

Australian Energy Market Commission
ABN 49 236 270 144

Annual Report

Year under review June 2004 – June 2005

Directory

Australian Energy Market Commission

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Letter of Transmittal

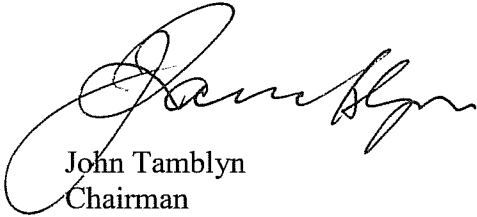
The Hon Patrick Conlon (MP)
Minister for Energy
Government of South Australia
GPO Box 2969
Adelaide SA 5000

Dear Sirs

Australian Energy Market Commission Annual Report 2004

Pursuant to section 27 of the *Australian Energy Market Commission Establishment Act 2004*, I submit to you the inaugural annual report of the Commission. It includes the financial statements for the year under review from June 2004 to June 2005.

Yours sincerely



John Tamblyn
Chairman

Encl

Transition Report

About this report

During the period under review the Australian Energy Market Commission was in its establishment phase. Activities were driven by a transition manager engaged on behalf of the Ministerial Council on Energy. Oversight was provided by two interim Commissioners; Mr G Goddard, Executive Director of the South Australian Department of Transport, Energy and Infrastructure and Mr K Cosgriff, Deputy Secretary of the Resources and Police Directorate, New South Wales Treasury. They served in these interim positions until 1 June 2005.

Establishment

The Ministerial Council on Energy (MCE) was established by the Council of Australian Governments (COAG) in 2001 to implement COAG's National Energy Policy framework. It is made up of Ministers with carriage of energy matters from the Commonwealth, State and Territory Governments. The MCE reported to COAG in December 2003 on major reforms to Australian energy markets. These reforms were endorsed by COAG in June 2004 in the Australian Energy Market Agreement 2004 (AEMA). A key element was to improve and streamline governance arrangements for Australian energy markets.

Changes to the National Electricity Law and Rules to implement these reforms started on 1 July 2005 with the establishment of two new organisations – the Australian Energy Market Commission (AEMC) and the Australian Energy Regulator (AER). The MCE announced the dissolution of the National Electricity Code Administrator Limited (NECA) and the sharing of its functions between the AEMC and the AER.

Before the AEMC was established the NECA was responsible for administration of the National Electricity Code. Since 1 July 2005 the National Electricity Rules have replaced the Code and the AEMC carries out the Rule making role formerly held by NECA.

The AEMA, the *AEMC Establishment Act* and the Second Reading Speech introducing the new *National Electricity Law* into the South Australian Parliament foreshadow a Memorandum of Understanding between the AEMC, the AER and the Australian Competition and Consumer Commission (ACCC) as the three agencies with responsibilities for Australian energy markets.

The Memorandum of Understanding (MOU) between the AEMC and AER and ACCC sets out the arrangements agreed between the AEMC, the AER and the ACCC to promote effective cooperation, communication and co-ordination between the three agencies in the performance of their different but complementary roles in Australia's energy markets. The MOU is a public document and communicates in a transparent way to all energy market stakeholders the administrative arrangements that operate between agencies. The MOU is a statement of principles that guides relationships between the three agencies.

Highlights

In the absence of permanent commissioners and staff the interim management team was focussed on starting up capabilities in the following areas:

- Appointment of Commission Chairman.
- Design of a start up organisational structure based on initial AEMC responsibilities.
- Initial office premises specified and procured along with some IT systems and equipment.
- Specification of initial staff requirements.
- Staff recruitment started.
- Liaison and information exchange with NECA and other electricity market institutions.
- Preliminary workload planning.
- Deed of transfer and delivery of NECA assets and documents to AEMC
- Budget for pre-commencement expenditure.
- Interim outsourced corporate services
- Interim funding agreement developed with other jurisdictions.

Profile

The AEMC is a national body, established under the *Australian Energy Market Commission Establishment Act 2004 (South Australia)*. The AEMC reports directly to the Ministerial Council on Energy (MCE), the national policy and governance body for the Australian energy market, including electricity and gas. The MCE includes Commonwealth, State and Territory Ministers in addition to ministers from New Zealand and New Guinea as observers.

The MCE has the power to direct the AEMC to carry out reviews of the National Electricity Market and the National Electricity Rules. The AEMC promotes the strategic longer-term design and development of energy markets through its functions of Rule making, market reviews, and policy advice. Its responsibilities are to:

- change the Rules that govern the operations of energy market operators and regulators;
- conduct energy market reviews and inquiries for the MCE (providing analysis and recommendations for policy decisions to overcome market problems)
- provide longer-term market development through all these means.

