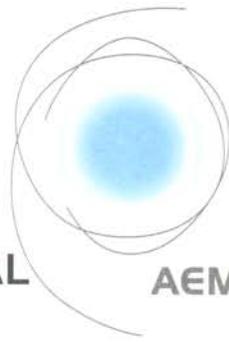


Australian Energy Market Commission

**Annual Report 2005-2006**

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## LETTER of TRANSMITTAL **AEMC**

9 March 2007

The Honourable Patrick Conlon MP  
GPO Box 2969  
Adelaide SA 5001

Dear Minister,

### **Australian Energy Market Commission Annual Report 2005-2006**

The Australian Energy Market Commission is pleased to submit to you its Annual Report for 2005-2006, pursuant to section 27 of the Australian Energy Market Commission Establishment Act 2004. It satisfies the requirements of the Australian Energy Market Commission Establishment Regulations 2005.

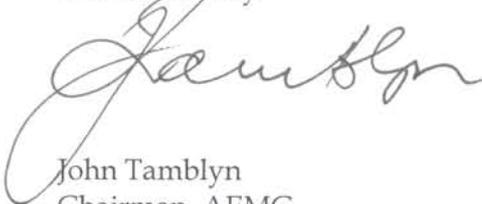
The AEMC is a new institution within a new regulatory framework and is required to give full consideration to all Rule change proposals put to it by any person or organisation, provided they meet statutory conditions. In our first full year of operations Commission staff dealt with a scope of work which exceeded all expectations.

In a year of significant achievement the Commission made 11 Rules in 12 months, completed 4 Reliability Panel reviews and considered a further 14 Rule change proposals and 5 reviews. This work was conducted in the context of three major reviews addressing significant aspects of the design of the market, the operation and reliable performance of the market and the regulatory approach to be taken in relation to market operations. It was also conducted while establishing the initial staffing and operational processes of the Commission.

Extensive consultation was undertaken during the consideration of approximately 300 submissions from market participants, industry associations and community bodies. Through its consultation processes the Commission has established a clear commitment to adopt an open process, to be clear about its analytical approach, to manage related matters in a co-ordinated and integrated manner and to provide interested stakeholders with the earliest opportunities to understand and respond to issues.

The organisation's achievement in the circumstances of significant resource constraints during its establishment year was considerable and I would like to acknowledge the professionalism and dedication of AEMC staff in pursuing excellence in Rule making for the long-term benefit of Australian energy users.

Yours sincerely



John Tamblyn  
Chairman, AEMC

# **REGULATORY ENVIRONMENT, ROLE & MEMBERSHIP OF AEMC**

## **Regulatory framework**

The Council of Australian Governments, through its Ministerial Council on Energy (MCE), established the Australian Energy Market Commission (AEMC) in July 2005 with responsibility for Rule making, market development of national energy markets and to provide advice to the MCE. The AEMC is currently responsible for Rule making and reviews covering the National Electricity Rules. The MCE has indicated additional responsibilities relating to the economic regulation of electricity distribution, non economic regulation of gas and electricity distribution, and non price regulation of retail gas and electricity will be transferred to the AEMC during 2007/08.

The Australian Energy Regulator was also established in July 2005 with responsibility for economic regulation of electricity transmission networks in the National Electricity Market (NEM) and enforcement of the National Electricity Law (NEL) and National Electricity Rules (NER).

The framework for the reforms leading to the establishment of the AEMC is set down by the Commonwealth and State governments in the intergovernmental agreement known as the Australian Energy Market Agreement.

The AEMC's operations are governed by the Australian Energy Market Commission Establishment Act (South Australia) 2004, the National Electricity (South Australia) Act 1996 and the National Electricity Rules. The AEMC is responsible to the MCE for the performance of its functions.

## **National Electricity Market**

The National Electricity Market (NEM) is a wholesale exchange for electricity in the participating States and Territories of Queensland, New South Wales, Australian Capital Territory, Victoria, South Australia, and Tasmania. The Commonwealth is also a participating jurisdiction in relation to the offshore adjacent areas.

The AEMC's decision making role is required to have regard to relevant objectives set out in the National Energy Laws. The National Electricity Market objective is "to promote efficient investment in, and efficient use of, electricity services for the long term interests of consumers of electricity with respect to price, quality, reliability and security of supply of electricity and the reliability, safety and security of the national electricity system."

The National Electricity Rules (NER) commenced on 1 July 2005 and replaced the National Electricity Code which had governed the operation of the NEM since its inception in December 1998.

## **Australian Energy Market Commission**

The AEMC is responsible for making Rule changes after assessing requests for changes to the NER against the NEM objective. The AEMC has market development responsibilities and provides advice to the MCE but cannot itself initiate Rule changes.

The AEMC is a national body, recognised by the laws of all participating jurisdictions of the NEM. The AEMC is formally responsible to the South Australian Minister as an organisation but is subject to policy direction from the MCE, the national energy policy and governance body.

## **AEMC responsibilities**

National Electricity Rules.  
Reliability Panel and oversight of the Advocacy Panel.  
MCE directed electricity reviews.  
AEMC initiated reviews

## **AEMC functions**

The AEMC promotes the strategic longer term design and development of energy markets through its functions of Rule making and market development which involve;

- considering proposals to change the Rules that govern the energy market;
- conducting energy market reviews and inquiries for the MCE; and
- providing policy advice to the MCE as requested or on AEMC initiative.

## **Operations of the Commission**

Processes and timetables for the performance of the Commission's Rule making and review functions are set out in the NEL.

The Commission has adopted a consultative approach to its work within the statutory framework to ensure its decision making is well informed by interested stakeholders. Decision making is conducted in formal session, informed by staff briefing papers and oral presentations detailing the results of staff research, analysis and consultation including the evaluation of submissions received during formal consultation processes.

All submissions received are published on the AEMC's website shortly after receipt to ensure transparency and promote debate.

The Commission has separated its organisational governance role from its formal decision making role and holds separate meetings for each of these aspects of its functions. Formal decision making meetings are generally held on a weekly basis with organisation governance meetings being held monthly.

## **Funding Arrangements and Work Program**

The AEMC is funded by the NEM jurisdictions on a proportional basis. The funding arrangements are set out in an inter-governmental funding agreement between the governments of South Australia, Victoria, Tasmania, ACT, New South Wales and Queensland. The agreement current during 2005/06 provided for the jurisdictions to contribute to the AEMC's funding through quarterly payments commencing on 1 July 2005. The agreement also provided for the repayment by the AEMC, on 1 July 2006, of a pre-establishment loan made by New South Wales to the AEMC in 2004/05. This quantum of funding was based on pre-commencement budget estimates and the agreement expired on 30 June 2006.

In May 2006 the MCE approved a new enduring funding agreement for the AEMC. This agreement commenced on 1 July 2006 and established an annual process for the approval of budgets and funding. It also established a regime for periodic reporting by the AEMC to the MCE.

During its first year of operation the AEMC has seen a significant growth in the number of Rule change proposals and reviews put to it for determination. The volume and complexity of work has exceeded expectations. It has become clear that for the next 2 to 3 years there is unlikely to be a decrease in the workload of the Commission. Consequentially the AEMC has entered into discussions with the MCE regarding the establishment of a capital base, the process for approval and payment of funds and the level of funding required to enable it to perform its functions.

It is worth noting that of the completed and active Rule changes and reviews, seven originated from market participants and twenty seven originated from NEL obligations, the MCE, NEMMCO and a Department of State.

## **Commission Membership**

The Commission comprises three Commissioners. Two Commissioners, the fulltime Chairman, Dr John Tamblyn, and a part-time Commissioner, Ms Liza Carver are appointed by the participating State and Territory jurisdictions. Mr Ian Woodward, a part-time Commissioner, is appointed by the Commonwealth. All Commissioners have been appointed until June 2010.

### **John Tamblyn**

Commissioner Tamblyn was appointed as inaugural AEMC Chairman in June 2005. He comes to this position from Victoria's Essential Services Commission (ESC) where he was inaugural Chairperson from January 2002. In that role he was responsible for regulation of Victoria's energy, water, transport, port and grain handling services and was an Associate Member of the Australian Competition and Consumer Commission (ACCC). Commissioner Tamblyn was Victoria's Regulator-General from July 1997 to December 2001 with similar regulatory responsibilities to those performed by the ESC. He has held senior positions in the ACCC, including Advisor to the ACCC on micro-economic reform and public utility regulation and First Assistant Commissioner responsible for fair trading and consumer protection. Commissioner Tamblyn worked for the International Monetary Fund as adviser to the Government of Seychelles, 1986-87. He held various positions in the Commonwealth Treasury and Department of Finance as a policy adviser on industry policy and regulation, 1970-1985. He holds Ph.D, Masters and Bachelor degrees in economics.

### **Ian C Woodward**

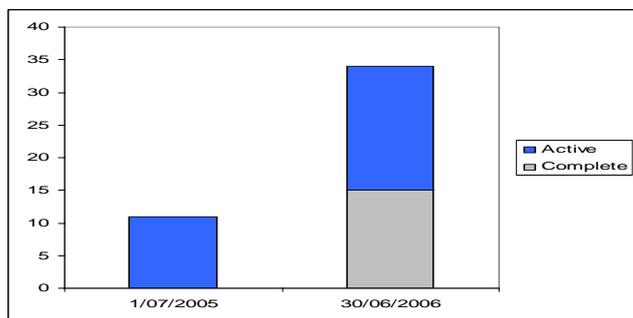
Commissioner Woodward was appointed AEMC Commissioner in June 2005. He is an Executive Consultant for Macquarie Bank in their Investment Banking Group. In addition, Commissioner Woodward undertakes consulting and lecturing assignments on leadership, communication and strategy for organisations such as the Asian Development Bank. In 2005 he was Associate Faculty Director for the Senior Executive Program of Columbia Business School in New York. Commissioner Woodward was a Director of Natural Gas Corporation (NZ) 1999 to 2003; Group General Manager, Corporate Development for The Australian Gas Light Company 1997 to 2003 and Chief Executive of the Australian Gas Association (AGA) 1993 to 1997. Prior to this he held senior government appointments in Australia and the United States including as an adviser to the US Secretary of Energy. Commissioner Woodward is also a former Chairman and broadcaster on Sydney's classical music radio station, 2MBS FM. He holds an Executive MBA from the Australian Graduate School of Management (UNSW) and a Bachelor of Arts in Political Science, Economics and Communication (UNE). He has completed executive leadership programs at the Brookings Institute in Washington and Columbia University in New York.

## **Liza Carver**

Commissioner Carver was appointed AEMC Commissioner in June 2005. She is a partner in the law firm Gilbert+Tobin, specialising in Trade Practices and Competition law and was a Director of RailCorp during 2005/06. Commissioner Carver has previously held positions as Associate Commissioner with the Trade Practices Commission, a part-time Associate Commissioner with the Australian Competition and Consumer Commission (ACCC) and as a member of the NSW Independent Pricing and Regulatory Tribunal. She is formerly a Director of the Rail Infrastructure Corporation, the State Rail Authority of NSW and the Rail Access Corporation. She was a member of the NSW Premier's Council for Women between 1995 and 1999. Her expertise is in merger analysis and clearance, competition analysis and the regulation of gas, electricity and telecommunication industries. Commissioner Carver has qualifications in law and economics, including a Master of Laws specialising in Trade Practices (University of Sydney).

# THE YEAR AT A GLANCE

## Reviews & Rule Changes



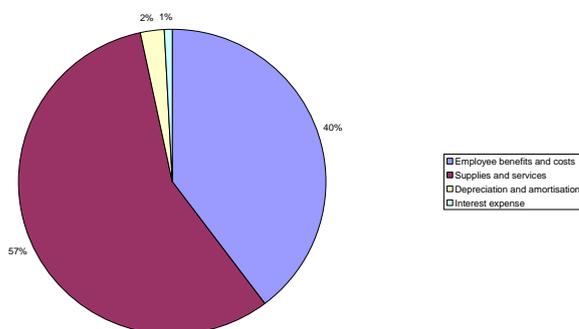
At commencement in July 2005 the work program for the AEMC comprised 11 Rule change proposal/review projects. These included two Reliability Panel Reviews and eight Rule change proposals transferred from the National Energy Code Authority (NECA). The Commission also had the responsibility under the National Electricity Law (NEL) to review the current rules governing the

economic regulation of transmission services and make new rules. This was completed by 1 January 2007.

During the year 24 new Rule change proposals/reviews were received.

At the close of the year, 15 projects (11 Rule changes and 4 Reliability Panel Reviews) had been completed and one withdrawn. Nineteen projects remained active including major reviews which relate to significant market issues.

