INDEPENDENT
MARKET
OPERATOR

Annual Report
2013/14

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Chair and Executive Report

2013/14 was a significant year in the evolution of the Independent Market Operator (IMO), highlighted by a number of milestone achievements. The year commenced with the launch of the Gas Services Information (GSI) functions on 1 August 2013. These GSI functions include the Gas Bulletin Board (GBB), the Emergency Management Facility (EMF) and the annual Gas Statement of Opportunities (GSOO). The IMO was very pleased to host the Minister for Energy, the Honourable Dr Mike Nahan MLA and a large number of gas industry stakeholders to a formal launch on 2 August 2013.

The GSI implementation project commenced in May 2011 when the then Minister for Energy, the Honourable Peter Collier MLC, appointed the IMO to implement and operate the new gas information services for Western Australia (WA). This initiative dates back to the recommendations made by the Gas Supply and Emergency Management Committee set up to review the Varanus Island gas supply disruptions in 2008. The committee recommended the implementation of a public GBB and GSOO to increase transparency, security, reliability and competitiveness in the WA natural gas market.

The launch of the GSI was an important diversification step into the WA primary fuels market for the IMO. The IMO acknowledges and thanks gas Market Participants and the Gas Advisory Board (GAB) for their contribution and active engagement in the implementation of the GSI functions and looks forward to continuing to work collaboratively in further developing the GSI.

The IMO was also called upon to support the merger of the former State owned utilities Verve and Synergy. A significant number of activities including Wholesale Electricity Market (WEM) rule changes and market system changes needed to be developed, tested and implemented by 1 January 2014 to ensure the WEM operations were not adversely affected by the merger. This work plan required the IMO to dedicate a substantial amount of internal and external resources to ensure all the merger issues were identified and addressed prior to the implementation date.

The design and implementation of the new Balancing Market in July 2012 (the initial deployment – under transitional arrangements) and December 2012 (full deployment) delivered a "near to real time" gross pool for WEM dispatch. A by-product of this new market is the IMO now receives a significant amount of up-to-date, real time data from Market Participants, System Management and Western Power. This has allowed the IMO to undertake a Data Visualisation Project throughout 2013/14 which has greatly improved the transparency of WEM data. The project deliverables include:

- WEM Balancing Market activity – WEM prices, load forecast, aggregated generation output – last 24 hours and projected forward 6 hours;
- Data visualisations showing the WEM evolution since its inception;
- Weekly data comparisons – allowing a weekly market data snapshot to be compared with previous weeks;
- Short Term Energy Market (STEM) trading activity summary and current market activity;
- Current generation output – every 30 seconds; and
- Up to date wind generation – every 30 seconds.

In addition, the IMO has further enhanced data delivery, which allows the public to download a range of market data dating back to market commencement. The IMO plans to release further data visualisations updates during 2014/15. The IMO encourages you to visit the 'Explore the Market' section of the IMO website to view the latest updates.

In March 2014, the Minister for Energy announced an Electricity Market Review (EMR) with the objectives of:

- Reducing costs of production and supply of electricity and electricity related services, without compromising safe and reliable supply;
- Reducing Government exposure to energy market risks, with a particular focus on having future generation built by the private sector without Government investment, underwriting or other financial support; and
- Attracting to the electricity market private-sector participants that are of a scale and capitalisation sufficient to facilitate long-term stability and investment to improve efficiency, cost competitiveness and transparency in the WA Electricity industry.

The IMO has been working with the EMR Steering Committee by providing market data, analysis and previously commissioned reports and reviews, to assist with the development of the EMR Discussion Paper. The IMO welcomes the review and believes it provides a real opportunity to address some of the challenges facing the Western Australian electricity sector.

The IMO team looks forward to continuing to work with the EMR Steering Committee with the development and implementation of the Ministerial Reform Options Paper later in the year.

In April 2014, the IMO received is first Ministerial Direction from the Minister for Energy, which required the IMO to defer the 2014 Reserve Capacity Cycle for 12 months. The IMO has successfully implemented the direction as requested and has now reengineered its Reserve Capacity processes, procedures and systems for 2015 to ensure the impact on Market Participants of conducting, in parallel, two reserve capacity cycles (if required) is minimised.

Finally, in what has been a year of significant challenges for the IMO, we would like to acknowledge and thank the dedicated staff at the IMO for what has proven to be a milestone year. The significant progress made this year on our externally facing and internally focussed initiatives would not have been possible without their substantial efforts.

John Kelly

JOHN KELLY
CHAIR

ALLAN DAWSON
CHIEF EXECUTIVE OFFICER

Corporate Profile

The IMO is a body corporate that was established on 1 December 2004 to administer and operate the Wholesale Electricity Market of Western Australia. In May 2011, the IMO was appointed to administer and operate the Gas Services Information for natural gas in Western Australia.

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

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

1.1. Electricity Market Objectives

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

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

1.2. Gas Services Information Objectives

In May 2011, the Minister for Energy appointed the IMO as the operator of two new information services for the Western Australian natural gas market being the GBB and a GSOO.

The *Gas Services Information Act 2012* sets the objectives of the GBB and GSOO. These objectives are to promote the long term interests of consumers and natural gas in relation to:

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

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

1.3. IMO Governance Framework

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

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

During 2013/14, the IMO Board members were:

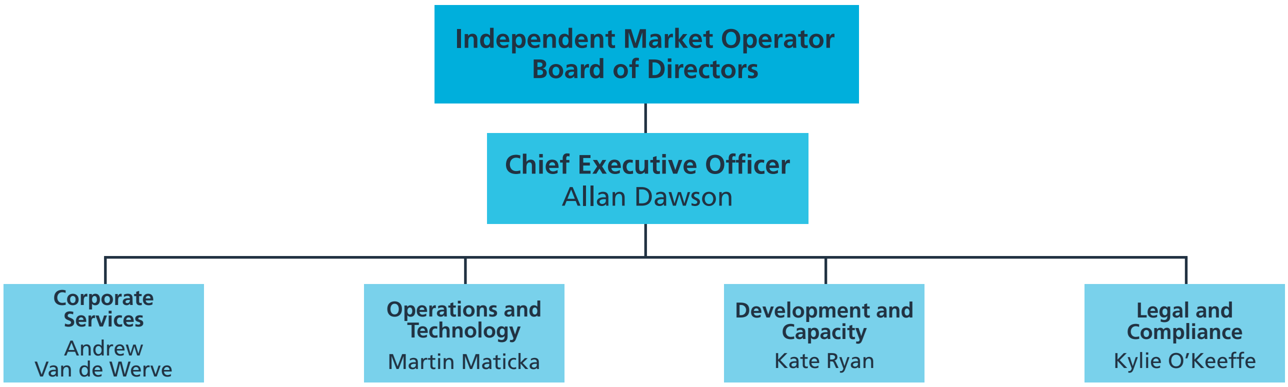
- John Kelly (Chair),
- Shaun Dennison;
- David Huggins; and
- Roland Sleeman.

Mr David Huggins resignation from the IMO was effective from 30 June 2014, with Mr Peter Kolf appointed as a Director of the IMO Board by the Minister for Energy from 1 July 2014.

Corporate Profile (continued)

1.4 IMO Organisational Structure

Figure 1. IMO Organisational Chart



2013/14 was an opportunity for the IMO to consolidate its corporate structure that was restructured in 2012/13. No changes were made to the Management team during this period.

At 30 June 2014, the IMO had a payroll headcount of 47, corresponding to 44.5 Full Time Equivalent (FTE) staff after adjusting for part time positions. This is 0.6 FTE higher than the approved budget as a result of a 0.6 part time, fixed term project support role being engaged for administration duties during the reporting period.

1.5. 2013/14 Strategic Objectives

Operating Markets

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

Developing the WEM and GSI

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

Establish and Build Strong Relationships

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

Financial Responsibility and Risk Management

All financial transactions and corporate risks have prudent governance oversight.