Organisation

The full time Chairman of the Commission, Dr John Tamblyn and a part time Commissioner, Liza Carver, were appointed on 2 June 2005 after nomination for appointment by the MCE (States and Territories). A further part time Commissioner, Ian Woodward, was appointed on 20 June 2004 after nomination by the Minister of the Commonwealth who is a member of the MCE. One staff member commenced mid June and two staff commenced on secondment from the New South Wales public service in late June to resource rule making and policy review projects referred to the AEMC on commencement.

Transition Management

The MCE's Standing Committee of Officials (SCO) invited tenders for the establishment of the AEMC as a legal and operating entity and contracted these services from KPMG on 28 May 2004. The consultancy agreement directed the transition manager to effect the transfer of the functions of NECA and establish of the AEMC. KPMG appointed a foundation Transition Manager, Mr Greg Denton, to manage the establishment project team and report to the SCO on progress made towards achieving the functional commencement of the AEMC on 1 July 2005. Mr Denton served as Transition Manager from April to December 2004 when the position was assumed by KPMG Manager, Reform and Regulation, Mr Anthony Englund, from January to June 2005 and then by Stephen Day, KPMG to end July 2005.

The Transition Manager worked closely with NECA and the AER to ensure the smooth handover of NECA's Code administration and other relevant responsibilities. A Deed of transfer and delivery of NECA's assets and documents to AEMC was signed on 9 June 2005.

The procurement of premises and office fit out was implemented following a competitive process and the execution of a lease on 600 sqm of commercial office space at Level 16, 1 Margaret Street, Sydney. The premises represented best value for money, timeliness of availability, location and quality. Service agreements for basic initial office IT and communications setup support were finalised in the year under review. The AEMC obtained the www.aemc.gov.au domain and construction was started on a website.

Work Program

The AEMA provided for the AEMC to be given responsibilities for National Electricity Market wholesale market and transmission network Rule making in addition to market development functions. From commencement the AEMC is also required to comply with MCE directions.

Substantively, the AEMC:

- may make Rules concerning the National Electricity Market (s34 and Schedule 1) but not on its own initiative unless to correct a minor error, involves a non-material change to the Rules or is granted such initiative by the Regulations (s91);
- must make Rules regarding electricity transmission economic regulation by 1 July 2006 or any later date prescribed by regulation (s35). This concerns the way in which the AER regulates transmission revenues and prices, the methodologies it must use and the procedures it must follow in doing so (Schedule 1);
- may carry out its own reviews into the operation and effectiveness of the Rules or any other matter relating to the Rules (s45);
- must carry out MCE directed reviews (s41).

The AEMC must have regard to relevant MCE statements of policy principles in making a Rule or carrying out its own review (s33). Part 7 of the NEL sets up an approximate 20 week Rule change process that the AEMC must follow (shorter if the changes are non-controversial or urgent, s96).

The MCE has indicated that, at future dates to be determined, the AEMC will assume responsibility for functions relating to natural gas transmission and distribution Rule making and market development in addition to Rule making and market development functions in respect to electricity and natural gas distribution networks and retail markets.

Finance in brief

The AEMC's operations for 2004/05 were funded by way of a loan of \$3 million from New South Wales in accordance with an inter-governmental funding agreement between the governments of South Australia, Victoria, Tasmania, ACT, New South Wales and Queensland. This agreement provided for the jurisdictions to contribute to the AEMC's funding on 1 July 2005 to enable repayment of the loan by the AEMC on 1 July 2006.

A second inter-governmental agreement between the same governments provided for the funding of the AEMC during 2005/06 based on pre-commencement budget estimates. This agreement expires on 30 June 2006.

The AEMC is required by the MCE to submit a revised budget forecast for 2005/06 prior to 1 January 2006. The parties to the agreement agreed to resolve a long-term funding agreement prior to the expiration of these funding agreements.

The effect of the funding agreement was the provision by New South Wales of a \$3 million loan (paid in instalments) and repayable by 1 July 2006 from contributions received from all signatories to the second funding agreement. At 30 June 2005 the loan balance outstanding was \$3 million.

Principal Statutes and Legislation

Australian Energy Market Commission Establishment Act 2004 (South Australia)

Australian Energy Market Commission Establishment Regulations 2005 under the *Australian Energy Market Commission Establishment Act 2004 (South Australia)*

Certified Initial National Electricity Rules, July 2005

The latest version of the Rules can be found on the AEMC website.

National Electricity (South Australia) (New National Electricity Law) Amendment Act 2005

Conflicts of Interest and Disclosures made by the Commissioners under section 22 of the *Australian Energy Market Commission Establishment Act 2004 (SA)*

The AEMC considers that a robust and transparent approach to disclosure of interests is essential to preserve the integrity of the decision making of the AEMC in the performance of its statutory functions and to ensure that persons with energy sector experience and knowledge are available to serve the AEMC.