## 2005-2006 Actual Expenditure

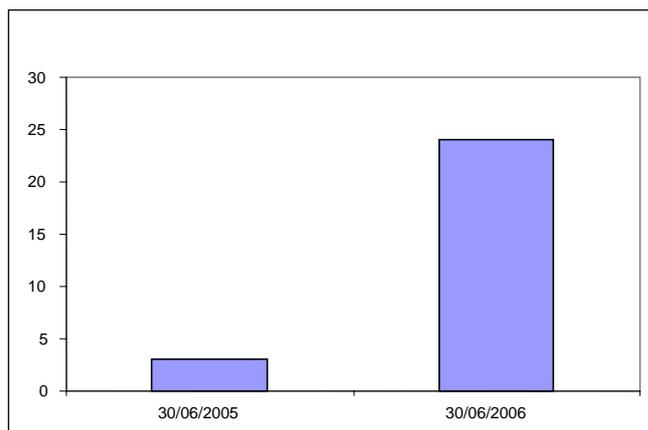


Income received is substantially funding from the funding jurisdictions the plus interest earned. The major categories of expenditure were employee costs and supplies and services. Significant outgoings in supplies and services reflect the volume of work necessitating the engagement of specialist skills and contractors.

The 2005-2006 workload exceeded the initial estimates used to develop the original budget and funding allocation. This placed considerable pressure on operational cash

flows throughout the year. NSW Treasury agreed to an AEMC request to extend the term of a \$3M interest-free loan to cover operational cash flow requirements until appropriate funding arrangements could be put in place to ensure long-term liquidity. Repayment of the loan is anticipated to be made in 2006-2007.

## Staff numbers (including Commissioners)



At commencement of operations the only appointments made were those of the Commissioners. At 30 June 2006 total staff including Commissioners was 24. The AEMC's work requires skills which are in limited supply. Recruitment of staff was a priority activity throughout the year.

The majority of staff commenced in November/December 2005. In order to progress the work program staffing was supplemented by the use of secondments

from other organisations and by contractors. The source and nature of the AEMC's work will require the continued use of consultants, contractors and occasional secondments to meet specialist skill requirements and variations in work load.

## Work Program 2005/06

Full details of all Reviews, Rule change proposals and Rules made, including submissions received and the Commissions' reports and determinations are set out on the AEMC website. The following tables provide a summary of completed and current work of the AEMC.

Rules Made	Proponent
Recovery of negative inter-regional settlements residue	NEMMCO
Revision of dispatch pricing due to manifestly incorrect inputs	NEMMCO
Publication of information for non-scheduled generation	NEMMCO
System Restart Ancillary Services and Pricing Under Market Suspension	NEMMCO
Review of operating incidents	NEMMCO
Review of dispute resolution process for the Regulatory Test	MCE
Statement of Opportunities Update	NEMMCO
Reliability Safety Net Extension	Reliability Panel
Advocacy Panel	MCE
Participation in Settlement Residue Auctions - Participant Derogation	Energy Australia
Inspection and testing of metering installations - Participant Derogation	Energy Australia

Reliability Panel Reviews Completed	Proponent
Annual Electricity Market Performance Review - Reliability and Security 2005 Report	National Electricity Rules obligation
Revised guidelines for intervention by NEMMCO for reliability	National Electricity Rules obligation
VOLL 2006 Review	National Electricity Rules obligation
Tasmanian reliability and frequency standards review	National Electricity Rules obligation

<b>Current Rule Change Proposal Projects</b>	<b>Proponent</b>
Region boundaries	MCE
Reform of Regulatory Test Principles	MCE
Transmission Last Resort Planning	MCE
Snowy Boundary and alternative Snowy Region Boundary	Macquarie Generation
Metrology	NEMMCO
Economic regulation of transmission services (Chapter 6 Revenue)	National Electricity Law
Pricing of prescribed transmission service (Chapter 6 Pricing)	National Electricity Law
Technical standards for wind and other generator connections	NEMMCO
Reallocations	NEMMCO
Management of negative settlement residues by reorientation	Snowy Hydro Ltd
Transmission network replacement and reconfiguration	Stanwell Corporation
Extension of inter-regional settlements agreement	Dept of Infrastructure Victoria
Management of negative settlement residues in Snowy region	"Southern Generators"
TransGrid participant derogation (treatment of contingent projects - interim arrangements)	TransGrid

<b>Current Reviews</b>	<b>Proponent</b>
Congestion Management Review	MCE
Review into the enforcement of and compliance with technical standards	MCE

<b>Current Reliability Panel Reviews</b>	<b>Proponent</b>
System Operating Incidents Guidelines	National Electricity Rules obligation
Comprehensive Reliability Review	AEMC
Annual electricity market performance review - reliability and security 2006 report	National Electricity Rules obligation

# CHAIRMAN'S REPORT

This is the first annual report of the Australian Energy Market Commission (AEMC) as an operating statutory decision-making body. The year has been one of considerable challenge and achievement as a new organisation.

The AEMC commenced operations on 1 July 2005 with no staff and a substantial initial work program that included a number of complex matters that have been the subject of debate since the start of the National Electricity Market (NEM) in December 1998. The Commission commenced the task of dealing with the initial work program at the same time as it was establishing its staffing and operational capability.

At the close of the year the Commission has established a high standard for the processes and quality of work produced against a background of significantly expanding responsibilities and constrained resources to apply to the growing workload. The Commission formally acknowledges the dedication and commitment of its staff in achieving the finalisation of fifteen projects to a high standard in demanding circumstances.

The Commission is conscious that it plays a vital role as rule maker and policy advisor in ensuring national energy markets deliver reliable, cost effective and safe energy to consumers. To this end the regulatory framework must promote the making of investment and operating decisions in efficient and timely ways to ensure ongoing balance of energy supply and demand at competitive prices. This is reflected in the range of matters before the Commission and in the approach it is taking to those matters.

The Commission has dealt with, and continues to deal with, a very broad range of power system, wholesale market and transmission issues. While a number of those issues stand alone, strong linkages exist between a significant number of reviews and rule changes which has increased the complexity of analysis and necessitated a focus on effective coordination and alignment of related projects. Those linkages have also required a strategic view to be taken of the matters before the Commission to ensure that decisions are directed to optimum outcomes for the NEM.

A significant example is the Commission's review of electricity transmission revenue and pricing Rules, which it has undertaken in accordance with section 35 of the National Electricity Law (NEL). This project has been concerned with the incentives underlying the regulation of transmission businesses, particularly as they relate to investment in new transmission infrastructure, and alignment of incentives between transmission network service providers and other market participants. In considering its approach to these Rules, the Commission was mindful of two further Rule change proposals from the Ministerial Council on Energy (MCE). These were a proposal in relation to the Rule framework for the making of the Regulatory Test by the Australian Energy Regulator (AER), and a proposal to provide for a Last Resort Planning Power. As the Regulatory Test and Last Resort Planning Power have implications for the incentives provided by the transmission revenue and pricing Rules for efficient and timely investment, the Commission was able to consider the relationship between incentives created by the transmission Rules, and the specific incentives created by the Regulatory Test Rule and the proposed Last Resort Planning Power Rule.

Another major and complex area of the AEMC's work relates to the management of congestion in the transmission network. The AEMC's ongoing work program in this area includes a MCE directed review (Congestion Management Review) and a MCE Rule change proposal, together with four Rule change proposals from market participants related to the boundary of the Snowy Region of the NEM. The issue of congestion management has been an enduring point of debate in the NEM, particularly in

the Snowy Region. The AEMC is examining these Rule change proposals and the MCE review in a holistic manner in order to deliver a comprehensive congestion management regime for the market.

The Reliability Panel of the AEMC has undertaken significant work directed towards ensuring the reliable supply of electricity at standards and costs that meet consumer's requirements. The Panel's ongoing work is directed to delivering a comprehensive and integrated report to the MCE on the effectiveness of the NEM reliability settings.

Organisational resourcing has been an issue for the AEMC during this establishment phase of the organisation. During 2005-06, of necessity the focus has been on establishing the AEMC's Rule-making processes and completion of priority projects in the initial work program. That was achieved effectively with newly recruited managers and staff and interim organisation support systems.

The Commission's focus for the year ahead is now on further development and consolidation of the systems, processes and staffing arrangements required to provide an effective and efficient basis for its future operations. Importantly the Commission will continue to build the management and staff skills and experience required for best practice Rule-making and the provision of high quality policy advice within the scope of its current responsibilities and the expanded roles to be undertaken in 2007 and 2008.

Additional roles for the AEMC relating to the economic regulation of electricity distribution, non-economic regulation of gas and electricity distribution, and non-price regulation of retail gas and electricity have been foreshadowed by the MCE. The MCE has also agreed to a process to conduct reviews of retail price regulation in each State and Territory. Retail price control will be retained by States and Territories in the National Electricity Market unless they choose to transfer such arrangements to the AEMC and the AER.

The AEMC will work with the MCE in the development of these new roles.

The Commissioners would like to emphasise and acknowledge again the contribution made by the managers and staff during 2005-06 towards the initial establishment and operation of the AEMC and the high quality of the work it has produced. Their efforts and achievements during 2005-06 have been substantial in the face of significant resource constraints. The Commissioners would also like to extend their appreciation to those former members of the team who were seconded to the AEMC during its first year of operation and made a valuable contribution.

The AEMC's initial establishment and the quality of its work during 2005-06 could not have been achieved without the commitment, expertise and professionalism of my fellow Commissioners, Liza Carver and Ian Woodward. I would like to extend to them my personal thanks and appreciation for the advice and support they have given to me and for the very substantial contribution they have made and continue to make to the AEMC.

John Tamblyn  
Chairman

# CHIEF EXECUTIVE OFFICER'S REPORT

The year under review was one of substantial achievement in the context of considerable administrative challenge. In the Commission's first year of operations 15 projects were completed and one withdrawn. Nineteen projects remained active at the close of the year, including reviews which relate to significant market issues.

Stakeholder feedback indicates the standard of decision-making established in 2005-2006 has been highly regarded. This is a credit to the dedication and effort of AEMC employees. Clearly the volume of work before the Commission has exceeded the expectations of the MCE and officials responsible for the Commission at the time of establishment. A consequence has been that the AEMC experienced significant misalignment between workload and available resources throughout the year. In this context the standard of Rules made and advice provided is of considerable credit to all involved.

The establishment of a new stand alone organisation without the benefit of existing systems and processes to support both the core function of Rule making and corporate support activities is at the best of times challenging. Unfortunately the increased workload required resources to be diverted from establishment activities to Rule change and review projects to ensure the AEMC's obligations under the National Electricity Law were met and that expenditure was contained within available funds. Consequently a number of establishment activities have been delayed and interim systems and processes implemented to support operations.

Discussions were initiated with the MCE during the year to establish mechanisms for balancing the workload of the AEMC and available resources.

The development of the infrastructure required to operate an independent organisation will continue, however the rate of progress will be dependent on available resources. Notwithstanding these issues progress has been made in the enhancement of financial management systems, governance processes, publication systems such as the website and in workload management.

During the year the AEMC sought, and was granted, agreement from New South Wales for the deferral of the repayment of a \$3 million pre- establishment loan to 30 November 2006 to provide cash reserves to manage liquidity. This facility has been essential to the ongoing operation of the AEMC.

The first twelve months of operation were focussed on establishing the Commission's work program and recruiting staff. During this critical establishment period the organisation concentrated on progressing its Rule change and review work in order to meet its legislative obligations and contribute to energy market development and the policy goals of the MCE. The support of staff seconded from other organisations and contractors has been critical to the advancement of the work program while recruiting permanent staff.

The dedication and commitment of our staff has been greatly appreciated. This provides a very sound base for the future of the organisation.

The AEMC has implemented a range of practices to keep the market informed of its work program, decisions on Rule changes and recommendations from Reviews in the context of time constraints occasioned by the workload. These include periodic briefings to industry and consumer associations on the work program and publication of information on the AEMC website.

The AEMC liaises with electricity market policy makers as well as regulatory and market participant forums. We strive to ensure the developments of the market design and regulatory framework are

transparent to stakeholders and that every effort is taken to assist stakeholders in the preparation of proposal responses through briefings, hearings, and round-table discussions.

However we are conscious of the need to increase the level of communication with all stakeholders.

Feedback during the year included comment from stakeholders that the number and frequency of consultations on Rule proposals together with reform activities being conducted by other bodies was challenging the ability of some to provide submissions on the wide range of references under consideration. This is reflective of a renewed focus on the benefits arising from an efficient energy market and indicates the volume of work referred to the AEMC is likely to be maintained or even increased over the next few years.

At the time of this report's publication actions arising from the completion of an independent review of interim governance processes and procedures are being progressively implemented to enhance the effectiveness of the AEMC's governance processes and infrastructure.

The challenge for 2006/07 is to build upon the achievements of 2005/06 and ensure the development of the capability and infrastructure that will enhance our performance and governance. Our people are our key resource. Their continued development, along with the recruitment of additional staff, are fundamental to our success.

Steven Graham  
Chief Executive Officer

## STRATEGIC DIRECTION

The AEMC has adopted the following Vision and Mission statement to guide its operations:

***Our vision** is to contribute to the delivery of reliable, secure and competitive energy to Australian households and businesses today and into the future.*

***Our mission** is to provide a market framework capable of encouraging efficient long-term use and investment in energy supply for Australians in the interests of consumers. In essence the AEMC is responsible for the market rules which contribute to making our vision a reality.*

A strategic plan has been developed to guide the AEMC in the achievement of the objectives set out in the National Electricity Law. The key objectives of that plan are:

1. Deliver high quality reviews, Rule changes and advice.
2. Provide clear Rules and predictable regulatory processes for energy market participants.
3. Provide a proper balance between investor and consumer interests.
4. Maintain open consultative relationships with industry participants and communities on what we do and how it improves the working of energy.
5. Provide effective and transparent processes.
6. Develop effective working relationships with regulators and market operators.

