imo

Independent Market Operator

Annual Report 2009/10

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INDEPENDENT MARKET OPERATOR

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Chair and Executive Report

This year has proven to be important strategically in planning the next phase of the evolution of the Wholesale Electricity Market (WEM) in Western Australia.

The Independent Market Operator (IMO) led a process to assist Market Participants to identify improvements to the market design they wished the IMO to progress as part of the WEM Market Rules Evolution Plan (MREP). These priorities were further emphasised with the publication of the Verve Energy Review (Oates Review) that highlighted a similar list of market design improvements.

The IMO and the Oates Implementation Team worked collaboratively with the Market Advisory Committee (MAC) throughout the year to ensure that Market Participants were consulted on the options for further development of the WEM design. After numerous working group meetings, industry workshops and MAC discussions, the MAC provided the IMO Board with advice on the priorities for improving the existing WEM design.

The project to implement the required market design changes is now underway and will provide a significant focus for the IMO in 2010/11.

At an operational level, the Reserve Capacity Mechanism (RCM) continues to attract capacity to meet Western Australia's peak load. In 2005/06 the accredited capacity was 3,351 MW. In 2012/13 the accredited capacity is expected to be 5,995 MW, a 79 per cent increase in seven years. In that period, the diversity of capacity has increased and a balance of fuel sources has been maintained. However, the cost of capacity has increased over this period and the IMO Board has initiated a review of the RCM that will be completed in 2010/11.

In the energy market, the average Short Term Energy Market (STEM) price has decreased from $55.45 per MWh at market commencement to $31.30 per MWh. A similar decrease was also recorded in the average balancing price from $67.45 per MWh to $32.57 per MWh in 2010.

During the same period, the market volume exposed to STEM and balancing prices has moved from 5.5 per cent of the total volume traded to 11.3 per cent in 2010.

This has been a pleasing result and is reflective of a robust and an increasingly competitive market.

Other notable achievements this year include:

- the approval by the Economic Regulation Authority (ERA) of the IMO's three year allowable revenue for 2010/11 to 2012/13;
- the successful hosting by the IMO of the Association of Power Exchanges (APEx) Asia-Pacific region meeting in March 2010; and
- the commencement of the IMO's Graduate Program.

The WEM systems encountered a difficult year with twelve STEM delays and seven late publications of settlement statements recorded this year. At market start, in order to minimise WEM implementation costs, the IMO arranged to share IT system facilities with a government agency. The WEM seven day operations and the requirement for high availability exposed key weaknesses in this arrangement in 2009/10. This year the IMO successfully completed a project to relocate the WEM infrastructure to a managed facility. A significant performance improvement in the WEM systems availability is expected in 2010/11 as a result.

The IMO conducts training on the WEM for all Market Participants and industry stakeholders. This year continues to demonstrate the value and popularity of these programs with 516 registrations received to participate in four customised half day modules.

The Renewable Energy Generation Working Group secured funding for its work program in 2009/10 and has made considerable progress this year. The work carried out by this group has included a review of:

- the cost allocation of Load Following services;
- the allocation of Reserve Capacity Credits to intermittent generation; and
- the technical rules for intermittent generation.

The Renewable Energy Generation Working Group work program is expected to conclude early in 2010/11.

As part of the IMO's ongoing commitment to the efficient and compliant operation of the market we have undertaken a comprehensive operational review of our WEM obligations under the Market Rules. A number of non-compliance issues were identified, however we believe these issues are immaterial and have not impacted on WEM operations. The Market Auditor will provide an independent view on these matters later in the year.

To our WEM stakeholders, we would like to offer our thanks for your support and cooperation in a year of significant activity. The transparent and consultative approach to managing market change delivers considerable benefits for all participants, but does come at the cost of participant's time. We continue to be gratified by the level of support we receive from the industry.

To our dedicated team at the IMO, we would like to thank you for your efforts in what has been a challenging year at the IMO.

JOHN KELLY
CHAIR

ALLAN DAWSON
CHIEF EXECUTIVE OFFICER

Corporate Profile

The IMO is a body corporate that was established on 1 December 2004 to administer and operate the Wholesale Electricity Market of Western Australia.

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

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

1.1 MARKET OBJECTIVES

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

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

1.2 IMO GOVERNANCE FRAMEWORK

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

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

IMO Board members are:

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

1.3 STRATEGIC OBJECTIVES

MARKET OPERATIONS

The IMO operates reliable, efficient energy and capacity markets with integrity and transparency.

MARKET DEVELOPMENT

The IMO promotes market evolution to meet the needs of the market, consistent with the Market Objectives. Development is based on robust analysis, objective reasoning and consultation.

CUSTOMERS AND STAKEHOLDERS

The IMO develops relationships with customers and stakeholders, based on trust and knowledge sharing, to support the Market Objectives.

FINANCIAL RESPONSIBILITY

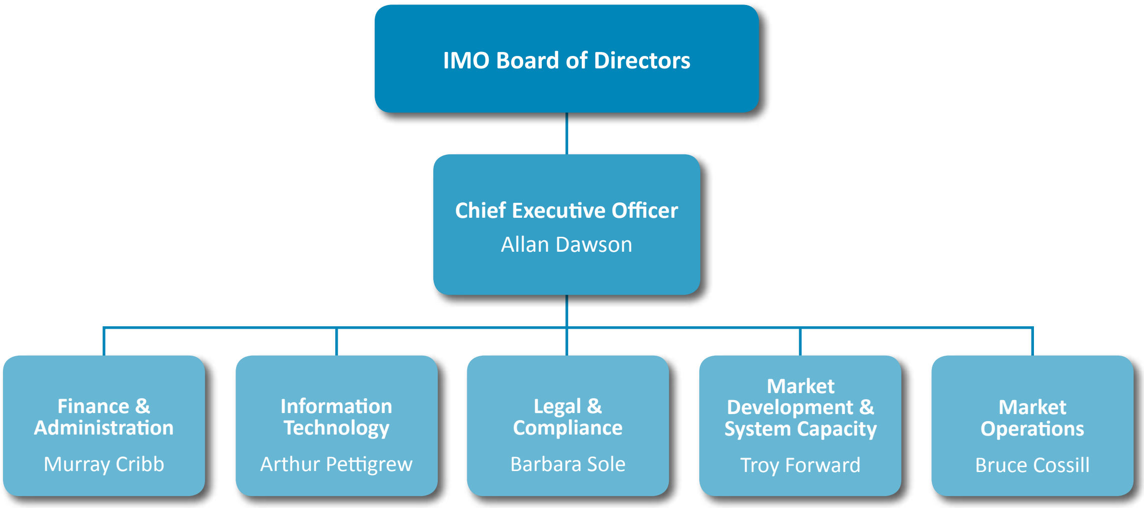
All financial transactions have prudent governance oversight. IMO expenditure is cost effective.