The *Australian Energy Market Commission Establishment Act 2004* of South Australia sets out a statutory regime for ongoing disclosure of conflicts of interest for Commissioners at meetings of the AEMC. The law requires the AEMC and the Commissioners:

- to identify interests that may fall within a “direct or indirect” interest that could conflict with the proper performance of the Commissioner’s functions;
- to manage conflicts of interest if they arise in relation to matters being considered at a meeting of the AEMC;
- to disclose any interest of a Commissioner at a meeting of the AEMC;
- to record any disclosure of a conflict of interest by a Commissioner in the minutes of the AEMC meeting;
- to make a decision about the appropriate action to be taken (if any);
- to record any decision about the appropriate action to be taken (if any) in the minutes of the meeting of the AEMC.

The practice at AEMC meetings is for a standing agenda item that invites declarations by Commissioners of any conflicts of interest in relation to the matters under consideration at the meeting. The AEMC has established processes to put into effect the requirements set out above. Additionally where information becomes available that indicates it is possible that a perception of a conflict of interest might arise the same processes are applied.

Third parties who have concerns about possible conflicts of interest are invited to raise those concerns with the Chief Executive Officer.

The AEMC also recognises a broad public interest in adopting a policy of open disclosure about arrangements put in place by each of the Commissioners for the ongoing management of conflicts of interest. Each of the three Commissioners makes the statement set out below in relation to those arrangements.

Dr John Tamblyn, was appointed as the full time Chairman of the AEMC by the Governor of South Australia on 2 June 2005. Dr Tamblyn was nominated for that appointment by the States and Territories Ministers who are members of the Ministerial Council on Energy. Dr Tamblyn was, immediately prior to taking up this role, the Chairman of the Essential Services Commission of Victoria.

Dr Tamblyn is appointed in a full time capacity and has no conflicts which require management.

Ms Liza Carver, was appointed by the Governor of South Australia on 2 June 2005 as the inaugural part-time Commissioner nominated by the Ministerial Council on Energy (States and Territories) Ms Carver's appointment is for a 5 year period to 1 June 2010.

Ms Carver has previously been an Associate Commissioner of the Trade Practice Commission and the Australian Competition and Consumer Commission (ACCC) as well as a part-time Member of the NSW Independent Pricing and Regulatory Tribunal. She is currently a Board Member of RailCorp, and a Partner of the law firm, Gilbert + Tobin, and continues in both of these roles on a part-time basis.

Ms Carver makes the following statement about the arrangements she has put in place to manage conflicts of interest between her current roles:

1. As a partner of Gilbert + Tobin I do not involve myself in matters on behalf of clients of the firm that are within the jurisdiction of the AEMC;
2. Gilbert + Tobin and I have ring-fencing arrangements whereby I am not privy to and do not have access to other legal work undertaken by Gilbert + Tobin either within the jurisdiction of the AEMC for clients or in the provision of legal advice to the AEMC;
3. Confidential information obtained either in my capacity as a Commissioner or as a trade practices legal adviser to clients (including energy clients) will not be disclosed or used for purposes other than the proper purposes.

Mr Ian Woodward was appointed by the Governor of South Australia on 20 June 2005 as the inaugural part-time Commissioner nominated by the Minister of the Commonwealth who is a member of the Ministerial Council of Energy. The appointment is for a 5 year period to 19 June 2010.

Mr Woodward has previously been the Chief Executive of the Australian Gas Association, and Group General Manager, Corporate Development, AGL. He is currently a part-time executive consultant at Macquarie Bank Limited. He also undertakes other consulting and lecturing assignments in the arena of leadership and strategic communication which during the past twelve months have included executive education programs for Columbia Business School and professional development programs for the Asian Development Bank.

Mr Woodward makes the following statement about the arrangements he has put in place to manage (perceived or actual) conflicts of interest between his current roles:

1. As a part-time employee of Macquarie Bank I do not involve myself in matters on behalf of the Bank or its clients that are within the jurisdiction of the AEMC.
2. I am subject to the Bank's rigorous compliance policies and procedures including Confidentiality, Conflicts and Chinese Wall arrangements; and am consequently "ring-fenced" from transactional and advisory work which may be undertaken by Macquarie Bank which is relevant to the jurisdiction of the AEMC.
3. Any potential involvement in projects relating to the energy sector, which are not within the jurisdiction of the AEMC, in any location, would be disclosed to the Chairman of the AEMC before undertaking such a project to ensure no potential conflict arose.
4. All other consulting and lecture activities are outside of energy sector matters with a specialist focus on leadership and strategic communication in a professional development and business education context. These are subject areas not relevant to jurisdiction of the AEMC.
5. Confidential information obtained either in my capacity as a Commissioner or a consultant will not be disclosed or used for purposes other than the proper purposes.

