

Australian Energy Market Commission

2006-2007 Annual Report

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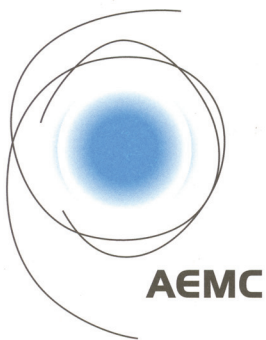
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Citation

AEMC 2006-2007 Annual Report

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Our ref: PAM0005/ 40009

30 October 2007

The Hon Patrick Conlon MP
Minister for Energy
GPO Box 2969
Adelaide SA 5001

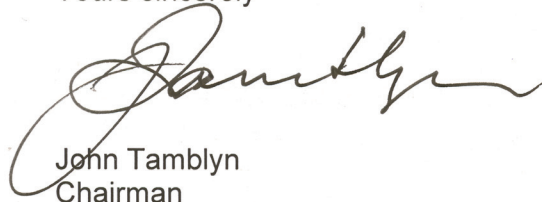
Dear Minister

Australian Energy Market Commission Annual Report 2006-2007

I am pleased to present the Australian Energy Market Commission 2006-2007 Annual Report.

This report is prepared in accordance with Section 27 of the *Australian Energy Market Commission Establishment Act 2004 (South Australia)*.

Yours sincerely



John Tamblyn
Chairman

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At a Glance

promoting efficiency, competitiveness, quality, reliability, safety and security in the national energy markets

Operational Highlights

Rules

- 32 active Rule change proposals (17 new and 15 carried over from 2005-06)
- 14 new Rules made
- 7 determinations not to proceed with Rule changes
- 11 Rule change proposals remained under consideration

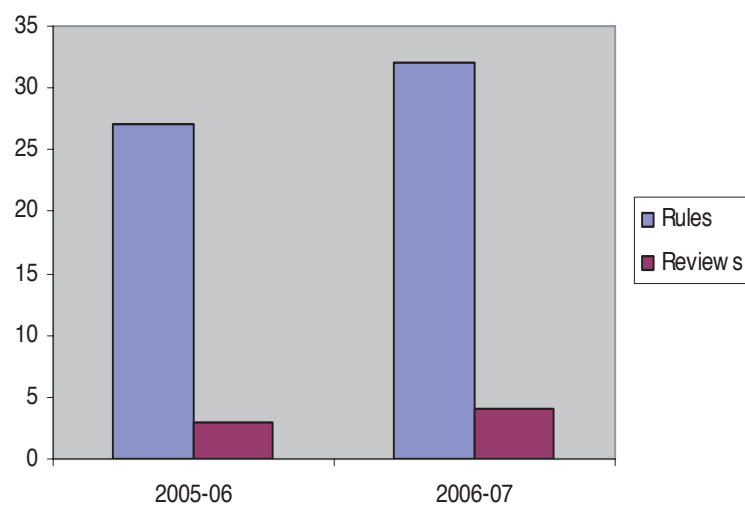
Reviews

- 4 active market reviews (1 new and 3 carried over from 2005-06)
- 2 reviews completed and 2 carried forward

Expert Panels

- 3 Reliability Panel Reviews completed
- 1 Reliability Panel Review carried forward

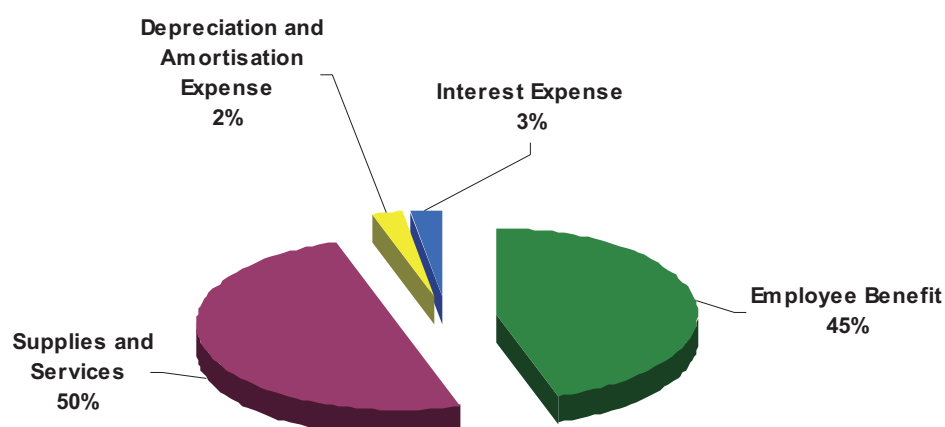
AEMC Work Program



Financial Highlights

- 2006-07 funding levels increased to \$12.5 million reflecting expanding work program (February 2007)
 - \$3 million NSW Treasury loan repaid
 - \$2 million capital reserve approved (February 2007)
 - Funding to complete establishment phase activities (\$400,000)
 - Annual funding secured until 2008-09
-

2006-07 Actual Expenditure



Who We Are

using our Rule-making and market development powers to promote efficient and reliable energy supplies for consumers at competitive prices

Vision

Promoting efficient, reliable and competitive energy markets in the interests of all Australians.