IMO CAPACITY AND CAPABILITY

The IMO has the capacity and capability to operate the market professionally and meet our stakeholders' expectations.

1.4 IMO ORGANISATIONAL STRUCTURE

Figure 1. IMO Organisational Chart



Key Performance Indicators 2009/10

STRATEGIC OBJECTIVE: MARKET OPERATIONS

Measure	Performance Expectation	Progress to 30 June 2010
Number of STEM Market Suspensions	≤ 2	0
STEM Market Delay	≤ 5	12[1]
Unplanned System Availability (3,500 hours per year – 7:00 am – 5:00 pm seven days per week)	≤ 20 hours not available	12 hours 40 minutes
Late Settlement Statements	≤ 2	7[2]

STRATEGIC OBJECTIVE: MARKET DEVELOPMENT

Measure	Performance Expectation	Progress to 30 June 2010
Market Rules Evolution Plan agreed and published	2 times per year	1 completed and prioritised[3]
Implementing all Rule Changes within agreed timeframes	≥ 95%	88% of rule change timeframes met for the year to date. 18 of 145 (12%) timeframes have been extended to date.[4]

STRATEGIC OBJECTIVE: CUSTOMERS AND STAKEHOLDERS

Measure	Performance Expectation	Progress to 30 June 2010
Number of registrations for market training	≥ 150 people	516 registrations.
Stakeholder survey completed and results published	Achieved	Stakeholder survey completed and results published in early 2010.

STRATEGIC OBJECTIVE: FINANCIAL RESPONSIBILITY

Measure	Performance Expectation	Progress to 30 June 2010
Expenditure Control	≤ Allowable Revenue	Within budget
Capital Expenditure Control	≤ Capital Budget	Within budget

STRATEGIC OBJECTIVE: IMO CAPACITY AND CAPABILITY

Measure	Performance Expectation	Progress to 30 June 2010
Training and development	40 hours per person per year	Average 42.5 hours per person

[1]An air conditioning fault caused three of the delays. This was addressed by relocating server equipment to a commercial data centre in May 2010. A software technical issue caused remainder of the delays. The issue has been resolved.

[2]Software technical issues caused delays in the time taken to produce settlement adjustments. The issue has been resolved.

[3]Given the overlap between the priorities and outcomes of the Oates Review and the MREP it is likely that this KPI will be superseded by the work being undertaken as part of the Oates Review Implementation project.

[4]Due to the technical complexity of eighteen Rule Changes, the IMO has extended the timeframes to allow for greater consultation and additional analytical time.

Corporate Governance

4.1 LEGISLATIVE FRAMEWORK

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

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

The IMO is required under its Regulations to submit an operational plan for the following financial year to the Minister for Energy for approval by 30 April each year.

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

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

4.2 BOARD OF DIRECTORS

The IMO's governing body is a Board of three Directors appointed by the Minister for Energy.

4.3 CODE OF CONDUCT AND HUMAN RESOURCE STANDARDS

The Regulations require the Board to develop and establish minimum human resource standards (HR Standards) to apply to staff, and a Code of Conduct, in consultation with the Commissioner for Public Sector Standards. The Board endorsed an employee handbook in June 2009 which contained revised HR Standards and a Code of Conduct, subject to consideration of feedback from the Commissioner for Public Sector Standards. Complimentary feedback was received from the Commissioner in August 2009.

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

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

4.4 OCCUPATIONAL SAFETY AND HEALTH

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

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

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

4.5 INTERNAL AUDIT

The IMO's inaugural Strategic Audit Plan covers the period 2008/09 – 2010/11. During the year internal audit reviews were conducted in the areas of payroll and taxation compliance, and two scheduled reviews on IT related issues were substituted by a review conducted in this area as part of a whole-of-Government review by the Office of the Auditor General. No major audit findings were identified in any of the reviews.

4.6 OTHER

- The IMO is a "notifying authority" for the purposes of the *Corruption and Crime Commission Act 2003* and the *Public Interest Disclosure Act 2003*. There were no incidents requiring disclosure reports under this legislation during the year.
- The provisions of the *Freedom of Information Act 1992* apply to the IMO. During the year, no applications were received. A statement in accordance with the *Freedom of Information Act 1992*, giving information about the IMO and making an FOI request is available on the IMO website.
- The State Records Commission approved the IMO's Recordkeeping Plan on 25 June 2008 satisfying the IMO's obligations under the *State Records Act 2000*. Employee responsibilities in respect of record keeping are outlined in the Employee Handbook, form part of formal induction processes for new starters, and are periodically presented to staff in support of the recordkeeping training program.
- Under the *Electoral Act 1907* the IMO is required to report on expenditure on advertising, market research, polling, direct mail and media advertising. Expenditure of $20,236 was incurred on staff recruitment advertising and $16,416 on tender advertising
- The *Equal Opportunity Act 1994* requires the IMO to prepare and implement an equal opportunity management plan and report annually on progress with the plan. An updated EEO Management Plan for the period 2010-2012 was established in December 2009 and annual reporting obligations for 2009/10 were satisfied in July 2010.

Director's Report

The Directors of the Independent Market Operator present their report for the twelve months to 30 June 2010.