AEMC Financial Statements for year ended 30 June 2004

AUSTRALIAN ENERGY MARKET COMMISSION
ABN 49 236 270 144

ANNUAL FINANCIAL REPORT
FOR THE PERIOD

22 JULY 2004 (DATE OF ESTABLISHMENT)

TO

30 JUNE 2005

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TO THE CHAIRPERSON

SCOPE

As required by section 31 of the *Public Finance and Audit Act 1987* and section 26(2) of the *Australian Energy Market Commission Establishment Act 2004*, I have audited the financial report of the Australian Energy Market Commission for the financial year ended 30 June 2005. The financial report comprises:

- A Statement of Financial Performance;
- A Statement of Financial Position;
- A Statement of Cash Flows;
- Notes to and forming part of the Financial Statements;
- Certificate by the Chairperson and the Chief Executive Officer.

The members of the Australian Energy Market Commission are responsible for the financial report. I have conducted an independent audit of the financial report in order to express an opinion on it to the Chairperson.

The audit has been conducted in accordance with the requirements of the *Public Finance and Audit Act 1987* and Australian Auditing and Assurance Standards to provide reasonable assurance whether the financial report is free of material misstatement.

Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, Accounting Standards and other mandatory professional reporting requirements in Australia so as to present a view which is consistent with my understanding of the Australian Energy Market Commission's financial position, the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

AUDIT OPINION

In my opinion, the financial report presents fairly in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Australian Energy Market Commission as at 30 June 2005, the results of its operations and its cash flows for the year then ended.

A handwritten signature in black ink, appearing to read 'K I MacPherson'.

K I MacPherson
Auditor-General
25 May 2006

Certification of the Financial Report

The following certification is made by the current Chairman who commenced in that role on 2 June 2005 and by the current Chief Executive Officer who commenced in that role on 16 January 2006. The Australian Energy Market Commission was established on 22 July 2004 and commenced its statutory role on 1 July 2005.

During the reporting period the Australian Energy Market Commission was being established by the Ministerial Council on Energy utilising a transition manager from KPMG, engaged by NSW Treasury on behalf of the other jurisdictions. This arrangements was overseen by interim Commissioners from the South Australian Department of Transport Energy and Infrastructure and the New South Wales Treasury. All expenditure related to the establishment of the Commission prior to its formal commencement.

The following certification is based on enquiry and advice from relevant sources.

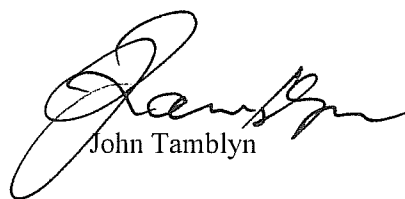
- The attached General Purpose Financial Report for the Australian Energy Market Commission presents fairly, in accordance with the Treasurer's Instructions promulgated under the provisions of the Public Finance and Audit Act 1987, applicable Australian Accounting Standards and other mandatory professional reporting requirements in South Australia, the financial position of the Australian Energy Market Commission as at 30 June 2005, its financial performance and its cash flows for the period then ended;
- The attached financial statements are in accordance with the accounts and records of the authority and give an accurate indication of the financial transactions of the Commission for the period then ended; and
- From my review of documents available relating to the reporting, it would appear that NSW Treasury internal financial controls governed the decisions and transactions of the Commission during the pre-establishment phase.



Steven Graham

Chief Executive Officer

23 May 2006



John Tamblyn

Chairman

23 May 2006

Statement of Financial Performance
for the period ended 30 June 2005

	Note	2005 \$'000
Expenses from Ordinary Activities		
Employee Expenses	5	30
Supplies and Services	6	1,486
Depreciation and Amortisation	7	35
Total Expenses from Ordinary Activities		<u>1,551</u>
Revenues from Ordinary Activities		
Interest & Other	4	27
Total Revenues from Ordinary Activities		<u>27</u>
Net Cost of Services from Ordinary Activities		<u>(1,524)</u>
Revenues from Government		
Revenue from non SA Government	4	135
Net Result from Ordinary Activities		<u>(1,389)</u>

The statement of financial performance is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 6 to 20.

Statement of Financial Position
as at 30 June 2005

	Note	2005 \$'000
Current assets		
Cash assets	19	1,829
Receivables	9	184
Other	12	<u>13</u>
Total current assets		<u>2,026</u>
Non-current assets		
Property, plant and equipment	10	721
Intangibles	11	<u>62</u>
Total non-current assets		<u>783</u>
Total assets		<u>2,809</u>
Current liabilities		
Payables	13	3,650
Employee benefits	14	<u>175</u>
Total current liabilities		<u>3,825</u>
Non-current liabilities		
Other liabilities	15	<u>373</u>
Total-non current liabilities		<u>373</u>
Total liabilities		<u>4,198</u>
Net liabilities		<u><u>(1,389)</u></u>
Equity		
Accumulated losses		<u>(1,389)</u>
Total equity		<u><u>(1,389)</u></u>

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 6 to 20.