Mission

The AEMC will deliver high quality and impartial energy market rules and advice to policy makers.

Strategic Objectives

In order to make our vision and mission a reality, the AEMC is committed to the following strategic objectives:

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

Functions

The AEMC performs the following functions under the National Electricity Law (NEL) and the *Australian Energy Market Commission Establishment Act 2004 (South Australia)*:

- Rule-making
- Reviewing the National Electricity Market (NEM) and the Rules
- Providing advice to the Ministerial Council on Energy (MCE) on gas and electricity issues

Governance

The AEMC is a separate national body responsible to the MCE, through the Minister for Energy of South Australia, for the performance of its functions.

Organisational Structure

At 30 June 2007, the AEMC was led by 3 Commissioners and employed 28 staff.

Financials

Funding for the AEMC was provided by each of the States and Territories participating in the NEM.

Future Directions

The MCE has indicated additional responsibilities are to be given to the AEMC in the distribution and retail areas of gas and electricity supply as the ongoing reform of Australia's governments continues.

Chairman's Report

2006-07 was a year of challenge and continuing reform for the National Electricity Market (NEM) and a year of considerable challenge and achievement for the AEMC.

An evident tightening of the balance between electricity supply and demand during the year was compounded by the impact of the drought on available generation capacity. This highlighted the need for significant new investment in generation and transmission capacity and for market reforms to improve the availability and performance of existing capacity.

The work of the AEMC during the year has involved a number of significant reviews and Rule changes, which in combination should improve the preparedness of the Australian energy market to meet these emerging challenges.

For example, the following major projects completed or substantially progressed during the year represent a substantial package of priority transmission, wholesale market and power system reforms which will improve the investment climate of the NEM and its efficiency and operational performance:

- Completion of the MCE initiated review of the Rules for the regulation of transmission revenue and pricing, reforms to the Regulatory Test and the establishment of a Last Resort Planning Power, together establish an improved incentive framework for efficient investment in and operation of transmission networks.
- Completion of or substantially progressing a number of related or alternative Rule proposals involving NEM regional boundary change initiatives. These initiatives included the MCE Rule proposal to improve the process for deciding regional boundary change proposals and the Commission's decision to abolish the Snowy Region of the NEM.
- Substantially progressing the MCE initiated review of options for improved management of the physical and financial risks associated with material and persistent transmission network congestion in the NEM. The Commission's draft report was published in September 2007.
- Approval of a number of complex Rule change proposals on technical aspects of the operation of the power system and the central dispatch process, including Rules establishing new technical standards for wind generation and other generation connections and Rules to implement a national metrology procedure across the NEM.
- Substantial completion by the Reliability Panel (operating under the auspices of the AEMC) of its Comprehensive Reliability Review (due for completion by late 2007)

involving an integrated assessment of the future role and specification of the reliability standard, the Value of Lost Load (VoLL) and the NEM reserve trader arrangements and the provision of interim advice to the MCE on whether improvements can be made to the current arrangements for managing generator input constraints and generation shortfalls.

The AEMC has also commenced two major MCE initiated reviews to be completed during 2007-08 which will provide the basis for further energy market reforms.

The Commission has been requested to review and provide advice to the MCE on the establishment of a national transmission planning function. This function is intended to facilitate more strategic and co-ordinated development of the interconnected electricity transmission network.

The MCE has also directed the AEMC to review the effectiveness of competition in the Victorian small customer energy retail market, as a basis for providing advice on the removal of retail price regulation if competition is found to be effective. This will be followed by sequential reviews of energy retail competition in other jurisdictions.

The Commission's Rule-making and market development role in the NEM governance structure is central to the ongoing reform and development of the

Australian energy market. The Commission has made a significant contribution to the energy reform agenda through its 2006-07 work program and it is now well positioned organisationally to continue that contribution through its work in 2007-08 and beyond.

During its first two years of operation, the Commission has established a high standard for its processes, consultation, analysis, decision and review documents and its Rule-making. The quality of work has been a direct reflection of the skills, dedication and hard work of its managers and staff. Their achievements during the year have been substantial and the Commission wishes to formally acknowledge their contribution and to thank them for their professionalism and the high quality of their work.

I would also like to extend my personal thanks to my fellow Commissioners, Liza Carver and Ian Woodward, for their very substantial contribution to the quality of the AEMC's achievements during the year and for the advice and support they continue to give me.

John Tamblyn
Chairman

Chief Executive's Report

The second year of the AEMC's operation provided a contrast of two halves.

The difficulties experienced in the previous year arising from the misalignment between resources and workload continued during the first half of 2006-07. This placed a great strain on AEMC staff and on the organisation.

One of the organisational impacts was the curtailment of infrastructure development, such as enduring corporate systems and processes.

