in March 2015. The voluntary centralised trading, settlement and clearing facility had 10 participants actively trading during its first 12 months of operation, with almost 3 petajoules (PJ) of gas traded.
- Harmonising business-to-business (B2B) and business-to-market (B2M) procedures across the New South Wales and Australian Capital Territory retail gas markets, so they align with procedures already operating in the NEM. AEMO worked with industry on procedures and technology architecture to introduce a uniform standard, removing barriers to entry for retailers and improving competition.
- Co-operating with the AEMC's East Coast Wholesale Gas Market and Pipeline Frameworks Review, requested by the COAG Energy Council. The Review is examining the design, functions, and roles of facilitated gas markets and gas transportation arrangements on Australia's east coast, to make sure gas markets develop in line with COAG's reform agenda and vision. The AEMC-appointed working group began the review in February 2015 and will report in December 2015.

Wallumbilla Gas Supply Hub

In April 2015, AEMO joined the Australian Stock Exchange (ASX) to launch the ASX Wallumbilla natural gas futures. The Wallumbilla End of Day Benchmark price is the reference price for the ASX's gas futures contracts. The ASX Natural Gas product suite is part of its expanding energy derivatives business, designed to meet the risk management needs of Australian energy participants. AEMO sees the establishment of a gas futures market as an important step towards increasing transparency and competition in Australia's growing eastern and south-eastern gas markets.

In June 2015, AEMO also launched a new monthly product for trading at Wallumbilla. This product provides greater price transparency through a longer-dated physical forward curve, and helps with physical gas forward contracting.

Online gas market information – Gas Bulletin Board

In December 2014, AEMO launched a major redevelopment of the Gas Bulletin Board website, after a process of close co-operation with many participants. This is a single electronic communications system covering all major gas production fields, storage facilities, major demand centres and natural gas transmission pipeline systems in eastern and south-eastern Australia. The bulletin board gives gas market participants, and the general public, immediate access to transparent, current system and market data.

The new website provides better data quality and improved transaction processes. An information-rich interactive map gives fast and easy access to participant-supplied data about plant capacity and production, and pipeline capacity and flow, at any chosen point in the network.

Through the year, AEMO worked with participants and the AER to drive improvements in data quality, compliance and reporting, and build closer working relationships. AEMO also improved the registration process as 10 new production facilities joined the Gas Bulletin Board during 2014–15.

Electricity

Initiatives to improve the efficiency and resilience of the NEM during 2014–15 included:

- Undertaking, with the ASX, a design study on potential alternative arrangements to clear and settle energy markets more efficiently. AEMO and the ASX jointly developed a range of conceptual designs that would better integrate the processes for clearing and settling derivative and physical trades in the NEM. The aim has been for participants to have access to benefits in the form of administrative savings, and also from providing reduced capital to meet the Prudential Standard. Although the design study has provided an opportunity to examine the merits of alternative arrangements, AEMO and the ASX have concluded that the benefits afforded by the proposals do not justify further work at this time. AEMO is now exploring a number of alternative efficiency improvements to NEM prudential arrangements in collaboration with stakeholders.

Power of Choice for electricity consumers

This year, AEMO continued to progress a range of initiatives to make Power of Choice a practical reality for consumers across the NEM. The Power of Choice program was launched in 2012 to give households and businesses the information, technology and pricing options to choose how they use electricity and manage their own costs.

Projects during 2014–15, which AEMO pursued at the request of the COAG Energy Council and the AEMC, and in collaboration with industry, included:

- Proposing rule changes to improve Customer Access to Data, so consumers can use their own metering data to make more informed choices about their usage, products and services.
- Promoting metering competition, by putting greater discipline on metering suppliers to provide efficient services that are consistent with consumer preferences.
- Proposing rule changes for embedded networks (where landlords traditionally on-sell electricity, such as in residential complexes and shopping centres) to give consumers the ability to choose their own retailer, and to introduce nationally-consistent rules and responsibilities.
- Advising on the requirements for a Shared Market Protocol to provide a common communication format between advanced ('smart') meter service providers and users.
- Developing rule, procedure and system changes to give consumers access to more competitive options for buying and selling energy at their sites, by allowing multiple retailers to operate at a single connection point.
- Advising on a Demand Response Mechanism to optimise demand-side participation from large customers, reduce their contribution to maximum demand, and offset the need for investment to manage the peak.
- Facilitating Ancillary Services Unbundling (ASU), to enable a third party to register and sell Frequency Control Ancillary Services using aggregated loads, independently of the retailer.

Settlements and prudentials

AEMO is responsible for settlement, prudential monitoring and clearing of trades in the:

- National Electricity Market.
- Victorian Declared Wholesale Gas Market.
- Gas Short Term Trading Market.
- Wallumbilla Gas Supply Hub.

As well as efficiently delivering these market services, and achieving required prudential standards, AEMO also delivered a range of settlement and prudential related improvement initiatives during 2014–15, including:

- **Introducing dual Marginal Loss Factors (MLF)** to better represent instances where the net flow of energy at a transmission node in the NEM reverses direction, with a corresponding, material change to the effective loss factor.
- **Changing the Settlement Residue Auction (SRA) unit transfer interface**, to improve the process by which SRA units are allocated between market entities.
- **Introducing ‘causer pays’ STTM deviation price changes**, in accordance with market rule changes, so participants deviating from their scheduled quantities, to the cost of the market, have this taken into account in their settlement calculations.
- **Releasing a first review report on the effectiveness of the Credit Limit Procedure** introduced for the NEM in November 2013. This reported that expected improvements were flowing through and AEMO was meeting the 2% prudential standard established under the rules, while materially reducing overall collateral requirements.
- **Seeking to reduce collateral requirements for participants in the NEM** by allowing the offset of load with reallocations when assessing the prudential margin component of the participant’s Maximum Credit Limit. This work resulted in the submission of a rule change proposal to the AEMC, without impacting the 2% prudential standard. A draft determination is expected from the AEMC by the end of 2015.
- **Completing a study on the net benefits of Futures Offsets Agreements (FOA) in the NEM**, which suggested net benefits from the implementation of FOA would be marginal, and committing to seek more participant feedback before doing further work on the initiative.
- **Supporting the Optional Firm Access (OFA) review** by simulating network events and modelling how the Access Settlements component would work. The OFA package of reforms was designed to transform the way generation and transmission sectors interact in the NEM. AEMO and the AEMC worked closely and constructively together on this project, and AEMO then continued to support the AEMC to deliver its terms of reference on OFA.

AEMO members

Government members

As at 30 June 2015, AEMO's government members are:

- Commonwealth of Australia
- Australian Capital Territory
- New South Wales
- South Australia
- Tasmania
- Victoria
- Queensland

Industry members

As at 30 June 2015, AEMO's industry members are:

- Acciona Energy Oceania Pty Ltd
- AGL Energy Ltd
- AGL Loy Yang Marketing Pty Ltd
- Allgas Energy Pty Ltd
- APA EE Holdings Pty Ltd
- APA GasNet Australia (Operations) Pty Ltd
- APT Petroleum Pipelines Pty Ltd
- APT Pipelines (NSW) Pty Ltd
- Ararat Wind Farm Pty Ltd
- Attunga Capital Pty Ltd
- Aurora Energy Pty Ltd
- Aurora Energy (Tamar Valley) Pty Ltd (trading as AETV Power)
- Aus Gas Trading Pty Ltd
- Ausgrid
- Australian Gas Networks Limited
- Australian Power and Gas Pty Ltd
- Central Ranges Pipeline Pty Ltd
- CitiPower Pty Ltd
- Click Energy Pty Ltd
- Covau 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 Ltd
- EDL Group Operations Pty Ltd
- 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
- Epic Energy South Australia Pty Ltd
- ERM Power Ltd
- ERM Power Retail Pty Ltd
- Essential Energy
- Flinders Operating Services Pty Ltd
- FPC 30 Ltd
- Hydro-Electric Corporation
- Infigen Energy Markets Pty Ltd
- Infratil Energy Australia Pty Ltd
- Jemena Ltd
- LMS Energy Pty Ltd
- Macquarie Generation
- Marubeni Australia Power Services Pty Ltd
- Millmerran Energy Trader Pty Ltd
- Murraylink Transmission Company Pty Ltd
- New Gullen Range Wind Farm Pty Ltd
- N.P. Power Pty Ltd
- OneSteel Manufacturing Pty Ltd
- Onsite Energy Solutions Pty Ltd
- Origin Energy Electricity Ltd
- Origin Energy Eraring
- Pacific Hydro Challicum Hills Pty Ltd
- Pacific Hydro Clements Gap Pty Ltd
- Pacific Hydro Portland Wind Farm Pty Ltd
- Pacific Hydro Retail Pty Ltd
- People Energy Pty Ltd
- Pooled Energy Pty Ltd
- Powercor Australia Ltd
- Queensland Electricity Transmission Corporation Limited (trading as Powerlink Queensland)
- RE Oakey Pty Ltd
- Roverton Pty Ltd
- Santos Ltd
- South East Australia Gas Pty Ltd
- SPI Electricity Pty Ltd
- Tasmanian Gas Pipeline Pty Ltd
- Tasmanian Networks Pty Ltd
- TransGrid
- Vicpower Trading (State Electricity Commission of Victoria trading as Vicpower Trading)
- Westpac Banking Corporation
- WINenergy Pty Ltd

Our stakeholders

Being stakeholder-focused is one of AEMO's key values. It is a major strategic initiative for AEMO to engage stakeholders on solutions and ideas, and develop and maintain collaborative and productive stakeholder relationships.