DIRECTORS

The following were Directors of the IMO during the financial year to 30 June 2010:

John Kelly

- Appointed Director December 2004
- Appointed Chair April 2006
- Current term ends May 2012

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

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

Shaun Dennison

- Appointed Director March 2006
- Appointed Deputy Chair June 2006
- Current term ends* June 2010

* Under Schedule 1 of the *Electricity Industry (Independent Market Operator) Regulations 2004*, a Director continues in office until his or her successor comes into office, even if the period for which the Director was appointed has expired.

Mr Shaun Dennison has had 18 years experience in corporate advisory and project management roles with a focus on energy and water sector reform. He is one of two independent members of the Information Exchange Committee, established under the National Electricity Rules, appointed by the electricity industry.

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

David Huggins

- Appointed Director November 2006
- Current term ends July 2011

Mr David Huggins is a lawyer specialising in stockbroking industry related matters. He currently has his own legal practice and has previously held positions with the Australian Securities Exchange, Australian Securities Commission and a major law firm.

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

DIRECTORS' MEETINGS

Attendances by Directors at meetings held during the financial year ending 30 June 2010 were:

	Meetings Attended	Meetings Eligible
John Kelly	11	12*
Shaun Dennison	12	12*
David Huggins	12	12*

* Includes a special meeting held in December 2009

PRINCIPAL ACTIVITIES

The principal activity of the IMO during the year was the operation of the Wholesale Electricity Market.

REVIEW OF OPERATIONS

The IMO has operated during 2009/10 in accordance with its obligations under the *Electricity Industry (Independent Market Operator) Regulations 2004* and the Wholesale Electricity Market Rules.

The Minister of Energy issued no Ministerial Directions to the IMO in 2009/10.

RESULTS OF OPERATIONS

The Operating Result for the IMO for the year ending 30 June 2010 was a loss of $2.076 million, which compares to a budgeted loss of $2.232 million approved in the Operational Plan. This outcome was better than expected largely due to lower than budgeted expenditure.

The IMO is required under the Market Rules to return operating surpluses to Market Participants via adjustments to subsequent year budgets. A surplus of $2.232 million was recorded for 2007/08, which was offset against the 2009/10 operational loss of $2.076 million.

Director's Report

DIVIDENDS

There were no dividends paid or declared by the IMO.

SIGNIFICANT CHANGES IN THE IMO'S STATE OF AFFAIRS

There were no significant changes to the state of affairs in IMO's operating environment during the financial year under review.

MATTERS OR CIRCUMSTANCES THAT AROSE WHICH MAY AFFECT FUTURE FINANCIAL YEARS

The IMO's Directors are of the opinion that no matters or circumstances have arisen since the end of the financial year or are likely to arise that will significantly affect (or have the potential to significantly affect) the IMO's operations, the results of those operations, or the state of affairs of the IMO in the financial year subsequent to 30 June 2010.

ENVIRONMENTAL REGULATIONS

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

INDEMNIFICATION AND INSURANCE OF OFFICERS

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

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

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

EMOLUMENTS

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

Directors' Emoluments

The Minister for Energy determines the emolument of the Board of Directors. Details of emoluments provided to Directors during 2009/10 are:

	Primary Fees	Post-employment Superannuation	Total
John Kelly	$64,792	$5,831	$70,623
Shaun Dennison	$35,885	$3,230	$39,115
David Huggins	$35,885	$3,230	$39,115

Director Benefits

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

Director's Report

Independent Market Operator

Executives' Emoluments

The Board, with the approval of the Minister for Energy, determines the emolument package of the Chief Executive Officer. The Board determined the remuneration of the other senior executives in 2009/10 based on benchmarking with other organisations and competitive requirements.

Details of emoluments provided to the named officers receiving the highest emolument during 2009/10 are:

	Salary	Post-employment Superannuation	Total
Allan Dawson	$324,348	$38,922	$363,271
Troy Forward	$171,281	$15,415	$186,696
Neil Hay *	$146,459	$23,773	$170,232
Arthur Pettigrew	$147,438	$19,157	$166,595
Murray Cribb	$145,713	$16,934	$162,647

* Employed for period 1 July 2009 to 30 April 2010. Reported salary figure includes $34,692 accumulated annual leave paid out.

RESOLUTION

This report is made in accordance with a resolution of the Board on 19 August 2010.

JOHN KELLY

Chair

9 September 2010

SHAUN DENNISON

Deputy Chair

9 September 2010

Directors' Declaration

for the year ended 30 June 2010

The Directors of the Independent Market Operator declare that the financial statements and notes as set out on pages 11 to 34:

a. comply with applicable accounting standards and the *Corporations Act 2001*;

b. give a true and fair view of the financial position of the Independent Market Operator as at 30 June 2010 and of its performance for the period 1 July 2009 to 30 June 2010;

c. are in accordance with *Electricity Industry (Independent Market Operator) Regulations 2004*; and

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

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

John Kelly

DIRECTOR

Shaun Dennison

DIRECTOR

Dated this 9th day of September 2010

Statement of Comprehensive Income

for the year ended 30 June 2010

	Note	2010 $000	2009 $000
INCOME			
User charges and fees	2	9,292	9,193
Interest revenue	3	70	331
Other income	4	56	127
Income from state government	4	5	-
Total Income		**9,423**	**9,651**
EXPENSES			
Loss on disposal of non-current assets	5	-	(2)
Employee benefits expense	6	(3,799)	(3,516)
Depreciation and amortisation expense	7	(2,423)	(3,305)
Supplies and services	8	(4,653)	(3,780)
Advertising expense	9	(42)	(18)
Accommodation expense	10	(313)	(290)
Finance costs	11	(65)	(331)
Other expenses	12	(204)	(214)
Total Expenses		**(11,499)**	**(11,456)**
LOSS FOR THE PERIOD	32	**(2,076)**	**(1,805)**
OTHER COMPREHENSIVE INCOME			
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**(2,076)**	**(1,805)**

The accompanying notes form part of these financial statements.