Following the completion of an efficiency review of the AEMC's operations in December 2006, the MCE reviewed the funding arrangements applying to the AEMC. In early February 2007, the MCE advised that a three year funding arrangement had been agreed by the funding jurisdictions.

The approved funding level is consistent with the AEMC's expectations of future workload and infrastructure development costs. It also provides a capital reserve which will support liquidity management and responses to unexpected work.

As part of this package, an appropriate periodic reporting framework was also agreed.

The financial stability provided by these decisions was a critical factor in the development of the organisation and its capacity in the second half of the year. It also allowed stabilisation of interim systems and the commencement of development of permanent systems.

Additionally, it allowed repayment of a loan provided by the New South Wales Government in 2005 as interim establishment funding.

The number of Rule change proposal projects and reviews undertaken by the AEMC and the number completed remained at a high level throughout the year. The ability of staff to respond to the diverse subject matter and to produce quality determinations is a credit to all involved.

For the first time a number of proposed Rule changes were not made after evaluation of the proposals. The reasons for not making Rules were varied and did not indicate any significant problems with the legislative framework.

In fact, this development can be regarded as being part of the maturing of the AEMC's Rule-making role and the market's interaction with the process.

In a tight labour market the use of staff seconded from other organisations and contractors remained a key contributor to the AEMC's ability to advance the work program. This was particularly the case in the first seven months of the year.

The second half of the year saw a number of highly skilled staff join the organisation, including at the executive level. Consequently, there was a reduced reliance on contractors in the second half of the year and an increase in the internal capability of the organisation.

A structured leadership and culture development program also contributed to the enhancement of the organisation's capability.

The developing work program for 2007-08 includes two major projects initiated by the MCE. The two projects are the assessment of the effectiveness of retail competition, initially in Victoria, and national transmission planning. Preparatory work commenced on both projects late in 2006-07.

Both these large projects require stakeholder interaction on a scale that exceeds past work of the AEMC. Whilst this will be challenging, it will provide opportunities to extend the level of understanding of the AEMC's role and

processes as we prepare for additional responsibilities in electricity and gas distribution and retail.

These reviews, together with the ongoing work of the Reliability Panel and Rule change determinations will make significant contributions to the development of the market in 2007-08.

Steven Graham
Chief Executive

People and Structure

building a culture that values teamwork, integrity, respect and professional commitment

The AEMC continued with the task of building in-house capabilities by employing high quality people with market-focused skill sets.

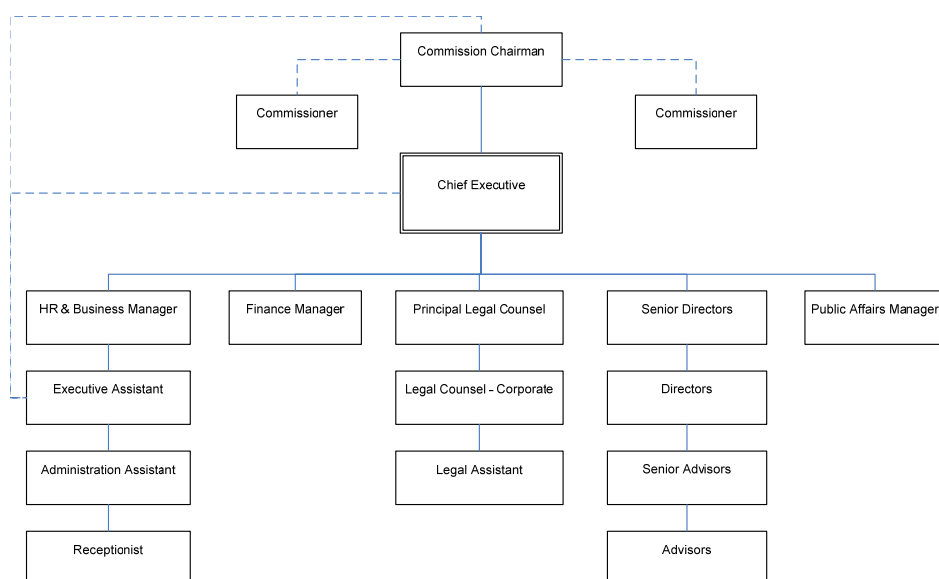
At the close of the year, the AEMC had a total workforce of 28 employees. Two new positions were created and filled, including Finance Manager and Administration Assistant. In addition, several advisory roles (Senior Directors, Senior Advisors and Advisors) were filled with permanent appointments. No positions were abolished or vacated.

All staff members are employed under common law employment contracts with the AEMC. Salary levels are set and annually adjusted according to market benchmarks.

Significant focus was also given during the year towards developing a strong corporate culture. This focus on culture was critical to ensure the AEMC could attract and retain people with premium skills able to meet the demands of the organisation's role in developing the national energy markets.

The organisation has cultivated expertise in managing external consultants to provide specialist capabilities or additional short-term capacity in periods of intensified workflow.

AEMC Organisation Structure



The AEMC's organisation structure as at 30 June 2007

Commissioners

The Commission includes one full-time and two part-time Commissioners. Two Commissioners are appointed by the participating State and Territory jurisdictions and one is appointed by the Commonwealth. All Commissioners have been appointed until June 2010.