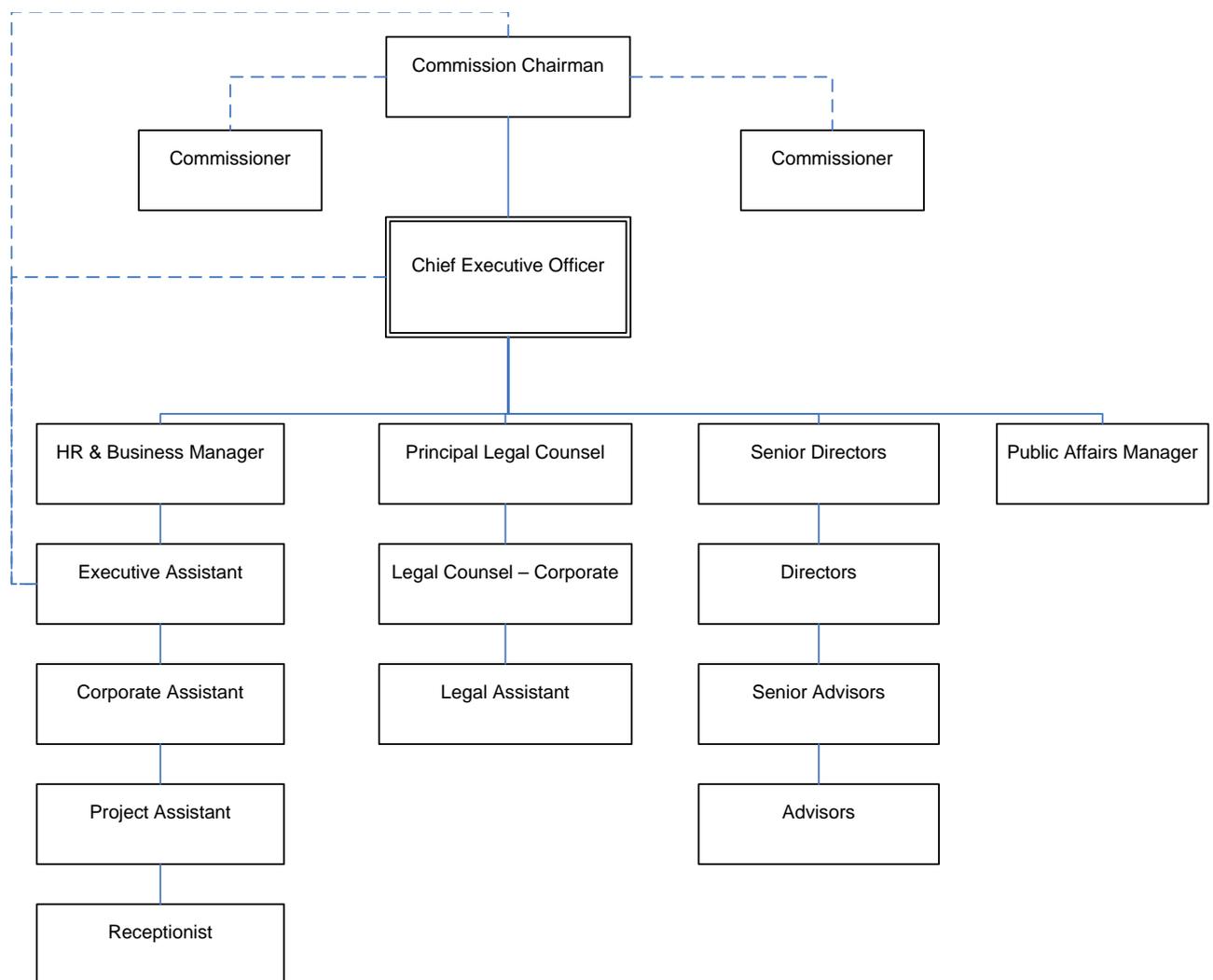
The AEMC has actively pursued each of these objectives throughout the year and on the basis of market feedback and self assessment has achieved no less than acceptable outcomes on each. However there remains opportunity to improve performance in all areas particularly in relation to consultation with industry and the community.

# PEOPLE AND STRUCTURE

## Establishing our capability

The AEMC commenced operations with no permanent staff appointed and a substantial work program requiring immediate commencement. Commission staff demonstrated a very high level of commitment and motivation during the establishment year which saw a significant misalignment between staffing and workload.

The organisation structure of the AEMC at 30 June 2006 is set out below. An increase in the number of staff is anticipated to respond to increasing workload, subject to funding arrangements. An additional role of Finance Manger is to be established during 2006/07.



The AEMC operates a matrix type organisational structure with project teams formed to deal with individual Rule change proposals or Reviews. Team members regularly work on more than one project at a time. Leadership of projects is allocated to a Director or Senior Advisor with Senior Directors and Directors having oversight responsibility for a number of projects. Line management is carried out by Senior Directors or Directors.

Staff members are not employees of government and are employed under contract arrangements with the AEMC. Remuneration levels for each position were established relative to market after consideration of advice from professional human resource consultants. Individual salaries are reviewed annually following completion of annual performance and development reviews.

There were 16 commencements and 5 resignations during the year under review.

## **Legal office**

A mandatory obligation of the AEMC's role under the NEL is the publication of the National Electricity Rules. This responsibility is analogous to the role of a Parliamentary Counsels' Office, requiring not only the drafting capability but also appropriate legal publishing systems. The AEMC has commenced the process of establishing an enhanced publishing capability during the year under review. The AEMC has two in-house lawyers providing legal advice, drafting rules and briefing external legal advisors.

## **Corporate support**

Corporate support is provided through outsourced information technology, internal audit, payroll and accounting services. During 2005-2006 the need for an employed finance manager was identified to enhance financial reporting, project costing, performance management and reporting, the effective management of outsourced services and the effective segregation of processes to enhance internal control procedures. This role will be filled during 2006/07.

# **GOVERNANCE**

## **Code of Conduct**

The AEMC Code of Conduct sets out the AEMC's commitment to fairness, honesty, impartiality and integrity in all its dealings with all stakeholders.

The objectives of the Code of Conduct are to ensure:

- A working environment that is free from discrimination and harassment.
- All business actions and decisions are based on the highest standards of ethics and honesty, free from any conflicts of interest and free from any pecuniary interest.
- Any benefits or gifts obtained while performing duties for the AEMC be treated in accordance with the AEMC Code of Conduct Procedures.
- All information in the possession of the AEMC is protected and safeguarded and AEMC resources are used efficiently and economically.
- Any instances of possible breaches of governance processes, corruption, or serious and substantial waste are reported to the appropriate AEMC Officer.
- Where employees engage in other employment or business, it does not compromise or conflict with their employment with the AEMC.

## **Risk Management and Internal Control**

Interim policies and procedures relating to governance particularly of finance, procurement, staffing, information management and conflicts of interest were established. These arrangements have been effective.

Enhancement of these interim arrangements was commenced by undertaking an independent review of the overall governance processes. A number of enhancement actions have been initiated as a result of that review.

An internal audit committee also has been established and a Finance Manager will be recruited in 2006/07 to, amongst other things, allow greater segregation of responsibilities and thereby enhance internal control.

## **Appointment and Remuneration of Commissioners**

Commissioners are appointed by the Governor of South Australia on the recommendation of the Minister following nomination by the State and Territory members of the Ministerial Council on Energy or the Commonwealth as appropriate in accordance with the Australian Energy Market Establishment Act. The instruments of appointment establish the initial remuneration which is adjusted, during the period of appointment, in accordance with the annual determinations of the New South Wales Statutory and Other Officers Remuneration Tribunal.

## Internal Committees

During the year the Commission established an Audit Committee. Early in 2006/07 a Remuneration Committee was also established. Each of these committees has a charter approved by the Commission.

## Meetings of the Commission, Committees and Panels

The Commission currently meets on a weekly basis in its formal decision making role and monthly in relation to organisational governance.

A – Attended meetings      E – Eligible to attend

<b>Commission</b>	<b>A</b>	<b>E</b>
John Tamblyn	40	41
Liza Carver	38	41
Ian Woodward	35	41

<b>Audit Committee</b>		
Ian Woodward (Chair)	2	2
John Tamblyn	2	2

<b>Reliability Panel</b>	<b>A</b>	<b>E</b>
Ian Woodward (Chair)	9	9
John Dick*	4	5
Jeff Dimery	6	9
Mark Grenning	6	9
Jim Hennes*	2	5
Gordon Jardine	7	9
Charlie Macaulay*	5	2
George Maltabarow	6	9
Geoff Willis	9	9
Jim Wellsmore†	3	4
Les Hosking†	4	4
Stephen Orr†	4	4

\* Term completed 31.12.05

† Appointed 01.01.06

## Management of Conflicts of Interest and of Information

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 Commission is also aware of the high level of confidentiality that needs to be maintained so as to protect the integrity of its processes and of the operation of the market.

The AEMC has put in place procedures to ensure the integrity of the decision making process and to meet the relevant requirements of the *Australian Energy Market Commission Establishment Act 2004*. These procedures provide the disclosure of pecuniary interests by all staff and Commissioners, timely notification of changes in those interests and the security and confidentiality of information.

Procedures have also been established for the management of perceived or actual conflicts of interest. These procedures provide for disclosures at meetings of actual or perceived conflicts, the appropriate recording of disclosures and decisions made by the Commission in relation to the actions to be implemented to manage each disclosure.

As part of these procedures the following statements by each of the three Commissioners are published on the AEMC's website.

*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.*

## EXPERT PANELS

In addition to its Rule making and market development roles, under the National Electricity Law, the AEMC has direct responsibility for the Reliability Panel and an oversight responsibility for the Advocacy Panel.

The AEMC has the power, under section 39 of the National Electricity Law, to establish committees, panels and working groups assist the AEMC in the performance of its functions. The AEMC has not exercised this power during 2005/06.

### Reliability Panel

The Reliability Panel is established as a specialist body within the AEMC in accordance with the provisions of the National Electricity Law and the National Electricity Rules. The Reliability Panel's role is to monitor, review and report on the safety, security and reliability of the national electricity system. The NER require the Panel to consist of a chairperson appointed by the AEMC, the CEO or delegate of NEMMCO, and up to 8 other members including representative of generators, market customers, Transmission Network Service Providers, Distribution Network Service Providers and end use customers. The Panel membership was reconstituted by the AEMC in January 2006. Current members of the Panel are:

Reliability Panel	
Ian Woodward	Chairman and AEMC Commissioner
Jim Wellsmore	Senior Policy Officer Public Interest Advocacy Centre
Mark Grenning	General Manager Energy Comalco Aluminium
Les Hosking	Managing Director and CEO NEMMCO
Gordon Jardine	Chief Executive Powerlink
George Maltabarow	Managing Director EnergyAustralia
Stephen Orr	Commercial Director International Power Australia
Jeff Dimery	General Manager Victoria AGL
Geoff Willis	CEO HydroTasmania

### Reliability provisions oversight

The Panel's responsibilities include oversight of a number of reliability provisions contained within the National Electricity Rules including:

- the National Electricity Market reliability standard;
- wholesale spot market price mechanisms including the Value of Lost Load (VoLL), market floor price and cumulative price threshold (CPT); and
- the Reliability Safety Net.

The reliability provisions are crucial in sending investment and consumption signals to market suppliers and customers. The mechanisms, standards and settings are inter-related yet the existing Rules have, until now, required them to be reviewed largely separately.

The AEMC requested that the Panel review the effectiveness of those settings in a single Comprehensive Reliability Review to ensure an integrated approach to the various settings that contribute to reliability was taken. This comprehensive and integrated review of the effectiveness of the NEM reliability settings is in progress. The settings include the bulk supply system reliability

standard, the wholesale market price cap (known as the Value of Lost Load or VoLL) and the reliability safety net (a “backstop” mechanism designed to deliver adequate supply where the market does not). Local distribution network reliability is a matter for jurisdictional regulation and lies outside the scope of the Panel’s review<sup>1</sup>. The NEM reliability settings are crucial in sending investment and usage signals to both suppliers and consumers of electricity. The settings are inter-related and the review marks the first time they have been considered as an integrated whole since the beginning of the NEM.

The Panel also intends that the review be informed as to how broader market features impact on the way in which supply reliability is provided to customers. This may include, for example, how network congestion is managed in the NEM and the extent to which jurisdictional reliability requirements may affect generation investment. Both these matters are the subject of other major AEMC workstreams.

The Panel published an issues paper in May 2006. Stakeholder submissions in response closed in June 2006. The Panel held a forum in July where stakeholders presented their views prior to the Panel undertaking its own detailed analysis. It is anticipated that the Panel will release its draft and final review reports in December 2006 and March 2007, respectively.

