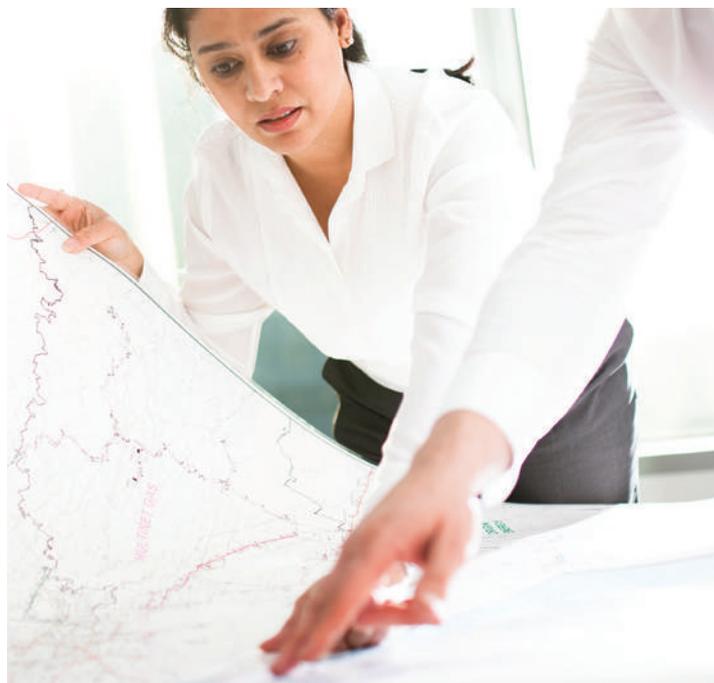
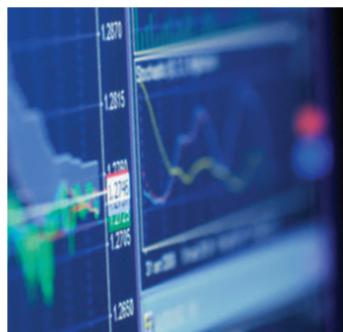


Engaging, responding
and adapting to changing
energy markets.



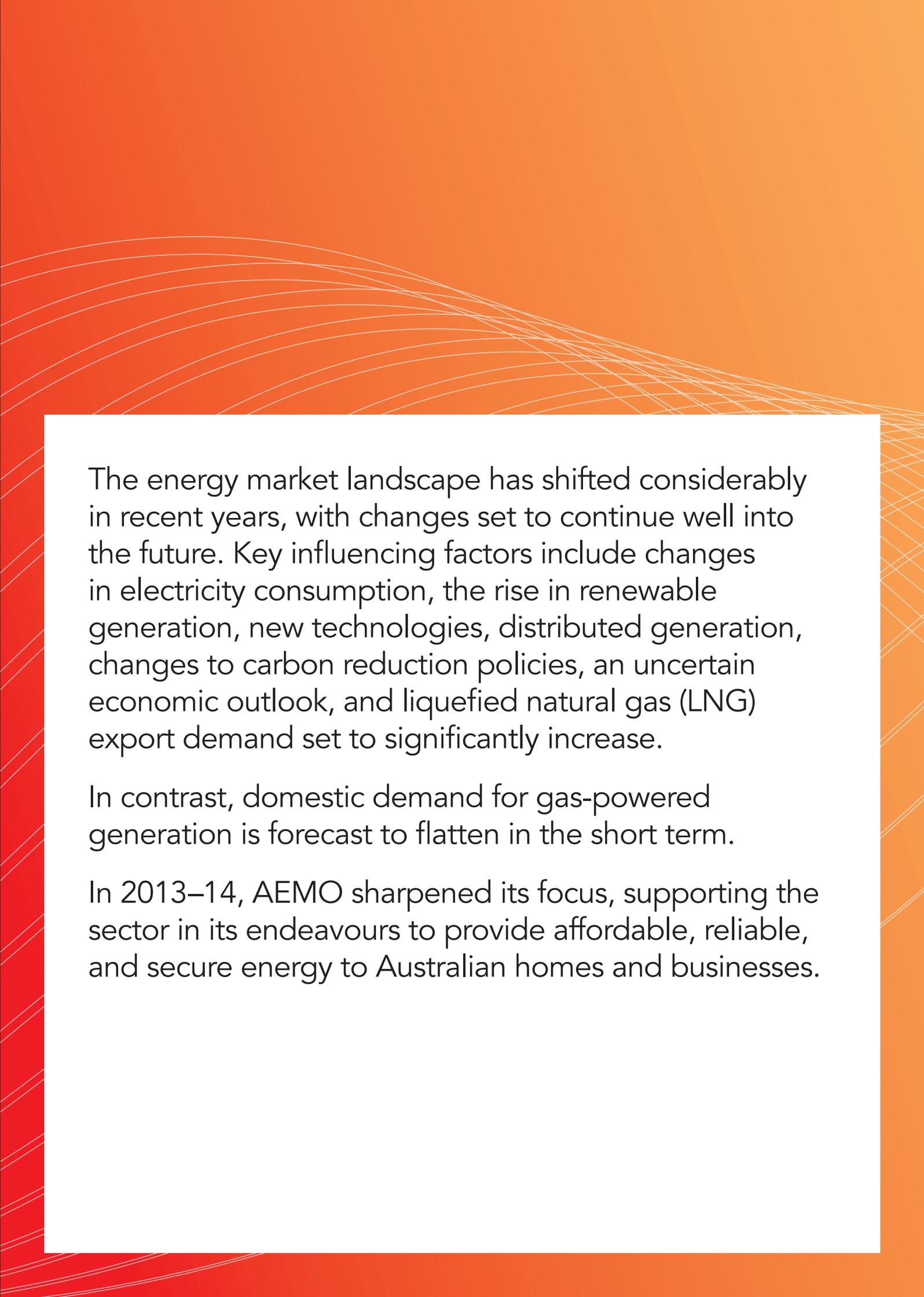
Australian Energy Market Operator
2014 Annual Report



2014

Australia's energy industry is facing some of its greatest challenges and uncertainty to date, with unprecedented interest in the public domain.





The energy market landscape has shifted considerably in recent years, with changes set to continue well into the future. Key influencing factors include changes in electricity consumption, the rise in renewable generation, new technologies, distributed generation, changes to carbon reduction policies, an uncertain economic outlook, and liquefied natural gas (LNG) export demand set to significantly increase.

In contrast, domestic demand for gas-powered generation is forecast to flatten in the short term.

In 2013–14, AEMO sharpened its focus, supporting the sector in its endeavours to provide affordable, reliable, and secure energy to Australian homes and businesses.

Your guide to this annual report

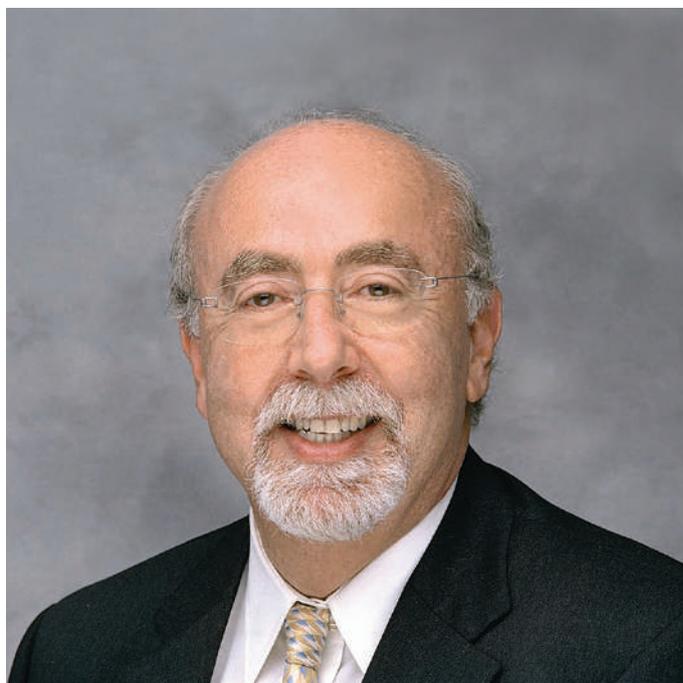


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CHAIRMAN'S REPORT: Responding to the challenges ahead

“Against a challenging industry backdrop, we realise that the cornerstone to our success is that we are able to draw on the full range of our specialist skills for the benefit of Australia’s energy sector. While the coming 12 months promise considerable challenges, this presents a great opportunity for AEMO to deliver on our strategic priorities, to continue responding to energy sector needs, and to support efficient long-term investment in Australia’s energy sector.”



Australia’s energy sector continues to experience rapid transformation, and significant challenges are being addressed. To continue delivering a safe, secure, and reliable energy supply to consumers, it is imperative that our 2015 strategic priorities address the dominant market forces.

Over the next 12 months and beyond, expanding LNG exports will drive new market supply-demand dynamics in gas. A changing economy, evolving environmental policies, and market reforms will also continue to shape the energy landscape.

Australia’s energy sector is the subject of unparalleled public and media attention, and this interest is set to increase over the next year. Gas, in particular, is being closely scrutinised as it transitions from a stable, domestically focused market underpinned by long-term contracts to a more dynamic market, linked to international gas markets with associated impacts on Australian consumers.

Australia is expected to supply half the world’s LNG production growth by 2020. With this in mind, changes to Australia’s east coast gas markets must be considered against the backdrop of the growing global demand for gas. AEMO will continue to lead discussions on reforms that will drive greater transparency by providing a comprehensive picture of gas reserves and transactions within the market. AEMO will also encourage competition and liquidity in new and existing gas markets to remove barriers to participation, and support efficient allocation of gas.

In December 2014, AEMO will publish its first *National Gas Forecast Report* (NGFR). The NGFR aims to facilitate efficient gas market development by providing more granular analysis of demand through transparent regional forecasts. A key focus of the NGFR is to provide a clear link between the different drivers

Dr Thomas Parry AM
Chairman

of gas consumption and the forecasts. This will enable AEMO and industry to track the forecasts against actual consumption, allowing us to signal the need for forecast updates or capture emerging drivers early.

We will continue to provide value to industry by developing transmission connection point forecasts across the National Electricity Market (NEM) and exploring the potential to provide distribution connection point forecasts. Having successfully delivered connection point forecasts for Tasmania and New South Wales to the Australian Energy Regulator (AER) in June 2014, similar forecasts for Victoria and South Australia are due for publication later this year, followed by Queensland in 2015. These forecasts will be updated annually.

This forecasting process provides important information on local demand trends, which also inform the regional forecasts AEMO produces. The AER will use our connection point forecasts as an independent reference in regulatory determination processes. In addition, we use them to independently assess network infrastructure development requirements across the transmission system. Delivering forecasts at the connection point level together with regional demand forecasts supports decisions for efficient network development to meet demand, which should ultimately benefit consumers through improved reliability and price outcomes.

AEMO's Board farewelled Dr Mike Sargent AM and Mr Ian Fraser, who completed their second terms in November 2013. On behalf of the Board, I thank both outgoing directors for their valued contributions. Ian Fraser served as Chair of the People and Remuneration Committee, and Dr Sargent's technical input has been much appreciated throughout his tenure. We wish them both the best for the future.

We also welcome our two new non-executive directors—Mr Jon Hubbard and Ms Sibylle Krieger. Mr Hubbard brings extensive energy industry knowledge and commercial experience and Ms Krieger brings strong legal and commercial experience, an understanding of the challenges facing our industry, and extensive experience liaising with all levels of government.

I am privileged to be part of a dedicated and visionary Board rich in insights and expertise, which is well-positioned to confidently lead AEMO into the future.

On behalf of the Board, I would like to thank AEMO's Managing Director and Chief Executive Officer, Matt Zema, for his compelling leadership, and thank the entire executive team for its commitment and leadership. I would also like to acknowledge the talents and efforts of all our dedicated employees, whose contributions are enormously valued.

Against a challenging industry backdrop, we realise that the cornerstone to our success is that we are able to draw on the full range of our specialist skills for the benefit of Australia's energy sector. While the coming 12 months promise considerable challenges, this presents a great opportunity for AEMO to deliver on our strategic priorities, to continue responding to energy sector needs, and to support efficient long-term investment in Australia's energy sector.



Dr Thomas Parry AM
Chairman

CHIEF EXECUTIVE OFFICER'S REPORT: The year in review



“In responding to a transforming market environment, we recognise the need to be agile and to remain steadfast in tackling the challenges we face. AEMO remains firmly committed to implementing our 2014–15 value propositions that will ensure our continued delivery of a secure, reliable, and sustainable energy supply. I am confident 2014–15 will be another exceptional year.”

It's been another exciting and challenging year for AEMO, with the energy sector frequently making front page news in relation to policy changes and rising consumer prices.

Throughout 2013–14, AEMO continued to respond to the issues and developments facing electricity and gas markets across eastern and south-eastern Australia. The year saw a sharpened focus on the ramp-up in LNG exports, including increasing transparency of east coast gas markets; a continuing trend of declining electricity consumption; changes that arise through technological innovations; and monitoring climate change policy development.

We intensified our forecasting and modelling capabilities to better service the industry. Our *2014 National Electricity Forecasting Report* (NEFR) shows that aside from some growth in Queensland as a result of LNG projects, electricity supplied from the NEM will continue its decline by a 1.1% average annual decrease over the next three years. The key drivers for the decline include the reduction in energy-intensive industries such as the Point Henry aluminium smelter closure in Victoria; changing consumer behaviour resulting in strong growth (24% annually) in rooftop photovoltaic (PV) installations, particularly in Queensland and Victoria; and strong growth (10% annually) in total energy efficiency savings, with key contributions from air conditioning, refrigeration and electronics.

In terms of gas, AEMO continued planning ahead to address the structural shift in supply and demand in Australia's east coast gas markets. This is attributed to the developing LNG export industry, which will see total annual gas demand treble to approximately 2,182 petajoules (PJ) in the next 20 years. In response to this market dynamic, our May 2014 update to the *2013 Gas Statement of Opportunities* (GSOO) revealed a possible reduction in forecast medium-term domestic gas shortfalls, particularly in New South Wales and Queensland. It also indicated recent changes to infrastructure and demand that could influence gas-related investment on Australia's east coast.

One highlight this year was launching the Wallumbilla Gas Supply Hub, which commenced trading in March 2014. Queensland Minister for Energy and Water Supply, The Hon Mark McArdle MP, joined gas industry representatives to mark this important gas market development in Brisbane. The hub culminates two years of collaboration between AEMO and the gas industry in response to

Matt Zema
Managing Director and
Chief Executive Officer

emerging east coast gas market challenges. The voluntary market encourages greater competition and transparency of gas trading in eastern and south-eastern Australia and provides a reference point for gas prices in the longer term. Since market start, 731 terajoules (TJ) of gas have been traded. Once the current model is well established, there may be scope to develop supply hubs in other locations, such as Moomba. AEMO expects the market to evolve and reshape over the next two years to meet the changing needs of trading participants.

As part of our work in transforming east coast gas markets, AEMO commenced redevelopment of the National Gas Bulletin Board. This work will deliver a range of benefits to gas market participants including improved useability, increased commodity and capacity market liquidity, and stronger investment signals for future supply infrastructure projects.

We also implemented a new gas Supervisory Control and Data Acquisition (SCADA) system, and we are one of the first energy operators globally to consolidate gas and electricity SCADA on the same platform. This consolidation not only reduces our direct operating costs, but provides for a stable operating platform.

One of the most challenging periods encountered last year in terms of supply reliability was during January 2014, with heatwaves in Victoria and South Australia causing both states to experience near-record consumption levels. While minimum reserve levels were at times low, there was no large-scale interruption to supply. AEMO's demand forecasting system performed well during the highest demand days providing stakeholders with a clear picture of the situation throughout this period.

The success of our ongoing commitment to deliver better value to our stakeholders was reflected in our 2013 Stakeholder Survey. Overall satisfaction levels of up to 73% are broadly consistent with the previous 2009 survey. The survey confirms that AEMO is recognised as a strong performer across multiple areas by executive and operational stakeholders alike. Suggestions about how we might improve our consultation process are being explored, and this will be a focus for AEMO in the coming year.

In preparation for the anticipated repeal of the Clean Energy Act with retrospective effect from 1 July 2014, AEMO monitored market outcomes consistent with its role when the carbon price was introduced in 2012. We undertook a range of activities

to satisfy its functional requirements and manage operational challenges for market participants associated with retrospective implementation.

AEMO continued to strengthen the resilience of the energy markets by implementing an improved NEM Prudential Standard in October 2013. This better aligns market participants' collateral with the level of risk associated with their market activities. The new standard improves efficiency within the prudential framework by increasing the transparency of market arrangements, providing greater certainty for both market participants and AEMO.

AEMO's financial result for 2013–14 was an \$18.2 million deficit. This deficit was in line with budget, and resulted primarily from the return of AEMO's 2012–13 surplus in the Victorian Transmission Network Service Provider function.

Being conscious of the operating challenges our industry faces, AEMO's Board approved a 2014–15 budgeted expenditure that is \$2.2 million lower than the budget for 2013–14. We'll continue to identify efficiencies to minimise the impact of reduced demand on participant fees.

We acknowledged AEMO's fifth birthday at the end of the financial year. This gave us pause to reflect on our achievements to date, and recommit to addressing the issues facing the sector, and the challenges they present.

I would like to acknowledge the ongoing support of our Board, led by Chairman Dr Thomas Parry AM, and the commitment and resolve of our dedicated Executive Leadership Team and employees, who remain the cornerstone of our success.

In responding to a transforming market environment, we recognise the need to be agile and to remain steadfast in tackling the challenges we face. AEMO remains firmly committed to implementing our 2014–15 value propositions that will ensure our continued delivery of a secure, reliable, and sustainable energy supply. I am confident 2014–15 will be another exceptional year.



Matt Zema
Managing Director and Chief Executive Officer

OUR VISION

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

OUR MISSION

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

WE VALUE

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

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

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

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



OUR BUSINESS

Established in 2009, AEMO is an independent operator of energy markets in eastern and south-eastern Australia, working in the long-term interests of Australian energy consumers to promote efficient operation, use and investment in electricity and natural gas services.

Our role as energy market operator and planner positions us to work closely with industry and government stakeholders.

AEMO performs its functions under the National Electricity Law and Rules and the National Gas Law and Rules and operates within a broader market governance structure alongside the AER and the Australian Energy Market Commission (AEMC).

AEMO works closely with the Council of Australian Governments' (COAG) Energy Council, which has replaced the Standing Council on Energy and Resources (SCER). The COAG Energy Council comprises Commonwealth, state, and territory ministers responsible for energy and resources, and provides national leadership and coordination of energy policy development.