Statement of Cash Flows
for the period ended 30 June 2005

	Note	2005 \$'000
Cash flows from operating activities		
Cash outflows		
Employee payments		(8)
Supplies and Services		(949)
GST on purchases		(149)
Total outflows from ordinary activities		<u>(1,106)</u>
Cash inflows		
Cash receipts from non SA Governments		135
Proceeds from lease incentive		399
Interest received	4	27
GST input tax credits		40
GST received from ATO		152
Total inflows from ordinary activities		<u>753</u>
Net cash outflows from operating activities	19	(353)
Cash flows from investing activities		
Cash outflows		
Payment for property, plant & equipment		(325)
Payment for computer software		(69)
Payment for leasehold improvement		(424)
Total outflows from investing activities		<u>(818)</u>
Net cash outflows from investing activities		(818)
Cash flows from financing activities		
Cash inflows		
Proceeds from borrowings		<u>3,000</u>
Total inflows from financing activities		3,000
Net cash inflows from financing activities		3,000
Net increase in cash held		1,829
Cash at the beginning of the financial year		<u>-</u>
Cash at the end of the financial year	19	<u><u>1,829</u></u>

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 6 to 20.

Notes to the Financial Statements
for the year ended 30 June 2005

1 Objectives of the Australian Energy Market Commission

Australian Energy Market Commission (“AEMC”) was established on 22 July 2004 pursuant to the Australian Energy Market Commission Establishment Act 2005. The Functions of the Authority are as follows:

- a) the rule-making, market development and other functions conferred on the AEMC under National Energy Laws or Jurisdictional Energy Laws;
- b) the provision of advice to the Ministerial Council on Energy (“MCE”) as requested by the MCE.

2 Summary of significant accounting policies

a) Basis of preparation

The accounts have been prepared for the period 22 July 2004 (being the date of establishment) to 30 June 2005.

The financial report is a general purpose financial report. The statements have been prepared in accordance with:

- Treasurer’s Instructions and Accounting Policy Statements promulgated under the provision of the Public Finance and Audit Act 1987
- Applicable Australian Accounting Standards
- Other mandatory professional reporting requirements in Australia

The Statement of Financial Performance and Statement of Financial Position have been prepared on the accruals basis of accounting, as defined in AASB 1001, Accounting Policies, using historical cost convention and going concern assumption. Except where stated, it does not take into account changing money values or current valuations of non-current assets.

b) Comparative figures

The accounts are for the period 22 July 2004 (Date of establishment) to 30 June 2005. As these are the first accounts of the Commission no comparative information is shown.

c) Rounding

All amounts in the financial statements have been rounded to the nearest thousand dollars (\$000).

Notes to the Financial Statements
for the year ended 30 June 2005

2 Summary of significant accounting policies (continued)

d) Taxation

AEMC is liable for payroll tax, fringe benefits tax and goods and services tax.

In accordance with the requirements of UIG Abstract 31 'Accounting for the Goods and Services Tax (GST)', revenues, expenses and assets are recognised net of the amount of GST except that:

The amount of GST incurred by the AEMC as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense

Receivables and payables are stated with the amount of GST included.

e) Revenue and Expenses

Revenue and Expense are recognised in AEMC's Statement of Financial Performance when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

Revenue and Expenses have been classified according to their nature in accordance with Accounting Policy Statement 13 *Form and Content of General Purpose Financial Reports* and have not been offset unless required or permitted by another accounting standard.

Funding received from States is recognised as revenues when the Commission obtains control over the assets. Control over these revenues is normally obtained upon receipt.

f) Current and Non-Current Items

Assets and liabilities are characterised as either current or non-current in nature. AEMC has a clearly identifiable operating cycle of 12 months. Therefore assets and liabilities that will be realised as part of the normal operating cycle will be classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

Notes to the Financial Statements
for the year ended 30 June 2005

2 Summary of significant accounting policies (continued)

g) Cash

For the purposes of the Statement of Cash Flows, cash includes cash at bank. Cash is measured at nominal value.

h) Receivables

Receivables consist of GST receivables, a transfer of an employee's long service leave entitlement from a previous employer.

i) Non-Current Asset Acquisition and Recognition

Assets are initially recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition.

AEMC capitalises all non-current physical assets with a value of \$250 or greater in accordance with *APS 2 Asset Recognition*.

j) Depreciation and Amortisation of Non-Current Assets

All non-current assets, having a limited useful life, are systematically depreciated/amortised over their useful lives in a manner that reflects the consumption of their service potential. Amortisation is used in relation to intangible assets, while depreciation is applied to physical assets such as property, plant and equipment.

The value of leasehold improvements is amortised over the estimated useful life of each improvement, or the unexpired period of the relevant lease, whichever is shorter.