Skills and Resources

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

2013/14 in Review

2.1 Key Performance Indicators 2013/14

Strategic Objective: Operating Markets

Measure	Performance Expectation Per Year	Actual Performance
Number of STEM Market Suspensions	≤ 1	0
STEM Market delay	≤ 5	3
Forecast Balancing Merit Order (BMO) generation (excluding planned outages)	≥ 99%	99.84%
Unscheduled IT outages	≤ 0.5%	0.16%
Late Settlement statements (STEM & Non-STEM)	≤ 2	0
GBB Reporting generation (excluding planned outages)	≥ 99%	100%
Deadline for publication of Gas Statement of Opportunities met	IMO adherence to material deadlines in the GSI Rules	2013 GSOO published 26 July 2013 (due 31 July 2013) Publication of 2014 GSOO delayed until 31 January 2014 (due 31 December 2013)
Key deadlines for Reserve Capacity Mechanism published on IMO website and met	IMO adherence to significant published deadlines	All deadlines met

Strategic Objective: Developing the WEM and GSI

Measure	Performance Expectation Per Year	Actual Performance
Formal Review of Market Rules Evolution Plan for 2013 to 2016	Once per year with Market Advisory Committee (MAC)	Completed at October 2013 MAC meeting
Delivery of Gas Information Services Project (GISP)	On time < Budget In consultation with gas industry stakeholders Consistent with the objectives in the *Gas Services Information Act 2012*	GISP concluded on 2 August 2013 with the launch of the GSOO and GBB On time Delivered 9.06% under budget ($300,399) Extensive consultation with stakeholders Consistent with objectives

2013/14 in Review (continued)

Strategic Objective: Establish and Building Strong Relationships

Measure	Performance Expectation Per Year	Actual Performance
Number of market training sessions presented to attendees	≥ 200 Participants	29 training courses held with 349 participants attending
Number of forums, workshops and user groups held with Energy Sector	6 per year	12 year to date • Operations Stakeholder Forum • 2014 Reserve Capacity Cycle Briefing • Large User Forum • GSOO Stakeholder Forum • Merger information sessions (2) • Telemetry requirements for DSPs • ESOO Stakeholder Forum • MEP Update • Benefits of the Competitive Balancing Market Briefing • Industry Briefings – Muja Transformer Failure Update (2)

Strategic Objective: Financial Responsibility

Measure	Performance Expectation Per Year	Actual Performance
Expenditure Control	≤ Allowable Revenue	Operational Expenditure was 96.8% of annual budget
Capital Expenditure Control	≤ Capital Budget	Capital Expenditure was 92.8% of annual budget

Strategic Objective: Skills and Resources

Measure	Performance Expectation Per Year	Actual Performance
Employee happiness and satisfaction	Turnover to be ≤ 15%	11.4% (5 resignations)
Effective graduate program	To retain Graduates on average 3 years	Avg retention currently 2 years 2 months
Recruitment strategy effectiveness	≤ 4 months to fill a position	6 positions recruited with an avg recruitment time of 2 months

Corporate Governance

3.1 Legislative Framework

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

The IMO is a body corporate and its functions are conferred by the above Regulations, the *Electricity Industry (Wholesale Electricity Market) Regulations 2004*, the Wholesale Electricity Market Rules, the *Gas Services Information Regulations 2012* and the Gas Services Information Rules. It is responsible to the Minister for Energy.

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

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

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

3.2 Board of Directors

From 30 June 2012, the *Electricity Industry (Independent Market Operator) Regulations 2004* enable the appointment of a fourth Director to the IMO Board, reflecting the IMO's new role as the Operator of the Gas Services Information. During 2013/14, the IMO's governing body was a Board of four Directors appointed by the Minister for Energy.

3.3 Code of Conduct and Human Resource Standards

The Regulations require the Board, in consultation with the Public Sector Commissioner, to develop and establish minimum human resource (HR) standards for staff and a Code of Conduct. The Board approved the employee handbook in June 2009 in accordance with the Regulations. The employee handbook is reviewed annually to ensure compliance with any legislative changes. The employee handbook was last updated in September 2014.

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

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

3.4 Occupational Safety and Health

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

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

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

3.5 Internal Audit

The IMO's current Strategic Audit Plan covers the period 2011/12 – 2013/14. During the year internal audit reviews were conducted in the risk areas of Accounts Payable Processes and Prudential Security Management. No issues of note were identified.

3.6 Other

- The IMO is a "notifying authority" for the purposes of the *Corruption and Crime Commission Act* and the *Public Interest Disclosure Act*. There were no incidents requiring disclosure reports under this legislation during the year.

- The provisions of the *Freedom of Information Act 1992* apply to the IMO. During the year, one application was received and a determination made to provide the information requested in the application. A statement in accordance with the *Freedom of Information Act 1992*, giving information about the IMO and making an FOI request is available on the IMO website.

- The State Records Commission approved the IMO's Recordkeeping Plan in 2013 satisfying the IMO's obligations under the *State Records Act 2000*. Employee responsibilities in respect of record keeping are outlined in the employee handbook, form part of formal induction processes for new starters, and are periodically presented to staff in support of the recordkeeping training program.

- Under the *Electoral Act 1907* the IMO is required to report on expenditure on advertising, market research, polling, direct mail and media advertising. During the 2013/14 financial year, expenditure of $282 was incurred on staff recruitment advertising and $6,578 on tender advertising.

- The *Equal Opportunity Act 1994* requires the IMO to prepare and implement an equal opportunity management plan and report annually on progress with the plan. An updated EEO Management Plan for the period 2012-2015 was established in July 2012 and annual reporting obligations for 2013-14 were satisfied in July 2014.

Directors' Report

The Directors of the Independent Market Operator present their report for the twelve months to 30 June 2014.

Directors

The following were Directors of the IMO during the financial year to 30 June 2014:

John Kelly

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

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

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

Shaun Dennison

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

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

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

David Huggins

- Appointed Director November 2006
- Current term ends June 2014

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

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

Roland Sleeman

- Appointed Director May 2013
- Current term ends April 2016

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

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

Directors' Meetings

Attendances by Directors at meetings held during the financial year ending 30 June 2014 were:

	Meetings Attended	Meetings Eligible
John Kelly	12	13*
Shaun Dennison	12	13*
David Huggins	12	13*
Roland Sleeman	12	13*

* Includes two special meetings held in January and April 2014.

Principal Activities

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

Review of Operations

The IMO has operated during 2013/14 in accordance with its obligations under the *Electricity Industry (Independent Market Operator) Regulations 2004*, the Wholesale Electricity Market Rules, the *Gas Services Information Regulations 2012* and the Gas Services Information Rules.

On 29 April 2014, the Minister for Energy issued a Ministerial Direction to the IMO being the Independent Market Operator (2014 Reserve Capacity Cycle) Direction 2014.

The purpose of the direction was to defer certain aspects of the 2014 Reserve Capacity Cycle. The IMO has implemented the deferral as directed by the Minister for Energy.

Results of Operations

The Operating Result for the year was a surplus of $1,423,000 which compares to a budgeted surplus of $993,000 as approved in the IMO 2013/14 Operational Plan (an increase of $430,000).

Directors' Report (continued)

The IMO is required under the Market Rules to return or recoup an operating surplus or deficit from Market Participants via an adjustment to subsequent year budget revenue requirements. A deficit operating result of $993,000 was recorded for the 2011/12 financial reporting period, which was recovered from Market Participants and is reflected in the 2013/14 operating result.

2013/14 was the first financial year where services were provided to GSI Market Participants contributing $444,000 to the surplus result.

During the reporting period, WEM Market Fees were $316,000 lower, influenced by lower than forecast electricity volumes attributed to a milder summer period, year on year changes in demand and a higher than forecast uptake of rooftop solar PV.

Expenditure was under budget by $576,000, influenced most notably by a lower than budgeted Supplies and Services expense of $294,000, resulting from a reduced level of consultancies being engaged and lower than budgeted levels of expenditure for recruitment, legal and travel.

The under budget delivery of the Gas Information Services Project resulted in a lower than budgeted Depreciation and Amortisation expense and Finance costs of $154,000 and $106,000 respectively. This underspend was offset by higher than budgeted expenditure for Employee Benefits expense of $26,000 related to leave entitlement provisions.

Additional detail is provided in Note 32: Explanatory Statement of the Notes to the Financial Statements (appended).

Dividends

There were no dividends paid or declared by the IMO.

Significant Changes in the IMO's State of Affairs

During the 2013/14 Financial Year, GSI functions including the GBB, the EMF and the GSOO commenced, which were launched by the Minister for Energy on 2 August 2014. The transition of the functions from the project team to operational areas went smoothly with all activities now being undertaken as part of normal IMO operations.

The commencement of the GSI functions was a significant step for the IMO, expanding the IMO's responsibilities from Electricity, to Electricity and Gas and increasing the number of Market Participants that the IMO will now engage with.

During 2013/14 the Premier announced the merger of the former Verve and Synergy entities. The merger of these two entities required a significant amount of planning to be undertaken by the IMO to ensure all Market Rules, systems and processes were tested and implemented prior to the 1 January commencement date. As a result of the merger announcement, the IMO assigned a substantial amount of IMO resources to undertake the work required to meet the merger timeframes, resulting in some delays to other IMO activities. During this period the IMO incurred $225,000 in Operational expenditure and $263,760 in Capital expenditure related to merger activities.

Matters or Circumstances that Arose which May Affect Future Financial Years

In March 2014, the Minister for Energy announced an Electricity Market Review to identify options for improving the WA Electricity Market. The Steering Committee of the Review released a discussion paper in July 2014 and invited submissions from the Energy Sector and the public.

The final outcomes of the Electricity Market Review are yet to be released, but may impact how the WEM operates in the future. At the date of this report, the IMO does not know what the likely impacts will be.

The IMO's Directors are of the opinion that no matters or circumstances have arisen since the end of the financial year or are likely to arise that will significantly affect (or have the potential to significantly affect) the IMO's electricity market or its gas functions operations, the results of those operations, or the state of affairs of the IMO in the financial year subsequent to 30 June 2014.