AEMO's ownership structure is divided between government (60%) and industry (40%). Industry members include generators, transmission companies, distribution businesses, retailers, and resource companies across the eastern and south-eastern states of Australia.

AEMO operates on a cost recovery basis as a company limited by guarantee under the Corporations Act (2001). AEMO fully recovers its operating costs through fees paid by participants.

While AEMO does not produce gas or generate electricity, we are pivotal to achieving efficient energy market outcomes. We schedule energy at the lowest price available to meet demand, while maintaining system security. We also facilitate the provision of extensive market information to stakeholders to promote transparent markets.

AEMO also provides a range of planning and forecasting services that support industry and efficient network development.

Energy markets

AEMO operates the wholesale and retail electricity and gas markets across eastern and south-eastern Australia.

This includes the NEM; the Declared Wholesale Gas Market in Victoria (DWGM); the gas Short Term Trading Market (STTM); the Wallumbilla Gas Supply Hub; and energy retail markets.

System operations

AEMO oversees the vital system operations and security of the NEM power system and the Victorian Gas Declared Transmission System (DTS).

AEMO operates the interconnected NEM power system from two control centres located in different states. Both centres operate 24 hours, 7 days a week, and are equipped with identical technology, so that electricity supply remains constant and secure, even in unexpected circumstances.

AEMO also assists the National Gas Emergency Response Advisory Committee to provide emergency management services for the entire interconnected eastern Australian gas network.

Planning and forecasting

AEMO delivers essential planning advice and independent electricity and gas forecasting to guide efficient long-term development of Australia's energy resources and infrastructure. In Victoria, AEMO works with industry to plan future developments of Victoria's transmission infrastructure, overseeing new capacity and connections to the electricity transmission system.

Energy market fast facts 2013–14

The Victorian Declared Wholesale Gas Market

232 PJ

Total annual demand in the Declared Transmission System in 2013–14 was 232 PJ

3 PJ

Annual gas-powered generation of 3 PJ

The Short Term Trading Market

The combined total annual demand for the STTM hubs of Sydney, Adelaide and Brisbane was 166 PJ. This comprised annual demand at the hub (network withdrawals) of 161 PJ and annual demand outside the hub (backhaul) of 5 PJ.

Sydney hub total annual demand



Brisbane hub total annual demand



Adelaide hub total annual demand

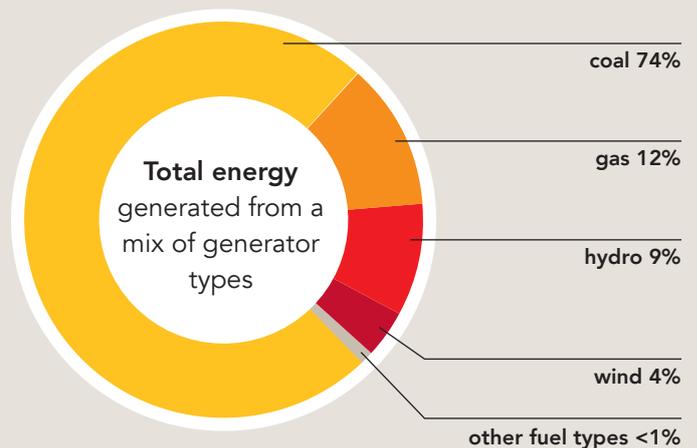


166 PJ

The National Electricity Market

The following facts relate to significant grid connected generation only.

- > Installed generating capacity of just under 50,000 megawatts (MW)
- > Supplied approximately 193 terawatt-hours (TWh) of energy from the grid
- > Total energy was generated from a mix of generator types including 74% coal, 12% gas, 9% hydro, 4% wind, <1% liquid and other fuel types.



The Wallumbilla Gas Supply Hub

211 Number
of
trades

731 TJ Terajoules
(TJ) of gas
traded

Market value traded

- > NEM: **\$10.1 billion** energy purchase value
- > DWGM: **\$925.5 million** energy purchase value
- > STTM: **\$788.2 million** energy purchase value
- > WALLUMBILLA GAS SUPPLY HUB: **\$2 million** (since market start in March 2014)

Market registered participants

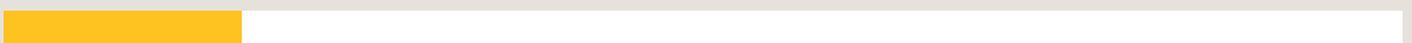
- > NEM: **205** (76 applications in 2013–14)
- > DWGM: **36** (3 applications in 2013–14)
- > STTM: **42** (4 applications in 2013–14)
- > WALLUMBILLA GAS SUPPLY HUB: (18 applications)

Number of customers transferring between retailers

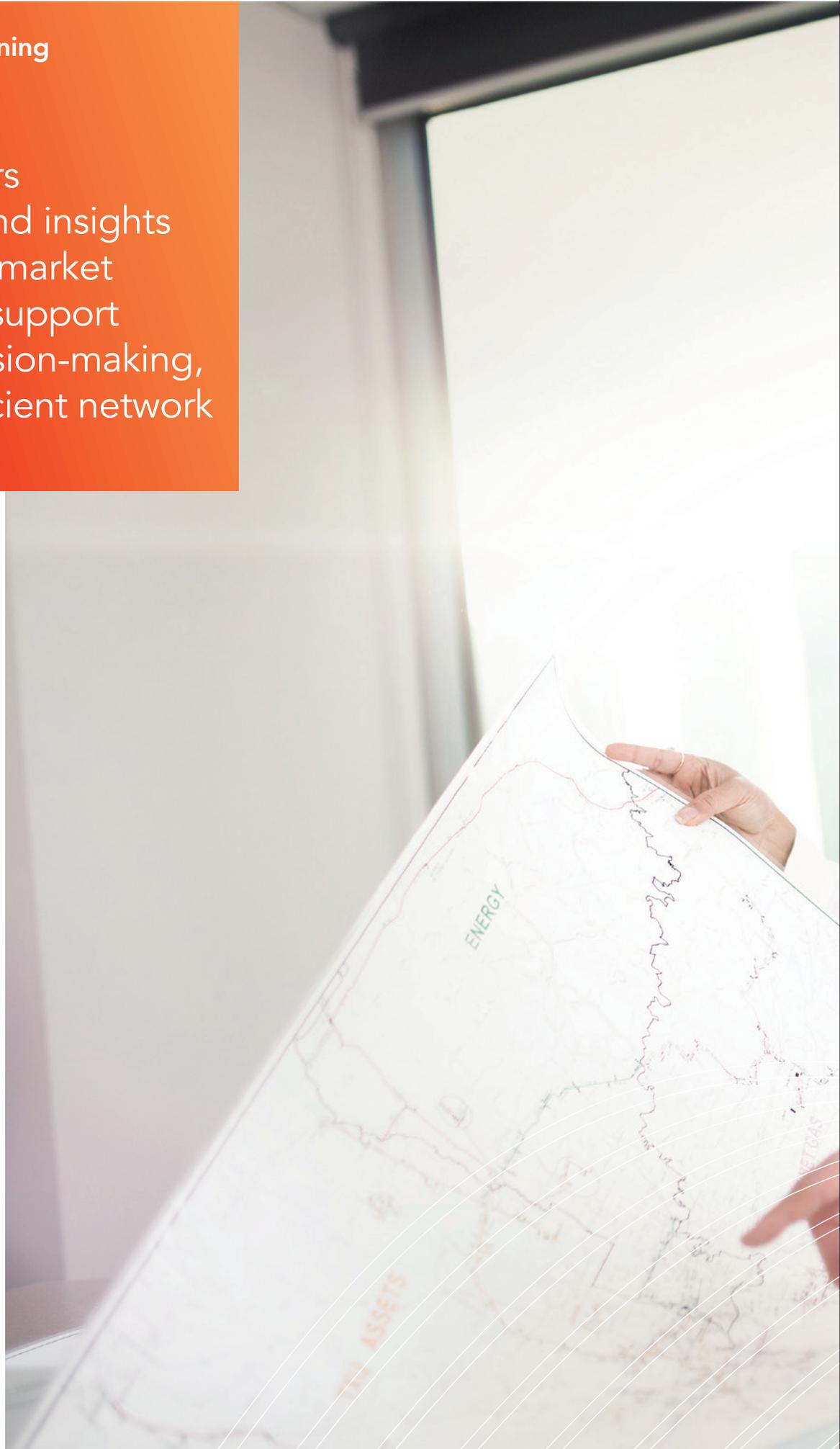
NEM 17%



GAS 19%



AEMO delivers information and insights on long-term market trends which support effective decision-making, and drive efficient network development.





Our planning services are critical to ensuring the energy market is informed of long-term trends to deliver a reliable, secure and efficient energy supply into the future.

ENERGY

AEMO produces a suite of comprehensive annual and long-term planning and forecasting reports that provide essential information to government, industry participants, regulators, and community. These reports support decision-making, competitive markets, efficient investment and operations, and network planning.

In response to changing dynamics in Australia's energy markets, AEMO is enhancing its planning publications to provide readily-accessible and transparent information and analysis to its key stakeholders. AEMO's planning functions also support investment decision-making processes to maintain efficient, reliable, and secure energy supplies in the long-term interests of energy consumers.

PLANNING

Gas market planning reviews

As part of its continuous improvement initiatives, AEMO reviewed the timing and format of all planning documents required under the National Gas Rules.

Key changes included aligning the *Gas Statement of Opportunities* (GSOO) and gas *Victorian Annual Planning Report* (VAPR) publication dates to 31 March each year, and publishing the gas VAPR every second year. The VAPR will be renamed as the Victorian Gas Planning Report, will include the most recent winter data, and will allow for stakeholder comment.

These changes were approved by the AEMC in a rule determination in April 2014.

Gas opportunities available to support booming industry

AEMO's 2013 GSOO, released in November 2013, highlighted opportunities for investment in natural gas infrastructure and the need for reserves development to address potential shortfalls in eastern and south-eastern Australia.

Gas demand for Queensland's LNG facilities is projected to rise from zero to approximately 1,450 PJ per year between 2014 and 2019. By 2033, LNG export is projected to account for 66% of total annual gas demand across eastern and south-eastern Australia.

Domestic demand is expected to grow more slowly from 2014 annual consumption of around 620 PJ to approximately 740 PJ by 2033. This incorporates a projected fall in gas-powered generation demand in the short-term due to rising gas prices and lower carbon pricing projections.

The 2013 GSOO highlights that if production in Queensland and South Australia is prioritised for export, this may result in potential shortfalls of 50–100 TJ/d in New South Wales over winter peak demand days from 2018.

“Gas demand for Queensland’s LNG facilities is projected to rise from zero to approximately 1,450 PJ per year between 2014 and 2019. By 2033, LNG export is projected to account for 66% of total annual gas demand across eastern and south-eastern Australia.”

The GSOO also identified several options to locate new supply sources in South Australia, Queensland, or New South Wales.

In addition to assessing supply adequacy, the 2013 GSOO explored several scenarios prioritising gas for LNG export and studied the impact on the domestic gas market.

AEMO published regular GSOO updates to accommodate the dynamic nature of change in the eastern and south-eastern Australian gas industry. The updates include changes to infrastructure and demand that could influence natural gas investment.

Electricity Statement of Opportunities investment outlook

Each year AEMO produces an *Electricity Statement of Opportunities* (ESOO) which analyses opportunities for generation and demand-side investment in the NEM. The ESOO is supplemented by quarterly Supply-demand Snapshots, which provide regular updates on changes to electricity consumption, and new generation developments.

AEMO’s 2013 ESOO showed no forecast reserve deficits over a 10-year outlook period in New South Wales, Victoria, South Australia, or Tasmania under medium demand growth assumptions. Queensland showed potential reserve deficits from 2019–20 under similar assumptions.

The downward trend in consumption from the grid over the last five years continued in 2013–14, trending 2.6% below forecast. This was driven by lower-than-expected consumption in the residential, industrial, and commercial sectors.

The 2013 ESOO identified over 520 MW of new large-scale generation capacity added to the NEM in 2012–13. This primarily comprised wind farms, with some coal-fired, cogeneration, and landfill gas generation.

The *May 2014 Supply-demand Snapshot* reported AEMO’s latest generator survey findings. It identified 928 MW of committed generation projects with expected commissioning dates between July 2014 and January 2016. Most of this capacity is renewable, including both large-scale solar farms and wind generation.

The survey also revealed that around 6,000 MW of previously proposed thermal generation is no longer being pursued, and 1,855 MW of thermal base-load generation is being permanently or temporarily withdrawn from service.

2014 South Australian Fuel and Technology Report

The *2014 South Australian Fuel and Technology Report* (SAFTR) released in January 2014 outlined South Australia’s range of renewable and fossil-fuelled energy resources available for electricity generation.

The SAFTR is one of the documents AEMO prepares for the South Australian Government each year as part of its advisory function. The SAFTR outlines the spectrum of fuel resources and generation technologies available in South Australia, now and into the future.

The 2014 SAFTR confirms that while coal- and gas-powered generation remain in use, renewable resources, particularly wind, form the largest growing component of the South Australian fuel mix. In addition to wind, rooftop PV is prominent, with 18.5% of Australia’s embedded rooftop PV generation originating in South Australia during 2012–13. Geothermal and wave-powered generation resources are also being explored. Gas, wind, and biomass remain the most viable large-scale, economically efficient investment options over the next few years based on projected plant costs over a 30-year economic life.

“AEMO is pursuing initiatives to facilitate efficient investment decision-making, including developing independent transmission connection point forecasts, assessing network investment requirements, and reviewing projects put forward by transmission network service providers (TNSPs) under the AER’s new Network Capability Incentive Scheme to support improved usage of existing network assets.”

Optimising network investments

AEMO released its *2013 National Transmission Network Development Plan* (NTNDP) in December 2013. The report outlines changes in NEM electricity generation dynamics and informs network investment decisions over the next 25 years.

The yearly report found that coal remains the dominant generation fuel over the outlook period. However, slow electricity consumption growth and increased wind and rooftop PV generation could lead to an oversupply of up to 4,000 MW of electricity generation capacity. The NTNDP reports a drop in new large-scale generation requirements in the NEM over the next 25 years: from \$46 billion in 2012 to \$27 billion in 2013.

Estimated investment required in additional main transmission capacity over the next 25 years remains at \$5 billion, as forecast in 2012. The Large-scale Renewable Energy Target (LRET) is the main driver of generation investment, with the carbon price having a lesser impact.

Localised electricity consumption reductions have led to some decreases in transmission asset utilisation. Combined with the reduced consumption forecast, network augmentation requirements are reducing and network asset refurbishment and replacement considerations are becoming more prevalent.

Against this backdrop, and in light of changing reliability standards, network asset replacement decisions will provide an opportunity to optimise the type and capacity of the replaced assets, or to consider whether they need to be replaced at all. The NTNDP identifies network asset refurbishment and replacement decision-making as a network planning priority requiring a high degree of transparency.

AEMO is pursuing initiatives to facilitate efficient investment decision-making, including developing independent transmission connection point forecasts, assessing network investment requirements, and reviewing projects put forward by TNSPs under the AER’s new Network Capability Incentive Scheme to support improved usage of existing network assets.

Improved asset utilisation – Network Capability Incentive Parameter Action Plan

In December 2012, the AER introduced a network capability component in the Service Target Performance Incentive Scheme (STPIS) for network service providers. It is designed to encourage efficient network capability from existing assets when and where most needed to improve customer or wholesale market outcomes.

TNSPs are required to submit a Network Capability Incentive Parameter Action Plan (NCIPAP) for AER approval. As part of the process, they are required to consult with AEMO in developing the plan to determine the expected benefits associated with each proposed project, and for which endorsement is sought.

As part of the NCIPAP process, AEMO collaborated with AusNet Services (formerly SP AusNet), TransGrid, and TasNetworks in 2013–14 to identify options and quantify market benefits. AEMO conducted independent analysis of network limitations, considering historical congestion, future network flows, and reliability and security implications. This has led to prioritising the NCIPAP projects to deliver the best value for money for customers.

The AER accepted AEMO's endorsement of AusNet Services, TransGrid, and TasNetworks NCIPAP projects up to 1% of maximum allowable revenue and their priority order.

MAKING THE RIGHT INVESTMENT DECISIONS

Regional Victorian Thermal Capacity Upgrade RIT-T

In 2014, AEMO carried out a Regulatory Investment Test for Transmission (RIT-T) to assess the need to upgrade the thermal capacity of transmission network assets in the Bendigo area of regional Victoria.

Due to the evolving nature of the energy industry, AEMO's focus has broadened beyond looking at network investment to include non-network solutions, such as embedded generation and demand response, in addressing emerging network constraints. Offsetting capital investment via non-network solutions can result in lower costs being passed on to electricity consumers.

The tender process to procure a solution is currently underway, and AEMO expects that including non-network solutions is likely to reduce the overall upgrade cost by approximately \$50 million.