Statement of Financial Position

for the year ended 30 June 2010

	Note	2010 $000	2009 $000
ASSETS			
Current Assets			
Cash and cash equivalents	13	2,652	5,204
Trade and other receivables	14	1,602	1,538
Other assets	15	21	-
Total Current Assets		**4,275**	**6,742**
Non-Current Assets			
Property, plant and equipment	16	676	624
Intangible assets	17	1,735	2,621
Total Non-Current Assets		**2,411**	**3,245**
TOTAL ASSETS		**6,686**	**9,987**
LIABILITIES			
Current Liabilities			
Trade and other payables	18	724	710
Borrowings	19	1,022	3,718
Other liabilities	20	500	-
Provisions	21	208	233
Total Current Liabilities		**2,454**	**4,661**
Non-Current Liabilities			
Borrowings	19	1,517	566
Provisions	21	159	128
Total Non-Current Liabilities		**1,676**	**694**
TOTAL LIABILITIES		**4,130**	**5,355**
NET ASSETS		**2,556**	**4,632**
EQUITY			
Retained earnings	22	2,556	4,632
TOTAL EQUITY		**2,556**	**4,632**

The accompanying notes form part of these financial statements.

Statement of Changes in Equity
for the year ended 30 June 2010

	Note	Accumulated Surplus $000
Balance at 1 July 2008	22	**6,437**
Total comprehensive income for the period		(1,805)
Balance at 30 June 2009		**4,632**

Balance at 1 July 2009		**4,632**
Total comprehensive income for the period		(2,076)
Balance at 30 June 2010	22	**2,556**

The accompanying notes form part of these financial statements.

Statement of Cash Flows

for the year ended 30 June 2010

	Note	2010 $000	2009 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Provision of services		9,222	9,402
Interest received		70	331
Other receipts		56	127
Goods and Services Tax receipts		6	18
Payments			
Employee benefits expense		(3,791)	(3,559)
Supplies and services		(4,136)	(3,484)
Finance costs		(65)	(331)
Accommodation expense		(334)	(290)
Advertising expense		(42)	(19)
Other expenses		(204)	(214)
Net cash provided by operating activities	23(b)	**782**	**1,981**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of non-current physical assets		(301)	(205)
Purchase of intangible assets		(1,288)	(876)
Net cash (used in) investing activities		**(1,589)**	**(1,081)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(1,745)	(1,813)
Net cash (used in) financing activities		**(1,745)**	**(1,813)**
Net (decrease) in cash and cash equivalents		**(2,552)**	**(913)**
Cash and cash equivalents at the beginning of period		5,204	6,117
Cash and cash equivalents at the end of period	23(a)	**2,652**	**5,204**

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

for the year ended 30 June 2010

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) GENERAL STATEMENT

The financial statements constitute general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board ("AASB"), the *Corporations Act 2001* and the *Electricity Industry (Independent Market Operator) Regulations 2004*.

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

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

(B) BASIS OF PREPARATION

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

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

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

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

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

(C) REPORTING ENTITY

The reporting entity comprises the Independent Market Operator.

(D) REVENUE AND OTHER INCOME

Revenue Recognition

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

User Charges and Fees

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

Interest

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

Gains

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

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

(E) INCOME TAX

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

(F) BORROWING COSTS

Borrowing costs for qualifying assets are capitalised net of any investment income earned on the unexpended portion of the borrowings. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the IMO's outstanding borrowings during the year, in this case 5.36% (2009: 6.03%).

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(G) PLANT AND EQUIPMENT

Capitalisation/Expensing of Assets

Items of plant and equipment costing $5,000 or more are recognised and capitalised as assets and the cost of utilising assets is expensed (depreciated) over their useful lives. Items of plant and equipment costing less than $5,000 are immediately expensed direct to the Statement of Comprehensive Income (other than where they form part of a group of similar items which are significant in total).

Initial Recognition and Measurement

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

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

Subsequent Measurement

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

Depreciation

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

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

Estimated useful lives for each class of depreciable asset are:

Furniture and equipment	5 years
Computer equipment	3 years
Leasehold improvements (or remaining term of lease, if less)	10 years

(H) INTANGIBLE ASSETS

Capitalisation/Expensing of Assets

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

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

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

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

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

Software	3 years

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

Notes to the Financial Statements
for the year ended 30 June 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(I) IMPAIRMENT OF ASSETS

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

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

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

The risk of impairment is generally limited to circumstances where an asset's depreciation is materially understated, where the replacement cost is falling or where there is a significant change in useful life. Each relevant class of assets are reviewed annually to verify that the accumulated depreciation/ amortisation reflects the level of consumption or expiration of the asset's future economic benefits and to evaluate any impairment risk from falling replacement costs.

Intangible assets with an indefinite useful life and intangible assets not yet available for use are tested for impairment at each reporting period irrespective of whether there is any indication of impairment.

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

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

(J) LEASES

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

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

(K) FINANCIAL INSTRUMENTS

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

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

Financial instruments have been disaggregated into the following classes:

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

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

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

(L) CASH AND CASH EQUIVALENTS

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(M) ACCRUED SALARIES

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

(N) TRADE AND OTHER RECEIVABLES

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

(O) TRADE AND OTHER PAYABLES

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

(P) BORROWINGS

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

(Q) PROVISIONS

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

Provisions – Employee Benefits

Annual Leave and Long Service Leave

The liability for annual and long service leave expected to be settled within 12 months after the reporting period is recognised and measured at the undiscounted amounts expected to be paid when the liabilities are settled. Annual and long service leave expected to be settled more than 12 months after the reporting period is measured at the present value of amounts expected to be paid when the liabilities are settled. Leave liabilities are in respect of services provided by employees up to the end of the reporting period.

When assessing expected future payments consideration is given to expected future wage and salary levels including non-salary components such as employer superannuation contributions. In addition, the long service leave liability also considers the experience of employee departures and periods of service.