Depreciation/amortisation for non-current assets is determined as follows:

Class of Asset	Depreciation Method	Useful Life (years)
Leasehold Improvements	Straight Line	life of lease
Plant and Equipment	Straight Line	3-20
Intangibles	Straight Line	2.5-5

Notes to the Financial Statements
for the year ended 30 June 2005

2 Summary of significant accounting policies (continued)

k) Intangible Assets

The acquisition or internal development of software is capitalised when the expenditure meets the definition and recognition criteria of an asset and when the amount of expenditure is greater than or equal to \$10,000, in accordance with Accounting Policy Statement 2 *Asset Recognition* paragraph 23.

Capitalised software is amortised over the useful life of the asset, with a maximum time limit for amortisation of five years.

l) Payables

Payables include creditors, accrued expenses, loans and employment on-costs. Creditors represent the amounts owing for goods and services received prior to the end of the reporting period that are unpaid at the end of the reporting period. Creditors include all unpaid invoices received relating to the normal operations of AEMC.

Accrued expenses represent goods and services provided by other parties during the period that are unpaid at the end of the reporting period and where an invoice has not been received.

All amounts are measured at their nominal amount and are normally settled within 30 days in accordance with Treasurer's Instruction 8 *Expenditure for Supply Operations and Other Goods and Services* after AEMC receives an invoice.

Employment on-costs include superannuation contributions and payroll tax with respect to outstanding liabilities for salaries and wages, long service leave and annual leave. The Commission contributes to superannuation schemes on behalf of employees. The liability at balance date relates to contributions due but not yet paid.

m) Employee Benefits

These benefits accrue for employees as a result of services provided up to the reporting date that remain unpaid. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees is estimated to be less than the annual entitlement of sick leave.

Liability for salaries and wages are measured as the amount unpaid at the reporting date at remuneration rates current at reporting date. The liability for annual leave reflects the value of total annual leave entitlements of all employees as at 30 June 2005 and is measured at the nominal amount.

Notes to the Financial Statements
for the year ended 30 June 2005

2 Summary of significant accounting policies (continued)

n) Leases

AEMC has entered into an operating lease for its office accommodation.

Operating Leases

In respect of operating leases, the lessor effectively retains substantially the entire risks and benefits incidental to ownership of the leased items. Operating lease payments are charged to the Statement of Financial Performance on a basis, which is representative of the pattern of benefits derived from the leased assets.

Lease incentives received by AEMC in respect of operating leases have been recorded as a liability since the amount received as an incentive results in higher operating lease payments. The lease payments are apportioned between the incentive and lease rental expense.

o) Insurance

AEMC has arranged, through AON Risk Services Australia Limited, to insure all major risks of the Commission.

p) Government/Non-Government Disclosures

In accordance with APS 13, the commission has included details of revenue, expenditure, assets and liabilities according to whether the transactions are with entities internal or external to the SA Government in a note to the accounts.

3 Segment reporting

The Commission operates in Australia from a single office in Sydney. It operates predominately in the industry of energy market, regulation and policy development.

Notes to the Financial Statements
for the year ended 30 June 2005

	2005
	\$'000
4 Revenue from ordinary activities	
Proceeds from Government	135
Interest	27
	<u>162</u>
5 Employee expenses	
Wages and salaries	26
Long service leave	-
Annual leave	1
Employment on-costs - super	2
Employment on-costs - relocation	1
Total employee expenses	<u>30</u>

Average number of employees during the reporting period: As at 30 June 2005 there were 3 employees.

6 Supplies and services	
Supplies and services provided by entities external to the SA Government	2005
	\$'000
Property expenses	166
Information technology expenses	88
Consulting expenses	1,006
Office expenses	22
Entertainment & travel expenses	9
Insurance	5
Recruitment	166
Design expenses	10
Audit fees	12
Other	2
Total supplies and services	<u>1,486</u>

The number and dollar amount of Consultancies paid/ payable that fell within the following bands:	No	2005
		\$'000
Below \$10,000	2	7
Between \$10,000 and \$50,000	2	35
Above \$50,000	2	964
Total paid/ payable to the consultants engaged		1,006

Notes to the Financial Statements
for the year ended 30 June 2005

	2005
	\$'000
7 Depreciation and amortisation	
Depreciation	
Office equipment	4
IT Infrastructure	6
Total depreciation	<u>10</u>
Amortisation	
Computer software	8
Leasehold improvements	17
Total amortisation	<u>25</u>
8 Auditor's Remuneration	
Audit Fees paid / payable to the S A Auditor-General's Department	<u>12</u>
Total Audit Fees – SA Government entities	<u>12</u>
Other Services	
No other services were provided by the Auditor-General's Department.	
9 Receivables	
Receivables from entities external to the SA Government	
Current Receivables	
GST receivable	29
LSL receivable	155
Total Current receivables	<u>184</u>
10 Property, Plant and Equipment	
Office Equipment	181
Less: Accumulated depreciation	(5)
Total Office equipment	<u>176</u>
IT Infrastructure	144
Less: Accumulated depreciation	(6)
Total IT infrastructure	<u>138</u>