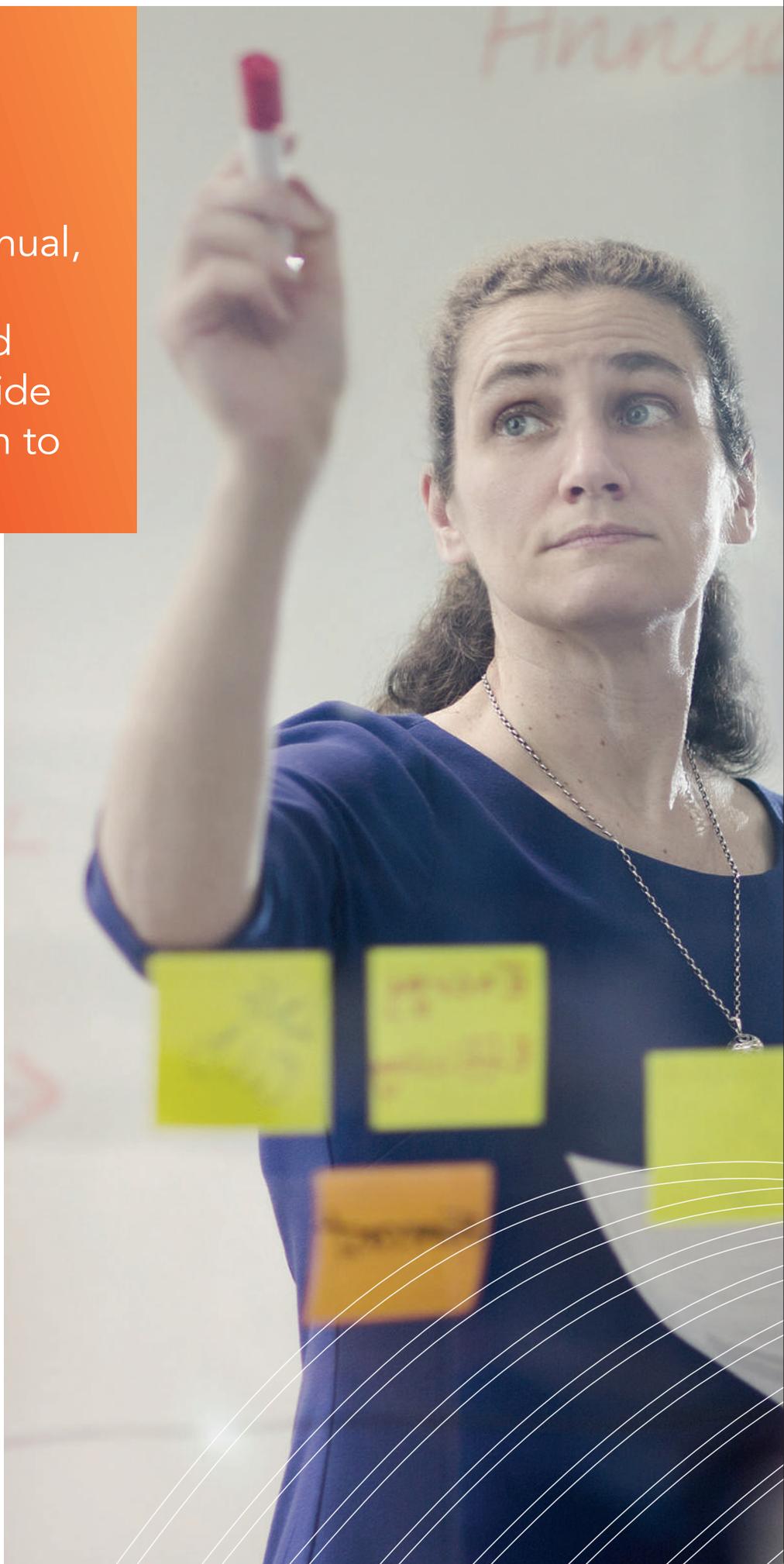
Heywood Interconnector RIT-T – Strengthening inter-regional trade

In January 2013, AEMO and ElectraNet jointly produced and published a *Project Assessment Conclusions Report* (PACR) for the Heywood Interconnector upgrade by augmenting the transmission network in South Australia and Victoria.

This project is expected to raise interconnector capability from 450 MW to 650 MW, with net market benefits estimated at more than \$190 million (in present value terms) over 30 years.

AEMO engaged AusNet Services in early 2014 to undertake the Victorian augmentations, which are expected to be commissioned by 30 September 2015.

AEMO produces annual, long-term forecasts across electricity and gas markets to provide essential information to stakeholders.





(Photo courtesy of AusNet Services)

Our independent forecasting reports provide an holistic and transparent view of Australia's future energy requirements to inform energy market stakeholders in their decision making.

The *National Electricity Forecasting Report (NEFR)* provides independent electricity consumption forecasts for each NEM region over a 10-year outlook period. These forecasts, together with AEMO's connection point forecasts, enable coordinated decision-making across electricity and gas industries, providing a key basis for infrastructure investment.

As the independent market operator, AEMO is ideally placed to lead industry collaboration to facilitate consistent and reliable forecasts for all NEM regions. The forecasts explore a range of scenarios across high, medium, and low growth outlooks.

Electricity consumption continues downward trend

AEMO's 2014 NEFR, published in June 2014, shows that aside from some growth in Queensland as a result of LNG, NEM electricity consumption will continue its decline for the next three years. Excluding LNG projects, a 1.1% average annual decrease is forecast for NEM electricity consumption in the next three years.

The 2014 forecast decline is not as steep as the sustained average annual decline of 1.8% over the past five years, which was partially driven by electricity price rises, mostly due to transmission and distribution network costs.

The 2014 NEFR shows reduced residential and commercial energy consumption in most NEM regions due to strong growth in rooftop PV system installations and ongoing energy efficiency savings in response to high electricity prices. In the short-term, rooftop PV output is forecast to grow in all regions as PV system installation costs continue to fall while government financial incentives remain static. Across the NEM, annual average growth of 24% in rooftop PV drives down overall consumption from the grid by 3%.

Key improvements for the 2014 NEFR included a stronger focus on short term forecasts (2013–14 to 2016–17); greater emphasis on recent declining residential and commercial consumption patterns in forecasting trends; an increase in large industrial customers surveyed from 39 in 2013 to 93 in 2014; and incorporating rooftop PV into maximum demand forecasts.

Transmission connection point forecasts

For the first time this year, AEMO developed transmission connection point forecasts for NEM regions.

AEMO delivered maximum demand forecasts for Tasmania and New South Wales to the AER in June 2014, extending the granularity of our forecasts from region level to connection point level.

“Excluding LNG projects in Queensland, a 1.1% average annual decrease is forecast for NEM electricity consumption in the next three years.”

The forecasts cover a 10-year outlook period and are available to the AER as an independent reference in assessing revenue proposals by network service providers. They also enable AEMO to independently assess network infrastructure development requirements across the transmission system, and are used in AEMO's suite of planning reports.

Similar forecasts for Victoria and South Australia are due to be published in the second half of 2014, followed by Queensland in 2015. AEMO will continue to update all five regions annually.

Inaugural National Gas Forecasting Report in the pipeline

AEMO is extending its forecasting capabilities by developing independent, in-house gas forecasts. These will be used to produce its inaugural *National Gas Forecast Report* (NGFR) in December 2014. These transparent and modular demand forecasts will provide clarity and insights into the rapidly evolving gas market.

The NGFR will include gas consumption forecasts across all customer segments. It will also include gas-powered generation forecasts that AEMO has produced for some time, and LNG forecasts.

Australian Solar Energy Forecasting System commissioned as planned

The Australian Solar Energy Forecasting System (ASEFS) was successfully deployed in May 2014, enabling AEMO to provide solar generation forecasts for registered, semi-scheduled solar generators such as solar farms greater than 30 MW.

ASEFS was commissioned ahead of the anticipated development of large-scale solar farms in Australia. The project will produce the most advanced operational solar forecasting system available, and will provide a platform for knowledge sharing for researchers, investors, industry, and governments.

ASEFS enables large-scale solar generators to participate in the NEM and uses a combination of cloud forecasting techniques to supply solar forecast timeframes ranging from five minutes to two years. Short-term forecasting is valuable for AEMO to make

immediate operational decisions, while long-term forecasting helps networks to plan and negotiate the distribution of their generated energy.

Solar farm operators will connect to ASEFS. New solar farms will be commissioned in Nyngan (102 MW) and Broken Hill (53 MW) by mid-2015.

ASEFS was developed in partnership with the CSIRO, Overspeed, and the Australian Renewable Energy Agency (ARENA).

Energy outlook for South Australia

AEMO released the *South Australian Electricity Report* (SAER) in August 2013, as part of its South Australian advisory function. The SAER provides an annual update on South Australia's electricity supply adequacy over the next 10 years.

The 2013 SAER projected a slight decrease (0.1%) in annual energy consumption, and average growth in maximum demand was forecast to be relatively flat (0.0% per annum), lower than the 0.8% average growth per annum forecast in the 2012 SAER. Coupled with increases in available generation capacity, this means South Australia has adequate generation to meet demand.

This report highlights that continued rooftop PV installations, energy efficiency savings, and consumer response to recent increases in electricity prices offset any growth in consumption in 2012–13.

A rush of rooftop PV installations ahead of a scheduled feed-in-tariff reduction in September 2013 saw a 10.9% (49 gigawatt hours) increase in PV generation on the 2012 SAER forecast.

03 / Markets

AEMO manages the day-to-day operations of eastern and south-eastern Australia's wholesale and retail gas and electricity markets in the long term interests of Australian energy consumers.



(Photo courtesy of Alinta)



We identify opportunities to improve the accessibility and effectiveness of our markets to facilitate trading and competition in a changing industry environment.

“With total gas demand expected to treble over the next two decades, AEMO remains focused on improving the transparency and effectiveness of eastern and south-eastern Australian gas markets.”

Wallumbilla Gas Supply Hub Launch: (L-R) Jon Hubbard, AEMO Board member; Peter Geers, Group Manager Business Strategy, AEMO; The Hon Mark McArdle MP, Queensland Minister for Energy and Water Supply; Graham Edney, Senior Advisor to The Hon Ian Macfarlane MP, Federal Minister for Industry; David Swift, Executive General Manager Corporate Development, AEMO.

Increasing east coast gas market transparency

With total gas demand expected to treble over the next two decades, AEMO remains focused on improving the transparency and effectiveness of eastern and south-eastern Australian gas markets.

Australia’s gas markets must continue to evolve in order to provide reliable and efficiently priced supply for consumers, to improve price transparency and greater liquidity, and to provide clear signals when investment in upstream supply and infrastructure is required.

Trading commences at Wallumbilla Gas Supply Hub

After nearly two years of collaboration with the gas industry, the Wallumbilla Gas Supply Hub opened for business in March 2014. The market is the first of its kind in Australia, and encourages greater competition and transparency in gas trading throughout eastern and south-eastern Australia. Queensland’s Minister for Energy and Water Supply, The Hon Mark McArdle MP, joined gas industry representatives in marking this important step in Australia’s ongoing gas market reform.

The hub is an exchange for the wholesale trading of natural gas, offering a voluntary, low-cost, flexible method for participants to buy and sell gas at interconnecting transmission pipelines.

The first month of operation saw 222 TJ of gas traded, with early trade focused on the Roma to Brisbane pipeline. AEMO offers spot and forward-dated products to participants trading at the hub. Spot transactions include a core “day-ahead” product and a “balance-of-day”. The balance-of-day product enables parties to adjust their portfolio closer to real-time and to manage imbalances within the gas day.

Wallumbilla is a major transit point between Queensland and other gas markets on Australia’s east coast. It is strategically located close to significant gas supply and demand, being a collection point for major gas fields and a supply point for demand centres in Gladstone and Brisbane. It is also close to gas storage facilities and gas-powered generation.



The diversity of business activities and the number of industry participants at Wallumbilla create a natural point of trade. The new supply hub is flexible in its design in that new locations and products can be added to suit industry needs. It is different to mandatory demand markets, which generally cover a specific distribution area and are primarily designed to balance the supply of gas with demand.

The hub enables trading in standardised products for the sale and purchase of gas delivered through any of the three major connecting pipelines at Wallumbilla. Participants place anonymous offers (to sell) or bids (to buy) a specified quantity at a specified price and these are automatically matched on the exchange to form transactions.

The hub provides a centralised trading, settlement and clearing facility through an online portal and enables generators, users, producers, and retailers to manage their daily and future gas requirements.

AEMO used global best practice to establish the new trading environment which features a 1 TJ contract size to increase trading flexibility.

The hub also provides a capacity listing that allows participants to list any unused pipeline capacity. The listing service is available to both trading and viewing participants wanting to advertise their interest to buy or sell haulage capacity.

AEMO also worked with industry on a set of standard terms and conditions for shipper-to-shipper pipeline capacity transfers. The standardisation of a capacity transfer contract should reduce transaction costs, making capacity trading more attractive to industry.

The hub also has the potential for longer-term monthly and quarterly trading products, and expansion into other regions to enable locational swaps that offset trades in different regions.

Gas market review – National Gas Bulletin Board

In March 2014, the COAG Energy Council requested that AEMO improve functionality and integrate information from existing gas markets on the web-based National Gas Market Bulletin Board (GMB). The redevelopment will benefit gas market participants by improving market transparency, supporting market liquidity in gas commodity and capacity markets. Information and transparency are essential to promote more efficient use of, and investment in infrastructure, and ultimately more efficient gas prices for end consumers.

AEMO is redeveloping the GMB in consultation with industry, and delivered its scoping report to the COAG Energy Council in June 2014.

Continuous improvement of existing gas markets

AEMO continues to monitor and improve the performance of the DWGM and the STTM, with a particular focus on the potential impacts on these markets given Queensland's expanding LNG export industry.

In the DWGM, AEMO supported the APA Group's 2013–14 expansion of the northern zone of the Victorian DTS, to facilitate increased northbound gas exports from Victoria. AEMO undertook modelling to confirm the increased export capacity of APA's expansion works, developed operations to support increased exports under varying system configurations and conditions, and analysed impacts on the DWGM outcomes.

In consultation with stakeholders, AEMO also implemented procedural changes to better interface Victorian market arrangements with interconnecting pipelines and facilities, providing more certainty for participants wishing to trade or ship gas for export from Victoria.

Refining existing pricing mechanisms in the STTM

AEMO implemented the following refinements to operation and pricing mechanisms in the STTM:

- > Allocating Market Operator Services (MOS) costs on a “causer pays” basis and improving the settlement surplus/shortfall mechanism to provide clarity and certainty of the price of deviations from scheduled quantities.
- > Expanding the eligibility criteria for offering MOS services to include shippers who are trading rights holders, and reducing the MOS offer period from three months to one. These changes increase competition in the provision of MOS, and provide greater flexibility of possible services to manage participant deviation risk.

AEMO encountered difficulties when implementing these changes in June 2014, and an administered ex-post pricing state was required for three days (1 to 3 June). The situation was quickly resolved with AEMO deploying two IT solutions on 5 and 12 June.

AEMO engaged gas market auditors, PriceWaterhouse Coopers, to conduct an investigation into the incident, and is working with stakeholders to address the findings and reduce the risk of similar issues in the future.

CONTINUOUS IMPROVEMENT OF THE NEM

AEMO explores new approach to transmission investment

AEMO was requested by the COAG Energy Council to make recommendations relating to certain aspects of the Optional Firm Access (OFA) package proposed in the AEMC Transmission Frameworks Review completed in April 2013.

AEMO is looking at the “access settlements” component of OFA, with a particular focus on how it could comprise an initial stage of OFA implementation.

The AEMC outlined the OFA framework as a way to promote more efficient investment in electricity generation and transmission to better accommodate changing patterns of generation and demand. OFA would enable generators to “insure” against the

market risk of network congestion events, which can limit their ability to sell electricity. OFA would change how generators access the market during time of congestion and allow generators to participate directly in transmission investment decisions that affect them.

While AEMO’s electricity dispatch process would remain unchanged, when network congestion occurs, OFA would see AEMO adjust generator settlement to reflect the contracted access rights.

The AEMC and AEMO each have separate terms of reference and are working under their own respective governance structures; however, they are collaborating closely to deliver an integrated result. They are jointly involved in an industry working group as the primary interface for stakeholder discussions.

This program of work will assist government and industry participants to better understand the potential costs, benefits, and risk of implementing OFA. AEMO’s recommendations are due to the COAG Energy Council by July 2015.

Future-proofing our cyber and information technology capabilities

In December 2013, AEMO developed a new IT strategy themed *Build on foundations and adapt for the future*. Key elements focus on development of roadmaps for market systems, introducing core technologies to support communications and system integration, and data and information management.

A key achievement in 2013–14 was establishing information technology infrastructure library-based processes which have reduced IT incidents, and expanded IT architecture and planning capability contributing to better capital planning.

AEMO recognises the threats from the rapidly evolving cyber security landscape, and has developed a number of cyber security controls in response. These range from an integrated set of protective, detective, containment, and recovery-oriented security controls, to internal reviews including vulnerability scanning and external penetration testing. Security is a key priority and AEMO balances its security and business imperatives through a risk management approach.

FACILITATING CUSTOMER PARTICIPATION IN ENERGY MARKETS

Introduction of Full Retail Competition in Tasmania

In March 2013, the Tasmanian Government announced the introduction of Full Retail Competition by 1 January 2014, but this was subsequently postponed to 1 July 2014. AEMO supported this policy initiative by completing the necessary regulatory, system, and process changes to facilitate customer choice.

Demand-Response Mechanism – Power of Choice Review

The Demand-Response Mechanism (DRM) and Ancillary Services Unbundling (ASU) are two recommendations from the AEMC Power of Choice review. They are part of a package of reforms designed to provide households, businesses, and industry with more opportunities to make informed choices about their electricity use expenditure.

The COAG Energy Council requested that AEMO develop a DRM/ASU rule change proposal in consultation with a stakeholder working group.

In July and October 2013, AEMO completed the high level and detailed market design for the DRM/ASU, respectively, and by November 2013 developed the rule change proposal. In December 2013, the COAG Energy Council requested AEMO defer lodgement of the rule change pending the COAG Energy Council's review and cost-benefit study.