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

All annual leave and unconditional long service leave provisions are classified as current liabilities as the IMO does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Superannuation

The Government Employees Superannuation Board (“GESB”) in accordance with legislative requirements administers public sector superannuation arrangements in Western Australia.

Employees may contribute to the Pension Scheme, a defined benefit pension scheme now closed to new members or the Gold State Superannuation Scheme (“GSS”), a defined benefit lump sum scheme also closed to new members.

Employees commencing employment prior to 16 April 2007 who were not members of either the Pension or the GSS became non-contributory members of the West State Superannuation Scheme (“WSS”). Employees commencing employment on or after 16 April 2007 became members of the GESB Super Scheme (“GESBS”). Both of these schemes are accumulation schemes. The IMO makes concurrent contributions to GESB on behalf of employees in compliance with the Commonwealth Government’s *Superannuation Guarantee (Administration) Act 1992*. These contributions extinguish the liability for superannuation charges in respect of the WSS and GESBS.

Notes to the Financial Statements
for the year ended 30 June 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(Q) PROVISIONS (CONT.)

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

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

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

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

Provisions – Other

Employment On-Costs

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

Employment on-costs are included as part of the IMO's 'Supplies and Services – insurance, and other expenses' as shown in Note 8, and are not included as part of the IMO's 'Employee Benefits Expense'. The related liability is included in the employment on-costs provision as shown in Note 21.

(R) SUPERANNUATION EXPENSE

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

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

Actuarial gains and losses of the defined benefit plans are recognised immediately as income or expense in the Statement of Comprehensive Income.

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

(S) RESOURCES RECEIVED FREE OF CHARGE OR FOR NOMINAL COST

Resources received free of charge or for nominal cost that can be reliably measured are recognised as income and as assets or expenses as appropriate, at fair value.

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

(T) COMPARATIVE FIGURES

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

(U) JUDGEMENTS MADE BY MANAGEMENT IN APPLYING ACCOUNTING POLICIES

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

Operating Lease Commitments

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

(V) KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Long Service Leave

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(W) INITIAL APPLICATION OF AN AUSTRALIAN ACCOUNTING STANDARD

The IMO has applied the following Australian Accounting Standards effective for annual reporting periods beginning on or after 1 July 2009 that impacted on the IMO.

AASB 101	Presentation of Financial Statements (September 2007) This Standard has been revised and introduces a number of terminology changes as well as changes to the structure of the Statement of Changes in Equity and the Statement of Comprehensive Income. It is now a requirement that owner changes in equity be presented separately from non-owner changes in equity. There is no financial impact resulting from the application of this revised Standard.
AASB 2007-10	Further Amendments to Australian Accounting Standards arising from AASB 101 This Standard changes the term 'general purpose financial report' to 'general purpose financial statements', where appropriate in Australian Accounting Standards and the *Framework* to better align with IFRS terminology. There is no financial impact resulting from the application of this Standard.
AASB 2008-13	Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners [AASB 5 & AASB 110] This Standard amends AASB 5: *Non-current Assets Held for Sale and Discontinued Operation*s in respect of the classification, presentation and measurement of non-current assets held for distribution to owners in their capacity as owners. There is no financial impact resulting from the application of this Standard.
AASB 2009-2	Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments [AASB 4, AASB 7, AASB 1023 & AASB 1038] This Standard amends AASB 7: *Financial Instruments: Disclosures* and will require enhanced disclosures about fair value measurements and liquidity risk with respect to financial instruments. There is no financial impact resulting from the application of this Standard.

(X) FUTURE IMPACT OF AUSTRALIAN ACCOUNTING STANDARDS NOT YET OPERATIVE

The IMO cannot early adopt an Australian Accounting Standard unless specifically permitted by *TI 1101: Application of Australian Accounting Standards and Other Pronouncements*. Consequently, the IMO has not applied early any of the following Australian Accounting Standards that have been issued that may impact the IMO. Where applicable, the IMO plans to apply these Australian Accounting Standards from their application date.

		Operative for reporting periods beginning on/after
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]. The amendment to AASB 7: *Financial Instruments: Disclosures* requires modification to the disclosure of categories of financial assets. The IMO does not expect any financial impact when the Standard is first applied. The disclosure of categories of financial assets in the notes will change.	1 Jan 2013

	2010 $000	2009 $000

NOTE 2: USER CHARGES AND FEES

	2010 $000	2009 $000
Regulatory charge – registration fees	14	21
Regulatory charge – market fees	9,278	9,172
	9,292	**9,193**

NOTE 3: INTEREST REVENUE

Interest received from bank	70	331
	70	**331**

NOTE 4: OTHER REVENUE

Market participant training	11	5
Income from state government (a)	5	-
Other revenue	45	122
	61	**127**

a. Services provided free of charge by the Department of Treasury and Finance for accommodation related services.

NOTE 5: NET LOSS ON DISPOSAL OF NON-CURRENT ASSETS

Costs of Disposal of Non-Current Assets

Property, plant and equipment	-	(2)
Net loss	**-**	**(2)**

NOTE 6: EMPLOYEE BENEFITS EXPENSE

Wages and salaries (a)	3,372	3,123
Superannuation - defined contribution plans (b)	322	297
Superannuation - defined benefit plans (Note 21 'Provisions')	99	141
Annual leave (c)	(34)	(28)
Long service leave (c)	40	(17)
	3,799	**3,516**

a. Includes value of the fringe benefit to the employee plus the fringe benefits tax component.
b. Defined contribution plans include West State, Gold State and GESB Super Scheme (contributions paid).
c. Includes a superannuation contribution component.

Employment on-costs such as workers' compensation insurance are included in Note 8.