John Tamblyn, Chairman

Commissioner Tamblyn was appointed inaugural AEMC Chairman in June 2005. His background in regulation of public utility services includes holding the position of Chairman of the Essential Services Commission (Vic), as Victoria's Regulator-General and in senior roles at the Australian Competition and Consumer Commission. He also has previous experience at the International Monetary Fund, Commonwealth Treasury and the Department of Finance. He holds PhD, Masters and Bachelor degrees in economics.

Liza Carver

Commissioner Carver was appointed AEMC Commissioner in June 2005. In addition, she is a partner in the law firm, Gilbert+Tobin, specialising in trade practices and competition law. Her previous regulatory background includes holding the position of Associate Commissioner with the Trade Practices Commission and the Australian Competition and Consumer Commission. She was also a part-time member with the NSW Independent Pricing and Regulatory Tribunal. She has been a Director of RailCorp, the Rail Infrastructure Corporation, NSW State Rail Authority and the Rail Access Corporation. She has qualifications in law and economics, including a Master of Laws.

Ian C Woodward

Commissioner Woodward was appointed AEMC Commissioner in June 2005. As Commissioner, he chairs the Reliability Panel and the AEMC Audit Committee. In addition, he is a Program Director and Executive Consultant for Macquarie Bank. He also undertakes consulting and lecturing assignments on leadership, communication and strategy and is Chair of the Asia-Pacific Partnership Energy Regulatory and Market Development Forum. He has extensive experience in senior leadership in both private enterprise and government within the energy industry including the Natural Gas Corporation (NZ), The Australian Gas Light Company, the Australian Gas Association (AGA), and as an advisor to the US Secretary of Energy. He holds an Executive MBA and a BA in Political Science, Economics and Communication.

Meetings

Regular statutory meetings are held for the Commission's formal decision making role and separate meetings are held to consider organisational governance issues.

	Statutory Meetings		Governance Meetings	
	Eligible	Attended	Eligible	Attended
John Tamblyn	34	31	11	11
Liza Carver	34	30	11	10
Ian Woodward	34	32	11	9

Administering the National Energy Laws

cooperating with others to achieve the best outcomes for energy consumers

Council of Australian Governments (COAG)

The peak intergovernmental forum in Australia with a role to initiate, develop and monitor the implementation of policy reforms that are of national significance and which require cooperative action by Australian governments.

Ministerial Council on Energy (MCE)

Established under COAG as the national policy and governance body for the Australian energy markets, including electricity and gas, to deliver the economic and environmental benefits for Australia from implementation of the national energy policy framework.

Australian Energy Market Commission (AEMC)

Responsible for Rule-making, market development and providing advice to the MCE on the National Energy Markets.

Australian Energy Regulator (AER)

Established to perform economic regulation of the wholesale electricity market and electricity transmission networks in the National Electricity Market (NEM), and enforce the National Electricity Law and National Electricity Rules. The AER is a constituent part of the Australian Competition and Consumer Commission (ACCC).

Australian Competition & Consumer Commission (ACCC)

A national statutory body responsible for promoting competition and fair trade in the market place to benefit consumers, business and the community. The ACCC enforces the *Trade Practices Act 1974*.

National Competition Council (NCC)

Established to act as a policy advisory body overseeing implementation of the National Competition Policy (NCP).

The AEMC and the National Competition Council (NCC) entered into a Memorandum of Understanding on 1 June 2007, which aims to promote effective communication, cooperation and co-ordination between the agencies in the performance of their respective role in the Australian energy markets.

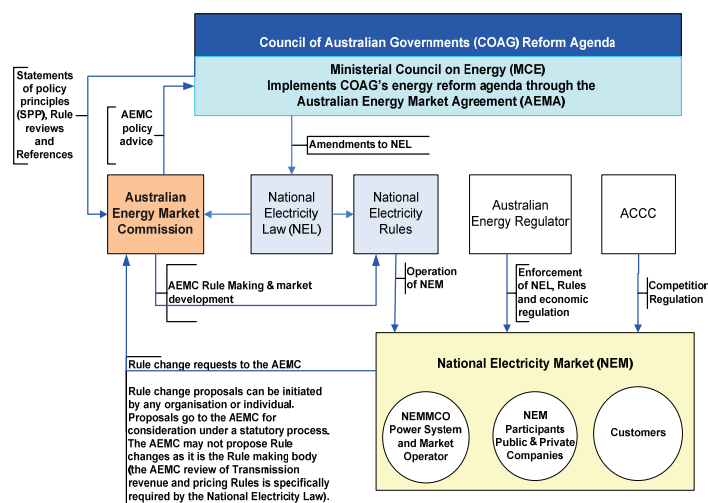
National Electricity Market Management Company Ltd (NEMMCO)

Responsible as both the market operator of the National Electricity Market (NEM) and operator of the power system that underpins NEM operation.