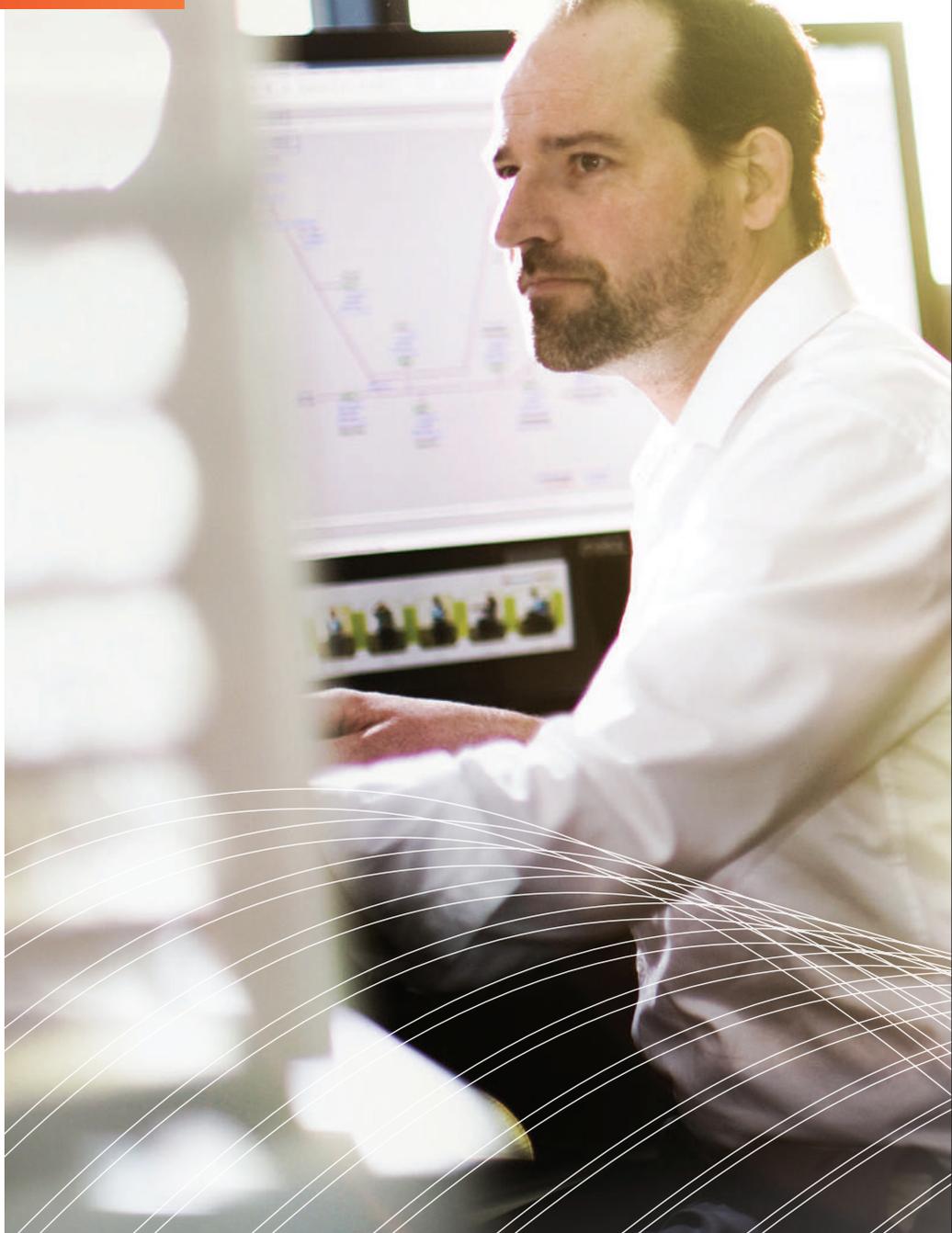
Multiple trading relationships and embedded networks

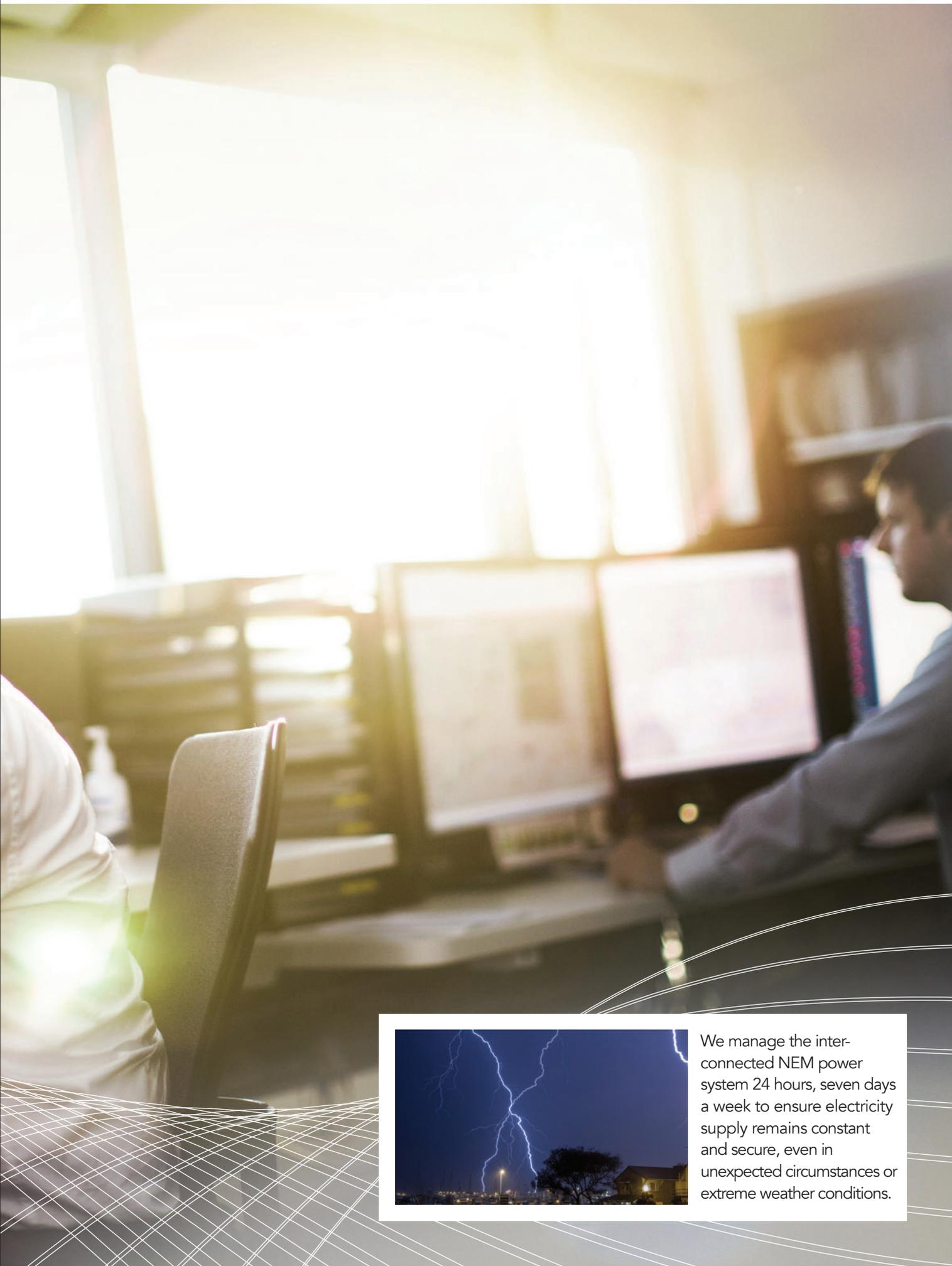
In July 2013, the COAG Energy Council requested that AEMO, in consultation with stakeholders, implement policy initiatives that would allow for the multiple trading relationships at a single site, and for metering in embedded networks. These initiatives resulted from the AEMC's Power of Choice and Electric Vehicles reviews.

In December 2013 and April 2014, AEMO completed the high level design and undertook a cost-benefit assessment for the multiple trading relationships and embedded networks initiatives, respectively. AEMO completed the detailed market design and submitted rule changes to the AEMC for the embedded network component of the policy initiative in September 2014. AEMO expects to complete the detailed market design and submit rule changes to the AEMC for the multiple trading relationship initiative by December 2014.

04 / Security and Reliability

AEMO provides system operations and is responsible for the security of the NEM power system and the DWGM.





We manage the inter-connected NEM power system 24 hours, seven days a week to ensure electricity supply remains constant and secure, even in unexpected circumstances or extreme weather conditions.

Efficiencies gained through improved market services

AEMO delivered 2013–14 value propositions designed to reduce consumer costs incurred through the acquisition of Network Support and Control Ancillary Services (NSCAS) and System Restart Ancillary Services (SRAS). The changes to the procurement of NSCAS will result in savings of up to \$35 million per annum.

AEMO procures SRAS through competitive tender in compliance with the National Electricity Rules. AEMO has extended existing relevant SRAS contracts until 30 June 2015 and will seek new contracts from that date on a revised procurement basis that is expected to deliver more efficient outcomes.

AEMO completed consultation with industry to establish SRAS guidelines in preparation for Expressions of Interest and tender documents and is on target to have new SRAS contracts in place by 1 July 2015.

AEMO's wind integration studies continue

AEMO's September 2013 report *Integrating Renewable Energy Wind Integration Studies* outlined the operational impacts of an estimated 8.3 GW of additional wind generation capacity forecast to come online in the NEM by 2020.

Primarily driven by the Federal Government's 41 TWh Large-scale Renewable Energy Target, the forecast increase in wind generation would add to the 3.2 GW of wind generation currently installed.

The report is the second of two reports that explore integrating wind into the NEM, and is part of AEMO's broader ongoing work on the topic. It follows a report analysing wind turbine technology published in June 2013.

While the NEM design incorporates several features which will help to manage the 8.3 GW of new wind generation forecast, such volumes are likely to present some challenges for power system operation.

While the report focuses on the effects of transmission-connected wind generation on the operation of the power system, it also explores how other large-scale distribution-connected generation may affect power system operation.

AEMO's ongoing work will continue to identify how to consider the changing generation mix in operational and planning tools and processes.

CONTINUOUS IMPROVEMENT OF REAL-TIME OPERATIONS

Replacement of TNSP operating agreements by instruments of delegation

AEMO finalised the replacement of the operating agreements by instruments of delegation in January 2014. This will reduce participant fees by around \$2.6 million annually.

Gas SCADA update now operational

AEMO successfully deployed a new gas SCADA system in April 2014.

Gas SCADA is a real-time transmission pipeline operating system used to control gas flows through the Victorian DTS. Over a two-year period, AEMO scoped, custom built, tested, and implemented the new system with support from the SCADA vendor, Alstom.

AEMO is one of the first energy operators globally to consolidate gas and electricity SCADA on the same platform. The consolidation not only reduces AEMO's direct operating costs, but creates a secure operating platform and utilises the same skill sets to support both electricity and gas systems.

EMERGENCY MANAGEMENT

Effective emergency management remains critical to AEMO's role in operating the national power system and Victoria's gas DTS. AEMO also assists the National Gas Emergency Response Advisory Committee (NGERAC) to provide emergency management services for the entire interconnected eastern Australian gas network.

In Victoria AEMO assists with emergency management at the distribution, transmission, and generation level by facilitating communication between stakeholders to ensure the community, government, industry, and emergency services can access critical information and are aware of possible impacts and consequences during an incident.

“AEMO closely monitored electricity supply and consumption levels, as well as bushfire activity around the electricity network, successfully securing supply without needing to shed any load.”

NEM stands up in the heat

In January 2014, an extreme heatwave across Victoria and South Australia combined with high electricity consumption and unplanned plant outages triggered the potential for widespread interruption to supply.

NEM demand records remained unbroken despite the first ever five-day period above 42° C in South Australia and the first ever four-day period above 41° C in Victoria. Maximum demand reached 10,307 MW in Victoria and 3,281 MW in South Australia; not far off Victoria's 2009 record of 10,494 MW and South Australia's 2011 record of 3,399 MW.

AEMO closely monitored electricity supply and consumption levels, as well as bushfire activity around the electricity network, successfully securing supply without needing to shed any load.

AEMO's demand forecasting system performed well, with accurate forecasting of peak demand on the highest demand days providing stakeholders with a clear account of the situation.

AEMO published a report summarising its observations during the heatwave, and hosted a debrief event for industry and government to discuss the incident, AEMO's response, and lessons learned.

The report outlines the contribution of rooftop PV, and scheduled and non-scheduled wind generation, which was noticeably higher in South Australia than Victoria. It also provides detail about wholesale electricity prices, which were lower than experienced during the 2009 heatwave. As expected, prices were volatile during the heatwave, and exceeded typical January averages.

Gas industry tests its emergency skills in Sydney

AEMO facilitated an annual industry exercise involving the NGERAC in May 2014. Each year, the exercise sees NGERAC members test their media management plans, policies, and procedures in response to a gas supply interruption.

The desktop exercise was delivered in a controlled conference environment by specialist facilitators, and required participants from AEMO, NGERAC, and industry to respond to a theoretical emergency scenario. The exercise is essential to emergency preparedness, and the learnings contribute to continuous process improvements for all gas industry participants.

NGERAC is responsible for providing advice on efficient responses to major natural gas supply shortages. Its membership comprises representatives from state and federal governments, all sectors of the gas industry, and gas consumers.

2013 National Electricity Market Emergency Management Forum exercise a success

The National Electricity Market Emergency Management Forum (NEMEMF) emergency exercises held during September 2013 saw participants gather in Adelaide and Brisbane to observe activities above and beyond their own specific involvement in a controlled “desktop” format.

Emergency exercises are conducted annually to ensure that jurisdictional arrangements across the NEM are robust and appropriate for maintaining NEM security across a range of emergency scenarios.

This year's scenario involved a systematic, coordinated attack on a range of electricity network elements combined with extreme temperatures and multiple supply failures. All participants have an opportunity to practise their respective decision-making procedures to safeguard supply, manage disruption, and minimise any impact on the community.

Improvement to this year's format allowed participants to gain a deeper understanding of managing a NEM incident and served as a timely reminder that systematic, coordinated attacks are a real threat.

AEMO provides financial settlement services for the billing and clearance of all market trading transactions. AEMO also manages prudential arrangements in accordance with the National Gas Rules and National Electricity Rules.





Our prudential and settlement services maintain the financial integrity of the electricity and gas markets, and improve the resilience of energy markets to the benefit of market participants.

IMPROVING FINANCIAL RESILIENCE OF ENERGY MARKETS

Throughout 2013–14, AEMO continued to improve the gas and electricity markets' settlement and prudential services.

AEMO implements new NEM Prudential Standards

AEMO's new NEM Prudential Standard, successfully implemented in October 2013, is designed to improve economic efficiency within the prudential framework, increase transparency of market arrangements, and reduce the financial risk for market participants.

The new statistical method introduced to calculate market participant collateral requirements aligns more closely with the risk posed by their possible default.

The new prudential standard reflects a 2% possibility of AEMO holding insufficient credit support to avoid a settlement shortfall if a market participant defaults. This represents a significant improvement on the former prudential arrangements of approximately 4% possibility of a loss given default, and has been achieved without any increase in collateral cost over time.

The new prudential arrangements set an expectation that no shortfall of monies collected by AEMO would arise in 98 out of 100 instances of retailer default. In the remaining 2% of cases, generators would bear any shortfall incurred.

Each market participant's credit support obligations are calculated according to the Credit Limit Procedures. These procedures are based on pricing trends and volatility across each NEM region to estimate the value of energy that the credit support must cover. These values change depending on the season, so targeting credit support according to seasonal risk has been a key focus in achieving the new standards' success.

The first maximum credit limits under the new standard became effective in November 2013. The NEM Prudential Standard was developed and implemented in consultation with market participants.

Consultation on the Credit Limit Procedures will continue in 2014 in relation to the repeal of the carbon price.

AEMO and ASX commence Energy Clearing Design study

Drawing on the skills of AEMO's physical market operations and the Australian Securities Exchange's (ASX) financial market expertise, AEMO and the ASX have collaborated to explore solutions to clear and settle energy markets more efficiently.

AEMO's role of settling all physical trades in Australia's NEM involves receiving payments from retail businesses that purchase wholesale energy from the NEM, and using that money to make payments to generators that supply energy to the market. Large amounts of collateral are lodged with AEMO by participant businesses to secure those payments in accordance with the NEM Prudential Standard.

The ASX facilitates trading and clearing of some of the derivative trades that participants in the NEM use to manage their exposure to market prices, in addition to holding collateral against those trades in its role as a clearing house.

This collaboration aims to identify solutions that enable derivative and physical trades to be cleared and settled through a more integrated process, facilitating offsets between the different trades. The benefit for participants would be the reduced amount of capital that they would be required to provide while still meeting the NEM Prudential Standard, in addition to administrative savings.

AEMO and ASX have developed a number of conceptual designs. They have recently jointly approached a cross section of electricity businesses to participate in a design study that will refine these concepts and determine the merits of doing further work based on the value of these solutions to the industry. It is anticipated that the design study will reach some conclusions by the end of 2014.

AEMO is focused on increasing value and improving consultation and engagement methods with our stakeholders.





Through our stakeholder engagement programs, we are listening and responding to the challenges facing Australian energy consumers.

“AEMO is redeveloping the STTM and DWGM courses for its online elearning platform. This will improve participant access, provide greater flexibility and see more participants trained.”

ENGAGEMENT – BUILDING VALUABLE EXCHANGE

A key AEMO initiative is to increase value and improve consultation and engagement methods for all stakeholders and consumers.

Listening to Australian consumers

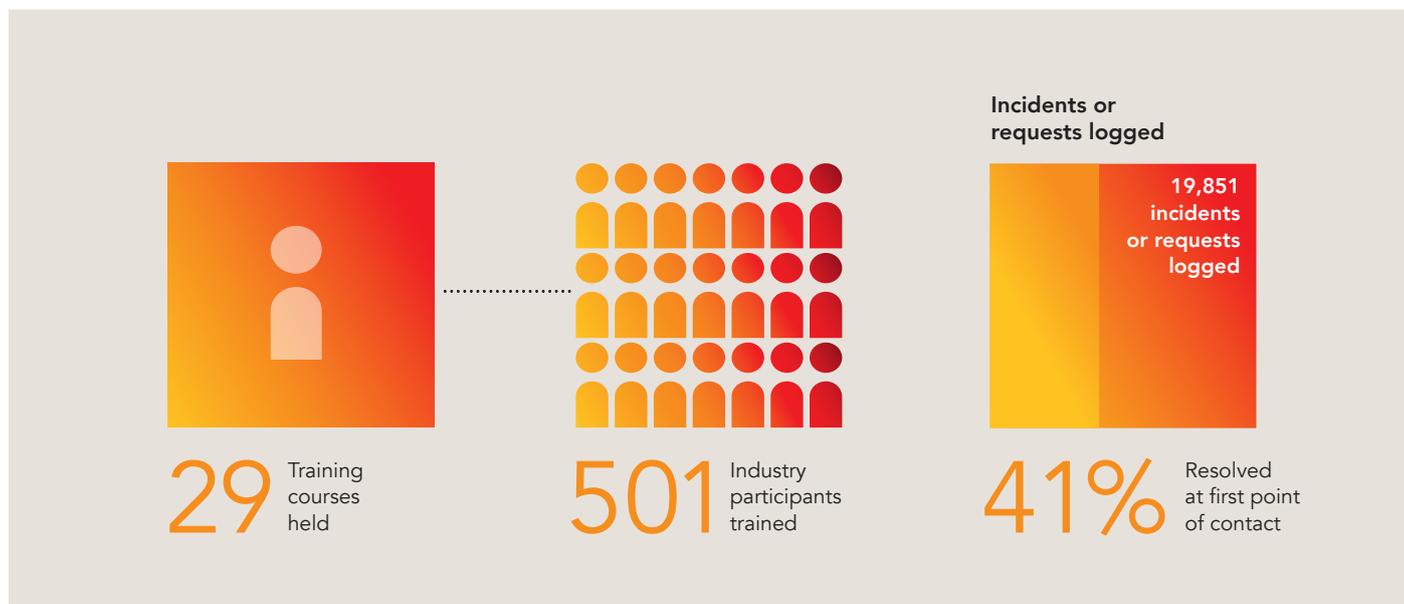
AEMO undertook a comprehensive survey of customers across the NEM to develop a national index indicating the value of customer reliability (VCR)—a measure used to indicate what different types of customers are prepared to pay to maintain reliable electricity supplies. This is the first time a survey of this type has been conducted across the whole of eastern and south-eastern Australia.

Reviewing the VCR is part of AEMO's 2013–14 Planning and Forecasting value proposition and the survey was part of an extensive program of consultation with industry and regulatory bodies undertaken throughout 2012–13.

The VCR will be available to asset owners, governments, and regulatory authorities for use in electricity planning and investment decision-making. It will also be used as an input to help set the market price cap level, which determines the upper limit at which electricity generators are paid for their energy in the NEM.