Environmental Regulations

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

Indemnification and Insurance of Officers

During or since the end of the financial year, the IMO has not indemnified or, apart from under the terms of the *Electricity Industry (Independent Market Operator) Regulations 2004* or the *Gas Services Information Regulations 2012*, made a relevant agreement with any present or former IMO officer or auditor for indemnifying them against a liability.

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

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

Emoluments

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

Directors' Report (continued)

Directors' Emoluments

The Minister for Energy determines the emolument of the Board of Directors. Details of emoluments provided to Directors during 2013/14 are:

	Primary Fees	Post-Employment Superannuation	Total
John Kelly [1]	$66,715	$6,171	$72,886
Shaun Dennison [1]	$36,951	$3,411	$40,362
David Huggins [1]	$36,951	$3,411	$40,362
Roland Sleeman [1,2]	$40,147	$3,705	$43,852

Notes:

1. In January 2013, the IMO Board wrote to the Minister for Energy proposing an emolument increase for the Board Chairman and Non-Executive Directors. On 16 July 2013, the IMO received notification from the Minister for Energy approving an emolument increase of 2.75% for the Board Chairman and Non-Executive Directors. This increase was backdated to 1 April 2013, with the backdated component paid during 2013/14.
2. Mr Roland Sleeman was appointed as a Director of the IMO Board in May 2013. No emolument was paid to Mr Sleeman during 2012/13 with the backdated payments to May 2013 paid during 2013/14.

From 1 July 2014, the Chairman's emolument will increase to $72,897, with Non-Executive Directors increasing to $40,375. These rates are inclusive of post-employment superannuation at 9.5%.

Director Benefits

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

Executives' Emoluments

The Board, with the approval of the Minister for Energy, determines the emolument package of the Chief Executive Officer. The Board determined the remuneration of the other senior executives in 2013/14 based on performance, benchmarking with other organisations and competitive requirements.

Details of emoluments provided to the named officers receiving the highest emolument during 2013/14 are:

	Salary	Post-Employment Superannuation	Total
Allan Dawson	$361,777	$44,426	$406,203
Kate Ryan	$233,244	$21,575	$254,819
Martin Maticka	$221,743	$20,511	$242,254
Malcolm Burnaby [1]	$202,177	$10,689	$212,866
Kylie O'Keeffe	$191,275	$17,693	$208,968
Andrew Van de Werve	$181,915	$16,827	$198,742

Notes:

1. Full time employment ended on 17 April 2014. Reported salary figure includes $19,660 accumulated long service leave, $15,896 accumulated annual leave and $51,061 as redundancy payments.

Resolution

This report is made in accordance with a resolution of the Board on 21 August 2014.

JOHN KELLY
CHAIR
18 September 2014

PETER KOLF
DIRECTOR
18 September 2014

Financial Statements
for the year ended 30 June 2014

Directors' Declaration
for the year ended 30 June 2014

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

(a) comply with applicable accounting standards and the *Corporations Regulations 2001*;

(b) give a true and fair view of the financial position of the Independent Market Operator as at 30 June 2014 and of its performance for the year ended 30 June 2014;

(c) are in accordance with *Electricity Industry (Independent Market Operator) Regulations 2004* and *Gas Services Information Regulations 2012*; and

(d) in the Directors' opinion there are reasonable grounds to believe that the Independent Market Operator will be able to pay its debts as and when they become due and payable.

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

John Kelly
DIRECTOR

Peter Kolf
DIRECTOR

Dated this 18th day of September 2014

Statement of Comprehensive Income
for the year ended 30 June 2014

	Note	2014 $000	2013 $000
INCOME			
User charges and fees	2	18,695	16,083
Interest revenue	3	199	70
Other income	4	18	33
Total Income		**18,912**	**16,186**
EXPENSES			
Employee benefits expense	5	(6,392)	(5,724)
Depreciation and amortisation expense	6	(4,362)	(3,250)
Supplies and services	7	(4,828)	(4,586)
Advertising expense	8	(7)	(8)
Accommodation expense	9	(770)	(603)
Finance costs	10	(626)	(819)
Other expenses	11	(492)	(289)
Loss on disposal of non-current assets	12	(12)	(6)
Total Expenses		**(17,489)**	**(15,285)**
SURPLUS FOR THE YEAR TO BE RETURNED TO MARKET PARTICIPANTS[1]		**1,423**	**901**
OTHER COMPREHENSIVE INCOME			
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**1,423**	**901**

The accompanying notes form part of these financial statements.

1. RETURN OF SURPLUS

The IMO is a not for profit entity that is required under the Market Rules for the WEM and GSI to return an operating surplus to Market Participants or recover an operating deficit from Market Participants via an adjustment to the budgeted revenue in a future financial year (see Note 1(b)).

The 2012/13 and 2013/14 surplus' to be returned to Market Participants in 2014/15 and 2015/16 as:

Return of Accumulated Surplus to WEM Market Participants	979	901
Return of Accumulated Surplus to GSI Market Participants	444	-
	1,423	**901**

The return of surplus has been transferred to the WEM and GSI Accumulated Surplus in the Statement of Changes in Equity having no impact on the IMO Accumulated Surplus at the year end.

The IMO expects to record an operating deficit in 2014/15 and 2015/16 equal to the 2012/13 and 2013/14 surplus.

This is consistent with the IMO's legislative requirements.

INDEPENDENT MARKET OPERATOR

Statement of Financial Position
as at 30 June 2014

	Note	2014 $000	2013 $000 Restated*	2012 $000 Restated*
ASSETS				
Current Assets				
Cash and cash equivalents	13	11,799	748	2,216
Trade and other receivables	14	3,521	2,750	2,188
Other current assets	15	307	625	-
Total Current Assets		**15,627**	**4,123**	**4,404**
Non-Current Assets				
Plant and equipment	16	1,702	1,860	690
Intangible assets	17	14,306	15,582	12,941
Total Non-Current Assets		**16,008**	**17,442**	**13,631**
TOTAL ASSETS		**31,635**	**21,565**	**18,035**
LIABILITIES				
Current Liabilities				
Trade and other payables	18	1,325	1,253	1,500
Borrowings	19	4,805	3,479	5,109
Other liabilities	20	10,684	707	452
Provisions	21	332	238	246
Total Current Liabilities		**17,146**	**5,677**	**7,307**
Non-Current Liabilities				
Borrowings	19	10,137	12,944	7,905
Other liabilities	20	617	702	1,422
Provisions	21	276	206	266
Total Non-Current Liabilities		**11,030**	**13,852**	**9,593**
TOTAL LIABILITIES		**28,176**	**19,529**	**16,900**
NET ASSETS		**3,459**	**2,036**	**1,135**
EQUITY				
Accumulated surplus		1,755	1,755	1,755
WEM accumulated surplus/(deficit)	22	1,260	281	(620)
GSI accumulated surplus	22	444	-	-
TOTAL EQUITY		**3,459**	**2,036**	**1,135**

The accompanying notes form part of these financial statements.

* Restated – Refer to Change of Accounting Policy Notes 1(b) and 1(v)

Statement of Changes in Equity
for the year ended 30 June 2014

	Note	WEM Accumulated Surplus/ (Deficit) $000	GSI Accumulated Surplus $000	Accumulated Surplus $000	Total $000
Balance at 1 July 2012 (previously reported)		**-**	**-**	**1,135**	**1,135**
Adjustment on change of accounting policy (Refer Note 1(b) and 1(v))		(620)	-	620	-
Restated total equity at the beginning of the financial year		**(620)**	**-**	**1,755**	**1,135**
Total comprehensive income for the period		-	-	901	901
Transfer to/(from) accumulated surplus					
Surplus attributable to WEM	22	901	-	(901)	-
Balance at 30 June 2013 - Restated		**281**	**-**	**1,755**	**2,036**
Balance at 1 July 2013 - Restated		**281**	**-**	**1,755**	**2,036**
Total comprehensive income for the period		-	-	1,423	1,423
Transfer to/(from) accumulated surplus					
Surplus attributable to WEM	22	979	-	(979)	-
Surplus attributable to GSI	22	-	444	(444)	-
Balance at 30 June 2014		**1,260**	**444**	**1,755**	**3,459**

The accompanying notes form part of these financial statements.

Statement of Cash Flows
for the year ended 30 June 2014

	Note	2014 $000	2013 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Provision of services		17,816	15,686
Interest received		199	70
Other receipts		18	33
Market settlement default receipts		6,559	-
Prepaid amounts from Market Participants		3,761	-
Goods and Services Tax net receipts/(payments)		25	(165)
Payments			
Employee benefits expense		(6,194)	(5,796)
Supplies and services		(4,690)	(6,705)
Finance costs		(626)	(819)
Accommodation expense		(855)	(197)
Advertising expense		(7)	(8)
Other expenses		(534)	(290)
Net cash provided by operating activities	24(b)	**15,472**	**1,809**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of non-current physical assets		(187)	(1,123)
Purchase of intangible assets		(2,754)	(5,563)
Net cash (used in) investing activities		**(2,941)**	**(6,686)**
CASH FLOWS FROM FINANCING ACTIVITIES			
(Repayment)/Proceeds of borrowings		(1,480)	3,409
Net cash (used in)/provided by financing activities		**(1,480)**	**3,409**
Net increase/(decrease) in cash and cash equivalents		**11,051**	**(1,468)**
Cash and cash equivalents at the beginning of period		748	2,216
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	24(a)	**11,799**	**748**

The accompanying notes form part of these financial statements.