A Memorandum of Understanding between the AEMC and NEMMCO was made on 16 May 2007 to enhance the effectiveness of both agencies and promote the efficient operation of the NEM.

State and Territory Regulators

Independent regulators located within each State or Territory jurisdiction and tasked with overseeing economic regulation of essential public services.



Legislation Provisions

The AEMC is responsible to the Ministerial Council on Energy (MCE) for the performance of its functions.

The AEMC's statutory functions are specifically governed by the following legislation:

- *Australian Energy Market Commission Establishment Act 2004 (South Australia)*
- *National Electricity Act 1996 (South Australia)*

AEMC Governance

promoting integrity and accountability in all aspects of the AEMC's operations

The AEMC has comprehensive corporate governance strategies in place to guide and control the behaviour of staff as they perform their duties and conduct business on behalf of the Commission. These strategies are supported by clearly-stated policies and procedures.

Code of Conduct

The AEMC has adopted a Code of Conduct that sets out its commitment to fairness, honesty, impartiality and integrity in 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.

Audit and Risk Management

The first year of a three year internal audit program was established in 2006-07. This included a Commission Audit and Risk Management Committee that reviewed and monitored all internal risk management controls and the performance of external auditors.

Commissioners do not receive additional remuneration as appointees to this committee.

Commission Audit & Risk Management Committee Meetings		
	Eligible	Attended
Ian Woodward (Chairman)	3	3
John Tamblyn	3	3

In addition to this internal auditing, the AEMC submitted to an external audit check, which was undertaken by Deloitte Touche Tohmatsu in 2006-07.

Appointment and Remuneration

AEMC Commissioners are appointed by the Governor of South Australia on the recommendation of the Minister for Energy of South Australia and following nomination by members of the Ministerial Council on Energy. Initial levels for remuneration are set at the time of the Commissioner's appointment then adjusted during the period of appointment according to annual determinations of the New South Wales Statutory and Other Officers Remuneration Tribunal.

The AEMC's Chief Executive oversees all staff appointments, remuneration and implementation of policy. The Commissioners determine the Chief Executive's remuneration and approve the Chief Executive's recommendations for Executive remuneration.

Fraud Prevention

Within the AEMC's risk management framework, specific procedures are in place to assist the Commission identify sources of potential fraud or corrupt practices, prevent occurrences from occurring and to investigate and take appropriate action on reported breaches. No instances of fraud were identified during the year.

Disclosures

Staff and Commissioners are required to make declarations about pecuniary interests, conflicts of interest and the security and confidentiality of information.

In addition, staff and Commissioners are required to make disclosures of any direct or indirect interests in matters being considered by the AEMC. Statements made by each of the Commissioners about the ongoing management of any direct or indirect conflicts of interest are listed on the AEMC's website.

The following details declarations made by the Commissioners during 2006-07. The AEMC formally records any decisions made in relation to these disclosures.

- Commissioner Tamblyn made no declarations in the year.
- Commissioner Woodward made no declarations in the year.
- Commissioner Carver noted Gilbert+Tobin's work in advising TransGrid on its contingent projects participant derogation (August 2006).
- Commissioner Carver noted Gilbert+Tobin's work in advising Stanwell Corporation (October 2006). Commissioner Carver did not partake in the final decision-making process on Stanwell Corporation's proposal.

Rule Making

providing clear Rules and predictable regulatory processes for energy market participants

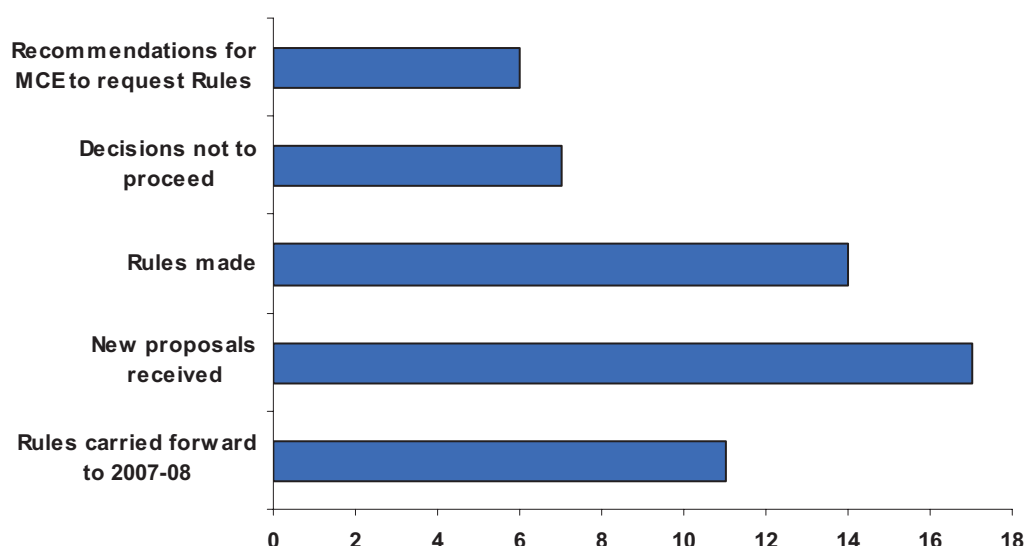
During the 2006-07 year, the AEMC considered a total of 32 Rule change proposals. Of these proposals, 17 were new requests received within the year under review and 15 carried forward from the previous reporting period.