AEMO completed the survey in late July 2014. Around 1,500 residential and 1,600 business customers were surveyed, as well as 14 large industrial customers.

AEMO will work with stakeholders including the AEMC and AER to develop a paper setting out how the results should be interpreted and applied for use in revenue regulation, planning, and operational activities in the NEM. Final results were published in September 2014.



Working with industry stakeholders

AEMO's Wholesale Markets Consultative Forums, the National Electricity Wholesale Consultative Forum, and the Gas Wholesale Consultative Forum provide the opportunity for all interested parties to contribute to decisions affecting the wholesale markets.

AEMO's approach to stakeholder engagement includes a renewed focus on improving communications and engagement methods. A program designed to increase AEMO's capabilities in presenting technical information appropriately achieved some great results, with a 78% improvement in skills assessed. The program is likely to be extended more widely throughout AEMO in the future.

AEMO is also assisting consumer advocacy groups to participate in energy market decisions and working with them to improve AEMO's understanding of challenges facing consumers.

In response to stakeholder feedback requesting more information about AEMO's electricity forecasting, AEMO launched a national roadshow and has received positive feedback to date.

AEMO continues to host Energy Market Leaders Forum meetings, providing an opportunity to discuss issues of strategic relevance and importance across the energy industry. These meetings are well attended by industry executives and feedback from across a range of gas and electricity network stakeholders remains positive.

A pulse check on service delivery

As part of our continuous improvement processes, AEMO surveys stakeholders at the end of each interaction to determine satisfaction levels. Of the 19,851 incidents and/or requests logged, 41% were resolved at first point of contact.

AEMO training

AEMO's training courses cover many aspects of Australia's eastern and south-eastern gas and electricity markets, and continue to prove popular. They remain an important element of our service to market participants. In 2013–14, AEMO conducted 29 courses. All courses ran close to maximum attendance, with a total of 501 industry participants trained.

The introductory "Overview of the NEM" course continued to rate most popular, with 366 registrations.

AEMO is redeveloping the STTM and DWGM courses for its online elearning platform. This will improve participant access, provide greater flexibility, and see more participants trained.

“Overall satisfaction levels ranged from 61% to 73%, indicating that AEMO’s core service offering is valued by stakeholders and their organisations.”

Stakeholder views of AEMO service delivery

AEMO is committed to continuously delivering value to members, stakeholders, employees, and ultimately Australia’s energy community. Consistent with this, AEMO surveyed around 200 industry and government stakeholders, including one-on-one interviews with executives, to test satisfaction levels across the wide range of our operating functions.

AEMO’s overall service delivery satisfaction is broadly consistent across both operational and executive level stakeholders. Overall satisfaction levels ranged from 61% to 73%, indicating that AEMO’s core service offerings are valued by stakeholders and their organisations.

AEMO performed particularly well in areas such as quality and accessibility of employees, and being viewed as a technically strong and competent market operator. Executive level stakeholders also praised the quality of information AEMO shares.

Areas for improvement include AEMO’s consultation processes and more clarity about AEMO’s role relative to other energy sector bodies. AEMO uses such feedback when planning its future priorities, and the survey findings are shared across the organisation.

AEMO’s approach to stakeholder engagement is a major focus, and a stakeholder engagement strategy that seeks balance, impartiality, and thoroughness is currently being implemented and will be carefully monitored.

World's power grid operators meet to progress common challenges

AEMO hosted the 2014 "GO 15 – Reliable and Sustainable Power Grids" Governing Board meeting in March 2014. Leaders of the world's 16 largest electricity grid operators met to progress work on common challenges, share information, and undertake collaborative projects.

GO 15, the peak body for international power operators, was established in 2004 following several major blackouts around the world. Its members manage power systems that supply more than 70% of the world's electricity demand, providing electricity to 3.4 billion consumers in six continents.

The group reviewed its priorities for the coming year and beyond, identifying four fundamental themes: integrating distributed generation sources, grid resilience and security, economics and market regulation, and information and technology systems.

Collaborating with the Clean Energy Regulator

AEMO has been actively exploring opportunities to collaborate and share data with the Clean Energy Regulator (CER), facilitated by a Memorandum of Understanding between the two organisations.

The relationship has yielded several initiatives that leverage existing information to improve the quality of both organisations' respective functions. One such initiative has been AEMO's access to greenhouse gas emission data collected by the CER under the National Greenhouse and Energy Reporting (NGER) scheme. This is used to improve the quality of data used in AEMO's planning functions and in calculating the Carbon Dioxide Equivalent Intensity Index (CDEII).

Following legislative changes permitting the CER to provide emission data for individual generation facilities, AEMO's planning reports and the CDEII publication are now underpinned by more robust and traceable emission data.

POLICY

Carbon tax repeal

AEMO publishes critical information about energy markets, including factual, independent reports on wholesale market outcomes.

AEMO also implemented a range of activities to manage operational challenges for market participants associated with the retrospective implementation of the carbon tax repeal. AEMO engaged extensively with industry stakeholders during the repeal transition period.

AEMO's responsibilities for reporting DTS operational gas to the NGER scheme remain, but its emissions liability falls away with the repeal.

RET Review – Preparation and monitoring

In April 2014, AEMO wrote a submission offering assistance to the Expert Panel conducting the review of Renewable Energy Target (RET) to help reach its conclusions.

AEMO's role in supporting Australian energy markets in a technology-neutral manner provides a wide perspective that is relevant to the RET review.

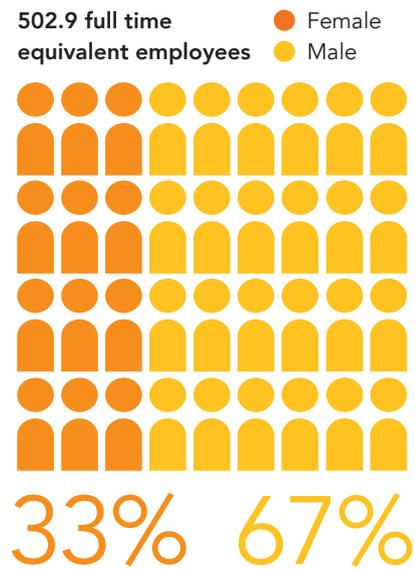
AEMO's Managing Director and Chief Executive Officer, Matt Zema, is a member of the Expert Panel given his industry expertise and relevant experience. His involvement is as an energy industry expert, not as a representative of AEMO, and he was not involved in the preparation of AEMO's submission. The submission was reviewed by AEMO's chairman, Dr Thomas Parry AM.

07 / Our People and Culture

Total number of AEMO full time equivalent (FTE) employees (including fixed term contract) by grouped role as at 30 June 2014:

2	CEO Office
15.8	Corporate Development
64.3	Corporate Services
11.6	Governance
122.6	Information Management Technology
253.4	Operations
14.2	People and Culture
19	AEMO Graduate Development Program participants on rotation
502.9	Total

Total number of AEMO FTE employees by gender ratio as at 30 June 2014:



Workplace health and safety responsibilities

2012-13 / Employees understanding their responsibilities towards workplace health and safety: 8.87 (out of 10)

2013-14 / Employees understanding their responsibilities towards workplace health and safety: 9.13 (out of 10)

Empowered employees

AEMO's people are its greatest asset. The diversity of skills, knowledge, experience, and educational backgrounds they possess bring opinions and insights essential to productivity and thought leadership, and in meeting stakeholder expectations.

AEMO's success relies on the contributions of all who work within the organisation. In recognising this, AEMO continues to foster a high-performance work environment that aligns individual performance to team and organisational objectives. AEMO's culture encourages collaboration, empowerment, and ongoing learning and development to achieve its value propositions.

A focus on embedding a high-performance culture was supported by the introduction of "Let's Talk", a peer-to-peer development program for managers seeking to improve their leadership skills.

Employee engagement

A key measure of employee engagement is the annual Employee Opinion Survey, which canvasses employee opinions in relation to AEMO's culture, and their satisfaction with the organisation.

In 2013, employee rating of their overall satisfaction working at AEMO was 6.68 (out of 10) and has slightly improved from the 2012 result of 6.48. The survey revealed that satisfaction levels continue to be above average when benchmarked against the 2013 Nielsen global and Australian norms.

Continued improvement of these results is a priority for AEMO's continued success.

Recruitment

AEMO employs people from a diverse range of backgrounds and fields including engineering, software development, legal, business and market analysis, economic forecasting, power system operations, corporate services, emergency, and risk management. During 2013–14, 84 positions were filled by external candidates, and there were 24 internal position changes.

AEMO successfully implemented a new e-Recruitment Management System (e-RMS) in June 2014, the first module of a broader Human Resource Management System (HRMS). The e-RMS enables external candidates to search and apply for roles, save their profile, and track their application. Since deployment, approximately 400 candidate profiles have been created.

The HRMS is being implemented in 2014–15, covering career development and succession planning, talent management, goal and performance management, and a new employee self-service interface.

Diversity

AEMO recognises the importance of a diverse workforce and values the differences that each gender brings. In accordance with the Workplace Gender Equality Act 2012, AEMO has lodged its public report on gender equality with the Workplace Gender Equality Agency. As at 30 June 2014, AEMO reported 33% employee positions held by females, and within the Executive Leadership Team and the Board, four of the 16 positions are held by women. Benchmarking is an important activity that allows AEMO to compare gender equality progress against our industry peers and to track our progress over time.

Our commitment to equal opportunity, and workforce diversity more broadly extends beyond procedural fairness and legal compliance by focusing on a culture where respect, equity and diversity underpin all organisational activities and are embedded in our Code of Conduct.

“Throughout 2013–14, AEMO continued to build on an organisation-wide foundation for workplace health and safety, with numerous initiatives driven by national and regional Workplace Health and Safety committees. These initiatives help to build a proactive safety culture, extending beyond AEMO’s compliance and audit requirements.”

Building our capability

AEMO conducted a comprehensive strategic workforce planning program throughout 2013. This program explored a range of possible energy industry futures, resulting in a deeper understanding of the learning and development activities needed to successfully build the technical skills, industry knowledge, and professional competencies for AEMO’s future success.

Sharing industry knowledge

Throughout 2013–14, AEMO increased knowledge transfer through secondments—both internal work placements and in collaboration with industry. Thirty-six employees undertook an internal secondment and seven external secondments saw AEMO employees building their knowledge within stakeholder organisations and vice versa.

AEMO participated in the Australian Power Institute’s Victorian pilot development program, which aims to develop the technical skills and leadership capabilities of mid-career power engineering professionals. One of AEMO’s employees was the first participant to undertake a six-month placement at GDF SUEZ Loy Yang B Power Station, gaining valuable experience, in particular during a major generation unit outage.

AEMO also facilitated senior management rotations within key business areas. In addition to promoting professional development for individuals, these opportunities have brought new perspectives to roles, encouraged cross-communication, identified single-person dependencies, and have seen business processes reviewed and improved.

Workplace health and safety

Throughout 2013–14, AEMO continued to build on an organisation-wide foundation for workplace health and safety, with numerous initiatives driven by national and regional Workplace Health and Safety committees. These initiatives help to build a proactive safety culture, extending beyond AEMO's compliance and audit requirements.

A new program, Safety4Life, was successfully launched in May 2014. Safety4Life delivers an holistic approach to health and wellbeing, providing support for mental and psychological health; encouraging physical safety and wellbeing; and creating and maintaining a positive health and safety culture while promoting a practical and accountable approach.

Wellbeing

Health and wellbeing activities included health checks, flu vaccinations, weekly fresh fruit deliveries, and seminars on psychological wellbeing across all AEMO sites. AEMO's Employee Assistance Program ensures employees receive access to free, confidential 24/7 counselling service.

In May 2014, AEMO introduced "Work out at Work", an initiative to reduce sedentary behaviours such as prolonged and unbroken time spent sitting. These can lead to potential musculoskeletal and repetitive strain injuries. Ergonomic ambassador training was also undertaken as a preventive health measure.

Workplace Health and Safety committees

AEMO's Workplace Health and Safety committee structure considers the size and complexity of our workplace, the nature and degree of risk involved across each site, and the interests of all employee groups.

The National Workplace Health and Safety Environment (WHSE) Committee provides leadership and strategic direction for the delivery of the WHSE Management System to minimise health and safety risks. Working closely with the Regional WHSE committees, they also oversee the system implementation within AEMO.

Graduate Development Program – Acquiring and nurturing young talent

AEMO's Graduate Development Program is an opportunity for high achieving graduates to enter Australia's energy industry. In 2013–14, AEMO recruited 11 graduates across Adelaide, Brisbane, Melbourne, and Sydney.

The three-year Graduate Development Program empowers graduate employees to build a rewarding career, gaining real-world knowledge, experience, and responsibility. The program includes structured technical and professional development and rotations across energy market operations, information technology, and corporate services. The program provides practical on-the-job training from day one; an assigned mentor to support learning; financial support for further tertiary study; and support for professional memberships.

AEMO introduced a new three-week "I AM EMPOWERED" marketing campaign commencing mid-August 2013 utilising social media channels—Facebook, YouTube, and LinkedIn. Applications for the 2014 graduate intake attracted 560 applicants, 1,000 likes on Facebook, and over 2,000 people visiting the Graduate Development website page.

AEMO Alumni

AEMO attributes its success to employees present and past, and launched the AEMO Alumni in February 2014 as a business-based, online social networking platform to stay connected with former employees. The platform provides opportunities to make new connections, and broadcast new job postings, industry news, and Alumni-only events.

AEMO MEMBERS

AEMO's ownership structure is divided between government and industry members across the eastern and south-eastern states of Australia. Membership comprises 60 per cent government and 40 per cent industry. It includes generators, transmission companies, distribution businesses, retailers, resource companies and investment companies.

Government members

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

Industry members

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

As at 30 June 2014, AEMO's industry members are:

Acciona Energy Oceania Pty Ltd
AGL Energy Ltd
AGL Loy Yang Marketing Pty Ltd
APA GasNet Australia (Operations) Pty Limited
Allgas Energy Pty Limited
Ararat Wind Farm Pty Ltd
APT Petroleum Pipelines Pty Ltd
APT Pipelines (NSW) Pty Ltd
Attunga Capital Pty Ltd
Aurora Energy (Tamar Valley) Pty Ltd trading as AETV Power
Aurora Energy Pty Ltd
Aus Gas Trading Pty Ltd
Ausgrid
Australian Power and Gas Pty Ltd
Central Ranges Pipeline Pty Limited
CitiPower Pty
Click Energy Pty Ltd
Covau Pty Ltd
Delta Electricity
Diamond Energy Pty Ltd
Directlink Joint Venture (Directlink (No. 1) Pty Limited, Directlink (No. 2) Pty Limited, and Directlink (No. 3) Pty Limited trading as Directlink Joint Venture)
Dodo Power & Gas Pty Ltd
East Australian Pipeline Pty Limited
EDL Group Operations Pty Limited
ElectraNet Pty Ltd

Endeavour Energy
Energen Limited
EnergyAustralia Gas Storage Pty Ltd
EnergyAustralia Pty Ltd
EnergyAustralia Yallourn Pty Ltd
Energy Pacific (Vic) Pty Ltd
EnerNOC Pty Ltd
Envestra Limited
Envestra (NSW) Pty Ltd
Epic Energy South Australia Pty Ltd
ERM Power Limited
ERM Power Retail Pty Ltd
Essential Energy
Flinders Operating Services Pty Ltd
FPC 30 Limited
Green State Power Pty Ltd
Hydro-Electric Corporation
Infigen Energy Markets Pty Ltd
Infratil Energy Australia Pty Ltd
Jemena Limited
LMS Energy Pty Ltd
Macquarie Generation
Marubeni Australia Power Services Pty Ltd
Millmerran Energy Trader Pty Ltd
Murraylink Transmission Company Pty Ltd
N. P. Power Pty Ltd
OneSteel Manufacturing Pty Ltd
Origin Energy Electricity Limited
Origin Energy Eraring
Pacific Hydro Clements Gap Pty Ltd
Pacific Hydro Chalice Hills Pty Ltd
Pacific Hydro Portland Wind Farm Pty Ltd
Pacific Hydro Retail Pty Ltd
People Energy Pty Ltd
Powercor Australia Ltd
Queensland Electricity Transmission Corporation Limited (trading as Powerlink Queensland)
Roverton Pty Limited
Santos Ltd
South East Australia Gas Pty Ltd
SPL Electricity Pty Ltd
Tasmanian Gas Pipeline Pty Ltd
TasNetworks Pty Ltd
Trensend
TransGrid
Vicpower Trading
(State Electricity Commission of Victoria trading as Vicpower Trading)
Westpac Banking Corporation
WINenergy Pty Ltd

AEMO EXECUTIVE LEADERSHIP TEAM

AEMO's organisational structure comprises six business units, each led by an executive. The six executives and the Managing Director and Chief Executive Officer together form the Executive Leadership Team.



Matt Zema
Managing Director and
Chief Executive Officer



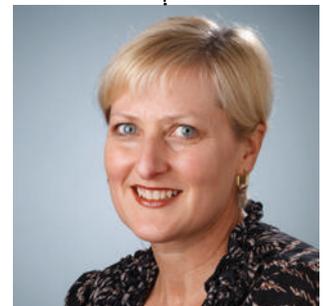
**Information Management
and Technology**
Karen Olesnicky
Chief Information Officer



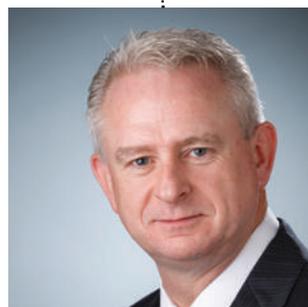
Governance
Brett Hausler
Company Secretary and
General Counsel



Corporate Services
Jack Fitcher
Acting Chief Financial
Officer



People and Culture
Maree Gardner
Executive General Manager



Operations
Mike Cleary
Chief Operating Officer



Corporate Development
David Swift
Executive General Manager

The AEMO Board comprises (left to right):

Dr Anthony (Tony) Marxsen, Mr Jon Hubbard, Ms Jane Tongs, Mr Leslie (Les) Hosking, Dr Thomas (Tom) Parry AM (Chairman), Mr Matt Zema (Managing Director and Chief Executive Officer), Mr Stephen Orr, Mr Greg Martin, Ms Sibylle Krieger.

Corporate governance principles

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

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

The Board has established corporate governance policies and charters; these are outlined later in this report.

Composition of the Board

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

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

The selection process for new directors is overseen by the Nomination Committee with the interview process and recommendations being made by the independent COAG Energy Council Appointments Selection Panel. In addition to the required core skills and experience, other factors such as diversity and succession planning are considered as part of the selection process.

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

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

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

Director induction and continuing education

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

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



Review of the Board, Managing Director, and Executive Leadership Team

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

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

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

An external Board performance assessment was undertaken during 2014.