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

Note 1: Summary of Significant Accounting Policies

(a) General Statement

The IMO is a not for profit entity that prepares general purpose financial statements in accordance with Australian Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board (AASB), the *Corporations Regulations 2001,* the *Electricity Industry (Independent Market Operator) Regulations 2004* and the *Gas Services Information Regulations 2012*.

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

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

(b) Basis of Preparation

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

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

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

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

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

<u>Changes in Accounting Policy – Allocation of Accumulated Surplus to WEM and GSI Accumulated Surplus</u>

The Board has recognised the need to make an allocation from the Accumulated Surplus to the WEM Accumulated Surplus and the GSI Accumulated Surplus, to recognise that any surplus or deficit is returned to or reclaimed from Market Participants. The Board believes this will provide more relevant information to IMO's stakeholders as it reflects the annual process for establishing the market fee rate that the IMO is allowed to charge to recover costs for services provided. The comparative information has been restated accordingly. Refer to Note 1(v) 'Judgements made by Management in Applying Accounting Policies', Note 1(w) 'Key Sources of Estimation Uncertainty' and Note 22 'WEM and GSI Accumulated Surplus'.

<u>Going Concern and Working Capital</u>

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

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

At 30 June 2014, IMO reported a working capital deficit of $1,519,000 (2013: $1,554,000). Current liabilities include borrowings from the Western Australian Treasury Corporation of $4,805,000 (2013: $3,479,000) that have repayments profiled over the upcoming financial year. The amounts falling due from 3 months to one year are $3,601,000 (2013: $2,855,000). When these amounts are excluded, working capital shows current assets exceeding current liabilities by $2,082,000 (2013: $1,301,000).

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

(c) Reporting Entity

The reporting entity comprises the Independent Market Operator.

(d) Revenue and Other Income

<u>Revenue Recognition</u>

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

User Charges and Fees

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

Note 1: Summary of Significant Accounting Policies (continued)

(d) Revenue and Other Income (continued)

Interest

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

Gains

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

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

(e) Income Tax

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

(f) Borrowing Costs

Borrowing costs for qualifying assets are capitalised net of any investment income earned on the unexpended portion of the borrowings. All other borrowing costs are expensed when incurred in the financial statements in accordance with *AASB 123*. This standard allows not for profit public sector entities an option to expense borrowing costs in the period in which they are incurred even if they relate to qualifying assets.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the IMO's outstanding borrowings during the year, in this case 3.33% (2013: 3.29%).

(g) Plant and Equipment

Capitalisation/Expensing of Assets

Items of plant and equipment costing $5,000 or more are recognised and capitalised as assets and the cost of utilising the assets is expensed (depreciated) over their useful lives.

Items of plant and equipment costing less than $5,000 are immediately expensed directly to the Statement of Comprehensive Income (other than where they form part of a group of similar items which are significant in total).

Initial Recognition and Measurement

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

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

Subsequent Measurement

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

Depreciation

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

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

Estimated useful lives for each class of depreciable asset are:

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

(h) Intangible Assets

Capitalisation/Expensing of Assets

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

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

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

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

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

Software	5 years

Licences

Licences have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses.

Development Costs

Research costs are expensed as incurred. Development costs incurred for an individual project are carried forward when the future economic benefits can reasonably be regarded as assured and the total project costs are likely to exceed $50,000. Other development costs are expensed as incurred.

Note 1: Summary of Significant Accounting Policies (continued)

(h) Intangible Assets (continued)

Software

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

(i) Impairment of Assets

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

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

Where an asset measured at cost is written down to recoverable amount, an impairment loss is recognised in profit or loss. Where a previously revalued asset is written down to recoverable amount, the loss is recognised as a revaluation decrement in other comprehensive income.

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

The risk of impairment is generally limited to circumstances where an asset's depreciation is materially understated, where the replacement cost is falling or where there is a significant change in useful life.

Each relevant class of assets are reviewed annually to verify that the accumulated depreciation/amortisation reflects the level of consumption or expiration of the asset's future economic benefits and to evaluate any impairment risk from falling replacement costs. Intangible assets with an indefinite useful life and intangible assets not yet available for use are tested for impairment at each reporting period irrespective of whether there is any indication of impairment.

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

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

(j) Leases

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

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

(k) Financial Instruments

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

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

Financial instruments have been disaggregated into the following classes:

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

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

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

(l) Cash and Cash Equivalents

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

Note 1: Summary of Significant Accounting Policies (continued)

(m) Accrued Salaries

Accrued salaries (refer Note 18) represent the amount due to employees but unpaid at the end of the financial year, as the pay date for the last pay period for that financial year does not coincide with the end of the financial year. Accrued salaries are settled within a few days of the financial year-end. The IMO considers the carrying amount of accrued salaries to be equivalent to its net fair value.

(n) Trade and Other Receivables

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

(o) Trade and Other Payables

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

(p) Borrowings

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

(q) Provisions

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

Provisions – Employee Benefits

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

Annual Leave

Annual leave is not expected to be settled wholly within 12 months after the end of the reporting period and is therefore considered to be 'other long-term employee benefits'. The annual leave liability is recognised and measured at the present value of amounts expected to be paid when the liabilities are settled using the remuneration rate expected to apply at the time of settlement.

When assessing expected future payments consideration is given to expected future wage and salary levels including non-salary components such as employer superannuation contributions, as well as the experience of employee departures and periods of service. The expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

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

Long Service Leave

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

An actuarial assessment of long service leave undertaken by Pricewaterhouse Coopers Securities Ltd at 30 June 2014 determined that the liability measured using the short-hand measurement technique above was not materially different from the liability determined using the present value of expected future payments. This calculation is consistent with the IMO's experience of employee retention and leave taken.

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

Sick leave

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

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

Superannuation

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

Note 1: Summary of Significant Accounting Policies (continued)

(q) Provisions (continued)

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

Employees commencing employment prior to 16 April 2007 who were not members of either the Pension Scheme or the GSS became non-contributory members of the West State Superannuation Scheme (WSS). Employees commencing employment on or after 16 April 2007 became members of the GESB Super Scheme (GESBS). Both of these schemes are accumulation schemes. From 30 March 2012, existing members of the WSS or GESBS and new employees have been able to choose their preferred superannuation fund provider. The IMO makes concurrent contributions to GESB or other fund providers on behalf of employees in compliance with the Commonwealth Government's *Superannuation Guarantee (Administration) Act 1992*. Contributions to these accumulation schemes extinguish the IMO's liability for superannuation charges in respect of employees who are not members of the Pension Scheme or GSS.

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

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

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

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

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

<u>Provisions – Other</u>

Employment On-Costs

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

Employment on-costs are included as part of the IMO's 'Supplies and Services – Other' expenses as shown in Note 7, and are not included as part of the IMO's 'Employee Benefits Expense'. The related liability is included in the employment on-costs provision as shown in Note 21.

(r) Superannuation Expense

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

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

Actuarial gains and losses of the defined benefit plans are recognised immediately as income or expense in profit or loss.

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

The superannuation expense in the Statement of Comprehensive Income comprises employer contributions paid to the GSS (concurrent contributions), the WSS, the GESBS and other superannuation funds.

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

Assets or services received free of charge or for nominal cost that the IMO would otherwise purchase if not donated, are recognised as income at the fair value of the assets or services where they can be reliably measured. A corresponding expense is recognised for services received. Receipts of assets are recognised in the Statement of Financial Position.

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

(t) WEM and GSI Accumulated Surplus

The board has recognised the need to make an allocation from the Accumulated Surplus to the WEM and GSI Accumulated Surplus in relation to the full surplus or (deficit) in any financial year.

WEM Accumulated Surplus

The WEM Accumulated Surplus recognises that any surplus or (deficit) is returned to or reclaimed from Market Participants in full through the annual process for establishing the market fee that the IMO is allowed to charge to recover costs for services provided.

GSI Accumulated Surplus

The GSI Accumulated Surplus recognises that any surplus or (deficit) on the provision of information to the Gas Market is returned to or reclaimed from Market Participants in full through the annual process to agree allowable revenue under the Market Rules.

Note 1: Summary of Significant Accounting Policies (continued)

(u) Comparative Figures

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

(v) Judgements Made by Management in Applying Accounting Policies

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

Change in Accounting Policy - Allocation of Accumulated Surplus to WEM and GSI Accumulated Surplus

As a result of the changes in the entity's accounting policies (as described in Note 1(b)), prior year financial statements have been restated.

The following table shows the adjustments recognised for the individual line in the Statement of Financial Position.