In carrying out its responsibilities for Rule-making, the AEMC made 14 new Rules and determined not to proceed with 7 proposals.

In September 2006, the AEMC made recommendations to the MCE to propose 6 new Rules for the National Electricity Rules. All of these recommendations were made as a result of the *Review into the Enforcement of and Compliance with Technical Standards*. At 30 June 2007, the AEMC had not received notification from the MCE on these proposals.

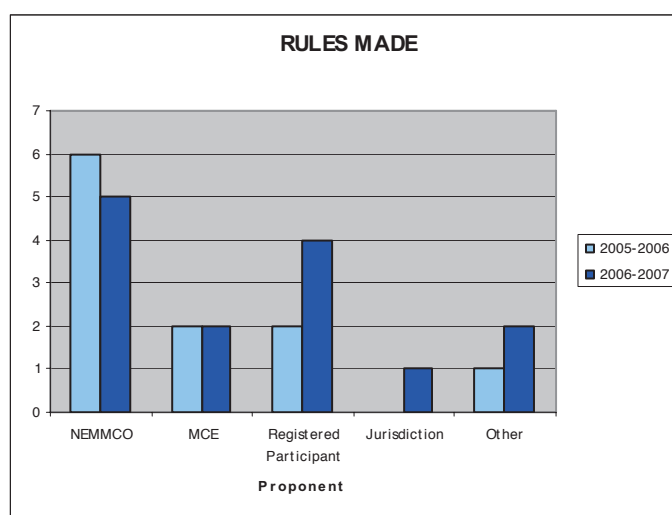
The consolidated version of the National Electricity Market Rules at 30 June 2007 was Version 14.

AEMC 2006-07 Rule Activities



Rules Made

A total of 14 new Rules were made in the 2006-07 period. The majority of Rules made resulted from proposals put forward by NEMMCO.



National Electricity Amendment (Extension of Inter-regional Settlements Agreement) Rule 2006 Rule No.12

Consolidated:	Version 8
Date Made:	13 July 2006
Date Commenced:	13 July 2006
Proponents:	Department of Infrastructure (Victoria)
Category:	Non-controversial
Benefit/Impact:	Enabled an ongoing recognition of the costs incurred by transmission network service providers (TNSPs) in exporting electricity to other regions and assists in providing price signals to encourage appropriate investment in and use of transmission networks.

National Electricity Amendment (TransGrid Participant Derogation –Treatment of Contingent Projects (Interim Arrangements)) Rule 2006 No.13

Consolidated:	Version 9
Date Made:	27 July 2006
Date Commenced:	27 July 2006
Proponents:	TransGrid
Category:	N/A
Benefit/Impact:	Removed potential disincentives for TransGrid to invest in contingent projects by enabling it to begin recovering costs on approved works during the period in which these had been incurred.

National Electricity Amendment (Management of negative settlement residues in the Snowy Region) Rule 2006 No.14

Consolidated:	Version 10
Date Made:	14 September 2006
Date Commenced:	1 November 2006
Proponents:	Southern Generators (Loy Yang Marketing Management Company, Southern Hydro, International Power, TRUenergy, NRG Flinders and Hydro Tasmania) and NEMMCO (included on table as NEMMCO proposal)
Category:	N/A
Benefit/Impact:	Improved the use of the transmission interconnector between the Snowy region and Victoria encouraging more efficient use of electricity generation and inter-regional competition.

National Electricity Amendment (Studland Bay Wind Farm Participant Derogation (Frequency Ride Through)) Rule 2006 No.15

Consolidated:	Version 10
Date Made:	19 October 2006
Date Commenced:	1 November 2006
Proponents:	Woolnorth Studland Bay Wind Farm
Category:	Non-controversial
Benefit/Impact:	Provided short-term arrangements of flexible technical standards applying to wind generators that were foreshadowed in another Rule change proposal under consideration by the Commission.

National Electricity Amendment (Studland Bay Wind Farm Participant Derogation (Voltage Ride Through)) Rule 2006 No.16

Consolidated:	Version 10
Date Made:	19 October 2006
Date Commenced:	1 November 2006
Proponents:	Woolnorth Studland Bay Wind Farm
Category:	Non-controversial
Benefit/Impact:	Provided short-term arrangements of flexible technical standards applying to wind generators that were foreshadowed in another Rule change proposal under consideration by the Commission.

National Electricity Amendment (Metrology) Rule 2006 No.17

Consolidated:	Version 10
Date Made:	9 November 2006
Date Commenced:	9 November 2006
Proponents:	NEMMCO
Category:	N/A
Benefit/Impact:	Implemented a consistent metrology procedure across the National Electricity Market (NEM).