The National Electricity Rules require the Panel to conduct periodic reviews. In 2006/07 some of these will be captured by the Comprehensive Reliability Review. The following projects were completed during 2005/06:

- Annual VOLL Review - The Reliability Panel published its draft determination on 24 February 2006 and recommended no change to current levels ahead of the Reliability Review.
- Reliability safety net - The AEMC made the National Electricity Amendment (Reliability Safety Net Extension) Rule 2006 No. 7 on 18 May 2006. It extended the safety net to 30 June 2008 and foreshadowed the possibility of an earlier date if the Panel recommended.
- Tasmanian reliability and frequency standards - The Panel released its final determination on Tasmania as a standalone region on 25 May 2006.
- Revised Guidelines for intervention by NEMMCO for reliability released in September 2005.
- Annual Market performance Review 2005 completed in December 2005.

## **Advocacy Panel**

The Advocacy Panel is established under clause 8.10 of the National Electricity Rules to provide funding to end users to allow them to participate in the National Electricity Market decision making processes. The Panel’s responsibilities include:

- determining the total funding available for advocacy assistance;
- establishing criteria and guidelines for funding; and
- allocating funding in accordance with these criteria and guidelines.

The Panel is appointed by the AEMC, however the Panel is independent of market participants, government, the AEMC and industry in performing its functions. The Panel was reconstituted in December 2005. Membership of the Panel at 30 June 2006 is set out in the following Table:

---

<sup>1</sup> The bulk supply system comprises generation and transmission. The majority of supply interruptions occur in relation to distribution systems connected to the bulk supply system. Distribution reliability is a responsibility of State Regulators.

<b>Chairman</b>	
Frank Peach	Independent Chair
<b>Consumer Representatives</b>	
Denis Nelthorpe	Domestic Customer Representative
Angus Fletcher	Business Customer Representative
<b>Industry Representatives</b>	
Mark Williamson	General Manager-Marketing & Trading - NRG Flinders (Generator Representative)
Mark Brownfield	Manager Residential Sales - AGL Retail Energy (Retail Representative)

## **Funding**

The Rules governing the Panel's operation were amended with effect from 1 July 2006 following the AEMC's consideration of a Rule change proposal from the MCE. The Rule changes were designed to improve governance, funding arrangements and accountability.

The Panels' operational and grant funding is provided by NEMMCO, through NEM market participant fees.

The MCE is proposing a long term model for consumer advocacy arrangements for both electricity and gas. Legislation to enable the commencement of the new arrangements from 1 July 2007 is currently being progressed by the MCE.

## **Appendices**

The following appendices contain the AEMC's financial statements and information required under the AEMC Establishment Regulations 2005 that is not included in the body of the report.

**APPENDIX 1: FINANCIAL STATEMENTS 2005/06**



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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 2006. The financial report comprises:

- An Income Statement;
- A Balance Sheet;
- A Cash Flow Statement;
- A Statement of Changes in Equity;
- Notes to each 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 2006, 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**  
10 November 2006

**AUSTRALIAN ENERGY MARKET COMMISSION  
ABN 49 236 270 144**

**ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED**

**30 JUNE 2006**

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**Certification of the Financial Report**

We certify that:

- 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 Australia, the financial position of the Australian Energy Market Commission as at 30 June 2006, the results of its operations and its cash flows for the year then ended;
- The attached financial statements are in accordance with the accounts and records of the Commission and give an accurate indication of the financial transactions of the Commission for the year then ended; and
- Internal controls over the financial reporting have been effective throughout the reporting period and there are reasonable grounds to believe the Authority will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.



Steven Graham

Chief Executive Officer



Dr John Tamblyn

Chairman

6th November 2006

6th November 2006

**Australian Energy Market Commission**  
**ABN 49 236 270 144**

**Income Statement**  
**for the year ended 30 June 2006**

	Note	2006 \$'000	2005 \$'000
<b>Expenses</b>			
Employee benefits costs	9	2,918	30
Supplies and services	10	4,185	1,486
Depreciation and amortisation	11	182	35
Interest expense		62	-
<b>Total expenses</b>		7,347	1,551
<b>Income</b>			
Interest revenues	6	322	27
Funding from non SA Government	7	7,632	135
<b>Total income</b>		7,954	162
<b>Net income from / (cost) of providing services</b>		607	(1,389)
Revenues from SA Government	8	734	-
<b>Net result</b>		1,341	(1,389)

The net result is attributable to the SA Government as owner.

*The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 23.*

**Australian Energy Market Commission**  
**ABN 49 236 270 144**

**Balance Sheet**  
**as at 30 June 2006**

	Note	2006 \$'000	2005 \$'000
<b>Current assets</b>			
Cash and cash equivalents	25	4,913	1,829
Receivables	13	239	184
Other current assets	16	53	13
<b>Total current assets</b>		5,205	2,026
<b>Non-current assets</b>			
Property, plant and equipment	14	673	728
Intangible assets	15	61	62
<b>Total non-current assets</b>		734	790
<b>Total assets</b>		5,939	2,816
<b>Current liabilities</b>			
Payables	17	2,151	652
Financial liabilities	18	2,915	3,000
Short term employee benefits	19	174	18
Other current liabilities	20	80	80
<b>Total current liabilities</b>		5,320	3,750
<b>Non-current liabilities</b>			
Long-term employee benefits	19	273	155
Long-term provision	21	8	7
Other non-current liabilities	20	213	293
<b>Total-non current liabilities</b>		494	455
<b>Total liabilities</b>		5,814	4,205
<b>Net assets</b>		125	(1,389)
<b>Equity</b>			
Contributed capital		173	-
Retained earnings		(48)	(1,389)
<b>Total equity</b>		125	(1,389)

The total equity is attributable to the SA Government as owner.

*The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 25.*

**Australian Energy Market Commission**  
**ABN 49 236 270 144**

**Statement of Changes in Equity**  
**for the year ended 30 June 2006**

	Note	Contributed Capital \$'000	Retained earnings \$'000	Total \$'000
Balance at 30 June 2004		-	-	-
<b>Net result for the year ended 30 June 2005</b>		-	(1,389)	(1,389)
Balance at 30 June 2005		-	(1,389)	(1,389)
Net result for the year ended 30 June 2006		-	1,341	1,341
Equity contribution from SA Government		173	-	173
<b>Balance at 30 June 2006</b>		173	(48)	125

All changes in equity are attributable to the SA Government as owner.

*The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 25.*



**Australian Energy Market Commission  
ABN 49 236 270 144**

**Cash Flow Statement  
for the year ended 30 June 2006**

	Note	2006 \$'000	2005 \$'000
<b>Cash flows from operating activities</b>			
<b>Cash outflows</b>			
Employee benefit payments		(2,632)	(8)
Supplies and services		(4,586)	(949)
GST on payments on purchases		(474)	(149)
<b>Cash used in operations</b>		<u>(7,692)</u>	<u>(1,106)</u>
<b>Cash inflows</b>			
Receipt of LSL transferred from previous employers		240	-
Cash receipts from non SA Governments		8,433	135
Receipts from lease incentive		-	399
Interest received		175	27
GST input tax credits		-	40
GST received from ATO		386	152
<b>Cash generated from operations</b>		<u>9,234</u>	<u>753</u>
<b>Cash flows from SA Government</b>			
Receipts from SA Government		1,495	-
<b>Cash generated from SA Government</b>		<u>1,495</u>	<u>-</u>
<b>Net cash provided by/(used in) operating activities</b>	25	<u>3,037</u>	<u>(353)</u>
<b>Cash flows from investing activities</b>			
<b>Cash outflows</b>			
Purchase of property, plant & equipment		(102)	(325)
Purchase of computer software		(24)	(69)
Purchase of leasehold improvement		-	(424)
<b>Cash used in investing activities</b>		<u>(126)</u>	<u>(818)</u>
<b>Net cash provided by/(used in) investing activities</b>		<u>(126)</u>	<u>(818)</u>
<b>Cash flows from financing activities</b>			
<b>Cash inflows</b>			
Equity contribution from SA Government		173	-
Proceeds from borrowings		-	3,000
<b>Cash generated from financing activities</b>		<u>173</u>	<u>3,000</u>
<b>Net cash provided by financing activities</b>		<u>173</u>	<u>3,000</u>
<b>Net increase in cash and cash equivalents</b>		3,084	1,829
<b>Cash and cash equivalents at the beginning of the financial year</b>		<u>1,829</u>	<u>-</u>
<b>Cash and cash equivalents at the end of the financial year</b>	25	<u>4,913</u>	<u>1,829</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 7 to 25*

**Notes to the Financial Statements**  
**for the year ended 30 June 2006**

**1 Objectives of the Australian Energy Market Commission**

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

- a) the rule-making, market development and other functions conferred on the Commission 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 accounting**

The financial report is a general purpose financial report. The accounts have been prepared in accordance with applicable Australian Accounting Standards and Treasurer's Instructions and Accounting Policy Statements promulgated under the provision of the *Public Finance and Audit Act 1987* (PFAA).

These financial statements are the first statements to be prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

AASB 1 *First time adoption of AIFRS* has been applied in preparing these statements. Previous financial statements were prepared in accordance with Australian Generally Accepted Accounting Principles.

Reconciliations explaining the transition to AIFRS as at 1 July 2004 and 30 June 2005 are at note 4.

**Notes to the Financial Statements**  
**for the year ended 30 June 2006**

**2 Summary of significant accounting policies (continued)**

**a) Basis of accounting (continued)**

The Commission's Income Statement, Balance Sheet and Statement of Changes in Equity have been prepared on an accrual basis and are in accordance with historical cost convention, except for certain assets that were valued in accordance with the valuation policy applicable.

The Cash Flow Statement has been prepared on a cash basis.

The financial report has been prepared based on a twelve month operating cycle and presented in Australian currency.

**b) Issued standards not early adopted**

The following standards and amendments were available for early adoption but have not been applied by the Commission in these financial statements:

AASB 7 Financial instruments: Disclosure (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007

AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 Financial Instruments: Disclosures and Presentation, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB 117 Leases, AASB 133 Earnings per Share, AASB 139 Financial Instruments: Recognition and Measurement, AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards, AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

The Commission plans to adopt AASB 7 and AASB 2005-10 in the 2007 financial year.

The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of the Commission as the standard and the amendment are concerned only with disclosures.

**Notes to the Financial Statements**  
**for the year ended 30 June 2006**

**2 Summary of significant accounting policies (continued)**

**c) Going concern**

The financial report has been prepared on a going concern basis, which contemplates continuity of normal business activities and realisation of assets and settlement of liabilities in the ordinary course of business.

The continued existence of the Commission in its present form, is dependent on Government policy in each of the National Electricity Market jurisdictions who fund the Commission and the Commonwealth Government.

No adjustments have been made to the financial report to take account of any changes that would be required relating to the recoverability and classification of recorded assets or to the amounts and classification of liabilities that might be necessary should the Commission not continue as a going concern.

**d) Comparative information**

The presentation and classification of items in the financial report are consistent with prior periods except where a specific Accounting Policy Statement or Australian Accounting Standard have required a change.

The comparative figures are for the period 22 July 2004 (Date of establishment) to 30 June 2005. Comparative figures have been restated on an AIFRS basis except for financial instrument information as permitted by AASB 1. The comparatives have been restated to assist users' understanding of the current reporting period and do not replace the original financial report for the preceding period.

Note 4 provides a detailed analysis of comparative amounts that have been reclassified as a result of adoption of AIFRS.

**e) Rounding**

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

**f) Taxation**

AEMC is not required to pay taxation equivalents to the SA Government.

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

Income, expenses and assets are recognised net of the amount of GST except where the amount of GST incurred by the Commission as a purchaser that is not recoverable from the Australian Taxation Office.

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

**Notes to the Financial Statements**  
**for the year ended 30 June 2006**

**2 Summary of significant accounting policies (continued)**

**g) Income and expenses**

Income and expenses are recognised in the Commission's Income Statement when and only when it is probable that the flow of economic benefits to or from the entity will occur and can be reliably measured.

Income and expenses have been classified according to their nature in accordance with Accounting Policy Framework II *General Purpose Financial Reporting Framework* paragraph APS 3.5 and have not been offset unless required or permitted by another accounting standard.

In accordance with Accounting Policy Framework II *General Purpose Financial Reporting Framework* paragraphs 4.1 and 4.2 the financial report's notes disclose income, expenses, financial assets and financial liabilities where the counterparty/transaction is with an entity within the SA Government as at the reporting date, classified according to their nature.

Where money has been appropriated in the form of an equity contribution, the Treasurer has acquired a financial interest in the net assets of the Commission recorded as contributed equity.

Transactions with SA Government entities below the threshold of \$100 000 have been included with the non-government transactions, classified according to their nature.

*Contributions*

Contributions are recognised as an asset and income when the Authority obtains control of the contributions or obtains the right to receive the contributions and the income recognition criteria are met (i.e. the amount can be reliably measured and the flow of resources is probable).