	STATEMENT OF FINANCIAL POSITION		
	Previously Stated $000	Adjustment for change in accounting policy $000	Restated $000
1 July 2012			
Accumulated Surplus	1,135	620	1,755
WEM Accumulated Surplus	-	(620)	(620)
30 June 2013			
Accumulated Surplus	2,036	(281)	1,755
WEM Accumulated Surplus	-	281	281

Operating Lease Commitments

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

(w) Key Sources of Estimation Uncertainty

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

GSI Allocation

Under the Market Rules, any surplus/(deficit) originating in a year is passed back to/(reclaimed from) Market Participants through subsequent revisions to the pricing mechanism. As at each year end the IMO allocates the surplus/(deficit) between WEM and GSI. This requires estimation of the surplus/(deficit) to WEM and GSI. In calculating the costs associated with WEM and GSI, all costs that can be directly attributed to WEM and GSI are expensed immediately. For common costs, these are apportioned based on an estimation of the GSI component that was established following an extensive review of the IMO's cost drivers. These will be reviewed and approved annually.

Long Service Leave

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

Note 1: Summary of Significant Accounting Policies (continued)

(x) Initial Application of an Australian Accounting Standard

The IMO has applied the following *Australian Accounting Standards* effective for annual reporting periods beginning on or after 1 July 2013 that impacted on the IMO.

AASB 13	*Fair Value Measurement* This Standard defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurements for non-financial assets and liabilities. There is no financial impact resulting from the application of this Standard to the IMO.
AASB 119	*Employee Benefits* This Standard supersedes *AASB 119* (October 2010), making changes to the recognition, presentation and disclosure requirements. The IMO assessed employee leave patterns to determine whether annual leave is a short-term or other long-term employee benefit. The resultant discounting of annual leave liabilities that were previously measured at the undiscounted amounts is not material.
AASB 1048	*Interpretation of Standards* This Standard supersedes *AASB 1048* (June 2012), enabling references to the Interpretations in all other Standards to be updated by reissuing the service Standard. There is no financial impact resulting from the application of this Standard to the IMO.
AASB 1053	*Application of Tiers of Australian Accounting Standards* This Standard establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements. There is no financial impact resulting from the application of this Standard to the IMO.
AASB 2010-2	*Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052]* This Standard makes amendments to *Australian Accounting Standards* and *Interpretations* to introduce reduced disclosure requirements for certain types of entities. There is no financial impact resulting from the application of this Standard to the IMO.
AASB 2011-2	*Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements [AASB 101 & 1054]* This Standard removes disclosure requirements from other Standards and incorporates them in a single Standard to achieve convergence between Australian and New Zealand Accounting Standards for reduced disclosure reporting. There is no financial impact resulting from the application of this Standard to the IMO.
AASB 2011-8	*Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009-11, 2010-7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132]* This Standard replaces the existing definition and fair value guidance in other *Australian Accounting Standards* and *Interpretations* as the result of issuing *AASB 13 – Fair Value Measurement* in September 2011. There is no financial impact resulting from the application of this Standard to the IMO.
AASB 2011-10	*Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) [AASB 1, 8, 101, 124, 134, 1049 & 2011-8 and Interpretation 14]* This Standard makes amendments to other *Australian Accounting Standards* and *Interpretations* as a result of issuing *AASB 119 - Employee Benefits* in September 2011. The resultant discounting of annual leave liabilities that were previously measured at the undiscounted amounts is not material.
AASB 2011-11	*Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements* This Standard gives effect to *Australian Accounting Standards – Reduced Disclosure Requirements* for *AASB 119 – Employee Benefits* (September 2011). There is no financial impact resulting from the application of this Standard to the IMO.

Note 1: Summary of Significant Accounting Policies (continued)

(x) Initial Application of an Australian Accounting Standard (continued)

AASB 2012-1	*Amendments to Australian Accounting Standards - Fair Value Measurement - Reduced Disclosure Requirements [AASB 3, 7, 13, 140 & 141]* This Standard establishes and amends reduced disclosure requirements for additional and amended disclosures arising from *AASB 13 – Fair Value Measurement* and the consequential amendments implemented through *AASB 2011-8*. There is no financial impact resulting from the application of this Standard to the IMO.
AASB 2012-2	*Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities [AASB 7 & 132]* This Standard amends the required disclosures in *AASB 7 – Financial Instruments: Disclosures* to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. There is no financial impact resulting from the application of this Standard to the IMO.
AASB 2012-5	*Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle [AASB 1, 101, 116, 132 & 134 and Interpretation 2]* This Standard makes amendments to the *Australian Accounting Standards* and *Interpretations* as a consequence of the annual improvements process. There is no financial impact resulting from the application of this Standard to the IMO.
AASB 2012-6	*Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures [AASB 9, 2009-11, 2010-7, 2011-7 & 2011-8]* This Standard amends the mandatory effective date of *AASB 9 - Financial Instruments* to 1 January 2015 (instead of 1 January 2013). Further amendments are also made to numerous consequential amendments arising from *AASB 9* that will now apply from 1 January 2015. There is no financial impact resulting from the application of this Standard to the IMO.
AASB 2012-7	*Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 7, 12, 101 & 127]* This Standard adds to or amends the *Australian Accounting Standards* to provide further information regarding the differential reporting framework and the two tiers of reporting requirements for preparing general financial statements. There is no financial impact resulting from the application of this Standard to the IMO.
AASB 2012-9	*Amendment to AASB 1048 arising from the withdrawal of Australian Interpretation 1039* The withdrawal of *Interpretation 1039 – Substantive Enactment of Major Tax Bills in Australia* has no financial impact for the IMO during the reporting period and at balance date.
AASB 2012-10	*Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments [AASB 1, 5, 7, 8, 10, 11, 12, 13, 101, 102, 108, 112, 118, 119, 127, 128, 132, 133, 134, 137, 1023, 1038, 1039, 1049 & 2011-7 and Interpretation 12]* The Standard introduces a number of editorial alterations and amends the mandatory application date of Standards for not for profit entities accounting for interests in other entities. There is no financial impact resulting from the application of this Standard to the IMO.
AASB 2012-11	*Amendments to Australian Accounting Standards – Reduced Disclosure Requirements and Other Amendments [AASB 1, 2, 8, 10, 107, 128, 133, 134 & 2011-4]* This Standard makes various editorial corrections to *Australian Accounting Standards – Reduced Disclosure Requirements (Tier 2)*. These corrections ensure that the Standards reflect decisions of the AASB regarding the Tier 2 requirements. This Standard also extends the relief from consolidation and the equity method (in the new Consolidation and Joint Arrangements Standards) to entities complying with Australian *Accounting Standards – Reduced Disclosure Requirements*. There is no financial impact resulting from the application of this Standard to the IMO.

Note 1: Summary of Significant Accounting Policies (continued)

(x) Initial Application of an Australian Accounting Standard (continued)

AASB 2013-9	*Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* Part A of this omnibus Standard makes amendments to other Standards arising from revisions to the Australian Accounting Conceptual Framework for periods ending on or after 20 December 2013. Other Parts of this Standard become operative in later periods. There is no financial impact resulting from the application of Part A of the Standard to the IMO.

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

The IMO has not applied early any of the following *Australian Accounting Standards* that have been issued that may impact the IMO. Where applicable, the IMO plans to apply these *Australian Accounting Standards* from their application date.

		Operative for reporting periods beginning on/after
Interpretation 21	*Levies* This Interpretation clarifies the circumstances under which a liability to pay a government levy imposed is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a constructive obligation. There is no financial impact for the IMO at reporting date.	1 Jan 2014
AASB 9	*Financial Instruments* This Standard supersedes *AASB 139 – Financial Instruments: Recognition and Measurement,* introducing a number of changes to accounting treatments. The mandatory application date of this Standard was amended to 1 January 2018 (issued February 2014). The IMO has not yet determined the application or the potential financial impact of the Standard.	1 Jan 2018
AASB 1031	*Materiality* This Standard is an interim standard cross-referencing definitions of 'materiality' in other Standards and the Framework (issued December 2013) that contain guidance on materiality. It will remain operative until references to *AASB 1031* are removed from other Standards and Interpretations upon which *AASB 1031* will then be withdrawn. There is no financial impact for the IMO.	1 Jan 2014
AASB 1055	*Budgetary Reporting* This Standard specifies the nature of budgetary disclosures, the circumstances in which they are to be included in the general purpose financial statements of not-for-profit entities within the General Government Sector. The IMO will be required to disclose additional budgetary information and explanations of major variances between actual and budgeted amounts, though there is no financial impact.	1 Jul 2014
AASB 2009-11	*Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]* [Modified by *AASB 2010-7*]	1 Jan 2015

Note 1: Summary of Significant Accounting Policies (continued)