National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006 No.18

Consolidated:	Version 10
Date Made:	16 November 2006
Date Commenced:	16 November 2006
Proponents:	AEMC initiated Rule (section 35, National Electricity Law)
Category:	N/A
Benefit/Impact:	Provided greater incentives through revenue and pricing structures to promote more efficient investment in transmission networks.

National Electricity Amendment (Reform of the Regulatory Test Principles) Rule 2006 No.19

Consolidated:	Version 11
Date Made:	30 November 2006
Date Commenced:	30 November 2006
Proponents:	Ministerial Council on Energy
Category:	N/A
Benefit/Impact:	Created a clearer and more certain regulatory regime that better facilitated efficient investment in and operation of transmission services.

National Electricity Amendment (NEMMCO Participant Derogation (Extension of Cost Recovery of Regulation Services in Tasmania)) Rule 2006 No.20

Consolidated:	Version 12
Date Made:	7 December 2006
Date Commenced:	7 December 2006
Proponents:	NEMMCO
Category:	Non-controversial
Benefit/Impact:	Extended existing temporary arrangements to a time when a permanent solution to the issue of cost recovery for regulation services specifically in the Tasmanian context is decided by the Commission.

National Electricity Amendment (Resolution of existing generator performance standards) Rule 2006 No.21

Consolidated:	Version 12
Date Made:	7 December 2006
Date Commenced:	7 December 2006
Proponents:	National Generators Forum
Category:	Non-controversial
Benefit/Impact:	Enabled all eligible existing generation plant operators to register their performance standards with the NEMMCO by 30 June 2007.

National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006 No.22

Consolidated:	Version 12
Date Made:	21 December 2006
Date Commenced:	28 December 2006
Proponents:	AEMC initiated Rule (under section 35, National Electricity Law)
Category:	N/A
Benefit/Impact:	On the whole, confirmed the continued operation of current methods for setting prices of transmission services while also providing scope for innovation into the future.

National Electricity Amendment (Reallocations) Rule 2007 No.1

Consolidated:	Version 14
Date Made:	22 February 2007
Date Commenced:	31 May 2007
Proponents:	NEMMCO
Category:	N/A
Benefit/Impact:	Provided arrangements for settlement reallocations that reflect generic financial market contracts, including futures, which are currently traded to hedge the market risk of market participants, within the National Electricity Market (NEM) settlements procedures. At the same time, tightened the prudential market framework to adequately address the credit exposure of a reallocating market participant.

National Electricity Amendment (Technical Standards for Wind Generation and other Generator Connections) Rule 2007 No.2

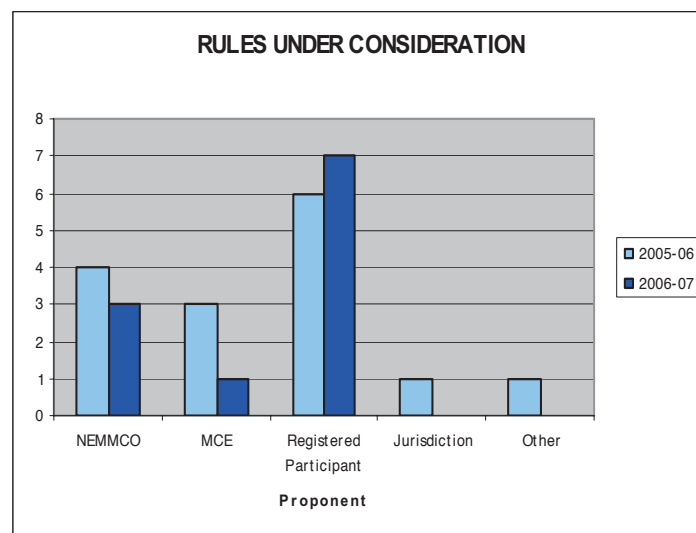
Consolidated:	Version 13
Date Made:	15 March 2007
Date Commenced:	15 March 2007
Proponents:	NEMMCO
Category:	N/A
Benefit/Impact:	Provided a more flexible and more technologically neutral framework for the negotiation of electricity generation performance standards.

National Electricity Amendment (Transmission Last Resort Planning) Rule 2007 No.3

Consolidated:	Version 13
Date Made:	15 March 2007
Date Commenced:	15 March 2007
Proponents:	Ministerial Council on Energy
Category:	N/A
Benefit/Impact:	Provided the AEMC with the power to direct a party (for the purposes of the Rule a registered participant) to undertake the Regulatory Test in relation to an identified new network investment.

Rules Under Consideration

Eleven Rule change proposals remained under consideration at the close of the 2006-07 year. The majority of these Rule change proposals resulted from submissions by Registered Participants.



Region Boundaries (now known as Process for Region Change)

Proponents:	Ministerial Council on Energy
Stage:	Preparation of draft Rule determination
Summary:	To define a new process for considering region changes in the NEM as a means of managing network congestion.