Director independence

The Constitution requires the majority of directors to be independent, and includes a definition of independence. A director is considered to be independent if he or she is not a member of management and is free of any business or other relationship that could materially interfere with exercising unfettered and independent judgement, or could reasonably be perceived to do so.

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

The current independent directors are Dr Parry AM, Mr Hubbard, Ms Krieger, Dr Marxsen, and Ms Tongs.

Responsibilities

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

The Board's responsibilities include:

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

These responsibilities are set out in the Board Charter.

Directors' access to information and advice

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

Conflicts of interest

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

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

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

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

Board committees

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

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

The table below provides a summary of the Board committee membership for 2013–14:

	People and Remuneration	Risk and Audit	Technical and Regulatory	Nomination Committee
Dr Thomas Parry AM	Member		Member	Chair
Mr Ian Fraser*	Chair	Member		Member
Mr Leslie Hosking		Member	Member	
Mr Jon Hubbard*		Member	Member	
Ms Sibylle Krieger*	Chair	Member		Member
Mr Greg Martin	Member		Member	
Dr Anthony Marxsen	Member		Chair	Member
Dr Michael Sargent AM*		Member	Member	
Mr Stephen Orr		Member	Member	
Ms Jane Tongs	Member	Chair		Member

*Mr Ian Fraser and Dr Michael Sargent AM retired from the Board on 7 November 2013. Mr Jon Hubbard and Ms Sibylle Krieger were appointed to the Board as of that date.

BOARD COMMITTEE FOCUS AREAS

The purpose of each Board committee and some of their respective areas of focus during 2013–14 are described below.

Risk and Audit Committee

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

The Committee met five times during 2013–14 and considerations included:

- > Review of the Annual Financial Report and the appropriateness of AEMO's material accounting policies and procedures, significant estimates, judgements, and notes to the financial statements.
- > Approval of the audit plan for the internal auditor, considering the findings of the internal auditor and the effectiveness of the internal audit function.
- > The approach for the market audits, findings of the market auditors for gas and electricity and the effectiveness of the market functions.
- > Risk management strategy and reporting, including reviewing the system of identifying, assessing, monitoring and managing material risk throughout the company, reviewing the Risk Register and assessing the company's insurance requirements.
- > Compliance reporting and analysis, including monitoring the development and ongoing review of appropriate legislative and regulatory compliance programs where applicable.
- > Reviewing reporting on capital expenditure and projects undertaken by the organisation.
- > Reviewing the management of information technology and physical security.

People and Remuneration Committee

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

This Committee met twice during the year and considerations included:

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

Technical and Regulatory Committee

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

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

- > The Information Technology Strategy.
- > The strategic direction and high-level structure and content of AEMO planning publications, such as the *National Electricity Forecasting Report*.
- > Reviewing various areas including energy settlement in the NEM, energy policy and regulatory reviews, and the Gas Safety Case.
- > The quarterly wholesale market performance and system operating incidents.
- > The summer supply outlook for the NEM and the Victorian Gas Winter Strategy.

Nomination Committee

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

- > The Committee met once during 2013–14 to identify a suitable list of candidates to be interviewed by the COAG Energy Council Appointments Selection Panel.

Risk management

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

AEMO faces a variety of risks given the nature of its operations. These include market, IT security, regulatory, compliance, financial, prudential, reputational, and operational risks. At AEMO, risk management includes the culture, processes, and structures that are directed to taking advantage of potential opportunities and managing potential threats or adverse consequences.

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

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

During 2013–14 AEMO maintained a strong focus on proactively identifying and managing all classes of risk. Improvements were made to the processes and systems that support risk management, including risk identification and assessment and occupational health and safety practices. AEMO implemented revised reporting of risks at the Risk and Audit Committee and the Executive Leadership Team levels.

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

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

Ethical standards and Code of Conduct

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

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

The Code of Conduct provides guidance on the following:

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

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

Financial reporting

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

Make timely and balanced disclosure

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

Respect the rights of members and stakeholders

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

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

AEMO's Statement of Corporate Intent sets out the company's policy and strategic direction in regard to stakeholder communications and engagement. Specific strategies have been developed and implemented, such as establishing leadership forums; strategies also facilitate Board engagement with stakeholders.

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

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

This consultation process is vital to maintaining effective day-to-day operations, to developing and refining effective new market mechanisms, and to the integrity of long-term planning.

Remunerate fairly and responsibly

Non-executive directors were remunerated for fulfilling both their Board and Board committee duties in accordance with relevant industry benchmarks. At the Annual General Meeting on 7 November 2013, the members approved an increase to remuneration and committee fees based on forecast Consumer Price Index.

During 2013–14, the Board's People and Remuneration Committee consisted of five non-executive directors. The People and Remuneration Committee monitor matters concerning the remuneration, development, health and safety, and rights of company employees.

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

Economic, environmental and social sustainability reporting

AEMO is investigating options for implementing a sustainability framework in the 2015 financial year.

FINANCIAL STATEMENTS
for the year ended 30 June 2014

Australian Energy Market
Operator Limited
ABN 94 072 010 327

Financial Statements
For the year ended
30 June 2014



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DIRECTORS' REPORT

Your directors present their report on the Australian Energy Market Operator Limited (AEMO) for the year ended 30 June 2014.

Directors

The following persons were directors of AEMO during the whole financial year and up to the date of this report, with the exception of Mr Ian Fraser and Dr Michael Sargent AM who resigned effective 7 November 2013, and Mr Jon Hubbard and Ms Sibylle Krieger who were appointed to the board effective 7 November 2013:

Dr. T.G. Parry AM	I.L. Fraser
L.V. Hosking	J.G. Hubbard
S. Krieger	G.J.W. Martin
Dr. A.L. Marxsen	S.C. Orr
Dr. M.A. Sargent AM	J.A. Tongs
M. Zema	

Mission and vision

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

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

Principal activities

AEMO's principal activities over the 2013–14 comprised the following:

- > Market operation of the National Electricity Market (NEM), the Victorian Declared Wholesale Gas Market (DWGM) and the Short Term Trading Market (STTM) for gas at the Adelaide, Sydney and Brisbane hubs and the Gas Supply Hub.
- > System operation and security of the NEM interconnected grid and the Victorian gas Declared Transmission System.
- > Emergency management responsibilities for electricity and gas and the National Gas Emergency Response Advisory Committee.
- > Victorian electricity Transmission Network Service Provider (TNSP) responsibilities (transmission network connections and procurement services).
- > Facilitation of Full Retail Contestability (FRC) for electricity and gas in eastern and south-eastern Australia.
- > Management of the National Gas Bulletin Board.
- > National transmission planning, including the production of key energy planning reports.
- > Modifications to the TNSP operating arrangements.
- > Independent electricity and gas demand forecasting.

AEMO also committed to delivering value propositions in 2013–14. These were:

Wallumbilla Gas Supply Hub

Trading in the new Wallumbilla Gas Supply Hub in Queensland commenced on 20 March 2014. The hub, which was designed, developed, and implemented by AEMO, was the culmination of two years of collaboration with the gas industry in response to the emerging east coast gas market challenges. The value of this initiative includes unlocking the many benefits of trade, including increased availability of gas to market participants, more efficient allocation of gas, price transparency and enhanced liquidity of Australia's gas markets.

Transmission connection point forecasts

Independent transmission connection point forecasts were developed for New South Wales and Tasmania. The Australian Energy Regulator (AER) is using AEMO's independent connection point forecasts to assess revenue reset proposals. This has led to savings in investment spending in the network that will be realised over the next 10 years which these forecasts have influenced, which ultimately translates into savings for consumers.

NEM prudential standards

The new prudential standard introduces a new statistical method to calculate collateral requirements for participants. This facilitates more efficient markets, reduced risk in the NEM, improves transparency of the market arrangements and provides greater certainty for participants and AEMO.

Demand response mechanism

In January 2013, the COAG Energy Council requested that AEMO lead development and implementation of a Demand-side Response Mechanism (DRM). The DRM is intended to encourage demand-side participation from large end-use customers by increasing the opportunities for demand side participation from large end use customers in response to prices, by increasing the opportunities and incentives for demand side providers (dsp) to participate, and create an environment to respond to end-use customers through the avoidance of network and generation investment to meet peak demand.

In October 2013, AEMO completed a detailed market design for the DRM, and by November 2013 developed the rule change proposal. In December 2013, the COAG Energy Council requested AEMO defer lodgement of the rule change pending their review and cost-benefit study. AEMO has ceased all work on DRM pending further direction from the COAG Energy Council.

Value of customer reliability

In 2013–14 AEMO surveyed residential and business electricity customers across each of the NEM states about the value they place on their electricity supply. This feedback has formed the basis for delivering national Values of Customer Reliability that will better support decision making across the electricity industry, as part of the review requested by the COAG Energy Council.

This information improves the balance between a secure and reliable electricity supply and reasonable network costs for consumers.

Enhancing customer value from ancillary services

AEMO tendered an agreement for the provision of network support and control ancillary services (NSCAS) and contracted a new NSCAS provider. This has resulted in a significant saving in NSCAS costs to industry.

Existing system restart ancillary services (SRAS) contracts were extended 12 months to 30 June 2015. During 2013–14, following consultation with industry, a revised procurement approach for SRAS for the 2015–18 period was developed.

Review of operations

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

Registered market participants are eligible to become members of AEMO.

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

AEMO's 2013–14 total comprehensive deficit of \$18.2 million is in line with budget, with AEMO returning surpluses from 2012–13 to participants (mainly in the Victorian TNSP function).

Directors' qualifications and experience

Name, qualifications and responsibilities	Age	Relevant Board appointments
Dr. Thomas G. Parry AM <i>BEC (Hons), MEd, PhD</i> Chairman Independent Director	65	Non-executive Director, ASX Compliance Pty Ltd; Non-executive Director, Powerco NZ; Director, Dalacon Pty Ltd; Non-executive Director, Brisbane Airport Corporation; Chairman, Health Super Financial Services Pty Ltd (a wholly owned subsidiary of the First State Super).
Mr Leslie V. Hosking Non-executive Director	69	Chairman, Adelaide Brighton Ltd; Non-executive Director, AGL Energy Ltd; Chairman, Carbon Market Institute Ltd.
Mr Jon G. Hubbard <i>BCom, CA, GAICD</i> Non-executive Director Independent Director	50	Non-executive Director, Infocus Wealth Management Ltd (and related companies); Non-executive Director, Power Generation Corporation (Trading as Territory Generation).
Ms Sibylle Krieger <i>LLB (Hons), LLM, MBA, FAICD</i> Non-executive Director Independent Director	57	Non-executive Director, Tasmanian Water and Sewerage Corporation Pty Ltd (Trading as TasWater); Non-executive Director, Sydney Grammar School Foundation Ltd; Trustee, Sydney Grammar School.
Mr Gregory J.W. Martin <i>BEC, LLB, FAIM, MAICD</i> Non-executive Director	54	Chairman, Iluka Resources Ltd; Non-executive Director, Santos Ltd; Non-executive Director, Energy Developments Ltd; Chairman, Sydney Desalination Plant; Non-executive Director, Australian Davos Connection Limited.
Dr. Anthony Marxsen <i>PhD, BEng</i> Non-executive Director Independent Director	68	Director, Marxsen Consulting Pty Ltd; Director, Jancomax Pty Ltd.
Mr Stephen C. Orr <i>BEng (Mech)</i> Non-executive Director	62	Nil
Ms Jane A. Tongs <i>EMBA, B.Bus (Acc), FACA, FCPA, MAICD</i> Non-executive Director Independent Director	54	Non-executive Director, Catholic Church Insurances Ltd (and related companies); Chair, Netwealth Holdings Ltd (and related companies); Non-executive Director Warakirri Holdings Pty Ltd (and related companies); Non-executive Director, Brighton Grammar School; Chair, Australian Prime Property Fund Investor Committee.
Mr Matt Zema <i>BE, FIEAust</i> Managing Director and Chief Executive Officer	54	Director, ANC-Cigre.

A majority of Directors, including the Chair, must be Independent Directors.

The AEMO Constitution defines the independence requirements for Directors.

Information pertaining to directors' benefits is detailed in Note 17 – Key Management Personnel Disclosures.

Company secretary

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

Meetings of directors

The number of meetings of the company's Board of Directors and of each Board committee held during the year ended 30 June 2014, and the number of meetings attended by each director were:

	Full meetings of directors		People and Remuneration		Risk and Audit		Technical and Regulatory	
	A	B	A	B	A	B	A	B
Dr. T.G. Parry	10	10	2	2	-	-	4	4
I.L. Fraser	2	4	1	1	2	2	-	-
L.V. Hosking	8	10	-	-	5	5	4	4
J.G. Hubbard	6	6	-	-	3	3	3	3
S. Krieger	6	6	1	1	3	3	-	-
G.J.W. Martin	8	10	2	2	-	-	2	4
Dr. A. Marxsen	9	10	2	2	-	-	4	4
S.C. Orr	9	10	-	-	5	5	4	4
Dr. M.A. Sargent	3	4	-	-	1	2	1	1
J. A. Tongs	10	10	2	2	5	5	-	-
M. Zema	9	10	-	-	-	-	-	-

A = Number of meetings attended

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

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

Rounding

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

Auditor's independence declaration

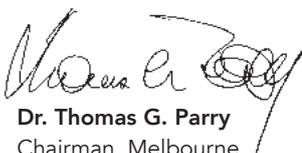
A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 94.

Auditor

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

Resolution

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



Dr. Thomas G. Parry
Chairman, Melbourne
4 September 2014

Auditors' declaration of independence



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W www.granthornton.com.au

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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Australian Energy Market Operator Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

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

A handwritten signature in blue ink that reads "Grant Thornton".

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A handwritten signature in blue ink that reads "Michael Climpson".

Michael Climpson
Partner

Melbourne, 4 September 2014

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

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**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014**

	Notes	2014 \$'000	2013 \$'000
Revenue			
Transmission income	5	476,928	539,621
Settlement residue	5	48,411	54,017
Electricity market income	5	78,823	90,598
Gas market income	5	42,001	39,215
Other revenue	5	8,001	8,727
	5	654,164	732,178
Expenses			
Network charges		(540,158)	(532,817)
Employee benefits	6	(79,358)	(73,712)
Depreciation	9	(5,044)	(5,604)
Amortisation	10	(9,809)	(11,709)
Consulting, contracting and outsourcing		(8,639)	(11,343)
Information technology		(13,441)	(14,164)
Insurance		(2,604)	(2,724)
Finance costs	6	(2,566)	(2,964)
Travel and accommodation		(2,198)	(1,970)
Participant Compensation Fund expenses		-	(170)
Other expenses		(9,803)	(11,282)
		(673,620)	(668,459)
(Deficit)/Surplus before income tax		(19,456)	63,719
Income tax expense	2(d)	-	-
(Deficit)/Surplus		(19,456)	63,719
Other comprehensive income			
Items that will not be reclassified subsequently to profit and loss: Re-measurement of net defined benefit superannuation liability	15	1,271	3,725
Total comprehensive (deficit)/surplus		(18,185)	67,444

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

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014**

	Notes	2014 \$'000	2013 \$'000
Assets			
Current assets			
Cash and cash equivalents	7	30,679	82,810
Trade and other receivables	8	69,550	79,494
Total current assets		100,229	162,304
Non-current assets			
Property, plant and equipment	9	28,659	32,172
Intangible assets	10	29,742	32,325
Total non-current assets		58,401	64,497
Total assets		158,630	226,801
Liabilities			
Current liabilities			
Trade and other payables	11	61,578	106,757
Borrowings	12	5,357	5,357
Provisions	13	19,061	17,087
Other current liabilities	14	3,112	2,198
Defined benefit superannuation	15	7,544	8,524
Total current liabilities		96,652	139,923
Non-current liabilities			
Trade and other payables non current	11	2,720	3,407
Borrowings non-current	12	27,986	33,343
Provisions non current	13	1,368	2,039
Total non-current liabilities		32,074	38,789
Total liabilities		128,726	178,712
Net assets		29,904	48,089
Equity			
Capital contribution of members		7,093	7,093
Participant Compensation Fund reserve	16	9,813	8,610
Australian Wind Energy Forecasting System reserve	16	222	656
Land reserve	16	1,813	1,587
Accumulated surplus	21	10,963	30,143
Total equity		29,904	48,089

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

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2014**

	Capital contribution of members	PCF1 reserve	AWEFS2 reserve	Land reserve	Accumulated surplus/ (deficit)	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2012	7,093	8,225	1,642	1,360	(37,675)	(19,355)
Surplus for the year	-	-	-	-	63,719	63,719
Other Comprehensive Income	-	-	-	-	3,725	3,725
Total Comprehensive Income	-	-	-	-	67,444	67,444
Transfer to/(from) reserves						
- PCF reserve	-	385	-	-	(385)	-
- AWEFS reserve	-	-	(986)	-	986	-
- Land reserve	-	-	-	227	(227)	-
As at 30 June 2013	7,093	8,610	656	1,587	30,143	48,089
At 1 July 2013	7,093	8,610	656	1,587	30,143	48,089
Deficit for the year	-	-	-	-	(19,456)	(19,456)
Other Comprehensive Income	-	-	-	-	1,271	1,271
Total Comprehensive Income	-	-	-	-	(18,185)	(18,185)
Transfer to/(from) reserves						
- PCF reserve	-	1,203	-	-	(1,203)	-
- AWEFS reserve	-	-	(434)	-	434	-
- Land reserve	-	-	-	226	(226)	-
As at 30 June 2014	7,093	9,813	222	1,813	10,963	29,904

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

1 Participant Compensation Fund (PCF). Refer to Note 16.

2 Australian Wind Energy Forecasting System (AWEFS). Refer to Note 16.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014**

	Notes	2014 \$'000	2013 \$'000
Cash flows from operating activities			
Receipts from customers		728,442	787,929
Payments to suppliers and employees		(749,238)	(695,753)
Payment claims from the PCF		-	(1,311)
		(20,796)	90,865
Interest received		2,004	1,834
Interest and other finance costs paid		(2,443)	(3,066)
Net cash (outflow)/inflow from operating activities	23	(21,235)	89,633
Cash flows from investing activities			
Receipts of participant security deposits		136,780	383,804
Repayment of participant security deposits		(153,561)	(368,416)
Payments for property, plant and equipment and intangible assets		(8,758)	(11,325)
Net cash (outflow)/inflow from investing activities		(25,539)	4,063
Cash flows from financing activities			
Repayment of borrowings		(5,357)	(38,217)
Net cash (outflow) from financing activities		(5,357)	(38,217)
Net (decrease)/increase in cash and cash equivalents		(52,131)	55,479
Cash and cash equivalents at the beginning of the financial year		82,810	27,331
Cash and cash equivalents at end of the financial year	7	30,679	82,810

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

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2014

1 INTRODUCTION

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

Level 22, 530 Collins Street
Melbourne, Victoria, 3000

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of preparation

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

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

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

Historical cost convention

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

Net asset position

At reporting date, AEMO has net working capital of \$3,577k (net current assets), and net total assets of \$29,904k.