Generally, the Commission has obtained control or the right to receive for contributions with unconditional stipulations when an enforceable agreement exists.

All contributions received by the Commission have been contributions with unconditional stipulations attached and have been recognised as an asset and income when an enforceable agreement exists.

Contributions relating to costs are deferred and recognised in the Income Statement over the period necessary to match them with the costs that they are intended to compensate.

**Notes to the Financial Statements**  
**for the year ended 30 June 2006**

**2 Summary of significant accounting policies (continued)**

**h) Current and non-current classification**

Assets and liabilities are characterised as either current or non-current in nature. The Commission has a clearly identifiable operating cycle of twelve months. Assets and liabilities that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting date have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

Where asset and liability line items combine amounts expected to be realised within twelve months and more than twelve months, the Commission has separately disclosed the amounts expected to be recovered or settled after more than twelve months.

**i) Cash and cash equivalents**

Cash and cash equivalents recorded in the cash flow statement includes cash on hand used in the cash management functions on a day-to-day basis.

Cash is measured at nominal value.

**j) Receivables**

Receivables consist of GST receivables and funding receivable for the year ended 30 June 2006.

**k) 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.

The commission capitalises all non-current tangible assets with a value of \$10,000 or greater in accordance with Accounting Policy Framework III *Asset Accounting Framework* paragraph APS 2.15 and APS 7.2

**l) Impairment**

All non-current tangible and intangible assets are tested for indication of impairment at each reporting date. Where there is an indication of impairment, the recoverable amount is estimated. An amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss.

Impairment is generally limited to where an asset's depreciation is materially understated or where the replacement cost is falling.

**Notes to the Financial Statements**  
**for the year ended 30 June 2006**

**2 Summary of significant accounting policies (continued)**

**m) 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 such as software, 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	2.5-7

**n) Intangible Assets**

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible assets are measured at cost.

The acquisition of or internal development of software is capitalised when the expenditure meets the definition and recognition criteria of an intangible asset outlined in AASB 138 *Intangible Assets* and when the amount of expenditure is greater than or equal to \$10,000, in accordance with Accounting Policy Framework III *Asset Accounting Framework* paragraph APS 2.15.

**o) Payables**

Payables include creditors, accrued expenses, 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 the Commission.

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.

**Notes to the Financial Statements**  
**for the year ended 30 June 2006**

**2 Summary of significant accounting policies (continued)**

**o) Payables (continued)**

All payables are measured at their nominal amount and are normally settled within 30 days from the date of the invoice or date the invoice is first received in accordance with Treasurer's Instruction 11 *Payment of Creditor's Accounts*.

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 several externally managed superannuation schemes on behalf of employees. These contributions are treated as an expense when they occur.

**p) Employee benefits**

These benefits accrue for employees as a result of services provided up to the reporting date that remain unpaid. Long-term employee benefits are measured at present value and short-term employee benefits are measured at nominal amounts.

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 annual leave liability is expected to be payable within twelve months and is measured at the undiscounted amount expected to be paid.

The liability for long service leave is recognised for all employees.

**q) Financial liabilities**

In accordance with the Accounting Policy Statements contained in the Accounting Policy Framework IV Financial Asset and Liability Framework, the Commission measures financial assets and debt at historical cost, except for interest free loans (measured at the present value of expected repayments).

The Commission has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The Commission has applied generally accepted accounting principles in the comparative information on financial instruments.

**Notes to the Financial Statements**  
**for the year ended 30 June 2006**

**2 Summary of significant accounting policies (continued)**

**r) Provisions**

A provision is recognised in the balance sheet when the Commission has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

**(i) Provision for make good**

A provision for make good is recognised when the Commission signs a lease which includes an obligation to place the property back to its original state at some time in the future.

**s) Leases**

The Commission 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 recognised as an expense on the basis that is representative of the pattern of benefits derived from the leased assets.

The aggregate benefit of lease incentives received by the Commission in respect of operating leases have been recorded as a reduction of rental expense over the lease term on a straight line basis.

**t) Insurance**

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

**Notes to the Financial Statements**  
**for the year ended 30 June 2006**

**3 Financial risk management**

The Commission is exposed to liquidity risk. This is managed by the Board through the monitoring and management of cash flows and the AEMC funding agreement.

The Commission has non-interest bearing assets (cash on hand and receivables) and liabilities (payables and borrowings from the SA Government).

In relation to liquidity/funding risk, the continued existence of the Commission in its present form, is dependent on Government policy in each of the National Electricity Market jurisdictions who fund the Commission and of the Commonwealth government.

**4 Changes in accounting policies**

*Explanation of transition to AIFRS*

The Commission has adopted the AIFRS for the first time for the year ended 30 June 2006.

	<b>At 30 June 2005</b>		
	<b>Previous GAAP</b>	<b>Adjustments</b>	<b>AIFRS</b>
Current assets	2,026	-	2,026
Non-current assets	783	7	790
<b>Total assets</b>	<b>2,809</b>	<b>7</b>	<b>2,816</b>
Current liabilities	3,905	-	3,905
Non-current liabilities	293	7	300
<b>Total liabilities</b>	<b>4,198</b>	<b>7</b>	<b>4,205</b>
Retained earnings	(1,389)	-	(1,389)
<b>Total equity</b>	<b>(1,389)</b>	<b>-</b>	<b>(1,389)</b>
<b>Profit/Loss after income tax equivalents</b>	<b>(1,389)</b>	<b>-</b>	<b>(1,389)</b>
<b>Total Cash Flows</b>	<b>1,829</b>	<b>-</b>	<b>1,829</b>

The adoption of AIFRS has not resulted in any material adjustments to the Income Statement or Cash Flow Statement.

The above adjustment relates to the recognition of a provision for make good on the leased office premises.

The Commission has elected to apply the exemption from restatement of comparatives for AASB 132 and 139. The Authority has continued to apply generally accepted accounting principles to financial assets and liabilities for 30 June 2005.

**Notes to the Financial Statements**  
**for the year ended 30 June 2006**

**5 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.

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>6 Interest revenues</b>		
Interest received/receivables from entities external to the SA government		
Interest income from discounting of non interest bearing loan	147	-
Interest earned on bank accounts	175	27
Total interest revenues	<u>322</u>	<u>27</u>
<b>7 Funding from Non SA Governments</b>		
Funding contributions from Non SA Governments	<u>7,632</u>	<u>135</u>
Total funding contributions from Non SA Governments	<u>7,632</u>	<u>135</u>
<b>8 Revenues from SA Government</b>		
Funding contributions from the SA Government	<u>734</u>	<u>-</u>
Total revenues from SA Government	<u>734</u>	<u>-</u>

**Notes to the Financial Statements**  
**for the year ended 30 June 2006**

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>9 Employee benefits cost</b>		
Salaries and wages	2,484	26
Long service leave	34	-
Annual leave	94	1
Employment on-costs - super	223	2
Employment on-costs - relocation	83	1
<b>Total employee expenses</b>	2,918	30

Total staff of the AEMC, including Commissioners at 30 June 2006 was 24.

Staff are appointed under common law contracts and are not employees under the South Australian Public Sector Management Act. Commissioners are appointed by the Governor of South Australia on the recommendation of the Minister following nomination by the Ministerial Council on Energy or the Commonwealth as appropriate in accordance with the Australian Energy Market Establishment Act.

Remuneration disclosures in accordance with the Accounting Policy Framework for Commissioners and staff are as follows:

<b>Remuneration Band</b>	<b>2006</b>	<b>2005</b>
	<b>No</b>	<b>No</b>
100,001 – 110,000	1	-
110,001 – 120,000	1	-
150,001 – 160,000	2	-
200,001 – 210,000	1	-
210,000 – 220,000	1	-
410,001 – 420,000	1	-

The table includes all employees who received remuneration of \$100 000 or more during the year. Remuneration of employees reflects all costs of employment including salaries and wages, superannuation contributions, fringe benefits tax and any other salary sacrifice benefits. Aggregate remuneration for group \$1,362,407.

**Notes to the Financial Statements**  
**for the year ended 30 June 2006**

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>10 Supplies and services</b>		
Supplies and services provided by entities external to the SA Government		
Property expenses	305	166
Information technology expenses	157	88
Accounting expenses	121	12
Legal expenses	140	35
Project contractor expenses	2,286	-
Other contractor expenses	541	971
Administration expenses	207	27
Travel and accommodation expenses	115	9
Payroll and fringe benefit tax	132	-
Recruitment	143	166
Other	38	12
<b>Total supplies and services – Non SA Government entities</b>	<b>4,185</b>	<b>1,486</b>

**The number and dollar amount of Consultancies paid/ payable that fell within the following bands:**

	<b>No</b>	<b>2006</b>	<b>No</b>	<b>2005</b>
		<b>\$'000</b>		<b>\$'000</b>
Below \$10,000	-	-	2	7
Between \$10,000 and \$50,000	2	24	2	35
Above \$50,000	1	119	2	964
<b>Total paid/ payable to the consultants engaged</b>	<b>3</b>	<b>143</b>	<b>6</b>	<b>1,006</b>

**Notes to the Financial Statements**  
**for the year ended 30 June 2006**

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>11 Depreciation and amortisation expense</b>		
<b>Depreciation</b>		
Office equipment	21	4
IT Infrastructure	47	6
<b>Total depreciation</b>	<u>68</u>	<u>10</u>
<b>Amortisation</b>		
Computer software	25	8
Leasehold improvements	89	17
<b>Total amortisation</b>	<u>114</u>	<u>25</u>
<b>Total depreciation and amortisation</b>	<u>182</u>	<u>35</u>
<b>12 Auditor's Remuneration</b>		
Audit Fees paid / payable to the SA Auditor-General's Department	18	12
<b>Total Audit Fees – SA Government entities</b>	<u>18</u>	<u>12</u>

**Other Services**

No other services were provided by the Auditor-General's Department.

**Notes to the Financial Statements**  
**for the year ended 30 June 2006**

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>13 Receivables</b>		
<b>Receivables from Non SA Government entities</b>		
Funding receivable	122	-
GST receivable	117	29
Long service leave receivable	-	155
<b>Total receivables from Non SA Government entities</b>	<u>239</u>	<u>184</u>

**Interest rate and credit risk**

Receivables are raised for all government contributions for the year ended 30 June 2006, for which payment has not been received. Receivables are normally settled within 30 days. Trade receivables, prepayments and accrued revenues are non-interest bearing. It is not anticipated that counterparties will fail to discharge their obligations. The carrying amount of receivables approximates net fair value due to being receivable on demand. In addition, there is no concentration of credit risk.

**14(a) Property, Plant and Equipment**

Office Equipment	225	181
Less: Accumulated depreciation	(26)	(5)
<b>Total Office equipment</b>	<u>199</u>	<u>176</u>
IT Infrastructure	202	144
Less: Accumulated depreciation	(53)	(6)
<b>Total IT infrastructure</b>	<u>149</u>	<u>138</u>
Leasehold improvements	431	431
Less: Accumulated amortisation	(106)	(17)
<b>Total Leasehold improvements</b>	<u>325</u>	<u>414</u>
<b>Total property, plant and equipment</b>	<u>673</u>	<u>728</u>

**Notes to the Financial Statements**  
**for the year ended 30 June 2006**

**2006**                      **2005**  
**\$'000**                      **\$'000**

**14(b) Impairment**

There were no indications of impairment of property, plant and equipment, infrastructure and intangible assets at 30 June 2006.

**14(c) Reconciliation of non current assets**

The following table shows the movement of Property, Plant and Equipment during 2004-05 and 2005-06

**Office Equipment**

Carrying amount at beginning of the year	176	-
Additions	44	181
Depreciation	(21)	(5)
Carrying amount at the end of the year	199	176

**IT Infrastructure**

Carrying amount at beginning of the year	138	-
Additions	58	144
Depreciation	(47)	(6)
Carrying amount at the end of the year	149	138

**Leasehold improvements**

Carrying amount at beginning of the year	414	-
Additions	-	431
Depreciation	(89)	(17)
Carrying amount at the end of the year	325	414

**Intangible assets**

Carrying amount at beginning of the year	62	-
Additions	24	70
Depreciation	(25)	(8)
Carrying amount at the end of the year	61	62



**Notes to the Financial Statements**  
**for the year ended 30 June 2006**

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>15 Intangible assets</b>		
<b>Computer software</b>		
Computer software – at cost	94	69
Less: Accumulated amortisation	(33)	(7)
<b>Total computer software</b>	<u>61</u>	<u>62</u>
<b>16 Other assets</b>		
<b>Current assets</b>		
Prepayments	53	13
<b>Total current other assets</b>	<u>53</u>	<u>13</u>
<b>17 Payables</b>		
<b>Payable to non SA Government entities</b>		
<b>Current</b>		
Creditors	18	532
Accrued expenses	402	118
Unearned revenue	1,684	-
Employment on-costs	47	2
<b>Total current payables</b>	<u>2,151</u>	<u>652</u>
<b>18 Borrowings</b>		
<b>Current</b>		
Borrowings from Non SA Government entities	2,915	3,000
<b>Total current borrowings</b>	<u>2,915</u>	<u>3,000</u>

**Interest rate and credit risk**

Creditors and accruals are raised for all amounts billed but unpaid. Sundry creditors are normally settled within 30 days. Employment on-costs are settled when the respective employee benefit that they relate to is discharged. All payables are non-interest bearing. The carrying amount of payables approximates net fair value due to the amounts being payable on demand.