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

Notes to the Financial Statements

for the year ended 30 June 2010

	2010 $000	2009 $000

NOTE 7: DEPRECIATION AND AMORTISATION EXPENSE

DEPRECIATION	2010 $000	2009 $000
Computer equipment	85	36
Office equipment	12	15
Office fit-out	152	133
Total depreciation	**249**	**184**

AMORTISATION	2010 $000	2009 $000
Computer software	2,174	3,121
Total amortisation	**2,174**	**3,121**
Total depreciation and amortisation expense	**2,423**	**3,305**

NOTE 8: SUPPLIES AND SERVICES

	2010 $000	2009 $000
Communications and data processing costs (a)	218	34
Consultants and contractors:		
- market system maintenance and support (b)	915	1,191
- renewal energy working group (c)	459	-
- review of Verve Energy (d)	290	-
- other (e)	2,063	1,845
Recruitment costs	89	120
Consumables	22	28
Insurance	50	28
Legal fees	136	158
Travel	107	80
Other	304	297
	4,653	**3,780**

a. Increase influenced by six months expenditure ($160,798) commencing January 2010 in support of the IMO disengaging from IT infrastructure previously provided by the Department of Treasury and Finance.

b. Reflects reduction in maintenance expenditure ($166,206) on the market settlement system, influenced by a stronger Australian dollar (work is invoiced in US dollars), fewer upgrades in 2009/10, and specific IT training conducted in 2008/09 but not repeated in 2009/10.

c. Consultancy expenditure in support of a special project established to evaluate the impact of renewable energy targets on the Wholesale Electricity Market. The project was aligned with key issues identified by the Australian Energy Market Commission's Review on Energy Market Frameworks in Light of Climate Change Policies, with the project scope developed in conjunction with the Renewable Energy Generation Working Group.

d. Consultancy support in responding to implementation issues flowing from Government's review of Verve Energy (the Oates Review).

e. Increase between the years influenced by first time expenditure ($155,000) in 2009/10 on an internal review of market operational procedures and processes, to ensure compliance with market rules.

Notes to the Financial Statements
for the year ended 30 June 2010

	2010 $000	2009 $000

NOTE 9: ADVERTISING EXPENSE

	2010 $000	2009 $000
Advertising staff vacancies	20	12
Advertising general	22	6
	42	**18**

NOTE 10: ACCOMMODATION EXPENSE

	2010 $000	2009 $000
Lease rentals	226	209
Car bay rental	62	64
Electricity	7	6
Repairs and maintenance	3	5
Cleaning and security	15	6
	313	**290**

NOTE 11: FINANCE COSTS

	2010 $000	2009 $000
Interest expense on financial liabilities not at fair value through profit or loss:		
- external	65	331
	65	**331**

NOTE 12: OTHER EXPENSES

	2010 $000	2009 $000
Software maintenance	16	3
Repairs and maintenance	61	39
Other	127	172
	204	**214**

NOTE 13: CASH AND CASH EQUIVALENTS

	2010 $000	2009 $000
Cash at bank	2,651	3,859
Cash at bank – Operating term deposit	1	1,345
	2,652	**5,204**

NOTE 14: TRADE AND OTHER RECEIVABLES

	2010 $000	2009 $000
Current		
Trade receivables	49	32
GST receivable - Australian Taxation Office	12	18
Accrued revenue	1,541	1,488
	1,602	**1,538**

Notes to the Financial Statements

	2010	2009
	$000	$000

NOTE 15: OTHER ASSETS

	2010 $000	2009 $000
Current		
Prepayments	21	-
	21	**-**

NOTE 16: PROPERTY, PLANT AND EQUIPMENT

	2010 $000	2009 $000
PLANT AND EQUIPMENT		
Office Equipment		
At cost	66	66
Accumulated depreciation	(36)	(24)
	30	**42**
Computer Equipment		
At cost	482	181
Accumulated depreciation	(148)	(63)
	334	**118**
Office Fit-out		
At cost	607	607
Accumulated depreciation	(295)	(143)
	312	**464**
Total		
At cost	1,155	854
Accumulated depreciation	(479)	(230)
	676	**624**

Notes to the Financial Statements
for the year ended 30 June 2010

NOTE 16: PROPERTY, PLANT AND EQUIPMENT (CONT.)

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

	Office equipment $000	Computer equipment $000	Office fit-out $000	Total $000
2010				
Carrying amount at start of year	42	118	464	624
Additions	-	301	-	301
Disposals	-	-	-	-
Depreciation	(12)	(85)	(152)	(249)
Carrying amount at end of year	**30**	**334**	**312**	**676**
2009				
Carrying amount at start of year	59	80	466	605
Additions	-	74	131	205
Disposals	(2)	-	-	(2)
Depreciation	(15)	(36)	(133)	(184)
Carrying amount at end of year	**42**	**118**	**464**	**624**

There were no indications of impairment of property, plant and equipment as at 30 June 2010.

NOTE 17: INTANGIBLE ASSETS

	2010 $000	2009 $000
INTANGIBLES		
Computer Software		
At cost	11,349	10,061
Accumulated amortisation	(9,614)	(7,440)
	1,735	**2,621**
Reconciliation:		
Carrying amount at start of year	2,621	4,866
Additions	1,288	876
Disposals	-	-
Amortisation expense	(2,174)	(3,121)
Carrying amount at end of year	**1,735**	**2,621**

There were no indications of impairment to intangible assets as at 30 June 2010.

Notes to the Financial Statements
for the year ended 30 June 2010

	2010 $000	2009 $000

NOTE 18: TRADE AND OTHER PAYABLES

	2010 $000	2009 $000
Current		
Trade payables	380	563
Accrued expenses	288	93
Accrued salaries	56	54
	724	**710**

NOTE 19: BORROWINGS

	2010 $000	2009 $000
Current		
Western Australian Treasury Corporation ("WATC") loan	1,022	3,718
Non-Current		
WATC loan	1,517	566
	2,539	**4,284**

Borrowings are short term cash advances and fixed rate term Australian Dollar loans from the WATC with a weighted average interest rate of 5.36% (2009: 6.03%).

NOTE 20: OTHER LIABILITIES

	2010 $000	2009 $000
Current		
Superannuation payable	4	-
Amounts due to market participants (a)	496	-
	500	**-**

a. Amount relates to a default levy applied to a market participant, due to be reimbursed to market participants as at 30 June 2010. Reimbursement occurred in July 2010.