AEMO is required to operate on a break even funding basis that does not enable the accumulation of significant working capital. AEMO has statutory powers to recover all costs as well as under and over recoveries in any of the specific functions in the next financial year or subsequent financial years. AEMO's current liabilities in the Statement of Financial Position reflect loans and obligations to be repaid within the next 12 months with funds yet to be received from participants. They also reflect AEMO's assessment of its obligations and confirm its intentions to make repayments.

AEMO's accumulated surplus is \$10,963k at 30 June 2014. AEMO includes any surplus/deficits for each of its functions when setting fees for the next financial year or subsequent financial years.

To guarantee ongoing liquidity AEMO has a significant debt facility which ensures project funding and support for variations in the timing of cash flows. This facility is partially utilised, with \$41,657k available to be drawn at 30 June 2014, which ensures AEMO's operation as a going concern.

Critical accounting estimates

Preparation of financial statements that conform with the Australian equivalents to International Financial Reporting Standards (AIFRS) requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the company's accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

b) Currency

Functional and presentation currency

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

Foreign currency translation

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

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

c) Revenue

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

- > Victorian Electricity Transmission Network Service Provider (TNSP) responsibilities.
- > National Electricity Market (NEM).
- > Electricity Full Retail Competition (FRC).
- > Victorian Declared Wholesale Gas Market (DWGM).
- > Gas FRC in Victoria, South Australia, New South Wales and Queensland.
- > Short Term Trading Market (STTM).
- > National Transmission Planning.
- > South Australian Planning Function.

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 30 June 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Revenue (continued)

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

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

The National Electricity Rules and National Gas Rules each require AEMO to establish and maintain a Participant Compensation Fund. Note 16 provides further details of AEMO's participant compensation funds. Contributions to the funds and interest earned on fund investments are recognised as revenue and transferred to the Participant Compensation Fund Reserve.

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

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

d) Income tax

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

e) Leases

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

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

f) Acquisition of assets

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

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

g) Impairment of assets

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

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

h) Cash and cash equivalents

For Statement of Cash Flows presentation purposes, cash and cash equivalents include cash on hand; and deposits held at call with financial institutions that are readily convertible to cash on hand and are subject to an insignificant risk if they change in value.

i) Fair value estimation

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Property, plant and equipment

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

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

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

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

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

k) Financial assets and derivative financial instruments

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

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

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

l) Intangible assets

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

i. NEM establishment costs

NEM establishment costs represent the expenditure incurred to establish the NEM. These costs were recovered from registered

participants over a 10-year period commencing 13 December 1998 and ending 31 December 2008. The straight-line method of amortisation was used and the asset is now fully amortised.

ii. Electricity FRC costs

Electricity FRC costs represent the expenditure incurred during the period January 2002 to June 2003 to develop and implement the electricity FRC market. These costs were recovered from FRC market participants over a 10-year period commencing 1 July 2003 and ending 30 June 2013. The straight-line method of amortisation was used and the asset is now fully amortised.

iii. STTM establishment costs

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

iv. Software

Acquired software

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

Internally developed software

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

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

Directly attributable costs include costs incurred on software development along with an appropriate portion of relevant overheads.

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

Assets are amortised over their estimated useful lives.

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

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 30 June 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) AEMO transition fees receivable

AEMO transition fees receivable represent costs incurred during the period September 2008 to June 2009 to establish AEMO. These costs were recovered from market participants over a three-year period commencing 1 July 2010 and ending 30 June 2013.

n) Trade and other payables

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

o) Borrowing costs

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

p) Provisions

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

q) Employee benefits

i. Short-term employee benefits

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

ii. Long term employee benefits and annual leave

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

r) Superannuation

i. Defined contribution plans

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

ii. Defined benefit plans

Through the business combination that occurred on 1 July 2009 AEMO acquired responsibility for the defined benefit superannuation plan from VENCORP. No new members are permitted to join the plan; however, it is continuing for the benefit of existing members. The defined benefit plan comprises 16 employees and 6 pension members.

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

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

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised directly in other comprehensive income. They are included as a separate component of equity in the statement of financial position and in the statement of changes in equity.

Service cost on the net defined benefit liability is included in employee benefits expense. Net interest expense on the net defined benefit liability is included in finance costs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Goods and Services Tax (GST)

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

t) New accounting standards and interpretations

Changes in accounting policy and disclosures

The company has adopted all of the new and/or revised Accounting Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on 1 July 2013.

The only standard to have a significant impact on AEMO was AASB 119. Information on this new standard is presented below.

Amendments to AASB 119 Employee Benefits

The amendments to AASB 119 made a number of changes to the

accounting for employee benefits, the most significant relating to defined benefit plans. The amendments:

- > Required the recognition of re-measurements (including actuarial gains and losses) arising in the reporting period in other comprehensive income;
- > Changed the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest expense or income based on the net defined benefit asset or liability; and
- > Enhanced disclosures, including more information about the characteristics of defined benefit plans and related risks.

Under the amendments, employee benefits 'expected to be settled wholly' (as opposed to 'due to be settled' under the superseded version of AASB 119) within 12 months after the end of the reporting period are short-term benefits, and are therefore not discounted when calculating leave liabilities. As the company does not expect all annual leave for all employees to be used wholly within 12 months of the end of reporting period, annual leave is included in 'other long-term benefits' and discounted when calculating the leave liability. This change has had no impact on the presentation of annual leave as a current liability in accordance with AASB 101 Presentation of Financial Statements. A retrospective adjustment was not considered material.

AASB 119 has been applied retrospectively in accordance with its transitional provisions. Consequently, the company has restated its reported results in the comparative period presented. There was no effect on the net asset position of the company at 30 June 2013 as detailed below:

Statement of Profit or Loss and Other Comprehensive Income	2014 \$'000	2013 \$'000
Decrease in actuarial gain – defined benefit superannuation plan	(1,271)	(3,725)
Decrease in surplus for the year	(1,271)	(3,725)
Other Comprehensive Income:		
Increase in gain on re-measurement of net defined benefit superannuation liability	1,271	3,725
Increase in other comprehensive income	1,271	3,725
Increase in total comprehensive income	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 30 June 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting standards and interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the company for the annual reporting period ending 30 June 2014, are outlined in the table below:

Details of new standard/amendment/interpretation
AASB 9 – Financial Instruments (Application date: 30 June 2018)
AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities.
These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:
(a) Financial assets that are debt instruments will be classified based on:
(1) the objective of the entity's business model for managing the financial assets; and
(2) the characteristics of the contractual cash flows.
(b) The revised standard allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
(d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:
> The change attributable to changes in credit risk are presented in other comprehensive income (OCI); and
> The remaining change is presented in profit or loss.
If this approach creates or enlarges an accounting mismatch in the profit or loss the effect of the changes in credit risk are also presented in profit or loss.
Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:
> Classification and measurement of financial liabilities; and
> Derecognition requirements for financial assets and liabilities.
AASB 9 requirements regarding hedge accounting represent a substantial overhaul to hedge accounting that will enable entities to better reflect their risk management activities in the financial statements.
Consequential amendments arising from AASB 9 are also contained in various other accounting standards.
AASB 2014-1 Part B (Application date: 1 July 2014)
Part B of AASB 2014-1 makes amendments to AASB 119 Employee Benefits to incorporate the IASB's practical expedient amendments finalised in International Financial Reporting Standard Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) in relation to the requirements for contributions from employees or third parties that are linked to service.
The amendments clarify that if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the related service is rendered, instead of attributing the contributions to the periods of service. In contrast, if the amount of the contributions is dependent on the number of years of service, an entity is required to attribute those contributions to periods of service using the same attribution method required by paragraph 70 of AASB 119 for the gross benefit.

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

3 FINANCIAL RISK MANAGEMENT

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

AEMO is required to operate efficiently on a self-funding break-even basis with fees to fund operations levied upon participants. AEMO has statutory powers to recover all costs as well as under and over recoveries in any of the specific functions in the next financial year or subsequent financial years. Cash flow is relevant as an extension of the efficiency concept materialising in interest rate expense, and therefore risk. In relation to financial instruments, AEMO does not have exposure to foreign currency fluctuations or changes in market prices.

Financial assets and liabilities

	2014 \$'000	2013 \$'000
Financial assets		
Cash and cash equivalents	30,679	82,810
Participant fees receivable	61,169	71,154
Other receivables	4,850	1,716
Prepayments	3,531	2,766
	100,229	158,446
Financial liabilities		
Accounts payable	46,925	1,560
Other creditors and accruals	5,552	75,309
Financial costs - accrued interest	219	96
Electricity market participant security deposits	4,201	21,081
Gas market participant prepayments	2,030	1,388
Borrowings	33,343	38,700
	92,270	138,134

a) Market risk

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 30 June 2014

3 FINANCIAL RISK MANAGEMENT

a) Market risk (continued)

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

Interest rate risk	30 June 2013		-75bps		+75bps	
	Notional amount \$'000	Carrying amount \$'000	Surplus \$'000	Equity \$'000	Surplus \$'000	Equity \$'000
Financial assets						
Cash and cash equivalents	82,810	82,810	(621)	(621)	621	621
	82,810	82,810	(621)	(621)	621	621

b) Credit risk

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

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

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

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

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

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

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

c) Liquidity risk

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

To manage this risk AEMO continually forecasts and monitors cash flow and invests surplus funds in highly liquid markets. To mitigate this risk AEMO has a \$75,000k revolving cash advance facility provided by the National Australia Bank (Note 12).

3 FINANCIAL RISK MANAGEMENT

c) Liquidity risk (continued)

Undrawn borrowing facilities

NAB revolving cash advance facility at 30 June 2014 at carrying amount			
Limit: \$75,000,000	Limit \$ '000	Balance \$ '000	Undrawn \$ '000
Total facility available	75,000	33,343	41,657

Loan repayment commitments

As at 30 June 2014, total loan repayment (combining both principal and interest components) commitments are as follows:

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

AEMO will review funding arrangements prior to the expiry of its existing agreement in March 2017.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

a) Defined benefit superannuation

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

b) Depreciation and amortisation

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

c) Use of assets for network services

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 30 June 2014

5 REVENUE

	2014 \$'000	2013 \$'000
From continuing operations		
Electricity transmission income	476,928	539,621
Settlement residue – intra-regional (TNSP) (TNSP)	42,240	40,091
Settlement residue auctions (TNSP) (TNSP)	6,171	13,926
Settlement residue	48,411	54,017
NEM fees	66,109	71,620
FRC electricity fees	9,017	7,196
FRC electricity – establishment recovery	-	2,089
Registration fees	331	410
National Smart Metering	-	2,750
National transmission planner	3,366	6,533
Electricity market income	78,823	90,598
DWGM fees	19,949	18,340
FRC gas fees	7,756	7,963
STTM fees	11,630	10,269
Gas SOO fees	1,432	1,705
Registration fees	509	462
Other gas revenues	725	476
Gas market income	42,001	39,215
PCF interest	334	399
PCF contributions received	869	157
Bank interest revenue	1,724	1,241
Other	5,074	6,930
Other revenue	8,001	8,727
	654,164	732,178

6 EXPENSES

	2014 \$'000	2013 \$'000
Surplus/(deficit) before income tax includes:		
Amortisation expense	9,809	11,709
Depreciation expense	5,044	5,604
Wages and salaries	59,318	55,460
Defined contribution superannuation expense	6,045	5,474
Defined benefits superannuation expense	921	1,024
Other employee benefits expense	13,074	11,754
Employee benefits	79,358	73,712
Employee benefits above exclude capitalised employee costs of:	4,117	5,185
Bank fees	261	232
Interest expense	2,305	2,732
Finance costs	2,566	2,964
Rental expenses related to operating leases	3,816	3,823

7 CASH AND CASH EQUIVALENTS

	2014 \$'000	2013 \$'000
Cash at bank and on hand	17,462	28,595
Security deposits and early settlement proceeds not available for use	4,238	45,716
Participant Compensation Fund (PCF)	8,979	8,499
	30,679	82,810

8 TRADE AND OTHER RECEIVABLES

Current	2014 \$'000	2013 \$'000
Participant fees receivable	23,869	28,587
TUOS revenue receivable	37,300	42,566
Other receivables	4,850	5,575
Prepayments	3,531	2,766
	69,550	79,494

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 30 June 2014

9 PROPERTY, PLANT AND EQUIPMENT

	Electricity Systems (NEM and FRC)	Gas Systems (Wholesale and FRC)	Short-term Trading Market	Plant and Equipment	Land and Buildings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 30 June 2013						
Cost	17,954	3,159	429	18,062	35,642	75,246
Accumulated depreciation	(15,978)	(2,806)	(307)	(13,748)	(10,235)	(43,074)
Net book value at 30 June 2013	1,976	353	122	4,314	25,407	32,172
Reconciliation of carrying amount: Year ended 30 June 2013						
Carrying amount at 1 July 2012	2,277	762	51	4,776	26,334	34,200
Additions	960	(103)	172	1,586	963	3,578
Disposals	-	-	-	(1)	-	(1)
Depreciation	(1,261)	(306)	(101)	(2,047)	(1,889)	(5,604)
Carrying amount at 30 June 2013	1,976	353	122	4,314	25,407	32,172
Reconciliation of cost:						
Cost amount at 1 July 2012	21,527	3,862	290	20,322	35,564	81,565
Additions	960	(103)	172	1,586	963	3,578
Disposals	(4,533)	(600)	(33)	(3,846)	(885)	(9,897)
Cost amount at 30 June 2013	17,954	3,159	429	18,062	35,642	75,246
At 30 June 2014						
Cost	17,605	3,159	420	18,250	35,662	75,096
Accumulated depreciation	(15,904)	(2,963)	(378)	(15,010)	(12,182)	(46,437)
Net book value at 30 June 2014	1,701	196	42	3,240	23,480	28,659
Reconciliation of carrying amount: Year ended 30 June 2014						
Carrying amount at 1 July 2013	1,976	353	122	4,314	25,407	32,172
Additions	630	-	-	883	19	1,532
Disposals	-	-	-	(1)	-	(1)
Depreciation	(905)	(157)	(80)	(1,956)	(1,946)	(5,044)
Carrying amount at 30 June 2014	1,701	196	42	3,240	23,480	28,659
Reconciliation of cost:						
Cost amount at 1 July 2013	17,954	3,159	429	18,062	35,642	75,246
Additions	629	-	-	883	20	1,532
Disposals	(978)	-	(9)	(695)	-	(1,682)
Cost amount at 30 June 2014	17,605	3,159	420	18,250	35,662	75,096

10 INTANGIBLE ASSETS

	NEM Establishment costs	FRC Establishment costs	Software - Electricity (NEM and FRC)	Software - Gas (Wholesale and FRC)	Software - Short-term Trading Market	Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 30 June 2013							
Cost	44,473	27,330	86,440	6,903	20,760	5,442	191,348
Accumulated amortisation	(44,473)	(27,330)	(73,195)	(4,011)	(7,537)	(2,477)	(159,023)
Net book value at 30 June 2013	-	-	13,245	2,892	13,223	2,965	32,325
Reconciliations:							
Year ended 30 June 2013							
Carrying amount at 1 July 2012	-	2,117	13,879	1,645	15,494	3,152	36,287
Additions	-	-	4,275	1,807	671	994	7,747
Amorisation	-	(2,117)	(4,909)	(559)	(2,943)	(1,181)	(11,709)
Carrying amount at 30 June 2013	-	-	13,245	2,892	13,223	2,965	32,325
Reconciliation of cost:							
Cost amount at 1 July 2012	44,473	27,330	82,165	5,097	20,088	4,448	183,601
Additions	-	-	4,275	1,806	672	994	7,747
Disposals	-	-	-	-	-	-	-
Cost amount at 30 June 2013	44,473	27,330	86,440	6,903	20,760	5,442	191,348
At 30 June 2014							
Cost	44,473	27,330	84,268	9,074	21,316	6,028	192,489
Accumulated amortisation	(44,473)	(27,330)	(71,684)	(4,813)	(10,590)	(3,857)	(162,747)
Net book value at 30 June 2014	-	-	12,584	4,261	10,726	2,171	29,742
Reconciliations:							
Year ended 30 June 2014							
Carrying amount at 1 July 2013	-	-	13,245	2,892	13,223	2,965	32,325
Additions	-	-	3,898	2,171	556	601	7,226
Amorisation	-	-	(4,559)	(802)	(3,053)	(1,395)	(9,809)
Carrying amount at 30 June 2014	-	-	12,584	4,261	10,726	2,171	29,742
Reconciliation of cost:							
Cost amount at 1 July 2013	44,473	27,330	86,440	6,903	20,760	5,442	191,348
Additions	-	-	3,898	2,171	556	601	7,226
Disposals	-	-	(6,070)	-	-	(15)	(6,085)
Cost amount at 30 June 2014	44,473	27,330	84,268	9,074	21,316	6,028	192,489

AEMO notes that Software – Electricity (NEM and FRC) includes the expenditure incurred for the Demand-side Response Mechanism project of \$0.9M with the decision to proceed to be determined by government policy in the 2014/15 year.

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 30 June 2014

11 TRADE AND OTHER PAYABLES

	2014 \$'000	2013 \$'000
Current		
Accounts payable	46,925	1,560
Accrued network charges	223	45,327
Employee incentives payable	6,338	6,228
Finance costs payable	219	96
Participant security deposits	4,201	21,081
Electricity settlement prepayments	36	24,635
Other creditors and accruals	3,636	7,830
	61,578	106,757
Non-current		
Lease incentive	2,720	3,407
	2,720	3,407

12 BORROWINGS

	2014 \$'000	2013 \$'000
Current		
Bank loans		
Norwest	1,243	1,243
STTM	4,114	4,114
	5,357	5,357
Non-current		
Bank loans		
Norwest	19,128	20,371
STTM	8,858	12,972
	27,986	33,343
TOTAL	33,343	38,700

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

12 BORROWINGS (CONTINUED)

Financing arrangements

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

	2014 \$'000	2013 \$'000
Bank loan facilities		
Total facility	75,000	100,000
Used at balance date	(33,343)	(38,700)
Unused at balance date	41,657	61,300

Loan contracts

On 17 February 2012, AEMO signed a \$100,000k Loan Facility Agreement with the National Australia Bank (NAB) for a five-year period. During 2013-14 a review of AEMO's funding requirements was performed and as a result AEMO executed a reduction in the facility from \$100,000k to \$75,000k on 12 June 2014.