In practice that means we listen to stakeholders – industry participants, consumers, governments and regulators – to understand their issues and build our current and future services to meet their needs and expectations.

In 2014–15, AEMO continued to consult and collaborate with stakeholders, and acted on specific findings of our stakeholder survey. Key initiatives included:

- Refining the registration process for new market participants, making it easier and less onerous for participants and allocating a dedicated support person to help them through registration. During the year, we facilitated the successful registration of 78 separate organisations and assets.
- Improving the stakeholder forums we run, so all participants experience clearer communication, and higher levels of engagement and consultation.
- Establishing, for the first time, a regular Consumer Forum, where consumers' representatives can get information and discuss issues and concerns across gas and electricity.
- Conducting annual planning consultations with industry to get improvement ideas for our forecasts, analysis and reports.
- Extending our internal skills training and coaching programs to improve our engagement and consultation, and the clarity of our communication, in both presentations and written documents for stakeholders.
- Delivering industry information and awareness courses to over 250 participants, including running courses specifically for government and industry stakeholder organisations.

Value of customer reliability

Understanding the value customers place on the reliability of power supply is an important input into efficient investment decision-making. It facilitates customer input into investment decisions and ultimately the bills they pay.

During 2014–15, AEMO completed and published the results of our survey of almost 3,000 residential, commercial and large industrial customers, measuring the value of customer reliability (VCR) for each sector. This was the first survey of its kind across the NEM.

A VCR is expressed as dollars per kilowatt-hour (kWh). A higher VCR means customers place a high value on reliability (based on when and how often outages occur, and how long they last) and would be willing to pay more for it.

We found that, on average, across the NEM:

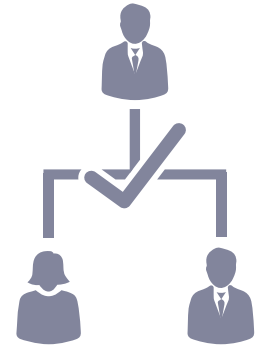
- Residential customers have a VCR of \$26/kWh.
- Business customers have a higher VCR, of between \$44/kWh and \$48/kWh (depending on the sector).
- Directly-connected (large industrial) customers have a low VCR, of \$6/kWh.

The majority of customers said they were satisfied with their current level of supply reliability, and believe it is of a high standard. The results were broadly consistent with similar studies internationally.

Detailed results for all sectors in all NEM regions are available on AEMO's website. Asset owners, planners, government, regulators and consumers can use the VCR survey to increase the efficiency of network investments to meet consumer expectations.



Surveyed almost 3,000 residential, commercial and large industrial customers to measure the value of customer reliability in each sector.



Facilitated successful registration of 78 separate organisations and assets.

Delivered industry information and awareness courses to more than 250 participants.



42 facilitated stakeholder forums in 2014–15.

Stakeholder forums

AEMO's stakeholder consultative forums during 2014–15 gave industry participants and consumers regular opportunities to share information and ideas, and reach decisions, with others who have similar issues and interests.

Forum/working group	Met	Discussed
Consumer Forum (created April 2015)	2	Value of Customer Reliability, access to data, renewables.
NEM Wholesale Consultative Forum	6	Forecasting changes, Value of Customer Reliability, the integration of renewables, the implementation of reliability standards, energy settlement, Marginal Loss Factors, prudential margins.
Retail Market Consultative Forum	7	Work plan for implementing Power of Choice reforms, draft Customer Access to Data arrangements, Shared Market Protocol proposals, draft arrangements for enabling Multiple Trading Relationships and access to choice of retailer in embedded networks, and harmonising retail gas arrangements across eastern states.
Business-to-Business and Market Settlement and Transfer Solutions Reference Group	10	Range of initiatives related to MSATS refinements and business procedures.
Gas Retail Consultative Group	11	Arrangements to deal with Unaccounted For Gas, Retail Transfers and Allocated Injections at major supply points, billing procedures, Retailer of Last Resort provisions, metering-related matters.
Gas Wholesale Consultative Forum	6	Successful improvements to the Gas Bulletin Board, proposed rule changes, the application of constraints, fees, contingency gas arrangements, market prudential settings, arrangements to deal with Unaccounted For Gas, and improvements to system-wide communications.

Our people

In 2014–15, we reviewed our organisation performance and structure to make sure AEMO operates strongly, efficiently and flexibly to successfully meet the needs of our stakeholders and the challenges of the changing energy environment. We completed a functional reorganisation to enable better operating outcomes and better value for members.

We also continued to progress our People Roadmap. This is a key strategic initiative, to engage employees, grow their capabilities, and help all of us live out AEMO's values each day – working with pride and passion, accountably, as one team, focused on our stakeholders.

During the year we collected feedback from a wide range of employees and managers and held focus groups to make sure we continue to be on the right track with the Roadmap development process.

Highlights for 2014–15 included:

- **Embedding the Employee Central system**, established in June 2014, and using it as an internal talent pool. This resource cut our average recruitment time to fill vacancies by over 30%.
- **Recruiting successfully to fill 70 positions**, with 15 filled by internal candidates. As well as our internal Employee Central recourse, we are also using LinkedIn and other forms of social media to build our employer brand and

attract candidates. AEMO ran a successful, targeted recruitment campaign in March 2015 to attract talented people to build a centre of excellence in South Australia.

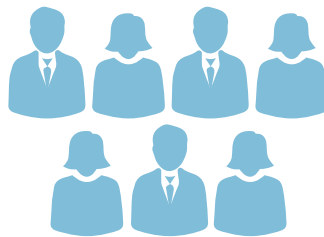
- **Negotiating a new three-year Enterprise Agreement**, which was circulated to employees in June 2015. (This agreement was accepted through an organisation-wide vote and came into effect in July 2015.)
- **Delivering targeted training** to build capability among our leaders, project managers, presenters, writers and mentors.
- **Launching Mo, our refreshed intranet, and Mo TV**, sharing insights from AEMO's leaders with all employees.
- **Starting a collaborative review of our learning and development strategy**, across internal and external activities, to look for efficiencies across the organisation and set up better services, systems, tools and processes.
- **Partnering with the Diversity Council of Australia** to keep promoting diversity and inclusion and building our capabilities and reputation as an inclusive employer.

Workplace health and safety

AEMO kept building our health and safety culture, systems, and tools this year. Key initiatives for 2014–15 included:

- **Successfully concluding our 2014 Safety4Life program**, and moving into a 2015 program focused on Heart (positive culture and behaviours), Mind (mental and psychological health), Body (physical safety and wellbeing), and Head (a practical and accountable approach to reducing workplace risk).
- **Launching a new hazard and incident reporting tool** for all employees, giving everyone an easy way to take accountability for issues in their workplace, and improving incident and hazard data and follow-up processes.
- **Implementing a contractor management system** to ensure consistent minimum requirements and inductions at all AEMO sites when contractors visit.
- **Delivering the Wellbeing program** to all employees, including health checks, flu vaccinations, a healthy habits challenge, and desk drop coaching to promote health and wellbeing goals.
- **Running mental health workshops** for managers and employees on 'looking after your mates' and breaking the cycle of negative thinking. AEMO also offered the Employee Assistance Program and trialled on-site counselling at all sites to improve early detection and management of work-related and non-work-related issues.
- **Undertaking some 280 ergonomic assessments**, conducting an AEMO-wide ergonomic risk assessment, and trialling sit-stand workstations.