Notes to the Financial Statements
for the year ended 30 June 2005

	2005 \$'000
10 Property, Plant and Equipment (continued)	
Leasehold improvements	424
Less: Accumulated amortisation	(17)
Total Leasehold improvements	407
 Total property, plant and equipment	 721
 Reconciliation of property, plant and equipment	
The following table shows the movement of Property, Plant and Equipment during 2004-05	
Office Equipment	
Carrying amount at beginning of the year	-
Additions	181
Depreciation	(5)
Carrying amount at the end of the year	176
 IT Infrastructure	
Carrying amount at beginning of the year	-
Additions	144
Depreciation	(6)
Carrying amount at the end of the year	138
 Leasehold improvements	
Carrying amount at beginning of the year	-
Additions	424
Depreciation	(17)
Carrying amount at the end of the year	407
 11 Intangible assets	
Computer software	
Computer software – at cost	69
Less: Accumulated amortisation	(7)
Total intangible assets	62
 12 Other assets	
Current assets	
Prepayments	13
Total current other assets	13

Notes to the Financial Statements
for the year ended 30 June 2005

	2005
	\$'000
13 Payables	
Current	
Creditors	532
Accrued expenses	118
Loan	3,000
Total current payables	<u>3,650</u>
<i>Payables to Non SA Government entities</i>	
<i>Current</i>	
<i>Creditors</i>	532
<i>Accrued expenses</i>	118
<i>Loan</i>	3,000
<i>Total current payable to non S A Govt entities</i>	<u>3,650</u>
14 Employee benefits	
Current	
Provision for annual leave	1
Accrued salaries and wages	17
Accrued superannuation	2
Long service leave	155
Total Current Employee Benefits	<u>175</u>
15 Other liabilities	
Non-Current	
Lease Incentive	399
Less: Lease incentive amortisation	(26)
Total Non-Current Other Liabilities	<u>373</u>

Notes to the Financial Statements
for the year ended 30 June 2005

16 Equity

	2005
	\$'000
Total equity at beginning of the financial year	-
Current year loss	(1,389)
Balance at the end of the financial year	<u>(1,389)</u>

17 Commitments for expenditure

The Commission is party to an operating lease for office accommodation. The lessor is Perpetual Trustee Company Limited. The lease is non-cancellable with a term of 5 years with an option to renew of a further 5 years. Rent is payable on first day of the month.

The total amount of gross rental expense for minimum lease payments for the period ended 30 June 2005 was \$90,424. This was offset by amortisation of the lease incentive of \$26,619.

Commitments under the non-cancellable operating lease at the reporting date are not recognised as a liability in the financial report, and are payable as follows:

	2005
	\$'000
Not later than one year	376
More than one year but not later than five years	<u>1,512</u>
Total Operating Lease Commitments	<u>1,888</u>

18 Financial instruments

Interest rate risk

The economic entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is as follows:

2005	Weighted average interest rate %	Non interest bearing \$'000	Fixed interest rate \$'000	Floating interest rate \$'000	Total \$'000
Financial assets					
Cash	4.85	-	-	1,829	1,829
Other debtors	-	184	-	-	184
		<u>184</u>		<u>1,829</u>	<u>2013</u>
Financial liabilities					
Other creditors		<u>3,650</u>	-	-	3,650
		<u>3,650</u>	-	-	<u>3,650</u>
Net financial assets/liabilities		<u>(3,466)</u>	-	<u>1,829</u>	<u>(1,637)</u>

Notes to the Financial Statements
for the year ended 30 June 2005

18 Financial instruments (continued)

Credit risk

The maximum exposure to credit risk at balance date is the carrying value of the financial assets, net of any provisions for doubtful debts or losses, as disclosed in the statement of financial position and notes to the financial statements.

The economic entity does not have any material credit risk exposure to any single debtor, group of debtors or financial institutions.

Net fair values

For all financial assets and liabilities, the net fair value approximates their carrying value.

The net fair values of quoted investments have been valued at the quoted market bid price at balance date. For unquoted investments, the net fair value has been based on a reasonable estimation of the underlying net assets of the investment.

19 Notes to the statement of cash flows

Reconciliation of cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank. . Cash as 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:

	2005
	\$'000
Cash at bank and on hand	<u>1,829</u>

Notes to the Financial Statements
for the year ended 30 June 2005

19 Notes to the statement of cash flows (continued)

Reconciliation of net result from ordinary activities to net cash used by operating activities

	2005 \$'000
Surplus/(deficit) from ordinary activities	(1,389)
Add/(less) non-cash items:	
Rent incentive amortisation	(26)
Depreciation and amortisation	35
Net cash provided by operating activities before change in assets and liabilities	(1,380)
Change in assets and liabilities during the financial year	
(Increase)/decrease in receivables	(184)
(Increase)/decrease in other current assets	(13)
Increase/(decrease) in payables	650
Increase/ (decrease) in employee benefits	175
Increase/ (decrease) in lease incentive	399
	<hr/>
	1,027
	<hr/>
Net cash used by operating activities	(353)

20 Contingent liabilities

The Commission has no material contingent liabilities as at 30 June 2005 that are not disclosed elsewhere in the report.