At 30 June 2014, the total drawdown is \$33,343k (\$41,657k undrawn).

Banking covenants

AEMO is required to provide to the NAB annual audited financial statements and a ratio certificate where the liquidity ratio is not less than 0.5 : 1. As at 30 June 2014 the liquidity ratio was 1.04.

The drawdown loan details at year end are:

Norwest loan drawdown at 30 June 2014 is \$20,371k. Repayments of principal of \$311k plus interest will be made quarterly for the next three years under the current facility at a fixed rate of 6.07%.

STTM loan drawdown at 30 June 2014 is \$12,972k. Repayments of principal of \$1,029k plus interest will be made quarterly for the next three years under the current facility at a fixed rate of 6.07%.

13 PROVISIONS

	2014 \$'000	2013 \$'000
Current		
Provision for employee entitlements	19,061	17,087
	19,061	17,087
Non-current		
Provision for employee entitlements (non current)	1,368	2,039
	1,368	2,039
TOTAL	20,429	19,126

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 30 June 2014

14 OTHER CURRENT LIABILITIES

	2014 \$'000	2013 \$'000
Prepaid revenue	2,084	1,443
Other liabilities	1,028	755
	3,112	2,198

15 DEFINED BENEFIT SUPERANNUATION PLAN

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

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

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

	2014 \$'000	2013 \$'000
Defined Benefit Obligation	28,854	30,570
Fair value of plan assets	(21,310)	(22,046)
Net defined benefit superannuation liability	7,544	8,524

Reconciliation of the Net Defined Benefit Liability

Financial year	2014 \$'000	2013 \$'000
Net defined benefit liability at start of the year	8,524	13,372
Current service cost	701	751
Net Interest	220	273
Actual return on plan assets less Interest income	(1,874)	(2,755)
Actuarial (gains)/losses arising from changes in demographic assumptions	(56)	-
Actuarial (gains)/losses arising from changes in financial assumptions	(1,243)	(2,497)
Actuarial (gains)/losses arising from liability experience	1,902	514
Employer contributions	(630)	(1,134)
Net defined benefit liability at end of the year	7,544	8,524

15 DEFINED BENEFIT SUPERANNUATION PLAN (CONTINUED)

Reconciliation of the present value of the defined benefit obligation

Financial year	2014 \$'000	2013 \$'000
Present value of defined benefit obligations at beginning of the year	30,570	31,470
Current service cost	701	751
Interest cost	938	729
Contributions by plan participants	141	176
Actuarial (gains)/losses arising from changes in demographic assumptions	(56)	-
Actuarial (gains)/losses arising from changes in financial assumptions	(1,243)	(2,497)
Actuarial (gains)/losses arising from liability experience	1,902	514
Benefits paid	(3,908)	(299)
Taxes, premiums and expenses paid	(191)	(274)
Present value of defined benefit obligations at end of the year	28,854	30,570

Reconciliation of the fair value of plan assets

Financial year	2014 \$'000	2013 \$'000
Fair value of plan assets at beginning of the year	22,046	18,098
Interest income	718	456
Actual return on plan assets less Interest income	1,874	2,755
Employer contributions	630	1,134
Contributions by plan participants	141	176
Benefits paid	(3,908)	(299)
Taxes, premiums and expenses paid	(191)	(274)
Fair value of plan assets at end of the year	21,310	22,046

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 30 June 2014

15 DEFINED BENEFIT SUPERANNUATION PLAN (CONTINUED)

Fair value of plan assets

Financial year ended 30 June 2014	Total \$'000	Quoted prices in active markets for identical assets – Level 1 \$'000	Significant observable inputs – Level 2 \$'000	Unobservable inputs – Level 3 \$'000
Investment funds	21,310	-	21,310	-
Total	21,310	-	21,310	-

	2014 %	2013 %
Australian equity	30	29
International equity	24	30
Fixed income	11	12
Property	9	9
Growth alternatives	8	8
Defensive alternatives	10	7
Cash	8	5

Fair value of plan assets

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

- > Any of the company's own financial instruments.
- > Any property occupied by, or other assets used by, the Company.

Principal actuarial assumptions at the balance sheet date

Assumptions to determine defined benefit superannuation expense	2014 % p.a.	2013 % p.a.
Discount rate (active members)	3.4	2.5
Discount rate (pensioners)	3.4	2.8
Expected salary increase rate	4	4.3
Expected pension increase rate	3	3

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

Assumptions to determine defined benefit obligation	2014 % p.a.	2013 % p.a.
Discount rate (active members)	3.5	3.1
Discount rate (pensioners)	3.5	3.4
Expected salary increase rate	3.7	4
Expected pension increase rate	3	3

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

15 DEFINED BENEFIT SUPERANNUATION PLAN (CONTINUED)

Sensitivity Analysis

The defined benefit obligation as at 30 June 2014 under several scenarios is presented below.

Scenario A and B relate to discount rate sensitivity. Scenario C and D relate to salary increase rate sensitivity. Scenario E and F relate to pension indexation rate sensitivity.

	Base Case	Scenario A	Scenario B	Scenario C	Scenario D	Scenario E	Scenario F
		-0.5% pa discount rate	+0.5% pa discount rate	-0.5% pa Salary increase rate	+0.5% pa Salary increase rate	+0.5% pa Pension indexation	-0.5% pa Pension indexation
Discount rate	3.5% pa	3.0% pa	4.0% pa	3.5% pa	3.5% pa	3.5% pa	3.5% pa
Salary increase rate	3.7% pa	3.7% pa	3.7% pa	3.2% pa	4.2% pa	3.7% pa	3.7% pa
Pension increase rate	3.0% pa	3.0% pa	3.0% pa	3.0% pa	3.0% pa	2.5% pa	3.5% pa
Defined benefit obligation (\$'000)	28,854	30,822	27,068	28,226	29,504	27,727	30,091

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

Asset-Liability matching strategies

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

Funding arrangements

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

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

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

In the most recent review of the financial position as at 31 December 2013 the actuary recommended a Company contribution rate of 9.25% of salaries.

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

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 30 June 2014

15 DEFINED BENEFIT SUPERANNUATION PLAN (CONTINUED)

Expected contributions

Financial year	2015 \$'000
Expected employer contributions	282

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation as at 30 June 2014 is 8 years.

Expected benefit payments for the financial year ending on	\$'000
30 June 2015	2,608
30 June 2016	2,385
30 June 2017	2,954
30 June 2018	2,474
30 June 2019	2,739
Following 5 years	12,495

16 RESERVES

Nature and purpose of reserves

Participant Compensation Fund Reserve

AEMO maintains the following participant compensation funds:

National Electricity Market

Established under the National Electricity Rules, the purpose of this fund is to pay compensation to certain types of participants for scheduling errors as determined by the Dispute Resolution Panel. The funding requirement for each financial year is the lesser of \$1,000k and \$5,000k minus the amount which AEMO reasonably estimates will be the balance of the PCF at the end of the relevant financial year. At 30 June 2014 the balance of the fund is \$5,013k (2013:\$4,251k).

Victorian Declared Wholesale Gas Market

Established under the National Gas Rules, the purpose of this fund is to pay compensation to market participants for unintended scheduling results as determined by the dispute resolution process. The funding requirement for each financial year is the lesser of \$500k and \$1,000k minus the amount AEMO reasonably expects to be the balance of the fund at the end of the financial year. At 30 June 2014 the balance of the fund is \$3,368k (2013:\$3,246k).

Short Term Trading Market

Established under the National Gas Rules, the purpose of these

funds is to pay compensation to market participants for unintended scheduling results as determined by the dispute resolution process. The funding requirement for each financial year is:

- II. **Sydney hub:** The lesser of \$335k and \$670k minus the amount AEMO reasonably expects to be the balance of the fund at the end of the financial year. At 30 June 2014 the balance of the fund is \$744k (2013:\$717k).
- III. **Adelaide hub:** The lesser of \$115k and \$330k minus the amount AEMO reasonably expects to be the balance of the fund at the end of the financial year. At 30 June 2014 the balance of the fund is \$373k (2013:\$297k).
- IIII. **Brisbane hub:** The lesser of \$225k and \$450k minus the amount AEMO reasonably expects to be the balance of the fund at the end of the financial year. At 30 June 2014 the balance of the fund is \$315k (2013:\$99k).

The PCF reserve balances for the NEM, Victorian Declared Wholesale Gas Market and the Short Term Trading Market Sydney and Adelaide hubs have reached the funding requirements under the Rules. No further PCF fees will be charged for these markets unless there is a claim against the fund, however interest will continue to be earned on these funds.

PCF fees for the Short Term Trading Market Brisbane hub will be charged in 2014-15 as the balance of the fund is currently below the funding requirement of the Rules.

16 RESERVES (CONTINUED)

	PCF NEM	PCF Vic Wholesale Gas	PCF STTM Sydney hub	PCF STTM Adelaide hub	PCF STTM Brisbane hub	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2013						
Balance 1 July 2012	4,228	3,096	677	174	50	8,225
Net transfer from retained surplus of contributions and interest earned by the PCF during the year	193	150	40	123	49	555
Claim payments made from the PCF during the year	(170)	-	-	-	-	(170)
Balance 30 June 2013	4,251	3,246	717	297	99	8,610
2014						
Balance 1 July 2013	4,251	3,246	717	297	99	8,610
Net transfer from retained surplus of contributions and interest earned by the PCF during the year	762	122	27	76	216	1,203
Claim payments made from the PCF during the year	-	-	-	-	-	-
Balance 30 June 2014	5,013	3,368	744	373	315	9,813

Land Reserve

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

AWEFS Reserve

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

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 30 June 2014

17 KEY MANAGEMENT PERSONNEL DISCLOSURES

Directors

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

Chairman – non-executive

Dr.T.G. Parry AM

Chief Executive Officer and Managing Director

M. Zema

Non-executive directors

I.L. Fraser	L.V. Hosking
J.G. Hubbard	S. Krieger
G.J.W. Martin	Dr. A. L. Marxsen
S.C. Orr	Dr. M.A. Sargent AM
J. A. Tongs	

All of the above persons were directors for the full financial year and up to the date of this report, with the exception of Mr Ian Fraser and Dr Michael Sargent AM who resigned effective 7 November 2013, and Mr Jon Hubbard and Ms Sibylle Krieger who were appointed to the board effective 7 November 2013.

Key management personnel compensation

	2014 \$'000	2013 \$'000
Directors' compensation		
Short-term employee benefits	1,760	1,747
Post-employee benefits	177	155
	1,937	1,902
Other key management personnel		
Short-term employee benefits	2,165	2,119
Post-employee benefits	207	212
	2,372	2,331
	4,309	4,233

Chairman and the Board members:

The remuneration of the chairman and Board members for the Board and Board committees was initially determined by the Ministerial Council on Energy based on advice received from an external consultant. At the Annual General Meeting on 7 November 2013, the members approved an increase to remuneration and committee fees based on forecast CPI.

Managing Director and Chief Executive Officer:

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

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

Key management personnel (excluding the Managing Director and Chief Executive Officer):

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

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

18 REMUNERATION OF AUDITORS

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

	2014 \$'000	2013 \$'000
Statutory financial audit services		
Services provided by the financial auditor Grant Thornton		
Statutory audit of the financial statements of the company	111	111
Other services		
Other audit services not provided by AEMO's financial auditor *	1,096	1,225

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

19 CONTINGENCIES

AEMO assigned its lease for level 12, 15 William Street, Melbourne to a third party on the basis that the option for an additional five years was exercised. The landlord consented to the assignment on the basis that AEMO remained contingently liable for any default by the assignee. As at 30 June 2014 the contingent liability is equivalent to rent for 2 years with a value of approximately \$2,000k.

From time to time AEMO may be involved in disputes with registered participants. Where the probable outcome against the company can be measured, an appropriate liability is recognised

in the financial statements. Where the outcome is unknown and the company is defending the action, or it is unlikely that any significant liability will arise, an amount is not recognised in the financial statements. Disclosure of details of claims are not provided where the directors consider that this would be prejudicial to AEMO in resolving the disputes.

AEMO is not aware of any potential disputes which could be significant to the company and therefore believe that no further disclosure is required.

20 COMMITMENTS

Capital commitments

Total capital commitments relate to contracted acquisition of intangible assets.

	2014 \$'000	2013 \$'000
Not later than one year	619	711
Later than one year but not later than five years	-	366
Later than five years	-	-
	619	1,077

NOTES TO THE FINANCIAL STATEMENTS (continued) for the year ended 30 June 2014

20 COMMITMENTS (continued)

Operating lease commitments

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

	2014 \$'000	2013 \$'000
Not later than one year	4,272	3,389
Later than one year but not later than five years	13,319	13,557
Later than five years	970	5,312
	18,561	22,258

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

The leases relate to the following:

- > Melbourne CBD premises – lease agreement to 31 October 2018.
- > Sydney CBD premises – lease agreement to 28 February 2021.
- > Brisbane CBD premises – lease agreement to 30 June 2016.
- > Mansfield premises – lease agreement to 30 December 2018.
- > Adelaide CBD premises – lease agreement to 15 July 2019.

21 ACCUMULATED SURPLUS/(DEFICIT)

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

	2014 \$'000	2013 \$'000
NEM	3,003	5,602
Electricity FRC	855	907
National Smart Metering	-	(118)
Victorian TNSP	(3,703)	17,941
DWGM	9,329	7,999
Gas FRC	3,726	2,506
STTM	(4,811)	(7,674)
NTP	1,015	1,809
Other functions	1,549	1,171
	10,963	30,143

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

22 EVENTS OCCURRING AFTER BALANCE SHEET DATE

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

23 RECONCILIATION OF (DEFICIT)/SURPLUS TO NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES

	2014 \$'000	2013 \$'000
(Deficit)/Surplus	(19,456)	63,719
Depreciation and amortisation	14,853	17,313
Actuarial adjustment to defined benefit fund contributions	291	(1,134)
Change in operating assets and liabilities		
Decrease/(increase) in trade and other receivables	9,891	(13,852)
(Decrease)/increase in creditors and accruals	(28,116)	24,120
Increase/(decrease) in provisions	1,302	(533)
Net cash (outflow)/inflow provided by operating activities	(21,235)	89,633

24 RELATED PARTY TRANSACTIONS

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

A number of directors occupy roles in other energy companies which pay fees to AEMO. All related party transactions for the year ended 30 June 2014 were transacted at arms-length.

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

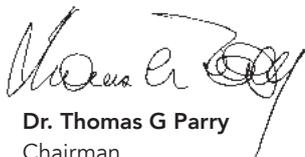


DIRECTORS' DECLARATION

The directors of Australian Energy Market Operator Limited declare that:

1. The financial statements, comprising the statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, and accompanying notes, are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards as described in Note 2 to the financial statements and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the company's financial position as at 30 June 2014 and of its performance for the year ended on that date in accordance with the accounting policies described in Note 2 to the financial statements.
2. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Dr. Thomas G Parry
Chairman

Melbourne
4 September 2014



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

We have audited the accompanying financial report of Australian Energy Market Operator Limited (the "Company"), which comprises the statement of financial position as at 30 June 2014, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Company.

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion the financial report of Australian Energy Market Operator Limited is in accordance with the Corporations Act 2001, including:

- i giving a true and fair view of the Company's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
- ii complying with Australian Accounting Standards and the Corporations Regulations 2001.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Michael Climpson

Michael Climpson
Partner

Melbourne, 4 September 2014

Abbreviations

AC	Alternating Current
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AM	Member of the Order of Australia
AO	Officer of the Order of Australia
ARENA	Australian Renewable Energy Agency
ASEFS	Australian Solar Energy Forecasting System
ASU	Ancillary Services Unbundling
ASX	Australian Securities Exchange
CDEII	Carbon Dioxide Equivalent Intensity Index
CER	Clean Energy Regulator
COAG	Council of Australian Governments
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DNSP	Distribution Network Service Provider
DRM	Demand-Response Mechanism
DSN	Declared Shared Network
DTS	Declared Transmission System
DWGM	Declared Wholesale Gas Market
EICDM	Energy Industry Conceptual Data Model
ESOO	Electricity Statement of Opportunities
E-RMS	E-Recruitment Management System
FCAS	Frequency Control Ancillary Services
FRC	Full Retail Contestability
FTE	Full Time Equivalent
GW	Gigawatt
GBB	Gas Bulletin Board
GCAP	Gas Consumer Advocacy Panel
GSOO	Gas Statement of Opportunities
GWCF	Gas Wholesale Consultative Forum
HRMS	Human Resource Management System
IPART	Independent Pricing and Regulatory Tribunal of NSW
LNG	Liquefied Natural Gas
LRET	Large-scale Renewable Energy Target
MOS	Market Operative Services
MT PASA	Medium Term Projected Assessments of System Adequacy
MW	Megawatt

NAB	National Australia Bank
NCIPAP	Network Capability Incentive Parameter Action Plan
NEFR	National Electricity Forecasting Report
NEL	National Electricity Law
NEM	National Electricity Market
NEMEMF	National Electricity Market Emergency Management Forum
NGER	National Greenhouse and Energy Reporting
NGERAC	National Gas Emergency Response Advisory Committee
NGFR	National Gas Forecast Report
NGL	National Gas Law
NSCAS	Network Support and Control Ancillary Services
NTNDP	National Transmission Network Development Plan
NTP	National Transmission Planner
OFA	Optional Firm Access
PACR	Project Assessment Conclusions Report
PASA	Projected Assessments of System Adequacy
PCF	Participant Compensation Fund
PJ	Petajoule
PV	Photovoltaic
RET	Renewable Energy Target
RIT-T	Regulatory Investment Test for Transmission
SAER	South Australian Electricity Report
SAFTR	South Australian Fuel and Technology Report
SCADA	Supervisory Control and Data Acquisition
SCER	Standing Council on Energy and Resources (now COAG Energy Council)
SRAS	System Restart Ancillary Services
STPIS	Service Target Performance Incentive Scheme
ST PASA	Short Term Projected Assessments of System Adequacy
STTM	Short Term Trading Market
TJ	Terajoule
TNSP	Transmission Network Service Provider
TUOS	Transmission Use of System
TWh	Terawatt Hour
VAPR	Victorian Annual Planning Report
VCR	Value of Customer Reliability
WHSE	Workplace Health, Safety, and Environment

DIRECTORY



Australian Energy Market Operator

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Registered and principal corporate head office

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AEMO Information and Support Hub: 1300 236 600

Statutory Auditor

Grant Thornton

Market Auditors

RSM Bird Cameron
PricewaterhouseCoopers

Internal Auditor

RSM Bird Cameron

Banker

NAB

Solicitor

Principal Advisors:

Thomson Geer
Johnson Winter & Slattery