7 graduates placed into permanent roles at AEMO.



450

applicants attracted through 'I am empowered' graduate campaign.

Workplace Health Safety and Environment score:

9/10

Our Graduate Development Program

AEMO's Graduate Development Program gives graduate employees opportunities to gain real world experience and responsibility, with structured rotations, mentoring, financial support, and technical and professional development. The program's opportunities include practical on-the-job training across different parts of AEMO's business, including energy market operations, information technology, and corporate services.

AEMO was included this year in the Australian Financial Review's list of the nation's top 100 graduate employers, punching well above our weight at 71 on a list that included many of Australia's largest employers.

At the end of the 2014–15 year, AEMO had 18 graduates at various stages of the program. During the year, we recruited eight graduates from Adelaide, Brisbane, Melbourne and Sydney, after our 'I am empowered' campaign attracted almost 450 applicants. We also placed seven graduates who had completed the program into permanent roles in AEMO this year.

AEMO

Executive Leadership Team



Matt Zema
Managing Director and Chief
Executive Officer



Mike Cleary
Chief Operating Officer



Jack Fitcher
Chief Financial Officer



Peter Geers
Executive General
Manager Markets



Brett Hausler
Company Secretary
& General Counsel



Karen Olesnicky
Executive General
Manager Stakeholders
& Information



Cameron Smith
Executive Officer



David Swift
Executive General
Manager Corporate
Development

Corporate governance

Corporate governance principles

Good corporate governance arrangements encourage 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 our approach to corporate governance, including the ASX Corporate Governance Principles and Recommendations and overseas examples, where consistent with our corporate structure and Constitution.

As part of our corporate governance framework, the Board has established corporate governance related policies and charters, which are published on AEMO's website. Key points are outlined below.

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.

AEMO currently has nine Board members: 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 for appointment being made by the independent COAG Energy Council 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 Selection Panel's recommendations before they are submitted for approval by the COAG Energy Council.

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

AEMO's members approve the submission of the list to the COAG Energy Council for decision. Non-executive directors are limited under the Constitution to one further term of up to three years 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, key corporate policies and an overview of AEMO's strategic objectives and operations. An induction program is conducted including briefing sessions with executives and managers on key aspects of AEMO's operations.

Directors are encouraged to continue their education by attending training and education relevant to their role. Briefings and workshops are also regularly 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.
- Focussed internally on the directors or involving the wider body of corporate stakeholders including, but not limited to, AEMO members.

An external Board performance assessment was undertaken during 2014.

Director independence

The Constitution requires a majority of directors, including the Chair, to be independent, and includes a definition of independence. A director is considered 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.

The independent directors during 2014–15 were Dr. Parry AM, Mr Hubbard, Ms Krieger, Dr. Marxsen 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 our 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 needed 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 must 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 conflicts with their duties to AEMO, or that might lead to or be perceived as a conflict of interest. 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 as 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 to discharge its duties effectively.

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 Chair of each Board committee briefs the Board on the outcomes of each committee meeting.

Board committee membership for 2014–15

	Risk and Audit	People and Remuneration	Technical and Regulatory	Nomination
Dr. Thomas Parry AM		Member	Member	Chair
Mr Frank Calabria*	Member		Member	
Dr. Peter Davis*		Member	Member	
Mr Leslie Hosking*	Member		Member	
Mr Jon Hubbard	Member/Chair**		Member	
Ms Sibylle Krieger	Member	Chair		Member
Mr Greg Martin*		Member	Member	
Dr. Anthony Marxsen		Member	Chair	Member
Mr Stephen Orr	Member		Member	
Ms Jane Tongs	Chair/Member**	Member		Member

* Mr Les Hosking and Mr Greg Martin retired from the Board on 6 November 2014. Mr Frank Calabria and Dr. Peter Davis were appointed to the Board as of the same date.

** Mr Jon Hubbard replaced Ms Jane Tongs as Chair of the Risk and Audit Committee on 1 June 2015.



Back row, left to right: Mr Jon Hubbard, Dr. Peter Davis, Mr Frank Calabria, Dr. Anthony (Tony) Marxsen, Mr Stephen Orr, Ms Jane Tongs.
Front row, left to right: Ms Sibylle Krieger, Dr. Thomas (Tom) Parry AM (Chairman), Mr Matt Zema (Managing Director and Chief Executive Officer).

Board committee

focus areas

The purpose of each Board committee and some of their respective focus areas during 2014–15 are described below.

Risk and Audit Committee

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

The Committee met five times during 2014–15.

Its activities included:

- Review of the Annual Financial Report and the appropriateness of AEMO's material accounting policies and procedures, significant estimates, judgements, and notes to the financial statements.
- Approval of 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 functions.
- Risk management strategy and reporting, including reviewing the system of identifying, assessing, monitoring and managing material risk throughout the company.
- Compliance reporting and analysis, including the development and ongoing review of appropriate regulatory compliance programs.
- Consideration of reports on capital expenditure and projects undertaken by the organisation.
- Review of the management of cybersecurity.

People and Remuneration Committee

This committee assists the Board to fulfil its responsibilities in the management of its people and their remuneration.

This Committee met three times during the year.

Its activities included:

- Review of strategies for resourcing, the recruitment and retention of people, including their health, safety and wellbeing.
- Review of remuneration strategies, including performance payments and other monetary and non-monetary benefits, and the Enterprise Agreement.
- 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.
- Consideration of succession planning.

Technical and Regulatory Committee

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

This committee met five times during the year.

Its activities included:

- Review of information technology strategy and system performance.
- Oversight of the strategic direction and high level structure and content of key AEMO forecasting and planning publications.
- Technical reviews including energy settlement in the NEM, energy policy and regulatory reviews, and Optional Firm Access.
- System operating incidents.
- The summer supply outlook for the NEM and the Victorian Gas Winter Strategy.

Nomination committee

This committee assists the Board in relation to the process for appointing new directors to the Board. This involves identifying the skills to be targeted through a search, the appointment of a search firm to undertake the search, and assessing the suitability of potential candidates.

Risk management

AEMO faces a variety of risks given the nature of its operations. These include 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.

AEMO is committed to a comprehensive and integrated risk management framework that has the effect of embedding risk identification, treatment and review 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 objective is to achieve a high performing, continually improving risk management function, aligned to the International Risk Management Standard ISO 31000:2009.

During 2014–15, improvements were made to the processes and systems that support risk management, including risk identification, assessment, and reporting to the Risk and Audit Committee and the Executive Leadership Team.

In addition to its overarching risk management policy, supported by internal procedures and control systems, AEMO has several other policies and procedures that directly or indirectly serve to reduce, manage, or mitigate risk. These cover matters including:

- Fraud and corruption prevention.
- IT security.
- Site security.
- Regulatory compliance.
- Financial compliance.
- Financial information management.
- Privacy.
- Competition and Consumer Law.
- Workplace Health Safety and Environment Policy.
- Whistleblower Protection.

Ethical standards and Code of Conduct

AEMO is committed 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, market participants, employees, energy market governance bodies, consumers and the broader community.

AEMO has a Code of Conduct which sets out the required standards of behaviour and legal, ethical and other obligations applicable to employees and contractors. Each employee and contractor is given a copy of the Code of Conduct 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.
- Diversity.

Employees are encouraged to report known or suspected inappropriate conduct either to management or an independent whistleblower hotline service that reports directly to the Company Secretary and the Chair of the Risk and Audit Committee.

Financial reporting

The Risk and Audit Committee, which includes non-executive directors with finance experience, oversees accounting and reporting practices and reviews AEMO's financial statements. The committee is responsible for the performance and objectivity of the internal auditor and the performance and independence of the market auditors.

The external auditor is not permitted to provide any services to AEMO that might compromise its independence or give rise to an actual or perceived conflict with assurance and compliance roles.

Timely and balanced disclosure

AEMO endeavours to ensure that all company announcements are factual and balanced, and that timely access to material is given to stakeholders and to the market where possible. All non-confidential reports are published in PDF format and available on the company's website. AEMO is committed to maintaining transparency on matters related to the operation and administration of its markets.

Respect the rights of members and stakeholders

Efficient and effective outcomes are the result of teamwork and contributions from a range of different sources, including all of AEMO's varied stakeholders. AEMO's governance framework recognises that its interests and those of its stakeholders are served by fostering co-operation 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 under the Constitution.