**Notes to the Financial Statements**  
**for the year ended 30 June 2006**

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>19 Employee benefits</b>		
<b>Current</b>		
Annual leave	110	1
Accrued salaries and wages	64	17
<b>Total current employee benefits</b>	<u>174</u>	<u>18</u>
<b>Non-current</b>		
Long term long service leave	273	155
<b>Total non-current employee benefits</b>	<u>273</u>	<u>155</u>
<b>Total employee benefits</b>	<u>447</u>	<u>173</u>
<b>20 Other liabilities</b>		
Lease incentive	399	399
Less: lease incentive amortisation	(106)	(26)
	<u>293</u>	<u>373</u>
Current other liabilities	80	80
Non-current other liabilities	213	293
<b>Total other liabilities</b>	<u>293</u>	<u>373</u>
<b>21 Provisions</b>		
<b>Non-current</b>		
Provision for make good	8	7
<b>Total non-current provisions</b>	<u>8</u>	<u>7</u>
<b><i>Reconciliation of provision for make good</i></b>		
Balance at the beginning of financial year	7	-
Provisions made during the financial year	-	7
Unwind of discount	1	-
<b>Balance at end of the financial year</b>	<u>8</u>	<u>7</u>

**Notes to the Financial Statements**  
**for the year ended 30 June 2006**

**22 Commitments**

*Operating lease commitments*

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 2006 was \$274,529. This was offset by amortisation of the lease incentive of \$79,857.

Commitments under the non-cancellable operating lease at the reporting date but not recognised as a liabilities are payable as follows:

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Not later than one year	286	376
More than one year but not later than five years	817	1,512
<b>Total operating lease commitments</b>	<u>1,103</u>	<u>1,888</u>

*Remuneration commitments*

Commitments for the payment of salaries and other remuneration under employment contracts in existence at the reporting date but not recognised as liabilities are payable as follows:

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Not later than one year	624	624
More than one year but not later than five years	1,872	2,496
<b>Total remuneration commitments</b>	<u>2,496</u>	<u>3,120</u>

The employment contracts for the above also include redundancy clauses with a total amount of \$200,383 payable on early termination.

The above figures are based on the salaries paid for the 30 June 2006 financial year. The Commissioners' conditions of appointment provide that the salary of the Commissioners are adjusted in accordance with any determination made by the Statutory and Other Officers Remuneration Tribunal (NSW). This determination is effective from 1 October each year. Therefore as at balance date, the increases were not known.

**23 Contingent liabilities**

The Commission has no material contingent liabilities as at 30 June 2006 that are not disclosed elsewhere in the report.

**Notes to the Financial Statements**  
**for the year ended 30 June 2006**

**24 Events subsequent to balance date**

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Commissioners, to affect significantly the operations of the entity, the results of those operations, or the state of affairs of the entity, in future financial years.

**25 Notes to the cash flow statement**

***Reconciliation of cash***

For the purposes of the cash flow statement, cash includes cash on hand and at bank. Cash and cash equivalents as at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash flow statement	4,913	1,829
Balance sheet	4,913	1,829

***Reconciliation of net cash provided by / (used in) operating activities to net result***

Net cash provided by (used in) operating activities	3,037	(353)
Add/(less) non-cash items:		
Rent incentive amortisation	80	26
Depreciation and amortisation	(182)	(35)
Interest revenue from discounting of interest free loan	146	-
Interest expense from discounting of interest free loan	(62)	-
Change in assets and liabilities		
(Increase)/decrease in receivables	55	184
(Increase)/decrease in other current assets	40	13
Increase/ (decrease) in payables	185	(650)
Increase/ (decrease) in employee benefits	(274)	(175)
Increase/ (decrease) in lease incentive	-	(399)
Increase/ (decrease) in unearned revenue	(1,684)	-
Net result	1,341	(1,389)

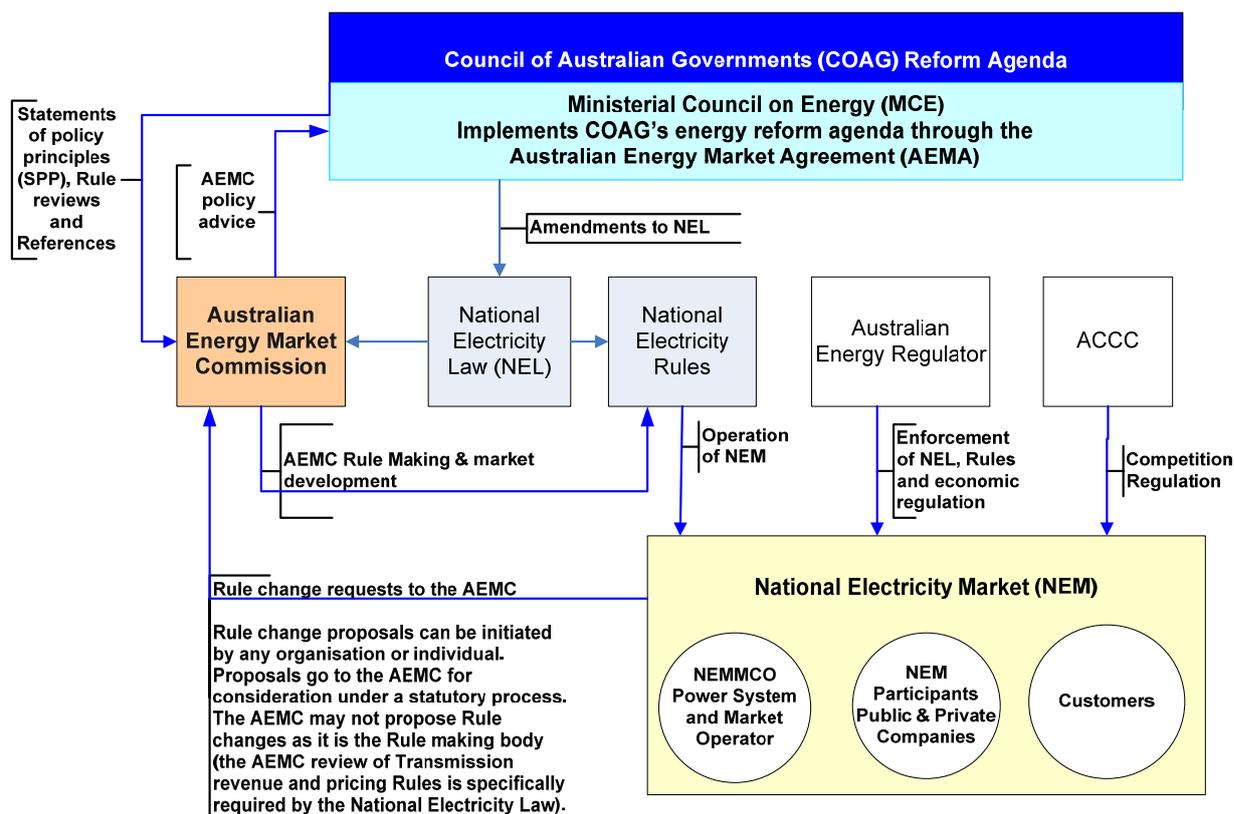
## APPENDIX 2: RULE MAKING AND RELATIONSHIP TO OTHER BODIES ADMINISTERING THE NEL

### Rule making

The Council of Australian Governments (COAG) through its Ministerial Council on Energy (MCE) established the Australian Energy Market Commission in July 2005 to be the Rule maker for national energy markets. The AEMC is currently responsible for making Rules and providing policy advice covering the National Electricity Market (NEM). In the year under review this role does not currently include a direct role for the regulation of electricity distribution or retail however the MCE has indicated responsibility for national electricity and gas distribution and retail (non-price) rules will be transferred to the AEMC.

The AEMC is a national body, established under the AEMC Establishment Act in 2005. This Act sets out the functions and role of the AEMC as policy advisor and Rule maker in relation to the development of, and for the national electricity market. The NEL also confers other powers and functions on the AEMC in relation to the regulation of the national electricity market.

Illustration 1: Relationship between AEMC and other bodies administering the NEL



The process for making rules is prescribed in the National Electricity Law where the AEMC must only make a Rule where it is satisfied that the Rule will, or does, achieve the National Electricity Market objective of promoting “efficient investment in and efficient use of electricity services for the long-term interests of consumers of electricity with respect to price, quality, reliability and security of

supply of electricity and the reliability, safety and security of the national electricity system” (section 7 of the National Electricity (South Australia) Act 1996).

The AEMC promotes the strategic longer-term design and development of the energy markets through its functions of Rule making, market reviews and policy advice. The AEMC seeks to make decisions that represent good regulatory practice.

The AEMC’s key functions under the NEL are to:

- consider Rule change proposals and the effect that such proposals may have on the national energy market;
- conduct energy market reviews and inquiries referred by the Ministerial Council on Energy or undertaken on its own initiative (providing analysis and recommendations to inform policy making by the MCE);
- provide policy advice to the MCE as requested or on AEMC initiative; and
- undertake other market development functions.

## **National Electricity Law**

The National Electricity Law (NEL) permits Rule change proposals to be submitted by any person. The NEL sets out some requirements as to the content of a Rule change proposal. These requirements are not extensive being designed to ensure each Rule proposal contains sufficient information for the purposes of commencing the Rule change process with the first step being initial consultation on the proposal. The effect of these requirements are that where a proposal relates to a matter that is within the AEMC’s power to make Rules, contains the requisite information and is neither misconceived or lacking in substance, the proposal will be considered by the AEMC.

The NEL sets out specific timeframes for dealing with Rule changes with an extension provision that the AEMC can invoke in specific circumstances. These and other factors support an operating environment that is reactive with the future work load largely unknown and able only to be minimally managed in a planned way. The alignment of available resources to the actually occurring workload in any period is problematic. The receipt of Rule changes and the analysis of those changes is largely a product of the economic and regulatory environment of the energy sector.

In conjunction with the variety of Rule change proposals that the AEMC has to consider, it also receives requests to conduct reviews. These reviews on the performance of the market are important in the development of the NEM and they can also have significant effects on decisions that the AEMC makes on Rule change proposals. In most circumstances it would be preferable for reviews related to proposals to be conducted first, but the demands of the market do not always permit that sequencing of projects. A key challenge for the AEMC in the current environment is to align and co-ordinate related projects and processes as far as possible to achieve the best result for the market, particularly where there are complex inter-relationships or time sequencing issues and the required expertise is highly specialised, limited and costly.

## **Relationships with Regulators and the Market Operator**

A key strategy of the AEMC is development and maintenance of effective working relationships with stakeholders. Cooperation, communication and co-ordination between the AEMC, the Australian Energy Regulator (AER), the Australian Competition and Consumer Commission (ACCC) and the National Electricity Market Management Company Limited (NEMMCO) is essential given the

different but complementary roles these respective organisations play in the Australian energy markets. Regular dialogue and face to face meetings are maintained with each organisation at various levels. In addition the AEMC periodically attends regulatory forums which include state regulators and the National Competition Council.

Regular interaction with the Department for Transport, Energy and Infrastructure (SA) is maintained in relation to operational and South Australian governance issues

The Australian Energy Market Agreement provides that the AER, ACCC and AEMC will enter into a memorandum of understanding (MOU), to be endorsed by the Ministerial Council on Energy (MCE). The MOU was agreed to by the three agencies on 7 October 2005 and endorsed by the Ministerial Council of Energy on 4 November 2005. The MOU contains provisions relating to cooperation, consultation, information sharing, confidentiality and regular contact between the agencies at a senior level. The MOU is to be reviewed every three years. Regular meetings are held at Commissioner and executive management level.

Regular meetings are held with NEMMCO at Commissioner/Board and executive management level to promote cooperation, consultation, information sharing and staff secondments where appropriate. A draft MOU to reflect these arrangements has been developed.

## **Relationships with MCE and jurisdiction officials**

In its establishment year the AEMC has been limited in the extent and quality of its interactions with this group of stakeholders due to workload. A high priority for the AEMC is to increase the level of interaction with stakeholders to explain our role in general terms and to explain key decisions made by the AEMC. A particular priority is enhanced interaction with the MCE its Senior Committee of Officials and jurisdictions.

## **APPENDIX 3: STATUTORY AND STATISTICAL INFORMATION**

The Australian Energy Market Commission Establishment Regulations 2005 prescribe information required to be incorporated in the annual report of the AEMC. This Appendix contains relevant reports and other statistical information where the required information is not otherwise incorporated in the body of the annual report. A Compliance Index is provided at the end of the report to assist in locating such information.

The Appendix also includes other statutory information.

### **Fraud**

No instances of fraud have been identified. Commentary on the governance processes of the AEMC is provided in the Governance section of the report.

### **Occupational Health and Safety**

One injury occurred during the year which resulted in time lost as a result of an employee sustaining a cut to a finger requiring medical treatment.