NOTE 21: PROVISIONS

	2010 $000	2009 $000
Current		
Employee benefits provision		
Annual leave (a)	170	220
Long service leave (b)	10	1
	180	**221**
Other provisions		
Employment on-costs (c)	28	12
	28	**12**
	208	**233**

Notes to the Financial Statements
for the year ended 30 June 2010

	2010 $000	2009 $000

NOTE 21: PROVISIONS (CONT.)

	2010 $000	2009 $000
Non-Current		
Employee benefits provision		
Long service leave (b)	140	121
	140	**121**
Other provisions		
Employment on-costs (c)	19	7
	19	**7**
	159	**128**
	367	**361**

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

Within 12 months of the end of the reporting period	122	174
More than 12 months after the reporting period	48	46
	170	**220**

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

Within 12 months of the end of the reporting period	10	1
More than 12 months after the reporting period	140	121
	150	**122**

c. The settlement of annual and long service leave liabilities gives rise to the payment of employment on-costs including workers' compensation insurance. The provision is the present value of expected future payments. The associated expense, apart from the unwinding of the discount (finance cost), is disclosed in Note 12 'Other Expenses'.

MOVEMENTS IN OTHER PROVISIONS

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

Employment On-Cost Provision		
Carrying amount at start of year	19	22
Additional provisions recognised	28	2
Payments of economic benefits	-	(5)
Carrying amount at end of year	**47**	**19**

Notes to the Financial Statements

for the year ended 30 June 2010

	2010 $000	2009 $000

NOTE 22: EQUITY

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

Accumulated Surplus		
Balance at start of year	4,632	6,437
Result for the period	(2,076)	(1,805)
Balance at end of year	**2,556**	**4,632**

NOTE 23: NOTES TO THE STATEMENT OF CASH FLOWS

(A) RECONCILIATION OF CASH

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

Cash and cash equivalents	2,652	5,204

(B) RECONCILIATION OF PROFIT EQUIVALENT TO NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES

Loss for the period	**(2,076)**	**(1,805)**
Non-cash items:		
Depreciation and amortisation expense	2,423	3,305
Net loss on disposal of property, plant and equipment	-	2
(Increase)/decrease in assets:		
Trade and other receivables	(70)	209
Other assets	(21)	178
GST receivable	6	18
Increase/(decrease) in liabilities:		
Trade and other payables	14	256
Provisions	6	(43)
Other liabilities	500	(139)
Net cash provided by operating activities	**782**	**1,981**

NOTE 24: COMMITMENTS

NON-CANCELLABLE OPERATING LEASE COMMITMENTS

Commitments for minimum lease payments are payable as follows:

	2010 $000	2009 $000
Within 1 year	174	152
Later than 1 year and not later than 5 years	183	284
Later than 5 years	-	-
	357	**436**

The property lease is a non-cancellable lease with a four year and three months term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require that the minimum lease payments shall be increased by 5% per annum. No option exists to renew the lease at the end of the four year and three months term.

NOTE 25: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The IMO has no contingent liabilities and contingent assets as at the reporting date.

NOTE 26: EVENTS OCCURRING AFTER THE END OF THE REPORTING PERIOD

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

NOTE 27: FINANCIAL INSTRUMENTS

(A) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Credit Risk

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

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

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

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

NOTE 27: FINANCIAL INSTRUMENTS (CONT.)

(A) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT.)

Liquidity Risk

Liquidity risk arises when the IMO is unable to meet its financial obligations as they fall due.

The IMO is exposed to liquidity risk through its trading in the normal course of business.

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

The IMO manages this risk through the following mechanisms:

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

The following table below details contractual maturity analysis for financial liabilities. The contractual maturity amounts are representative of the undiscounted amounts at the end of the reporting period. The table includes interest and principal cash flows. An adjustment has been made where material.

	Within 1 Year	
	2010 $000	2009 $000
Financial liabilities due for payment		
Trade and other payables (excluding estimated annual leave)	668	656
	668	**656**

Market Risk

Market risk is the risk that changes in market prices such as foreign exchange rates and interest rates will affect the IMO's income or the value of its holdings of financial instruments. The IMO does not trade in foreign currency and is not materially exposed to other price risks. The IMO's exposure to market risk for changes in interest rates relates primarily to the long-term debt obligations.

(A) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT.)

Market Risk (Cont.)

The IMO's borrowings are all obtained through the WATC and are at fixed rates with varying maturities. The risk is managed by WATC through portfolio diversification and variation in maturity dates. Other than as detailed in the interest rate sensitivity analysis table at Note 27(c), the IMO is not exposed to interest rate risk. This is because, apart from minor amounts of cash and cash equivalents which are non-interest bearing, the IMO has no other borrowings other than WATC borrowings.

(B) CATEGORIES OF FINANCIAL INSTRUMENTS

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

	Note	2010 $000	2009 $000
FINANCIAL ASSETS			
Cash and cash equivalents	13	2,652	5,204
Receivables (a)	14	1,590	1,520
Total financial assets		**4,244**	**6,724**
FINANCIAL LIABILITIES			
Trade and other payables	18	724	710
Borrowings	19	2,539	4,284
Total financial liabilities		**3,263**	**4,994**

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

(C) FINANCIAL INSTRUMENT DISCLOSURES

Credit risk and interest rate exposures

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

The IMO does not hold any collateral as security or other credit enhancement relating to the financial assets it holds.

The IMO does not hold any financial assets that had to have their terms renegotiated that would have otherwise resulted in them being past due or impaired.

NOTE 27: FINANCIAL INSTRUMENTS (CONT.)

(C) FINANCIAL INSTRUMENT DISCLOSURES (CONT.)