AEMO's Statement of Corporate Intent sets out the company's policy and strategic direction on stakeholder communications and engagement at all levels of AEMO. AEMO aims to give all relevant stakeholders a fair and full opportunity to participate in the ongoing operation, development, and planning of Australian energy markets. AEMO strives to be a constructive facilitator, bringing stakeholders together so that all viewpoints are heard and considered, building consensus on the right way forward where possible.

AEMO fulfils this role by providing and disseminating information and market data and by facilitating processes, programs, committees, and other consultative forums for stakeholders to provide input on emerging energy market issues and opportunities, and to provide feedback on AEMO's proposals and operational performance.

These consultation processes are vital to maintaining effective day-to-day operations, developing and refining effective new market mechanisms, and the integrity of AEMO's 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 AEMO's Annual General Meeting on 6 November 2014, the members approved an annual remuneration pool to be applied for three years. The remuneration pool was determined on the advice of an independent Board remuneration adviser.

Financial statements

For the year ended 30 June 2015

Australian Energy Market Operator Limited
ABN 94 072 010 327

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		<u>8 Trade and other receivables</u>	<u>48</u>	<u>22 Events occurring after balance sheet date</u>	<u>61</u>
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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 2015.

Directors

The following persons were directors for the full financial year and up to the date of this report, with the exception of Mr Les Hosking and Mr Greg Martin who retired effective 6 November 2014, and Mr Frank Calabria and Dr. Peter Davis who were appointed to the board effective 6 November 2014.

Dr. T.G. Parry AM

F.G. Calabria

Dr. P.L. Davis

L.V. Hosking

J.G. Hubbard

S. Krieger

G.J.W. Martin

Dr. A.L. Marxsen

S.C. Orr

J.A. Tongs

M. Zema

Corporate Strategy

As the National Energy Market Operator and planner, AEMO plays an important role in supporting the industry to deliver a more integrated, secure, and cost effective national energy supply.

AEMO has released its corporate strategy for 2015–17 and along with carrying out its core functions a number of strategic initiatives have also been identified. These strategic initiatives aim to:

- Facilitate the effective trade of gas across eastern and south-eastern Australia.
- Deliver information and data services that enable greater customer choice.
- Adapt AEMO's capability to maintain security and reliability of Australia's power system in an environment of emerging technologies and development.
- Focus on AEMO being impartial, balanced and thorough in its engagement with stakeholders.
- Publish forecasts and planning information to a frequency and quality that meets stakeholder needs.
- Structure our fees to better reflect the changing environment.

Principal activities

AEMO's principal activities over the 2014–15 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).
- Victorian electricity Transmission Network Service Provider (TNSP) responsibilities (including 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 (STTM) for gas at the Adelaide, Sydney and Brisbane hubs.
- Operation of the Wallumbilla Gas Supply Hub.
- Management of the National Gas Bulletin Board (NGBB).
- National transmission planning.
- Independent electricity and gas demand forecasting.
- Emergency management responsibilities for electricity and gas and the National Gas Emergency Response Advisory Committee (NGERAC).

AEMO also committed to delivering value propositions in 2014–15. These were:

National Gas Bulletin Board redevelopment

The redeveloped NGBB went live on 11 December 2014, to improve the transparency and effectiveness of eastern and south-eastern gas markets.

The NGBB website is a single electronic communications system covering all major gas production fields, storage facilities, major demand centres and natural gas transmission pipeline systems, including the interconnected systems of South Australia, Victoria, Tasmania, New South Wales, Queensland, and the Australian Capital Territory.

Benefits of the new NGBB include enriched data quality, better functioning submission and transaction processes for facility operators, and stronger investment signals for future supply infrastructure projects.

Contingency FCAS improvements

In July 2014, AEMO implemented a change to reduce the requirements for contingency frequency control ancillary services (FCAS) in Tasmania, which reduced the costs of FCAS to Tasmanian consumers.

The dispatch of FCAS is used to manage the control of frequency on the power system in the NEM, so it meets standards specified by the Reliability Panel. AEMO procures FCAS to ensure that when an event occurs on the power system (e.g. loss of the largest generator or loss of an interconnector and subsequent islanding of a region) frequency is maintained within these standards.

National connection point forecasting

In June 2015, AEMO published an independent transmission connection point forecast for Queensland, completing the first cycle of forecasts for all NEM regions, after also publishing connection point forecasts during the 2014–15 financial year for New South Wales (including the Australian Capital Territory), Tasmania, South Australia and Victoria.

AEMO's independent transmission connection point forecasts provide detailed insights to local changes in demand over a 10-year outlook period. They are used by the Australian Energy Regulator (AER) to assess revenue reset proposals and are designed to improve transparency and lead to more efficient network decisions, ultimately providing long-term benefits for energy consumers.

National Gas Forecasts

In December 2014, AEMO released its inaugural National Gas Forecasting Report (NGFR). The NGFR forecasts gas consumption and maximum demand in Australia's eastern and south-eastern gas markets, including gas used for liquefied natural gas (LNG) processing and exports in Queensland.

These annual consumption and maximum demand forecasts were used in AEMO's 2015 Gas Statement of Opportunities. The report received positive coverage in major national and regional newspapers, plus online energy industry publications.

LNG readiness

In 2014–15 AEMO focused on improving the transparency and operational effectiveness of existing gas markets during a time of rapid transformation resulting from the commencement of LNG exports. These initiatives included reviewing, testing and enhancing the existing STTM Contingency Gas triggers and processes and reviewing and testing existing Victorian gas emergency management arrangements.

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 market 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 2014–15 total comprehensive surplus of \$7.8 million is higher than budget mainly due to the re-measurement of the defined benefit superannuation plan.

Directors' qualifications and experience

Name, qualifications and responsibilities	Age	Current Board appointments
Dr. Thomas G. Parry AM <i>BEC (Hons), MEd, PhD</i> Chairman Independent Director	66	Non-executive Director, ASX Compliance Pty Ltd; Non-executive Director, Powerco NZ; Director, Dalacon Pty Ltd; Non-executive Director, Brisbane Airport Corporation.
Mr Frank G. Calabria <i>BEC, GradDip AppFin, MBA, FCA, FFin</i> Non-executive Director	47	Director, Energy Supply Association of Australia
Dr. Peter L. Davis <i>BSc (Hons), BEd, MBA, PhD, FAICD, FIEAust</i> Non-executive Director	55	Director, University of Tasmania
Mr Jon G. Hubbard <i>BCom, CA, GAICD</i> Non-executive Director Independent Director	51	Non-executive Director, Infocus Wealth Management Ltd (and related companies); Non-executive Director, Power Generation Corporation (trading as Territory Generation).
Ms Sibylle Krieger <i>LLB (Hons), LLM, MBA, FAICD</i> Non-executive Director Independent Director	58	Non-executive Director, Tasmanian Water and Sewerage Corporation Pty Ltd (Trading as TasWater); Non-executive Director, Sydney Grammar School Foundation Ltd; Trustee, Sydney Grammar School.
Dr. Anthony Marxsen <i>PhD, BEng</i> Non-executive Director Independent Director	69	Director, Marxsen Consulting Pty Ltd; Director, Jancomax Pty Ltd.
Mr Stephen C. Orr <i>BEng (Mech)</i> Non-executive Director	63	Nil
Ms Jane A. Tongs <i>EMBA, B.Bus (Acc), FACA, FCPA, MAICD</i> Non-executive Director Independent Director	55	Non-executive Director, Catholic Church Insurances Ltd (and related companies); Chair, Netwealth Holdings Ltd (and related companies); Non-executive Director, Warakirri Holdings Pty Ltd (and related companies); Non-executive Director, Brighton Grammar School; Non-executive Director, Cromwell Property Group; Chair, Australian Prime Property Fund Investor Committee.
Mr Matt Zema <i>BE, FIEAust, MAICD</i> Managing Director and Chief Executive Officer	55	Nil

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 2015, and the number of meetings attended by each director, were:

	Full meetings of directors		People and Remuneration		Risk and Audit		Technical and Regulatory		Nomination	
	A	B	A	B	A	B	A	B	A	B
Dr. T.G. Parry	8	8	3	3	–	–	5	5	3	3
F.G. Calabria	6	6	–	–	2	3	2	4	3	3
Dr. P.L. Davis	6	6	1	1	–	–	4	4	3	3
L.V. Hosking	2	2	–	–	2	2	1	1	–	–
J.G. Hubbard	8	8	–	–	5	5	5	5	–	–
S. Krieger	8	8	3	3	5	5	–	–	3	3
G.J.W. Martin	1	2	2	2	–	–	1	1	–	–
Dr. A.L. Marxsen	8	8	3	3	–	–	5	5	–	–
S.C. Orr	7	8	–	–	5	5	4	5	–	–
J. A. Tongs	8	8	3	3	5	5	–	–	–	–
M. Zema	8	8	–	–	–	–	–	–	–	–

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.