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

		Operative for reporting periods beginning on/after
AASB 2010-7	*Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]* This Standard makes consequential amendments to other *Australian Accounting Standards* and *Interpretations* as a result of issuing *AASB 9 - Financial Instruments* in December 2010. *AASB 2012-6* amended the mandatory application date of this Standard to 1 January 2015. The IMO has not yet determined the application or potential financial impact of the Standard.	1 Jan 2015
AASB 2012-3	*Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities [AASB 132]* This Standard adds application guidance to *AASB 132 – Financial Instruments: Presentation* to address inconsistencies identified in applying some of the offsetting criteria, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The IMO has not yet determined the application or the potential financial impact of the Standard.	1 Jan 2014
AASB 2013-3	*Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets* This Standard introduces editorial changes and amends disclosure requirements in *AASB 136 – Impairment of Assets*. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. There is no financial impact for the IMO.	1 Jan 2014
AASB 2013-9	*Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* This omnibus Standard makes amendments to other Standards arising from the deletion of references to *AASB 1031 – Materiality* in other Standards for periods beginning on or after 1 January 2014 (Part B) and defers the application of *AASB 9 – Financial Instruments* to 1 January 2015 (Part C). The IMO has not yet determined the application or potential financial impact of *AASB 9*.	1 Jan 2015

Note 2: User Charges and Fees

	2014 $000	2013 $000
Regulatory charge – registration fees	4	6
Regulatory charge – market fees	16,441	16,077
Regulatory charge – GSI fees	2,250	-
	18,695	**16,083**

Note 3: Interest Revenue

	2014 $000	2013 $000
Interest received from bank	199	70
	199	**70**

Note 4: Other Income

	2014 $000	2013 $000
Market Participant training	11	8
Other revenue	7	25
	18	**33**

Note 5: Employee Benefits Expense

	2014 $000	2013 $000
Wages and salaries (a)	5,569	5,122
Superannuation - defined contribution plans (b)	499	439
Superannuation - defined benefit plans (Note 21 'Provisions')	98	96
Annual leave (c)	57	129
Long service leave (c)	169	(62)
	6,392	**5,724**

(a) Includes value of the fringe benefit to the employee plus the fringe benefits tax component.
(b) Defined contribution plans include West State, Gold State, GESBS and other eligible funds.
(c) Includes a superannuation contribution component.

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

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

Note 6: Depreciation and Amortisation Expense

	2014 $000	2013 $000
Depreciation		
Computer equipment	173	153
Office fit-out	114	139
Furniture and fittings	46	36
Total depreciation	**333**	**328**
Amortisation		
Computer software	3,578	2,922
GBB software	451	-
Total amortisation	**4,029**	**2,922**
Total depreciation and amortisation expense	**4,362**	**3,250**

Note 7: Supplies and Services

	2014 $000	2013 $000
Communications and data processing costs	308	348
Consultants and contractors:		
- market system maintenance and support	1,722	1,331
- obligations under Market Rules (a)	917	703
- corporate IT maintenance and support (b)	630	489
- ERA GST issue (c)	-	150
- other	496	771
Recruitment costs	56	169
Other	699	625
	4,828	**4,586**

Note 7: Supplies and Services (continued)

a) Costs of activities undertaken as part of the Market Rules.

(b) Additional expenditure in 2014 reflecting increased support and security vulnerability testing for the GBB.

(c) Professional costs incurred from Ernst & Young accountants in regards to advice provided on the treatment of GST on the Market, Regulator and System Operator Fee components in relation to invoicing the Economic Regulation Authority (ERA) and preparation of a submission to the Australian Taxation Office (ATO) for a private ruling in 2012/13.

Note 8: Advertising Expense

	2014 $000	2013 $000
Advertising staff vacancies	-	1
Advertising general	7	7
	7	**8**

Note 9: Accommodation Expense

Lease rental	625	503
Car bay rental	65	57
Electricity	38	25
Repairs and maintenance	26	3
Cleaning and security	16	15
	770	**603**

Note 10: Finance Costs

Interest expense	647	889
Borrowing costs capitalised (a)	(21)	(70)
Finance costs expensed	**626**	**819**

(a) Borrowing costs in relation to the loans taken out to finance the GISP project, upon which were capitalised when the project went live on 1 August 2013.

Note 11: Other Expenses

Software maintenance	207	89
Repairs and maintenance	3	6
Training	188	130
Other	94	64
	492	**289**

Note 12: Loss on Disposal of Non-Current Assets

	2014 $000	2013 $000
Loss on disposal of non-current assets	12	6
	12	**6**

Note 13: Cash and Cash Equivalents

Cash at bank	5,240	748
Cash at bank – Market settlement default (a)	6,559	-
	11,799	**748**

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

Note 14: Trade and Other Receivables

Current		
Trade receivables	-	1
Other receivables	3	3
GST receivable - ATO	100	208
Accrued revenue	3,418	2,538
	3,521	**2,750**

Note 15: Other Current Assets

Current		
GST reimbursement from Market Participants (a)	83	500
Prepayments	224	125
	307	**625**

(a) This balance will be fully recouped from Market Participants through market fees in August 2014. 2012/13 balance corresponds to offsetting liability – see Note 20 ('GST reimbursement to ATO').

Note 16: Plant and Equipment

PLANT AND EQUIPMENT		
Computer equipment		
At cost	1,168	1,079
Accumulated depreciation	(601)	(501)
	567	**578**
Office fit-out		
At cost	1,136	1,137
Accumulated depreciation	(204)	(95)
	932	**1,042**
Furniture and fittings		
At cost	283	274
Accumulated depreciation	(80)	(34)
	203	**240**

Note 16: Plant and Equipment (continued)

	2014 $000	2013 $000
Total		
At cost	2,587	2,490
Accumulated depreciation	(885)	(630)
	1,702	**1,860**

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

	Computer equipment $000	Office fit-out $000	Furniture and fittings $000	Total $000
2014				
Carrying amount at start of year	578	1,042	240	1,860
Additions	174	4	9	187
Disposals at net book value	(12)	-	-	(12)
Depreciation	(173)	(114)	(46)	(333)
Carrying amount at end of year	**567**	**932**	**203**	**1,702**
2013				
Carrying amount at start of year	487	155	48	690
Additions	244	1,026	234	1,504
Disposals at net book value	-	-	(6)	(6)
Depreciation	(153)	(139)	(36)	(328)
Carrying amount at end of year	**578**	**1,042**	**240**	**1,860**

There were no indications of impairment of plant and equipment as at 30 June 2014.

Note 17: Intangible Assets

	2014 $000	2013 $000
INTANGIBLES		
Computer Software		
At cost	30,689	27,306
Accumulated amortisation	(18,819)	(15,241)
	11,870	**12,065**
Reconciliation:		
Carrying amount at start of year	12,065	3,120
Additions	3,383	11,867
Amortisation expense	(3,578)	(2,922)
Carrying amount at end of year	**11,870**	**12,065**

Note 17: Intangible Assets (continued)

	2014 $000	2013 $000
GBB Software		
At cost	2,741	-
Accumulated amortisation	(451)	-
	2,290	**-**
Reconciliation:		
Carrying amount at start of year transferred from WIP - GISP (a)	2,254	-
Additions	487	-
Amortisation expense	(451)	-
Carrying amount at end of year	**2,290**	**-**
Work in progress – GISP (a)		
At cost	-	2,254
	-	**2,254**
Reconciliation:		
Carrying amount at start of year	2,254	-
Additions	-	2,254
Capitalised to GBB software	(2,254)	-
Carrying amount at end of year	**-**	**2,254**
Work in progress – Market Rule Changes DSP (b)		
At cost	-	763
	-	**763**
Reconciliation:		
Carrying amount at start of year	763	-
Additions	-	763
Capitalised to computer software	(763)	-
Carrying amount at end of year	**-**	**763**
Work in progress – MSGP/MSGPI Replacement (c)		
At cost	-	393
	-	**393**
Reconciliation:		
Carrying amount at start of year	393	-
Additions	-	393
Capitalised to computer software	(393)	-
Carrying amount at end of year	**-**	**393**
Work in progress – Data Provision (d)		
At cost	-	107
	-	**107**
Reconciliation:		
Carrying amount at start of year	107	-
Additions	-	107
Capitalised to computer software	(107)	-
Carrying amount at end of year	**-**	**107**

Note 17: Intangible Assets (continued)

	2014 $000	2013 $000
Work in progress – WEMS CAST (e)		
At cost	87	-
	87	**-**
Reconciliation:		
Carrying amount at start of year	-	-
Additions	87	-
Carrying amount at end of year	**87**	**-**
Work in progress – WEMS CAST Infrastructure (f)		
At cost	59	-
	59	**-**
Reconciliation:		
Carrying amount at start of year	-	-
Additions	59	-
Carrying amount at end of year	**59**	**-**
Total		
At cost	33,576	30,823
Accumulated depreciation	(19,270)	(15,241)
	14,306	**15,582**

(a) The Gas Information Services Project was completed in the current financial year and the work in progress balance from the previous year was capitalised and is depreciated over the financial years 2013/14 to 2018/19.

(b) The Market Rule Change DSP project was completed in the current financial year and the work in progress balance from the previous year was capitalised and is depreciated over the financial years 2013/14 to 2018/19.

(c) The MSGP/MSGPI Replacement project was completed in the current financial year and the work in progress balance from the previous year was capitalised and is depreciated over the financial years 2013/14 to 2018/19.