21 Impact of Adopting Australian Equivalents to International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the Commission must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ended 30 June 2005.

Transition management

The Commission expects to be in a position to fully comply with the requirements of AIFRS for its reporting on the 30 June 2006 financial year.

A high level overview of the impacts of conversion to AIFRS on existing accounting and reporting policies and procedures has been undertaken. Various accounting policies and disclosures (see below) are being reviewed for compliance with AIFRS requirements.

Notes to the Financial Statements
for the year ended 30 June 2005

21 Impact of Adopting Australian Equivalents to International Financial Reporting Standards (continued)

Impact of transition to AIFRS

The impact of transition to AIFRS set out below is based on AIFRS standards that the Commission expect to be in place, when preparing the first complete AIFRS financial report (being the year ending 30 June 2005). Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of the Commission's financial position, results of operations and cash flows in accordance with AIFRS. This note provides only a summary, therefore, further disclosure and explanations will be required in the first complete AIFRS financial report for a true and fair view to be presented under AIFRS.

Revisions to the selection and application of the AIFRS accounting policies may be required as a result of changes in financial reporting requirements that are relevant to the Commission's first complete AIFRS financial report arising from:

- new or revised accounting standards or interpretations issued by the Australian Accounting Standards Board subsequent to the preparation of the 30 June 2005 financial report
- additional guidance on the application of AIFRS to a particular transaction; and
- changes to the Commission's operations.

Where the application or interpretation of an accounting standard is currently being debated, the accounting policy adopted reflects management's current assessment of the likely outcome of those deliberations.

The rules for first time adoption of AIFRS are set out in AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards*. In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 July 2004.

Set out below are the transactions and/or accounting balances that the Commission has identified as being the principal balances or transactions that may require alternative treatment and/or disclosure under AIFRS. The uncertainty relating to the accounting guidance on these items is disclosed in the relevant note and where practicable, the expected impact of the alternative interpretation is also disclosed.

(a) Financial instruments

The Commission expects to take advantage of the election in AASB 1 to not restate comparatives for AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 139 *Financial Instruments: Recognition and Measurement*. There are no expected adjustments in relation to these standards for 1 July 2004 or the financial year ended 30 June 2005 as current Australian GAAP is expected to continue to apply.

Notes to the financial statements
for the year ended 30 June 2005

21 Impact of Adopting Australian Equivalents to International Financial Reporting Standards (continued)

As at 1 July 2005, potential adjustments include related party for which no interest is currently being charged and on terms that may be subject to variation might be classified as equity. The criteria of AASB 132, indicates the loan may be classified as equity not debt.

(b) Make Good Provisions

Under current Australian GAAP the costs of refurbishment are not recognised until the expenditure is incurred, whereas under AIFRS a provision for refurbishment costs must be recognised over the period of the lease, measured at the expected cost of refurbishment at each reporting date.

A provision for make good costs associated with the Commission's operating lease may be expected to be recognised in the Commission's financial statements.

22 Events subsequent to balance date

The AEMC's operations for 2004/05 were funded by way of a loan of \$3 million from New South Wales in accordance with an inter-governmental funding agreement between the governments of South Australia, Victoria, Tasmania, ACT, New South Wales and Queensland. This agreement provided for the jurisdictions to contribute to the AEMC's funding on 1 July 2005 to enable repayment of the loan by the AEMC on 1 July 2006.

A second inter-governmental agreement between the same governments provided for the funding of the AEMC during 2005/06 based on pre-commencement budget estimates. This agreement expires on 30 June 2006. In accordance with processes established by the jurisdictions the AEMC applied for an increase in 2005/06 funding and for funding for 2006/07 and subsequent years in December 2005. These requests require approval of the Ministerial Council on Energy (MCE) and are scheduled for consideration by the MCE in May 2006.

The current work program of the AEMC extends beyond 30 June 2006 and it is noted that the Ministerial Council on Energy has indicated additional regulatory responsibilities relating to gas and electricity distribution are likely to be transferred to the AEMC in 2007 and in relation to retail in 2008.

Representatives of the current funding jurisdictions, together with representatives of the Commonwealth, Western Australia and the Northern Territory are in the process of developing a funding agreement for the AEMC which will be of an enduring nature and is targeted to commence on 1 July 2006. The new agreement is also subject to MCE approval and is scheduled for consideration by the MCE in May 2006.

At the request of the AEMC New South Wales has agreed to rescheduling the repayment of the \$3 million loan to 30 November 2006."

International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the Commission must comply with Australian equivalents to International Financial Reporting Standards (“AIFRS”) as issued by the Australian Accounting Standards Board.

The potential impact of transition to AIFRS is detailed in note 21 to the financial statements.