Contributions on winding up

The Company is incorporated under the *Corporations Act 2001* and is a company limited by guarantee. The Constitution states that each Member undertakes to contribute to the Company's property if the Company is wound up during, or within one year after the cessation of, the Member's membership on account of:

- Payment of the Company's debts and liabilities contracted before they ceased to be a Member;
- The costs of winding up; and
- Adjustment of the rights of the contributories among themselves, an amount not to exceed \$1.00.

At 30 June 2015, the total maximum amount that members of the Company are liable to contribute under the Constitution if the Company is wound up is \$81 (2014: \$79).

Rounding

The amounts contained in 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 34.

Auditor

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

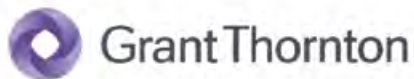
Resolution

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



Dr. Thomas Parry AM
Chairman, Melbourne
3 September 2015

Auditor's declaration of independence



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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 2015, 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
Partner - Audit & Assurance

Melbourne, 3 September 2015

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Statement of profit or loss and other comprehensive income for the year ended 30 June 2015

	Notes	2015 \$'000	2014 \$'000
Revenue			
Transmission income	5	523,151	476,928
Settlement residue	5	27,767	48,411
Electricity market income	5	82,582	78,823
Gas market income	5	41,668	42,001
Other revenue	5	6,347	8,001
	5	681,515	654,164
Expenses			
Network charges		(543,607)	(540,158)
Employee benefits	6	(83,023)	(79,358)
Depreciation	9	(5,037)	(5,044)
Amortisation	10	(9,984)	(9,809)
Consulting, contracting and outsourcing		(8,182)	(8,639)
Information technology		(14,109)	(13,441)
Insurance		(2,495)	(2,604)
Finance costs	6	(2,087)	(2,566)
Travel and accommodation		(2,117)	(2,198)
Other expenses		(9,888)	(9,803)
		(680,529)	(673,620)
Surplus/(Deficit) before income tax		986	(19,456)
Income tax expense	2(d)	–	–
Surplus/(Deficit)		986	(19,456)
Other comprehensive income			
Items that will not be reclassified subsequently to profit and loss:			
Re-measurement of net defined benefit superannuation liability	15	6,764	1,271
Total comprehensive surplus/(deficit)		7,750	(18,185)

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 2015

	Notes	2015 \$'000	2014 \$'000
Assets			
Current assets			
Cash and cash equivalents	7	40,677	30,679
Trade and other receivables	8	71,909	69,550
Total current assets		112,586	100,229
Non-current assets			
Property, plant and equipment	9	26,419	28,659
Intangible assets	10	28,735	29,742
Total non-current assets		55,154	58,401
Total assets		167,740	158,630
Liabilities			
Current liabilities			
Trade and other payables	11	74,016	61,578
Borrowings	12	5,357	5,357
Provisions	13	18,713	19,061
Other current liabilities	14	4,795	3,112
Defined benefit superannuation	15	1,187	7,544
Total current liabilities		104,068	96,652
Non-current liabilities			
Trade and other payables	11	2,032	2,720
Borrowings	12	22,629	27,986
Provisions	13	1,357	1,368
Total non-current liabilities		26,018	32,074
Total liabilities		130,086	128,726
Net assets		37,654	29,904
Equity			
Capital contribution of members		7,093	7,093
Participant Compensation Fund reserve	16	10,270	9,813
Australian Wind Energy Forecasting System reserve (AWEFS)	16	–	222
Land reserve	16	2,039	1,813
Accumulated surplus	21	18,252	10,963
Total equity		37,654	29,904

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 2015

	Capital contribution of members \$'000	PCF reserve \$'000	AWEFS reserve \$'000	Land reserve \$'000	Accumulated surplus/ (deficit) \$'000	Total equity \$'000
At 1 July 2013	7,093	8,610	656	1,587	30,143	48,089
Deficit for the year	–	–	–	–	(19,456)	(19,456)
Other Comprehensive Income	–	–	–	–	1,271	1,271
Total Comprehensive Income	7,093	8,610	656	1,587	(18,185)	(18,185)
Transfer to/(from) reserves						
– PCF reserve	–	1,203	–	–	(1,203)	–
– AWEFS reserve	–	–	(434)	–	434	–
– Land reserve	–	–	–	226	(226)	–
As at 30 June 2014	7,093	9,813	222	1,813	10,963	29,904
At 1 July 2014	7,093	9,813	222	1,813	10,963	29,904
Surplus for the year					986	986
Other Comprehensive Income					6,764	6,764
Total Comprehensive Income	7,093	9,813	222	1,813	18,713	37,654
Transfer to/(from) reserves						
– PCF reserve		457			(457)	–
– AWEFS reserve			(222)		222	–
– Land reserve				226	(226)	–
As at 30 June 2015	7,093	10,270	–	2,039	18,252	37,654

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 2015

	Notes	2015 \$'000	2014 \$'000
Cash flows from operating activities			
Receipts from customers		745,679	728,442
Payments to suppliers and employees		(726,768)	(749,238)
Payment of claims from the PCF		–	–
		18,911	(20,796)
Interest received		1,241	2,004
Interest and other finance costs paid		(2,071)	(2,443)
Net cash inflow/(outflow) from operating activities	23	18,081	(21,235)
Cash flows from investing activities			
Receipts of participant security deposits		415,940	136,780
Repayment of participant security deposits		(406,892)	(153,561)
Payments for plant and equipment and intangible assets		(11,774)	(8,758)
Net cash outflow from investing activities		(2,726)	(25,539)
Cash flows from financing activities			
Proceeds from borrowings		5,000	–
Repayment of borrowings		(10,357)	(5,357)
Net cash outflow from financing activities		(5,357)	(5,357)
Net increase/(decrease) in cash and cash equivalents		9,998	(52,131)
Cash and cash equivalents at the beginning of the financial year		30,679	82,810
Cash and cash equivalents at end of the financial year	7	40,677	30,679

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

Notes to the financial statements

For the year ended 30 June 2015

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 \$8,518k (net current assets), and net total assets of \$37,654k.

AEMO is required to operate on a break even funding basis that does not enable the accumulation of significant working capital. 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.

AEMO's accumulated surplus is \$18,252k at 30 June 2015. 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 \$47,014k available to be drawn at 30 June 2015, 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 registered participants.

Revenue is also collected to recover costs in relation to the Gas Supply Hub, Gas Statement of Opportunities, Gas Business to Business (B2B), Gas Bulletin Board, Settlement Residue Auctions, and Energy Consumers Australia (ECA) functions, 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 occasions receive government grants to assist in funding specific projects such as the project to develop the Australian Solar Energy Forecasting System completed in the 2014–15 year. 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 of a 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

At the reporting date the Company only holds financial assets and liabilities classified as loans and receivables.

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. STTM establishment costs

The STTM establishment costs represent the expenditure incurred to develop and implement the gas short term trading market during the period September 2008 to September 2010 for the Sydney and Adelaide market and to December 2011 for the Brisbane market. Costs are recovered over a 7-year period from September 2010 to September 2017.

iv. 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 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 their estimated useful lives as follows:

- 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) 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.

n) 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.

o) 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.

p) Employee benefits**i. Short-term employee benefits**

Short-term employee benefits are current liabilities included in employee benefits, measured at the undiscounted amount that the Company expects to pay as a result of the unused entitlement. A portion of annual leave is included in 'long-term benefits' and discounted when calculating the leave liability as the Company does not expect all annual leave for all employees to be used wholly within 12 months of the end of reporting period. Annual leave liability is still presented as a current liability for presentation purposes under AASB 101 Presentation of Financial Statements.

ii. Long-term employee benefits and annual 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(p)(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 corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows. Annual leave expected to be settled more than 12 months from the reporting date remains classified as a current liability as the company is contractually obliged to settle the liability in the event an employee departs.

q) 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 15 employees and 6 pension members.