During the year a small number of minor improvements to signage and facilities have been implemented as a result of risk assessments.

Since year end a workplace committee has been established in accordance with the applicable New South Wales legislation.

### **NEMMCO directions**

Under AEMC Establishment Regulations 2005 the AEMC Annual Report is required to detail NEMMCO's use of powers of direction in relation to power system security under clause 4.8.9(a) of the Rules.

The introduction of the Directions Review changes to the National Electricity Code (NEC) on 9 December 2002 require NEMMCO to publish reports providing background information related to directions issued to Registered Participants. From the introduction of the Directions Review Code changes, NEMMCO has been publishing reports on its website pursuant to clause 3.13.6A of the Rules.

In 2005-06 the following reports on directions were published on NEMMCO's website:

- Tasmania Region 28 July 2005
- Tasmania Region 7 September 2005
- Tasmania Region 11 October 2005 at 07:16 hrs
- Tasmanian Region 11 October at 13:22 hrs
- NSW Region 21 December 2005 to 20 January 2006 (27 directions)
- NSW Region 23 January 2006 to 18 February 2006 (19 directions)
- NSW Region 20 February 2006 to 24 February 2006 (5 directions)

- Tasmania Region - 22 February 2006
- NSW Region 17 March 2006
- Tasmania Region 4 April 2006
- Tasmania Region 4 May 2006
- Tasmania Region 23 May 2006

## **Inspection and Testing Rights**

Under AEMC Establishment Regulations 2005 the AEMC Annual Report is required to detail the use by Registered Participants of inspection and testing rights under clauses 5.7.1 and 5.7.2 of the Rules. There has been no reported use of these rights.

## **FOI**

The AEMC is subject to the Freedom of Information Act 1991 (SA). The AEMC's information statement is available at [www.aemc.gov.au/contact.php](http://www.aemc.gov.au/contact.php).

No requests for the release of information under the Act were received.

## **MCE Statements of policy principles and Directions**

Section 33 of the NEL requires the AEMC to have regard to any MCE Statements of policy principles in making Rules or conducting reviews under section 45 of the NEL.

There were no MCE Statements of policy principles in place or relevant to the 2005/06 work program.

Reviews directed by the MCE are listed in the section of this report titled Year at a Glance.

## **Rule Making Activities of the AEMC**

The AEMC is required by the Australian Energy Market Commission Establishment Regulations 2005 to provide, in its annual report, detailed information in relation to its Rule Making activities. Information published on the AEMC website is summarised in Appendices Four, Five and Six to comply with this regulation.

## APPENDIX 4: RULES MADE

The following Rules were made during 2005-2006. The information provided here includes details on the changes which flow from each Rule, proponents and categorization of requests for Rules. The AEMC Establishment Regulations 2005 require requests for Rule changes to be categorized as follows.

- **jurisdictional derogation** - means a Rule made at the request of a Minister of a participating jurisdiction that:
  - a) exempts, in specified cases a person or a body from Rule provisions;
  - b) varies the application of a Rules provision.
- **participant derogation** - means a Rule made at the request of a person that;
  - a) exempts, in specified cases a person or class of persons from Rule provisions,
  - b) varies the application of a Rules provision.
- **non-controversial Rule** - means a Rule that made under the provisions of the NEL for Rules that are unlikely to have a significant effect on the national electricity market (section 87 National Electricity (South Australia) Act 1996.
- **urgent Rule** - means a Rule made under the provisions of the NEL for Rules relating to any matter or thing that, if not made as a matter of urgency, will result in that matter or thing imminently prejudicing or threatening: -
  - a) the effective operation or administration of the wholesale exchange operated and administered by NEMMCO; or
  - b) the safety, security or reliability of the national electricity system(section 87 National Electricity (South Australia) Act 1996.

### **National Electricity Amendment (Revision of dispatch pricing due to manifestly incorrect inputs) Rule 2006 No. 1**

Rule made	12 January 2006
Commenced	1 June 2006
Consolidated	Version 6 of the National Electricity Rules
Proponent	NEMMCO
Category	Non-controversial Rule
Benefit/Impact	Before this change to the Rules there was no provision for the correction of specific dispatch pricing errors, allowing them to flow through to the spot market settlement process and to persist as market price signals.

### **National Electricity Amendment (Publication of information for non-scheduled generation) Rule 2006 No. 2**

Rule made	12 January 2006
Commenced	In two tranches (12 January and 1 July 2006)
Consolidated	Versions 2 and 7 of the National Electricity Rules
Proponent	NEMMCO
Category	Non-controversial Rule
Benefit/Impact	This Rule change requires the National Electricity Market Management Company Limited (NEMMCO) to publish forecast and historical information in relation to non-scheduled generation in response to recent increases in wind powered generation. This will improve the efficiency of decision making by market participants.

**National Electricity Amendment (Timely information to NEMMCO after operating incidents) Rule 2006 No. 3**

Rule made 2 February 2006  
Commenced 2 February 2006  
Consolidated Version 3 of the National Electricity Rules  
Proponent NEMMCO  
Category Non-controversial Rule  
Benefit/Impact This Rule for the first time sets a period within which market participants are required to provide information to NEMMCO for operating incident reviews. It balances the benefits of rapid and efficient investigations in terms of power system security with difficulties which may be faced by participants in providing information within short timeframes

**National Electricity Amendment (Negative Inter-Regional Settlements Residue) Rule 2006 No. 4**

Rule made 30 March 2006  
Commenced 1 July 2006  
Consolidated Version 7 of the National Electricity Rules  
Proponent NEMMCO  
Category Other Rules  
Benefit/Impact This Rule changes the method used by NEMMCO for the financial settlement of regional price differences in the market for generated electricity. NEMMCO asked for a new Rule allowing the recovery of outstanding negative inter-regional settlements residue from future settlement residue auction proceeds rather than from auction fees (which can delay adjustments by a number of years). It limits the application of the new recovery regime to three years. The Commission observed that the reasons for persistent negative settlement residues need to be addressed and referred this concern to its Review of congestion and regional boundaries.

**National Electricity Amendment (Statement of Opportunities Update) Rule 2006 No. 5**

Rule made 20 April 2006  
Commenced 20 April 2006  
Consolidated Version 4 of the National Electricity Rules  
Proponent NEMMCO  
Category Other Rules  
Benefit/Impact The Rule requires NEMMCO to publish certain data that may be useful for investment purposes on a more frequent basis.

**National Electricity Amendment (System Restart Ancillary Services and Pricing under Market Suspension) Rule 2006 No. 6**

Rule made 20 April 2006  
Commenced 20 April 2006  
Consolidated Version 4  
Proponent NEMMCO  
Category Other Rules  
Benefit/Impact System restart ancillary services are provided to NEMMCO under contract by selected generators which can provide a 'kick-start' source of power for generators' auxiliary plant following a black system condition. This Rule change includes procedures for competitive tendering of system restart services; system restart standards and pricing.

**National Electricity Amendment (Reliability Safety Net Extension) Rule 2006 No. 7**

Rule made 18 May 2006  
Commenced 18 May 2006  
Consolidated Version 5 of the National Electricity Rules  
Proponent Reliability Panel  
Category Derogation

Benefit/Impact This Rule extends the reliability safety net for two years. It provides for the safety net to be removed before the end of the two-year extension should the Reliability Panel so recommend following its comprehensive reliability review.

**National Electricity Amendment (Advocacy Panel) Rule 2006 No. 8**

Rule made 22 June 2006  
Commenced 1 July 2006  
Consolidated Version 7 of the National Electricity Rules  
Proponent Ministerial Council on Energy  
Category Other Rules  
Benefit/Impact The Advocacy Panel grants funds for advocacy by representatives of business and domestic electricity customers affected by the operations of the National Electricity Market. This Rule addresses governance and accountability issues and funding arrangements for the Panel.

**National Electricity Amendment (EnergyAustralia Participant Derogation (Settlement Residue Auctions)) Rule 2006 No. 9**

Rule made 22 June 2006  
Commenced 22 June 2006  
Consolidated Version 7 of the National Electricity Rules  
Proponent EnergyAustralia and NEMMCO  
Category Participant derogation  
Benefit/Impact Part of EnergyAustralia's network is classified as transmission infrastructure. This Rule enables EnergyAustralia to participate in settlement residue auctions.

**National Electricity Amendment (Dispute Resolution for Regulatory Test) Rule 2006 No. 10**

Rule made 29 June 2006  
Commenced 1 July 2006  
Consolidated Version 7 of the National Electricity Rules  
Proponent Ministerial Council on Energy  
Category Other Rules  
Benefit/Impact This Rule implements a streamlined, single stage dispute resolution process under which all matters arising from the application of the Regulatory Test (previously heard by the Dispute Resolution Panel) will be heard directly by the Australian Energy Regulator. Disputes will be subject to clearly defined timeframes and the new process will move to limit the kinds of issues that can be heard by the AER and the parties permitted to raise them.

**National Electricity Amendment (EnergyAustralia Participant Derogation (Metering Installations)) Rule 2006 No. 11**

Rule made 29 June 2006  
Commenced 1 July 2006  
Consolidated Version 7 of the National Electricity Rules  
Proponent EnergyAustralia  
Category Participant derogation  
Benefit/Impact Between July 2001 and June 2004 EnergyAustralia's transmission assets became recognised but market settlements remained at TransGrid metering points rather than the new metering points established by the reclassification. This Rule provides EnergyAustralia exemption (participant derogation) from obligations relating to the testing of metering installations for accuracy for three years.

## **Decisions not to proceed**

In 2005-2006 the AEMC decided not to proceed with a request for a Rule change that was originally submitted to NECA. Macquarie Generation, Delta Electricity and Eraring Energy submitted this joint proposal to NECA on 2 May 2005 for a participant derogation under the former National Electricity Code. This proposal sought a review of the Snowy region by NEMMCO and became the responsibility of the Commission on 1 July 2005. The Commission met with proponents to discuss the way forward as the original proposal had been overtaken by subsequent events.

Consequently a new Rule proposal was submitted Macquarie Generation on 6 February 2006 which was under consideration at the time of this report's publication. The original proposal was not proceed with.

## APPENDIX 5: REVIEWS

In addition to considering proposals to change the Rules, the AEMC conducted reviews during the year which addressed significant aspects of the design of the market, the operation and reliable performance of the market or the regulatory approach to be taken in relation to market operations.

### Review of electricity transmission revenue and pricing Rules

The National Electricity Law, Section 35, requires the AEMC to make National Electricity Rules governing economic regulation of electricity transmission revenue requirements and prices.

The services provided by transmission businesses move electricity (across almost 40,000km of poles and wires) from generators to areas where customers are concentrated. From there, the distribution companies take electricity into homes and workplaces. Transmission assets are natural monopolies. Rules are made by the AEMC which set out the regulatory framework. Those Rules are then enforced by the Australian Energy Regulator. The Rules which determine how transmission revenue and prices are regulated can be found in Chapter Six of the National Electricity Rules.

Transmission is the backbone of the national electricity system with transmission facilitating competition in generation and retail sectors of the market. The owners of Australia's \$9 billion electricity transmission networks spend more than \$0.5 billion annually on the infrastructure that connects power stations (generators) to customers. This Review looks at the right economic signals needed to make sure that customers benefit from efficiencies produced by effective management of transmission networks while balancing the need to ensure efficient investment in the national transmission network.

In the year under Review the Commission the Commission embarked on a two-phase process of inquiry in order to give due consideration to all the issues being addressed with phase one focussed on how to regulate what revenues can be earned by owners of transmission assets and phase two dealing with how to regulate what prices are paid by customers of transmission assets.

The first phase (revenue regulation) saw the release of a scoping paper in July 2005, an Issues Paper in October 2005, the Revenue Rule Proposal Report in February 2006 (followed by a public hearing on 8 March 2006).

The publication of the transmission revenue draft Rule determination immediately followed the close of the financial year in July 2006. This draft Rule determination proposed a new regime for regulation of the electricity transmission sector which is focussed on building an environment for efficient long-term investment by;

- increasing the predictability and openness of economic regulation by providing clear Rules on regulatory procedures ;
- aligning incentives for transmission businesses to maintain appropriate service levels and reduce costs in line with customer needs for an efficient market which offers the best prices possible; and
- managing the capacity of Transmission Network Service Providers (TNSPs) to exercise market power by capping the aggregate revenues they can recover from customers.

The revenue Rules also provide a framework for determining the pricing of negotiated (non-prescribed) transmission services.

The second phase (price regulation) saw an issues paper released in November 2005 and the pricing Rule proposal report and proposed Rule published in August 2006. This pricing Rule proposal clarified the principles, methodologies and processes to be applied in determining prices for the recovery of regulated transmission revenues. It replaces the detailed requirements for cost allocation and pricing in the prevailing Rule (as at the close of the year under review) with a framework that combines principles dealing with the key design aspects of the pricing regime with guided discretion to service providers and the AER on matters of implementation and administration.