(d) The initial phase of the Data Provision project was completed in the current financial year, the work in progress balance from the previous year was capitalised on 1 February 2014 and is depreciated over the financial years 2013/14 to 2018/19. The next phase expenditure will be depreciated over the financial years 2014/15 to 2020/21, with the completed program having an effective implementation date 30 June 2016.

(e) The WEMS Compliance and Surveillance Tools (CAST) emerged during the year as a new IT project to examine raw WEMS data that will deliver additional functionality and will allow the compliance team to actively monitor WEM activities. In line with the established practice, expenditure on the WEMS CAST will be capitalised and will be depreciated over the financial years 2014/15 to 2018/19, with the effective implementation date 1 March 2015.

(f) The WEMS CAST Infrastructure emerged during the year as a new IT project necessary to create infrastructure to support a controlled aggregation of WEMS and Settlements data for improved reporting and data transparency. In line with the established practice, expenditure on the WEMS CAST Infrastructure will be capitalised and will be depreciated over the financial years 2014/15 to 2018/19, with the effective implementation date 1 October 2014.

There were no indications of impairment to intangible assets as at 30 June 2014.

Note 18: Trade and Other Payables

	2014 $000	2013 $000
Current		
Trade payables	997	679
Accrued expenses	165	444
Accrued salaries	163	130
	1,325	**1,253**

Note 19: Borrowings

Current		
Western Australian Treasury Corporation loan	4,805	3,479
Non-Current		
Western Australian Treasury Corporation loan	10,137	12,944
	14,942	**16,423**

Financing Arrangements

IMO has access to the following Lines of Credit:

Total facilities available:		
Liquid facility and direct borrowings (a)	14,867	16,538
	14,867	**16,538**
Facilities utilised at the end of the reporting period:		
Liquid facility and direct borrowings	14,942	16,423
	14,942	**16,423**
Total facilities (utilised)/not utilised at the end of the reporting period:		
Liquid facility and direct borrowings	(75)	115
	(75)	**115**

At reporting date, IMO has an approved financing facility debt ceiling from Western Australian Treasury Corporation for 2015 of $12.505 million.

(a) Total facility available is based on the Western Australian Government approved budget debt ceiling although the total facility available under the Master Lending Agreement is higher. The outstanding amount is $75,000 higher than the Net Debt Ceiling; however this was not breached as amounts due on 1 July 2014 of $117,000 were paid on 25 June 2014. Refer to Note 15 for prepaid interest.

(i) Master Lending Agreement (MLA)

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

Note 19: Borrowings (continued)

(ii) Significant terms and conditions

Direct borrowings comprise of:

Original Principal ($000)	Fixed/Variable Interest	Settlement Date	Effective Interest Rate
345	Fixed	April 2015	5.67%
958	Fixed	July 2022	3.86%
500	Fixed	December 2017	3.40%
500	Fixed	January 2018	3.40%
420	Fixed	April 2018	3.49%
300	Fixed	May 2018	3.16%
504	Fixed	May 2018	3.21%
329	Fixed	June 2016	3.16%
914	Fixed	December 2016	3.25%
2,432	Fixed	June 2017	3.34%
1,961	Fixed	December 2016	3.25%
1,091	Fixed	June 2017	3.34%
3,684	Fixed	June 2016	3.16%
750	Fixed	July 2018	3.40%
2,348	Fixed	July 2018	3.15%
720	Fixed	September 2018	3.49%
500	Fixed	November 2018	3.57%
500	Fixed	December 2018	3.49%
316	Fixed	March 2019	3.34%
88	Fixed	May 2019	3.36%
613	Fixed	May 2019	3.36%

Note 20: Other Liabilities

	2014 $000	2013 $000
Current		
Amounts due to Market Participants (a)	3,761	120
Market settlement default (b)	6,559	-
Receipts in advance	-	2
GST reimbursement to ATO (c)	227	500
Lease incentive liability (d)	85	85
Market Participants prudential security (e)	52	-
	10,684	**707**
Non-Current		
Lease incentive liability (d)	617	702
	617	**702**
	11,301	**1,409**

(a) Relates to amounts paid by Market Participants in advance for future settlements that are not yet applied as at 30 June 2014.

(b) This is the relinquishing of a security deposit by a Market Participant as compensation to the market for failing to operate a facility in accordance with clause 4.13.11 of the Market Rules. This is due to be returned back to the Market Participants in November 2014.

Note 20: Other Liabilities (continued)

(c) The IMO received from the Commissioner of Taxation, a GST private ruling which covered amongst other things, the treatment of GST in relation to the payment of the Market Participant Fee (comprising the Market Fee, Regulator Fee and the System Operator Fee) by Market Participants to the IMO and the creditable acquisitions, that could be made to the Economic Regulation Authority (ERA) by the IMO, in relation to the Regulator's Fees. The ruling requires the IMO to refund excess GST monies collected from the ERA, giving rise to a liability of $227,298 (2013: $499,551) at 30 June 2014, that is due to be repaid by monthly amounts and is subject to general interest charges, accruing at the ATO interest rate of 9.82%. Corresponds to offsetting asset – see Note 15 ('GST reimbursement from Market Participants'). This is to be repaid to the ATO through market fees recouped from Market Participants.

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

(e) Relates to an amount received by the IMO from a market participant for an additional credit support security deposit which had not yet been transferred to their cash deposit account as at 30 June 2014. This was subsequently transferred to their cash deposit account on 1 July 2014.

Note 21: Provisions

	2014 $000	2013 $000
Current		
Employee benefits provision		
Annual leave (a)	200	175
Long service leave (b)	86	30
	286	**205**
Other provisions		
Employment on-costs (c)	46	33
	46	**33**
	332	**238**
Non-Current		
Employee benefits provision		
Long service leave (b)	237	177
	237	**177**
Other provisions		
Employment on-costs (c)	39	29
	39	**29**
	276	**206**
	608	**444**

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

Within 12 months of the end of the reporting period	200	168
More than 12 months after the end of the reporting period	-	7
	200	**175**

Note 21: Provisions (continued)

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

	2014 $000	2013 $000
Within 12 months of the end of the reporting period	86	30
More than 12 months after the end of the reporting period	237	177
	323	**207**

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

Movements in Other Provisions

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

Employment On-Cost Provision		
Carrying amount at start of year	62	64
Additional provisions recognised	23	-
Payments of economic benefits	-	(2)
Carrying amount at end of year	**85**	**62**

Note 22: WEM and GSI Accumulated Surplus

WEM Accumulated Surplus

In the WEM the Market Rules provide the methodology for establishing the market fee rate that the IMO is allowed to charge to recover costs for services provided. In situations where the market fees in the previous financial year are greater than or (less than) the IMO's expenditure for that financial year, there is an adjustment to decrease/(increase) the revenue requirements by the amount of any surplus or increase the revenue requirements by the amount of any deficit.

WEM Accumulated Surplus		
Balance at start of year	281	(620)
Transfer from accumulated surplus	979	901
Balance at end of year	**1,260**	**281**

GSI Accumulated Surplus

The costs of the IMO to provide Gas Services Information to Market Participants are recovered by direct invoicing to Market Participants. In situations where the costs in the previous financial year exceed the charge to Market Participants this loss is recovered in subsequent years through an increase in revenue requirements. If the costs in the previous financial year are less than the charge to Market Participants this surplus is returned in subsequent years through decreased revenue requirements.

GSI Accumulated Surplus		
Balance at start of year	-	-
Transfer from accumulated surplus	444	-
Balance at end of year	**444**	**-**

Note 23: Equity

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

Note 24: Notes to the Statement of Cash Flows

(a) Reconciliation of cash

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

	2014 $000	2013 $000
Cash and cash equivalents	**11,799**	**748**

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

Surplus for the period	**1,423**	**901**
Non-cash items:		
Depreciation and amortisation expense (Note 6)	4,362	3,250
Rent expense	-	406
Loss on disposal of non-current assets (Note 12)	12	6
(Increase)/decrease in assets:		
Trade and other receivables	(879)	(397)
Other assets	(99)	(625)
Market settlement default	6,559	-
Prepaid amounts from Market Participants	3,761	-
GST payable/(receivable)	25	(165)
Increase/(decrease) in liabilities:		
Trade and other payables	39	(377)
Provisions	164	(68)
Other liabilities	105	(1,122)
Net cash provided by operating activities	**15,472**	**1,809**

Non-cash financing and investing activities

IMO does not have any non-cash financing and investing activities during the reporting period (2013: Nil).

Note 25: Commitments

Non-Cancellable Operating Lease Commitments

Commitments for minimum lease payments are payable as follows:

Within 1 year	523	499
Later than 1 year and not later than 5 years	1,264	1,787
	1,787	**2,286**

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

The commitments below are inclusive of GST.