The liability recognised in the statement of financial position for defined benefit plan is the present value of the Defined Benefit Obligation ('DBO') at the reporting date less the fair value of plan assets.

The Company calculates the DBO annually with the assistance of an independent actuary. This is based on assumptions and estimates as disclosed in note 15.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised directly in other comprehensive income.

Service cost on the net defined benefit liability is included in employee benefits expense.

r) 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 within 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.

s) New accounting standards and interpretations

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 2015 are outlined in the table below:

Details of new standard/ amendment/interpretation

AASB 9 – Financial Instruments (Effective date: 1 July 2018)

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:

- (a) Financial assets that are debt instruments will be classified based on:
 - 1) the objective of the entity's business model for managing the financial assets; and
 - 2) the characteristics of the contractual cash flows.
- (b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.

(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

(d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:

- 1) The change attributable to changes in credit risk are presented in other comprehensive income (OCI); and
- 2) The remaining change is presented in profit or loss.

If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:

- 1) Classification and measurement of financial liabilities; and
- 2) Derecognition requirements for financial assets and liabilities.

AASB 9 requirements regarding hedge accounting represent a substantial overhaul to hedge accounting that will enable entities to better reflect their risk management activities in the financial statements.

Consequential amendments arising from AASB 9 are also contained in various other accounting standards.

AASB 15 Revenue from Contracts with Customers (Effective Date: 1 July 2017)

Replaces AASB 118 Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations:

- establishes a new revenue recognition model
- changes the basis for deciding whether revenue is to be recognised over time or at a point in time
- provides new and more detailed guidance on specific topics (e.g., multiple element arrangements, variable pricing, rights of return, warranties and licensing)
- expands and improves disclosures about revenue

(It is noted that the IASB and AASB have recently issued Exposure Drafts, proposing to defer the effective date to 1 January 2018.)

The company has not yet determined the potential effect of these standards.

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 upon 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

	2015 \$'000	2014 \$'000
Financial assets		
Cash and cash equivalents	40,677	30,679
Participant fees receivable	63,243	61,169
Other receivables	4,724	4,850
Prepayments	3,942	3,531
	112,586	100,229
Financial liabilities		
Accounts payable	47,398	46,925
Other creditors and accruals	7,153	5,552
Financial costs – accrued interest	298	219
Electricity market participant security deposits	12,797	4,201
Gas market participant prepayments	3,117	2,030
Borrowings	27,986	33,343
	98,749	92,270

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 deemed appropriate.

Interest rate risk

	30 June 2015		-75bps		+75bps	
	Notional amount \$'000	Carrying amount \$'000	Surplus \$'000	Equity \$'000	Surplus \$'000	Equity \$'000
Financial assets						
Cash and cash equivalents	40,677	40,677	(305)	(305)	305	305

	30 June 2014		-75bps		+75bps	
	Notional amount \$'000	Carrying amount \$'000	Surplus \$'000	Equity \$'000	Surplus \$'000	Equity \$'000
Financial assets						
Cash and cash equivalents	30,679	30,679	(230)	(230)	230	230

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 and TUOS 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 competitive 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 \$75,000k revolving cash advance facility provided by the National Australia Bank (Note 12).

Undrawn borrowing facilities

NAB revolving cash advance facility
at 30 June 2015 at carrying amount

	Limit \$ '000	Balance \$'000	Undrawn \$'000
Limit: \$75,000,000			
Total facility available	75,000	27,986	47,014

Loan repayment commitments

Total loan repayment (combining both principal and interest components) commitments are as follows:

30 June 2015

Institution	Loan name	< 1 year \$'000	1–5 years \$'000	> 5 years \$'000	Total \$'000
NAB	Norwest	2,154	23,748	–	25,902
	STTM	4,479	4,914	–	9,393
Total commitments		6,633	28,662	–	35,295

30 June 2014

Institution	Loan name	< 1 year \$'000	1–5 years \$'000	> 5 years \$'000	Total \$'000
NAB	Norwest	2,211	25,902	–	28,113
	STTM	4,676	11,197	–	15,873
Total commitments		6,887	37,099	–	43,986

AEMO will review funding arrangements prior to the expiry of its existing agreement 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 used 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) and lease terms. 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 AusNet Services and Murraylink provide network services to AEMO in relation to the Victorian electricity transmission network. The charges levied on AEMO by AusNet Services 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

	2015 \$'000	2014 \$'000
From continuing operations		
Electricity transmission income	523,151	476,928
Settlement residue – intra-regional (TNSP)	22,033	42,240
Settlement residue auctions (TNSP)	5,734	6,171
Settlement residue	27,767	48,411
NEM fees	69,062	66,109
FRC electricity fees	9,708	9,017
Registration fees	293	331
National transmission planner	3,519	3,366
Electricity market income	82,582	78,823
DWGM fees	18,692	19,949
FRC gas fees	7,122	7,756
STTM fees	12,861	11,630
Gas SOO fees	1,362	1,432
Registration fees	767	509
Other gas revenues	864	725
Gas market income	41,668	42,001
PCF interest	332	334
PCF contributions received	122	869
Bank interest revenue	1,115	1,724
Other	4,778	5,074
Other revenue	6,347	8,001
	681,515	654,164

6 Expenses

	2015 \$'000	2014 \$'000
Surplus/(deficit) before income tax includes:		
Amortisation expense	9,984	9,809
Depreciation expense	5,037	5,044
Wages and salaries	63,593	59,318
Defined contribution superannuation expense	6,350	6,045
Defined benefits superannuation expense	782	921
Other employee benefits expense	12,298	13,074
Employee benefits	83,023	79,358
Employee benefits above exclude capitalised employee costs of:	2,616	4,117
Bank fees	121	261
Interest expense	1,966	2,305
Finance costs	2,087	2,566
Rental expenses related to operating leases	3,916	3,816

7 Cash and cash equivalents

	2015 \$'000	2014 \$'000
Cash at bank and on hand	17,859	17,462
Security deposits and early settlement proceeds not available for use	12,762	4,238
Participant Compensation Fund (PCF)	10,056	8,979
	40,677	30,679

8 Trade and other receivables

	2015 \$'000	2014 \$'000
Current		
Participant fees receivable	13,801	15,580
TUOS revenue receivable	49,442	45,589
Other receivables	4,724	4,850
Prepayments	3,942	3,531
	71,909	69,550

9 Property, plant and equipment

	Electricity Systems (NEM and FRC) \$'000	Gas Systems (DWGM, GSH and FRC) \$'000	Short Term Trading Market \$'000	Plant and Equipment \$'000	Land and Buildings \$'000	Total \$'000
At 30 June 2014						
Cost	17,605	3,159	420	18,250	35,662	75,096
Accumulated depreciation	(15,904)	(2,963)	(378)	(15,010)	(12,182)	(46,437)
Net book value at 30 June 2014	1,701	196	42	3,240	23,480	28,659

Reconciliation of carrying amount:

Year ended 30 June 2014

Carrying amount at 1 July 2013	1,976	353	122	4,314	25,407	32,172
Additions	630	–	–	883	19	1,532
Disposals	–	–	–	(1)	–	(1)
Depreciation	(905)	(157)	(80)	(1,956)	(1,946)	(5,044)
Carrying amount at 30 June 2014	1,701	196	42	3,240	23,480	28,659

Reconciliation of cost:

Cost amount at 1 July 2013	17,954	3,159	429	18,062	35,642	75,246
Additions	629	–	–	883	20	1,532
Disposals	(978)	–	(9)	(695)	–	(1,682)
Cost amount at 30 June 2014	17,605	3,159	420	18,250	35,662	75,096

At 30 June 2015

Cost	16,226	3,292	525	20,140	35,827	76,010
Accumulated depreciation	(15,334)	(3,050)	(444)	(16,170)	(14,593)	(49,591)
Net book value at 30 June 2015	892	242	81	3,970	21,234	26,419

Reconciliation of carrying amount:

Year ended 30 June 2015

Carrying amount at 1 July 2014	1,701	196	42	3,240	23,480	28,659
Additions	–	12	105	2,515	165	2,797
Transfers	–	163	–	(163)	–	–
Disposals	–	–	–	–	–	–
Depreciation	(809)	(129)	(66)	(1,622)	(2,411)	(5,037)
Carrying amount at 30 June 2015	892	242	81	3,970	21,234	26,419

Reconciliation of cost:

Cost amount at 1 July 2014	17,605	3,159	420	18,250	35,662	75,096
Additions	–	12	105	2,515	165	2,797
Transfers	–	163	–	(163)	–	–
Disposals	(1,379)	(42)	–	(462)	–	(1,883)
Cost amount at 30 June 2015	16,226	3,292	525	20,140	35,827	76,010

10 Intangible assets

	NEM Establishment costs \$'000	FRC Establishment costs \$'000	Software – Electricity (NEM and FRC) \$'000	Software – Gas (DWGM, GSH and FRC) \$'000	Software – Short Term Trading Market \$'000	Other \$'000	Total \$'000
At 30 June 2014							
Cost	44,473	27,330	84,268	9,074	21,316	6,027	192,489
Accumulated amortisation	(44,473)	(27,330)	(71,684)	(4,813)	(10,590)	(3,857)	(162,747)
Net book value at 30 June 2014	–	–	12,584	4,261	10,726	2,171	29,742
Reconciliation of carrying amount:							
Year ended 30 June 2014							
Carrying amount at 1 July 2013	–	–	13,245	2,892	13,223	2,965	32,325
Additions	–	–	3,898	2,171	556	601	7,226
Amortisation	–	–	(4,559)	(802)	(3,053)	(1,395)	(9,809)
Carrying amount at 30 June 2014	–	–	12,584	4,261	10,726	2,171	29,742
Reconciliation of cost:							
Cost amount at 1 July 2013	44,473	27,330	86,440	6,903	20,760	5,443	191,348
Additions	–	–	3,898	2,171	556	601	7,226
Disposals	–	–	(6,070)	–	–	(15)	(6,085)
Cost amount at 30 June 2014	44,473	27,330	84,268	9,074	21,316	6,027	192,489
At 30 June 2015							
Cost	44,473	27,330	87,770	14,010	21,375	6,435	201,393
Accumulated amortisation	(44,473)	(27,330)	(76,075)	(6,042)	(13,729)	(5,009)	(172,658)
Net book value at 30 June 2015	–	–	11,695	7,968	7,646	1,426	28,735
Reconciliation of carrying amount:							
Year ended 30 June 2015							
Carrying amount at 1 July 2014	–	–	12,584	4,261	10,726	2,171	29,742
Additions	–	–	3,541	4,936	59	441	8,977
Transfers	–	–	(29)	–	–	29	–
Amortisation	–	–	(4,401)	(1,229)	(3,139)	(1,215)	(9,984)
Carrying amount at 30 June 2015	–	–	11,695	7,968	7,646	1,426	28,735
Reconciliation of cost:							
Cost amount at 1 July 2014	44,473	27,330	84,268	9,074	21,316	6,027	192,489
Additions	–	–	3,541	4,936	59	441	8,977
Transfers	–	–	(29)	–	–	29	–
Disposals	–	–	(10)	–	–	(62)	(72)
Cost amount at 30 June 2015	44,473	27,330	87,770	14,010	21,375	6,435	201,393

11 Trade and other payables

	2015 \$'000	2014 \$'000
Current		
Accounts payable	47,398	46,925
Accrued network charges	1,029	223
Employee incentives payable	6,991	6,338
Finance costs payable	298	219
Participant security deposits	12,797	4,201
Electricity settlement prepayments	–	36
Other creditors and accruals	5,503	3,636
	74,016	61,578
Non-current		
Lease incentive	2,032	2,720
	2,032	2,720

12 Borrowings

	2015 \$'000	2014 \$'000
Current		
Bank loans		
Norwest	1,243	1,243
STTM	4,114	4,114
	5,357	5,357
Non-current		
Bank loans		
Norwest	17,886	19,128
STTM	4,743	8,858
	22,629	27,986
Total	27,986	33,343

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:

	2015 \$'000	2014 \$'000
Bank loan facilities		
Total facility	75,000	75,000
Used at balance date	(27,986)	(33,343)
Unused at balance date	47,014	41,657

Loan contracts

At 30 June 2015, the total drawdown is \$27,986k (\$47,014k undrawn).

Banking covenants

AEMO is required to provide to the NAB annual audited financial statements and a ratio certificate where the liquidity ratio is not less than 0.5 : 1. As at 30 June 2015 the liquidity ratio was 1.08.

The drawdown loan details at year end are:

Norwest loan drawdown at 30 June 2015 is \$19,129k. Repayments of principal of \$311k plus interest will be made quarterly for the next two years under the current facility at a fixed rate of 6.07%.

STTM loan drawdown at 30 June 2015 is \$8,857k. Repayments of principal of \$1,029k plus interest will be made quarterly for the next two years under the current facility at a fixed rate of 6.07%.

13 Provisions

	2015 \$'000	2014 \$'000
Current		
Provision for employee entitlements	18,713	19,061
	18,713	19,061
Non-current		
Provision for employee entitlements	1,357	1,368
	1,357	1,368
Total	20,070	20,429

14 Other current liabilities

	2015 \$'000	2014 \$'000
Prepaid revenue	4,108	2,084
Other liabilities	687	1,028
	4,795	3,112

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

	2015 \$'000	2014 \$'000
Defined Benefit Obligation	23,853	28,854
Fair value of plan assets	(22,666)	(21,310)
Net defined benefit superannuation liability	1,187	7,544

Reconciliation of the Net Defined Benefit Liability

Financial year	2015 \$'000	2014 \$'000
Net defined benefit liability at start of the year	7,544	8,524
Current service cost	562	701
Net interest	220	220
Actual return on plan assets less interest income	(1,362)	(1,874)
Actuarial (gains)/losses arising from changes in demographic assumptions	–	(56)
Actuarial (gains)/losses arising from changes in financial assumptions	(4,042)	(1,243)
Actuarial (gains)/losses arising from liability experience	(1,360)	1,902
Net actuarial (gains)/losses on re-measurement of net defined benefit superannuation liability	(6,764)	(1,271)
Employer contributions	(375)	(630)
Net defined benefit liability at end of the year	1,187	7,544

Reconciliation of the present value of the defined benefit obligation

Financial year	2015 \$'000	2014 \$'000
Present value of defined benefit obligations at beginning of the year	28,854	30,570
Current service cost	562	701
Interest cost	925	938
Contributions by plan participants	133	141
Actuarial (gains)/losses arising from changes in demographic assumptions	–	(56)
Actuarial (gains)/losses arising from changes in financial assumptions	(4,042)	(1,243)
Actuarial (gains)/losses arising from liability experience	(1,360)	1,902
Benefits paid	(1,060)	(3,908)
Taxes, premiums and expenses paid	(159)	(191)
Present value of defined benefit obligations at end of the year	23,853	28,854

Reconciliation of the fair value of plan assets

Financial year	2015 \$'000	2014 \$'000
Fair value of plan assets at beginning of the year	21,310	22,046
Interest income	705	718
Actual return on plan assets less Interest income	1,362	1,874
Employer contributions	375	630
Contributions by plan participants	133	141
Benefits paid	(1,060)	(3,908)
Taxes, premiums and expenses paid	(159)	(191)
Fair value of plan assets at end of the year	22,666	21,310

Fair value of plan assets

Financial year ended	Total \$'000	Quoted prices in active markets for identical assets – Level 1 \$'000	Significant observable inputs – Level 2 \$'000	Unobservable inputs – Level 3 \$'000
30 June 2015				
Investment funds	22,666	–	22,666	–
Total	22,666	–	22,666	–

As at 30 June	2015 %	2014 %
Australian equity	29	30
International equity	25	24
Fixed income	11	11
Property	9	9
Growth alternatives	9	8
Defensive alternatives	9	10
Cash	8	8

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 Company.

Principal actuarial assumptions at the balance sheet date

Assumptions to determine defined benefit superannuation expense	2015 % p.a.	2014 % p.a.
Discount rate (active members)	3.5	3.4
Discount rate (pensioners)	3.5	3.4
Expected salary increase rate	3.7	4.0
Expected pension increase rate	3.0	3.0

These rates are used to calculate the expected defined benefit cost for the year.

Assumptions to determine defined benefit obligation	2015 % p.a.	2014 % p.a.
Discount rate* (active members)	4.2	3.5
Discount rate (pensioners)	4.2	3.5
Expected salary increase rate	2.9	3.7
Expected pension increase rate	2.5	3.0

* In 2015 the discount rate used is based on a Corporate bond yield. In 2014 the discount rate is based on the Commonwealth government bond yield.

These rates are used to calculate the defined benefit obligation (future obligation) at year end.

Sensitivity Analysis

The defined benefit obligation as at 30 June 2015 under several scenarios is presented below.