The proposed pricing rule complements the draft revenue Rule by completing the regulatory framework to apply to transmission revenue and pricing in the National Electricity Market following the final determinations of the Commission to be made after the conclusion of the consultation periods.

The AEMC Review of the electricity transmission revenue and pricing Rules is the first major review of this area of electricity law since the National Electricity Market (NEM) started in 1998

## **Congestion Management Review**

At the close of the year under review the Commission had before it, one MCE reference and five National Electricity Rule change proposals that relate to various aspects of how network congestion is managed in the NEM.

The five proposals were:

- MCE - Reform of Regional Boundaries Rule change proposal;
- Southern Generators/NEMMCO - Management of Negative Settlement Residues in the Snowy Region Rule change proposal;
- Snowy Hydro Ltd - review of the Snowy Regional Boundary Rule change proposal;
- Macquarie Generation - Review of the Snowy Regional Boundary Rule change proposal; and
- Snowy Hydro Ltd - Management of Negative Settlement Residues by Re-orientation Rule change proposal.

The effective management of congestion is critical to the efficient operation of the NEM. Congestion occurs when electricity demand cannot be met using the lowest priced combination of generation available due to transmission capacity or power system security limitations. The elimination all transmission congestion is not economically efficient. This means that some congestion, and its management, is inevitable.

The Management of congestion management is necessary to maintain the physical and operational security of the power system. The level of congestion and the manner in which it is managed has implications for spot and contract prices, incentives for market participants and the level of residual price and volume risk borne by participants. In the long-term, the manner in which congestion is managed affects the investment decisions of market participants and new entrants.

On 6 June 2006 the Commission released a Statement of Approach to provide information and clarity about its approach to dealing with the Rule change proposals and the Congestion Management Review in an integrated manner. While the details of these future arrangements are yet to be determined, it appears to the Commission that any comprehensive Congestion Management Regime is likely to include:

- information disclosure to the market, including NEMMCO's current Statement of Opportunities (SOO)/ Annual National Transmission Statement (ANTS) ;
- incentives to address congestion, such as investment in transmission and generation, and demand-side alternatives;
- intervention mechanisms such as those relating to price determination, energy dispatch, and /or planner of last resort powers in respect of transmission investment; and
- the potential for longer-term structural change through the alteration of regional boundaries in accordance with a clearly defined and stable process designed to determine the optimum outcome.

These complex issues have existed since the commencement of the market in December 1998 and demand careful consideration in an open process that manages related matters in a co-ordinated and integrated manner and provides interested stakeholders with the earliest opportunities to understand and respond to issues.

## **Review into the enforcement of and compliance with technical standards**

The MCE directed the Australian Energy Market Commission in November 2005 to review the enforcement and compliance regime for the technical standards contained in the NEL.

The NEL imposes obligations on market participants to meet a range of technical standards. Those standards set the parameters for the secure operation of the power system.

In particular generators, market customers and market network service providers are required to comply with individual performance standards which must be registered with the National Electricity Market Management Company Limited (NEMMCO).

An Issues Paper was circulated in January 2006 with a call for submissions and the Review's draft report was submitted to the MCE as directed in May 2006 and released on 13 June 2006 for public comment.

The draft report concluded that high levels of compliance with effective performance standards were crucial to ensuring power system security in the National Electricity Market. It identified a series of improvements that could be made in the prevailing standards system and recommended a three step solution to the MCE which would improve the regulatory framework on standards and deliver effective regulation of individual market participant performance standards.

In summary the report recommended specific actions to:

- deliver fully documented performance standards for existing generating plant in addition to an upgraded compliance and enforcement regime by June 2007;
- review the adequacy of penalties for breaches of performance standards by June 2007. (this was recommended in line with the Commission's view that that the adequacy of penalties and proposals to increase them should be addressed after performance standards themselves are revised and established); and
- review the underlying technical standards regime, and processes for the regime's ongoing revision, by June 2008 with complementary reviews to be undertaken by the AEMC and the Reliability Panel (the combined objective of these two streams of work was to have the technical and performance standards regime fully reviewed by mid-2008 and to have any changes to penalties legislated by that time).

Some recommendations in the draft report were linked to the Commission's evaluation of a NEMMCO Rule change proposal on technical standards for wind generation. This proposal, which remains under consideration, is an important part of developing the framework for technical standards.

## **Comprehensive Reliability Review**

The Reliability Panel commenced a review of the effectiveness of the settings that contribute to reliability following a request from the AEMC. (Refer Expert Panels - Reliability provisions oversight in the main body of this report)

## **Recommendations made by the AEMC for the MCE to request the making of Rules**

No recommendations were made by the AEMC for the MCE to request the AEMC to make a Rule.

## APPENDIX 6: RULE CHANGE PROPOSALS UNDER CONSIDERATION

At the close of the year under review the AEMC had the following Rule change proposals under consideration. Stage reached in the Rule making process is at 30 June 2006.

Proposal **Economic regulation of transmission (Phase 1- Revenue)**  
 Proponent AEMC (under National Electricity Law requirement)  
 Category Other Rules  
 Receipt date 1 July 2005  
 Stage Preparation of draft Rule determination  
 Summary The revenue phase of the Review of Economic regulation of transmission services examines how best to regulate revenues earned by owners of transmission assets.

Proposal **Economic regulation of transmission (Phase 2- Pricing)**  
 Proponent AEMC (under National Electricity Law requirement)  
 Category Other Rules  
 Receipt date 1 July 2005  
 Stage Preparation of Rule Proposal Report and draft Rule  
 Summary The pricing phase examines how best to regulate the prices which are paid by customers of transmission services.

Proposal **Statement of regulatory principles – revenue cap reopening**  
 Proponent ElectraNet  
 Category Other Rules  
 Receipt date 1 July 2005  
 Stage Preparation of draft Rule determination  
 Summary The AEMC acquired responsibility for the proposal from NECA under the NEL transition provisions. The proposal has been incorporated into the Economic regulation of transmission (Phase 1 – Revenue).

Proposal **Reform of the Regulatory Test principles**  
 Proponent Ministerial Council on Energy  
 Category Other Rules  
 Receipt date 12 October 2006  
 Stage Preparation of draft Rule determination  
 Summary The emphasis of this proposal is on improving the governance of the Regulatory Test by establishing Regulatory Test principles.

Proposal **Last resort planning power**  
 Proponent Ministerial Council on Energy  
 Category Other Rules  
 Receipt date 12 October 2006  
 Stage Preparation of draft Rule determination  
 Summary The proposal is for the AEMC to have a last resort planning power (providing the power to direct certain market participants to undertake the regulatory test for transmission investment under certain circumstances).

Proposal **Region boundary change criteria**  
 Proponent Ministerial Council on Energy  
 Category Other Rules  
 Receipt date 12 October 2006  
 Stage Preparation of draft Rule determination  
 Summary The proposal requests a new and transparent process, managed by the AEMC, to enable assessment of regional boundary changes for the wholesale market.

Proposal	<b>Management of negative settlement residues in Snowy region</b>
Proponent	Southern Generators and NEMMCO
Category	Participant derogation
Receipt date	9 November 2005
Stage	Preparation of final Rule determination
Summary	The proposal is to amend the NEMMCO derogation in Part 8 of Chapter 8A (Network Constraint Formulation) to manage negative settlement residues arising from network congestion in the Snowy region.
Proposal	<b>Reform of the Snowy regional boundary</b>
Proponent	Snowy Hydro Ltd
Category	Other Rules
Receipt date	11 November 2005
Stage	Preparation of draft Rule determination
Summary	Proposal requests change to the Snowy regional boundary.
Proposal	<b>Snowy region boundary</b>
Proponent	Macquarie Generation
Category	Other Rules
Receipt date	3 February 2006
Stage	Preparation of draft Rule determination
Summary	Proposal requests change to the Snowy regional boundary
Proposal	<b>Metrology harmonisation</b>
Proponent	NEMMCO
Category	Other Rules
Receipt date	3 February 2006
Stage	Second round consultation for draft Rule determination
Summary	A large proposal for a series of Rule changes relating to metering arrangements including the creation of a single national metrology procedure.
Proposal	<b>Technical standards for wind generation</b>
Proponent	NEMMCO
Category	Other Rules
Receipt date	10 February 2006
Stage	Preparation of draft Rule determination
Summary	The proposal is for a series of Rule changes to provide for technical standards for certain non-scheduled generation, particularly wind generating plant. It seeks to clarify and expand the existing framework for negotiating the access of generators to the power network.
Proposal	<b>Reallocations</b>
Proponent	NEMMCO
Category	Other Rules
Receipt date	4 April 2006
Stage	Preparation of draft Rule determination
Summary	The proposal requests more flexibility in the type of reallocation transactions by allowing detail of reallocation calculations to be included in a set of procedures rather than directly embedded in the Rules.
Proposal	<b>Transmission network replacement and reconfiguration</b>
Proponent	Stanwell Corporation
Category	Other Rules
Receipt date	17 May 2006
Stage	Initial consultation

Summary Proposal requests establishment of a framework in the Rules which would, in part require that the regulatory test be undertaken not only in the context of augmentation, but also where there is a network configuration.

Proposal **Management of negative settlement residues - reorientation**  
Proponent Snowy Hydro Ltd  
Category Other Rules  
Receipt date 24 May 2006  
Stage Preparation of draft Rule determination  
Summary Proposal is an alternative to the Southern Generators/NEMMCO Rule proposal on the management of negative settlement residues in the Snowy region.

# COMPLIANCE INDEX

The AEMC Annual Report 2005-2006 is prepared in accordance with the *Australian Energy Market Commission Establishment Act 2004* and must satisfy the requirements of the *Australian Energy Market Commission Establishment Regulations 2005*. This index lists references to specific reports required by the Establishment Regulations under section 27 of the Act.

1) A report of the AEMC under section 27 of the Act must include a report on the following in respect of the financial year concerned:

a) the National Energy Law provisions and other legislative provisions that confer functions on the AEMC

**Regulatory Environment, Role & Membership of AEMC - page 4**

b) the AEMC's relationship to other bodies involved in the administration of National Energy Laws

**Appendix 2 Rule making and Relationship to other bodies administering the NEL – page 2-1**

c) the membership and organisation of the AEMC

**Regulatory Environment, Role & Membership of AEMC - page 6  
People and Structure – page 16**

d) the AEMC's strategic plans and the relationship of the plans to objectives set out in the National Energy Laws

**Strategic Direction - page 15**

e) the AEMC's activities and their efficiency and effectiveness

**Regulatory Environment, Role & Membership of AEMC - pages 5 & 6  
Year at glance - pages 8-10  
Chairman's report and Chief Executive Officers report - pages 11-14**

f) the AEMC's financial affairs

**Appendix 1 – page 1-1**

g) disclosures made by Commissioners under section 22 of the Act

**Management of Conflicts of Interest and of Information - Pages 19-20**

h) positions in the employment of the of the AEMC, including the salary levels for the positions, any positions created or filled and any positions abolished or vacated

**People and Structure – page 16**

i) the extent to which external consultants have been engaged by the AEMC, the nature of the work undertaken by the consultants and the total cost to the AEMC of the consultancies

**Appendix 1 – Note 10**

j) the occupational health, safety and rehabilitation programs of the AEMC and their effectiveness

**Appendix 3 – page 3-1**

k) any instances of fraud in the operations of the AEMC and the strategies implemented to prevent and control fraud

**Appendix 3 – page 3-1**

l) in relation to electricity;

(i) the extent to which the operation of the Rules has met the national electricity market objective and the strategic development of the Rules to meet the national electricity market objective

**Chairman's report – Pages 11 – 12  
Reliability Panel – Pages 21 – 22**

(ii) any statements of policy principles that have been issued by the MCE in relation to the AEMC and any directions that have been given by the MCE to the AEMC

### **Appendix 3**

(iii) the Rule making activities of the AEMC under the National Electricity Law, including

### **Appendix 4, Appendix 5 and Appendix 6**

A) requests for Rules in each of the categories of jurisdictional derogations, participant derogations, non-controversial Rules and urgent Rules, and

B) the stages at which proposed Rules are in the Rule making procedure, and

C) decisions of the AEMC not to proceed with requests for Rules, and

D) Rules made, and

E) Rules that have come into operation

iv) MCE directed reviews and AEMC initiated reviews under the National Electricity Law

### **Appendix 5**

v) market development functions

### **Chairman's report – pages 11-12**

vi) recommendations made by the AEMC for the MCE to request the making of Rules

### **Appendix 5**

vii) the composition and activities of the Reliability Panel and of any other panels or committees that have been established by the AEMC

### **Expert Panels – pages 21-23**

viii) NEMMCO's use of powers of direction in relation to power system security under clause 4.8.9(a) of the Rules

### **Appendix 3**

ix) the use by Registered Participants of inspection and testing rights under clauses 5.7.1 and 5.7.2 of the Rules

### **Appendix 3**

x) the extent and effectiveness of demand side participation in the national electricity market, including measures that could be undertaken to enhance demand side participation in the national electricity market

### **Appendix 3**

2) The AEMC's report must include its audited financial statements for the financial year and the Auditor-General's report on the financial statements.

### **Appendix 1**

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