The following table details the IMO's ageing analysis of financial assets at the end of the reporting period:

	Interest Rate Exposure					Past Due But Not Impaired (Days Overdue)				
Financial Assets	**Weighted Average Effective Interest Rate**	**Fixed Interest Bearing**	**Variable Interest Bearing**	**Non-Interest Bearing**	**Total**	**< 30**	**31 - 60**	**61 - 90**	**> 90**	**Within Initial Trade Terms**
	%	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
2010										
Cash and cash equivalents	4.25%	-	2,651	1	2,652	-	-	-	-	-
Receivables	N/A	-	-	1,590	1,590	49	-	-	-	49
		-	**2,651**	**1,591**	**4,242**	**49**	**-**	**-**	**-**	**49**
2009										
Cash and cash equivalents	2.81%	-	5,203	1	5,204	-	-	-	-	-
Receivables	N/A	-	-	1,520	1,520	31	1	-	-	32
		-	**5,203**	**1,521**	**6,724**	**31**	**1**	**-**	**-**	**32**

The following table details the contracted maturity analysis for financial liabilities. The contracted maturity amounts are representative of the undiscounted amounts at the end of the reporting period. The table includes interest and principal cash flows. An adjustment has been made where material.

	Interest Rate Exposure					Maturity Date				
Financial Liabilities	**Weighted Average Effective Interest Rate**	**Fixed Interest Bearing**	**Variable Interest Bearing**	**Non-Interest Bearing**	**Total**	**Up to 3 mths**	**3-12 mths**	**1-2 years**	**2-3 years**	**More than 3 mths**
	%	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
2010										
Payables	N/A	-	-	724	724	724	-	-	-	-
Borrowings	5.36%	2,539	-	-	2,539	267	755	792	592	133
		2,539	**-**	**724**	**3,263**	**991**	**755**	**792**	**592**	**133**
2009										
Payables	N/A	-	-	710	710	710	-	-	-	-
Borrowings	6.03%	4,284	-	-	4,284	3,234	484	391	162	13
		4,284	**-**	**710**	**4,994**	**3,944**	**484**	**391**	**162**	**13**

(C) FINANCIAL INSTRUMENT DISCLOSURES (CONT.)

Interest rate sensitivity analysis

The following table represents a summary of the interest rate sensitivity of the IMO's financial assets and liabilities at the end of the reporting period on the surplus for the period and equity for a 100 basis point change in interest rates. It is assumed that the change in interest rates is held constant throughout the reporting period.

	Carrying amount	-100 basis points		+100 basis points	
		Surplus	Equity	Surplus	Equity
	$000	$000	$000	$000	$000
2010					
Financial Assets					
Cash and cash equivalents	2,651	(26.5)	(26.5)	26.5	26.5
Total increase/(decrease)		**(26.5)**	**(26.5)**	**26.5**	**26.5**
2009					
Financial Assets					
Cash and cash equivalents	5,203	(52)	(52)	52	52
Total increase/(decrease)		**(52)**	**(52)**	**52**	**52**

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

Fair value

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

Notes to the Financial Statements
for the year ended 30 June 2010

NOTE 28: KEY MANAGEMENT PERSONNEL COMPENSATION

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

	2010 $000	2009 $000
NOTE 29: AUDITORS' REMUNERATION		
Remuneration payable to the Auditor General for the financial year:		
Auditing the accounts, financial statements and performance indicators	**25**	**25**
NOTE 30: SUPPLEMENTARY FINANCIAL INFORMATION		
Property, plant and equipment written-off by the IMO during the financial year:	**-**	**2**

NOTE 31: BANK SECURITY DEPOSITS AND GUARANTEES

In accordance with the *Electricity Industry (Wholesale Electricity Market) Regulations 2004*, the IMO requires market participants to deposit financial securities into a trust fund bank account maintained by the IMO, or provide the IMO, with a deed of bank undertaking that authorises the IMO to withdraw funds from the participant's bank accounts directly. The purpose of the security deposit or the bank guarantee is to provide a readily accessible fund that the IMO can draw on in the event that a participant fails to meet financial or performance targets.

Bank Security Deposits

The security deposits are held on trust by the IMO and are not the IMO's monies, although the IMO has the conditional right to draw on the funds as disclosed above. Accordingly, the value of the security deposits which as at 30 June 2010 amounted to $18,794,590 (2009: $6,111,056), is not included in the asset values reported in the Statement of Financial Position in these financial statements.

Bank Guarantees

Similarly, the value of bank undertakings which as at 30 June 2010 amounted to $71,450,967 (2009: $100,676,505), is also excluded from the Statement of Financial Position.

NOTE 32: EXPLANATORY STATEMENT

The Operating Result for the year was a loss of $2.076 million, which compares to a budgeted loss of $2.232 million approved in the Operational Plan. This outcome was better than expected, influenced by lower than budgeted expenditure on contingency provision for legal disputes.

The IMO is required under the market rules to return operating surpluses to market participants via adjustments to subsequent year budgets. A surplus of $2.232 million was recorded for 2007/08, which offsets against the 2009/10 operational loss of $2.076 million.

Auditor General

INDEPENDENT AUDIT REPORT ON INDEPENDENT MARKET OPERATOR

To the Parliament of Western Australia

I have audited the financial statements of the Independent Market Operator. The financial statements comprise the Statement of Financial Position as at 30 June 2010, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, a summary of significant accounting policies, other explanatory Notes and the Directors' Declaration.

Directors' Responsibility for the Financial Statements
The Directors of the Independent Market Operator are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the Electricity Industry (Independent Market Operator) Regulations 2004. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Summary of my Role
As required by the Electricity Industry (Independent Market Operator) Regulations 2004, my responsibility is to express an opinion on the financial statements based on my audit. This was done by testing selected samples of the audit evidence. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion. Further information on my audit approach is provided in my audit practice statement. This document is available on the OAG website under "How We Audit".

An audit does not guarantee that every amount and disclosure in the financial statements is error free, nor does it examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the financial statements.

Audit Opinion
In my opinion, the financial statements of the Independent Market Operator are in accordance with schedule 3 of the Electricity Industry (Independent Market Operator) Regulations 2004, including:

(a) giving a true and fair view of the Independent Market Operator's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
(b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

GLEN CLARKE
ACTING AUDITOR GENERAL
15 September 2010

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