Scenario A and B relate to discount rate sensitivity. Scenario C and D relate to salary increase rate sensitivity.

Scenario E and F relate to pension indexation rate sensitivity.

	Base Case	Scenario A	Scenario B	Scenario C	Scenario D	Scenario E	Scenario F
		-0.5% pa discount rate	+0.5% pa discount rate	-0.5% pa Salary increase rate	+0.5% pa Salary increase rate	-0.5% pa Pension indexation	+0.5% pa Pension indexation
Discount rate	4.2% pa	3.7% pa	4.7% pa	4.2% pa	4.2% pa	4.2% pa	4.2% pa
Salary increase rate	2.9% pa	2.9% pa	2.9% pa	2.4% pa	3.4% pa	2.9% pa	2.9% pa
Pension increase rate	2.5% pa	2.5% pa	2.5% pa	2.5% pa	2.5% pa	2.0% pa	3.0% pa
Defined benefit obligation (\$'000)	23,853	25,319	22,512	23,355	24,370	23,038	24,745

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

Asset-Liability matching strategies

We are not aware of any asset and liability matching strategies adopted by the plan.

Funding arrangements

The Equipsuper Contribution and Funding Policy provides for a review of the financial position of the Plan each six months, as at 30 June and 31 December, with the Company contribution rate comprising a long term contribution rate and an adjustment to meet the financing objective of a Funding Ratio of 105%.

The Funding Ratio is the ratio of assets to accrued liabilities, being the greater of the vested benefits and the present value of past membership benefits.

Where the Funding Ratio is greater than 100% the financing objective is to achieve a Funding Ratio of 105% over five years. Where the Funding Ratio is less than 100% the primary financing objective is to achieve 100% over three years and 105% over five years.

In the most recent review of the financial position as at 31 December 2014 the actuary recommended a Company contribution rate of 9.5% of salaries.

The Company continues to contribute salary sacrifice contributions and at the required rates for accumulation members.

Expected contributions

Financial year	2015 \$'000
Expected employer contributions	284

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation as at 30 June 2015 is eight years.

Expected benefit payments for the financial year ending on	\$'000
30 June 2016	2,250
30 June 2017	2,812
30 June 2018	2,341
30 June 2019	2,638
30 June 2020	2,705
Following 5 years	10,996

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 2015 the balance of the fund is \$5,183k (2014: \$5,013k).

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 2015 the balance of the fund is \$3,480k (2014:\$3,368k).

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 2015 the balance of the fund is \$769k (2014:\$744k).
- 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 2015 the balance of the fund is \$386k (2014:\$373k).
- III. **Brisbane hub:** 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 2015 the balance of the fund is \$452k (2014:\$315k).

The balances for all PCFs have reached the funding requirements under the Rules. No further PCF fees will be charged for these markets unless there is a claim against the funds, however interest will continue to be earned on these funds.

	PCF NEM \$'000	PCF Vic Wholesale Gas \$'000	PCF STTM Sydney hub \$'000	PCF STTM Adelaide hub \$'000	PCF STTM Brisbane hub \$'000	Total \$'000
2014						
Balance 1 July 2013	4,251	3,246	717	297	99	8,610
Contributions during the year	596	–	–	63	210	869
Interest earned during the year	166	122	27	13	6	334
Claim payments made from the PCF during the year	–	–	–	–	–	–
Balance 30 June 2014	5,013	3,368	744	373	315	9,813

2015

Balance 1 July 2014	5,013	3,368	744	373	315	9,813
Contributions during the year	–	–	–	–	125	125
Interest earned during the year	170	112	25	13	12	332
Claim payments made from the PCF during the year	–	–	–	–	–	–
Balance 30 June 2015	5,183	3,480	769	386	452	10,270

Land Reserve

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

AWEFS Reserve

AEMO established the AWEFS Reserve to reflect the carrying value of assets acquired from grant funding provided by the government. The reserve is fully amortised at 30 June 2015.

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

F.G. Calabria

Dr. P.L. Davis

L.V. Hosking

J.G. Hubbard

S. Krieger

G.J.W. Martin

Dr. A.L. Marxsen

S.C. Orr

J.A. Tongs

All of the above persons were directors for the full financial year and up to the date of this report, with the exception of Mr Les Hosking and Mr Greg Martin who retired effective 6 November 2014, and Mr Frank Calabria and Dr. Peter Davis who were appointed to the board effective 6 November 2014.

Key management personnel compensation

	2015 \$'000	2014 \$'000
Directors' compensation		
Short-term employee benefits	1,780	1,760
Post-employee benefits	217	177
	1,997	1,937
Other key management personnel		
Short-term employee benefits	2,489	2,165
Post-employee benefits	247	207
	2,736	2,372
	4,733	4,309

Directors' compensation

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 6 November 2014, the AEMO members considered a report from AON Hewitt on the review of non-executive director remuneration against market and approved an annual remuneration pool of up to \$1.2 million for the next three years. In considering the matter, the members noted that the Board would have discretion to determine the annual increases in remuneration and that this would be disclosed as part of the budget process.

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.

The remuneration includes a performance reward component of up to 25% based on company performance against agreed criteria.

Other key management personnel

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. Any movements are approved by the Board.

The remuneration includes a performance reward component of up to 25% based on company performance against agreed criteria.

The increase in costs in 2015 primarily relate to the expansion of the executive team.

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.

	2015 \$'000	2014 \$'000
Statutory financial audit services		
Services provided by the financial auditor Grant Thornton		
Statutory audit of the financial statements of the company	111	111
Other services		
Other audit services not provided by AEMO's financial auditor *	1,607	1,096

* Other 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

In 2010 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 2015 the contingent liability relating to this assignment has expired.

From time to time AEMO may be involved in disputes with registered participants. As referred to in Note 16 Reserves, AEMO maintains PCFs for payment of compensation to market participants for unintended scheduling results and scheduling errors as determined under various dispute resolution processes. 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. Payment of claims are capped to the extent of the funds available in the applicable PCF.

20 Commitments

Capital commitments

Capital commitments relate to contracted acquisition of assets.

	2015 \$'000	2014 \$'000
Not later than one year	1,886	619
Later than one year but not later than five years	50	–
Later than five years	–	–
	1,936	619

Operating lease commitments

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

	2015 \$'000	2014 \$'000
Not later than one year	4,671	4,272
Later than one year but not later than five years	18,800	13,319
Later than five years	7,171	970
	30,642	18,561

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

The leases relate to the following:

- Melbourne CBD premises – lease agreement to 31 October 2018.
- Sydney CBD premises – lease agreement to 28 February 2021.
- Brisbane CBD premises – lease agreement to 31 January 2026.
- Mansfield premises – lease agreement to 30 June 2016.
- 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.

	2015 \$'000	2014 \$'000
NEM	6,595	3,003
Electricity FRC	2,783	855
Victorian TNSP	(4,904)	(3,703)
DWGM	9,330	9,329
Gas FRC	3,896	3,726
STTM	(1,492)	(4,811)
NTP	1,669	1,015
Other functions	375	1,549
	18,252	10,963

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.

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) to net cash inflow/(outflow) from operating activities

	2015 \$'000	2014 \$'000
Surplus/(Deficit)	986	(19,456)
Depreciation and amortisation	15,021	14,853
Non-cash defined benefit expense	407	291
Unrealised foreign exchange gain	(24)	–
Profit on sale of investments	(2)	–
Change in operating assets and liabilities		
(Increase)/decrease in trade and other receivables	(2,564)	9,891
Increase/(decrease) in creditors and accruals	4,616	(28,116)
(Decrease)/increase in provisions	(359)	1,302
Net cash inflow/(outflow) provided by operating activities	18,081	(21,235)

24 Related party transactions

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 interest, declaration of interests, and management of conflicts.

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 2015 were transacted at arm's-length.

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 2015 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 AM
Chairman

Melbourne
3 September 2015



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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 2015, 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.

Grant Thornton Audit Pty Ltd ACN 130 913 594
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Independent auditor's report continued



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 2015 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

A handwritten signature in blue ink, appearing to read "M Climpson".

Michael Climpson
Partner - Audit & Assurance

Melbourne, 3 September 2015

Directory

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Statutory auditor
Grant Thornton

Market auditors
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PricewaterhouseCoopers

Internal auditor
RSM BirdCameron

Banker
NAB

Solicitor
Principal Advisors:
Johnson Winter & Slattery
Thomson Geer