Other Expenditure Commitments

Other expenditure commitments contracted for at the end of the reporting period but not recognised as liabilities, are payable as follows:

Within 1 year	65	90
	65	**90**

Note 26: Events Occurring After the End of the Reporting Period

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

Note 27: Financial Instruments

(a) Financial Risk Management Objectives and Policies

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

Credit Risk

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

The maximum exposure to credit risk at the end of the reporting period, in relation to each class of recognised financial assets, is the gross carrying amount of those assets, inclusive of any allowance for impairment, as shown in the table at Note 27(c) 'Financial Instruments Disclosures' and Note 14 'Trade and Other Receivables'.

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

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

Liquidity Risk

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

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

The IMO manages this risk through the following mechanisms:

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

Market Risk

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

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

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

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

Other than as detailed in the interest rate sensitivity analysis table at Note 27(c), the IMO is not exposed to interest rate risk.

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

Note 27: Financial Instruments (continued)

(b) Categories of Financial Instruments

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

	Note	2014 $000	2013 $000
Financial Assets			
Cash and cash equivalents	13	11,799	748
Receivables (a)	14	3,421	2,542
Total financial assets		**15,220**	**3,290**
Financial Liabilities			
Trade and other payables	18	1,325	1,253
Borrowings	19	14,942	16,423
Total financial liabilities		**16,267**	**17,676**

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

(c) Financial Instrument Disclosures

Credit risk

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

The IMO does not hold any collateral as security or other credit enhancement relating to the financial assets it holds nor does the IMO hold any financial assets that had to have their terms renegotiated that would have otherwise resulted in them being past due or impaired.

			Ageing analysis of financial assets Past due but not impaired					
	Carrying Amount $000	Not past due and not impaired $000	Up to 1 month $000	1-3 months $000	3 months to 1 year $000	1-5 years $000	More than 5 years $000	impaired financial assets $000
2014								
Cash and cash equivalents	11,799	11,799	-	-	-	-	-	-
Receivables (a)	3,421	3,418	-	-	-	3	-	-
	15,220	**15,217**	**-**	**-**	**-**	**3**	**-**	**-**
2013								
Cash and cash equivalents	748	748	-	-	-	-	-	-
Receivables (a)	2,542	2,538	-	-	4	-	-	-
	3,290	**3,286**	**-**	**-**	**4**	**-**	**-**	**-**

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

Note 27: Financial Instruments (continued)

(c) Financial Instrument Disclosures (continued)

Liquidity risk and interest rate exposure

The following table details the IMO's interest rate exposure and the contractual maturity analysis of financial assets and financial liabilities. The maturity analysis section includes interest and principal cash flows. The interest rate exposure section analyses only the carrying amounts of each item.

Interest rate exposure and maturity analysis of financial assets and financial liabilities

	Interest rate exposure						Maturity dates				
	Weighted Average Effective Interest Rate	Carrying Amount	Fixed Interest Rate	Variable Interest Rate	Non-Interest Bearing	Nominal Amount	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
2014	%	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Financial Assets											
Cash and cash equivalents	2.52	11,799	6,559	5,239	1	11,799	5,240	-	6,559	-	-
Receivables (a)	N/A	3,421	-	-	3,421	3,421	-	-	-	-	-
		15,220	**6,559**	**5,239**	**3,422**	**15,220**	**5,240**	**-**	**6,559**	**-**	**-**
Financial Liabilities											
Payables	N/A	1,325	-	-	1,325	1,325	-	-	-	-	-
Borrowings	3.33	14,942	14,942	-	-	14,942	401	803	3,601	9,842	295
		16,267	**14,942**	**-**	**1,325**	**16,267**	**401**	**803**	**3,601**	**9,842**	**295**
2013											
Financial Assets											
Cash and cash equivalents	2.50	748	-	747	1	748	748	-	-	-	-
Receivables (a)	N/A	2,542	-	-	2,542	2,542	-	-	-	-	-
		3,290	**-**	**747**	**2,543**	**3,290**	**748**	**-**	**-**	**-**	**-**
Financial Liabilities											
Payables	N/A	1,253	-	-	1,253	1,253	-	-	-	-	-
Borrowings	3.29	16,423	13,535	2,888	-	16,423	358	699	3,176	11,799	391
		17,676	**13,535**	**2,888**	**1,253**	**17,676**	**358**	**699**	**3,176**	**11,799**	**391**

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

Note 27: Financial Instruments (continued)

(c) Financial Instrument Disclosures (continued)

Interest rate sensitivity analysis

The following table represents a summary of the interest rate sensitivity of the IMO's financial assets and liabilities at the end of the reporting period on the surplus for the period and equity for a 1% change in interest rates. It is assumed that the change in interest rates is held constant throughout the reporting period.

	Carrying amount	-100 basis points		+100 basis points	
		Surplus	Equity	Surplus	Equity
2014	$000	$000	$000	$000	$000
Financial Assets					
Cash and cash equivalents	11,799	(118.0)	(118.0)	118.0	118.0
Total (decrease)/increase		**(118.0)**	**(118.0)**	**118.0**	**118.0**
2013					
Financial Assets					
Cash and cash equivalents	748	(7.5)	(7.5)	7.5	7.5
Total (decrease)/increase		**(7.5)**	**(7.5)**	**7.5**	**7.5**

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

Fair value

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

Note 28: Remuneration of Members of the Accountable Authority and Senior Officers

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

Note 29: Auditors' Remuneration

	2014 $000	2013 $000
Remuneration paid or payable to the Auditor General in respect of the audit for the current financial year is as follows:		
Auditing the accounts and financial statements	**26**	**24**

Note 30: Bank Security Deposits and Guarantees

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

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

<u>Bank Security Deposits</u>

The security deposits are held on trust by the IMO and are not the IMO's monies, although the IMO has the conditional right to draw on the funds as disclosed above. Accordingly, the value of the security deposits which as at 30 June 2014 amounted to $7,518,272 (2013: $11,481,548) is not included in the asset values reported in the Statement of Financial Position in these financial statements.

<u>Bank Guarantees</u>

Similarly, the value of bank undertakings which as at 30 June 2014 amounted to $81,174,127 (2013: $103,413,562) is also excluded from the Statement of Financial Position.

Note 31: Contingent Liabilities and Assets

The IMO is not aware of any contingent liabilities or assets at the end of reporting period.

Note 32: Explanatory Statement

The operating result for the year was a surplus of $1,423,000 which compares to a budgeted surplus of $993,000 approved in the 2013/14 Operational Plan (an increase of $430,000). 2013/14 was the first financial year where services were provided to GSI Market Participants contributing $444,000 to the surplus result.

The IMO is required under the market rules to return or recoup operating surpluses or deficits to Market Participants via adjustments to subsequent year budget revenue requirements. A deficit operating result of $993,000 was recorded for the 2011/12 financial reporting period, which was recovered from Market Participants and is reflected in the 2013/14 operating result.

Total IMO income increased by $2,726,000 (16.8%) compared with 2012/13 reflecting the first financial year when services were provided to GSI Market Participants. The IMO market fees to GSI Market Participants were in line with the 2013/14 budget of $2,250,000 representing 12% of the increase in income.

In the WEM during the reporting period, market fees were less than budget by $316,000 (1.9%), influenced by lower than forecast electricity volumes attributed to a milder summer period, year on year changes in demand and a higher than forecast uptake of rooftop solar PV. This decrease is partially offset by increased interest revenue as the IMO benefited from the provision of prepayment amounts by Market Participants as security.

Total expenditure in the year was $2,204,000 (14.4%) higher than 2012/13. Additional expenditure of $1,806,000 was incurred for the first year of services to the GSI Market Participants. In relation to the WEM, expenditure increased by $398,000 (2.6%) from 2012/13.

Total IMO expenditure was under budget by $576,000 (3.2%). The main factor for the reduced expenditure compared to budget was lower than budgeted Supplies and Services of $294,000 from a reduced level of consultancy engagements and lower than budgeted levels of expenditure for recruitment, legal and travel.

The under budget delivery of the Gas Information Services Project resulted in lower than budgeted Depreciation and Amortisation expense and Finance costs of $154,000 and $106,000 respectively. Accommodation expenses were $48,000 lower than budget due to the allocation of the lease incentive amortisation. The budget underspend was offset by higher than budgeted expenditure for Employee Benefits expense of $26,000 related to leave entitlement provisions.

The operating surplus result of $1,423,000 for the year compares favourably with the 2012/13 surplus of $901,000.

Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Parliament of Western Australia

INDEPENDENT MARKET OPERATOR

I have audited the financial report of the Independent Market Operator. The financial report comprises the Statement of Financial Position as at 30 June 2014, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, Notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Independence

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

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Opinion

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

(a) giving a true and fair view of the Independent Market Operator's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

(b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of the Independent Market Operator for the year ended 30 June 2014 included on the Independent Market Operator's website. The Independent Market Operator's management is responsible for the integrity of the Independent Market Operator's website. This audit does not provide assurance on the integrity of the Independent Market Operator's website. The auditor's report refers only to the financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from this financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

DON CUNNINGHAME
ASSISTANT AUDITOR GENERAL FINANCIAL AUDIT
Delegate of the Auditor General for Western Australia
Perth, Western Australia
19 September 2014

INDEPENDENT MARKET OPERATOR

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Annual Report 2013/14

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