Abolition of Snowy Region

Proponents:	Snowy Hydro
Stage:	Preparation of final Rule determination
Summary:	To remove the Snowy as a pricing region. One of three alternative proposals to address network congestion management within the Snowy region boundary.

Split Snowy Region

Proponents:	Macquarie Generation
Stage:	Preparation of draft Rule determination
Summary:	To split the existing Snowy region into two. One of three alternative proposals to address network congestion management within the Snowy region boundary.

Congestion Pricing and Negative Residue Management Arrangements for the Snowy Region

Proponents:	Southern Generators – Loy Yang Marketing Management Company Pty. Ltd., AGL Hydro Pty. Ltd., International Power (Hazelwood, Synergen, Pelican Point and Loy Yang B), TRUenergy Pty. Ltd., Flinders Power, and Hydro Tasmania
Stage:	Preparation of draft Rule determination
Summary:	To make the current interim mechanisms for managing network congestion in the Snowy region permanent. One of three alternative proposals to address network congestion management within the Snowy region boundary.

Cost Recovery of Localised Regulation Services

Proponents:	National Generators Forum
Stage:	Preparation of final Rule determination
Summary:	To create a NEM wide scheme for the recovery of costs of “regulation services” (as defined in Chapter 10 of the Rules) where abnormal circumstances result in a local requirement for these services.

Efficient Dispatch of Regulation Services

Proponents:	Hydro Tasmania
Stage:	Preparation of final Rule determination
Summary:	To provide flexible pricing and cost recovery provisions for more efficient dispatch of Regulation Services (as defined in Chapter 10 of the Rules).

Dispatch of Scheduled Network Services

Proponents:	Hydro Tasmania
Stage:	Second round consultation on draft Rule determination
Summary:	To ensure that the dispatch of scheduled network services is on the basis of dispatch offers and dispatch bids.

Economic Regulation of Transmission Services Undertaken by Distributors

Proponents:	EnergyAustralia
Stage:	Preparation of draft Rule determination
Summary:	To standardise the revenue regulation arrangements for both distribution and transmission assets owned by Distribution Network Service Providers.

Central Dispatch and Integration of Wind and Other Intermittent Generation

Proponents:	NEMMCO
Stage:	First round consultation on Rule proposal
Summary:	To include significant intermittent generators (such as wind farms) in the central dispatch and PASA processes plus limit output of these generators at times when that output would otherwise violate secure network limits.

Integration of NEM Metrology Requirements

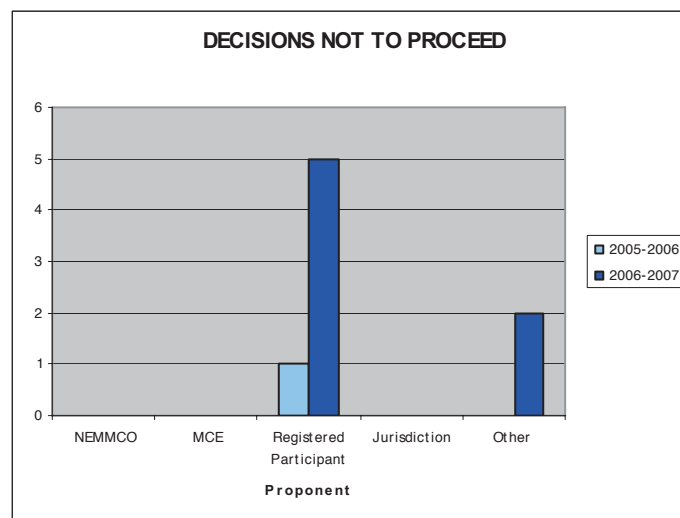
Proponents:	NEMMCO
Stage:	First round consultation on Rule proposal
Summary:	To introduce a standard Rule framework for both first-tier and second-tier metrology.

NEMMCO Participant Derogation (Deferral of Settlement Payments due to APEC)

Proponents:	NEMMCO
Stage:	Initial consideration
Summary:	To defer all settlement payments to NEMMCO by one business day due to the declaration of an APEC public holiday in Sydney on Friday 7 September 2007.

Decisions Not to Proceed

The AEMC made 7 decisions not to proceed with Rule change proposals. The majority of these Rule change proposals resulted from submissions by Registered Participants.



Management of negative settlement residues by re-orientation

Proponents:	Snowy Hydro and NEMMCO
Reason:	This proposal was considered by the Commission to provide less certainty, predictability, and consistency in market reform and less effectively promoted competition and efficiency when compared to the alternative congestion-related proposal (Rule 2006 No.14).

Transmission network replacement and reconfiguration

Proponents:	Stanwell Corporation
Reason:	The Commission determined the proposal to be a more limited method of resolving the issues than by a more thorough review of the application of the Regulatory Test.

Obligations of Network Service Providers (Connection Applicants)

Proponents:	Energy Solutions Australia
Reason:	The Commission considered that there was currently insufficient evidence to support the claim that the proposed Rule would enhance competition for contestable network services and that significant regulatory and administrative costs would be added to services should the change proceed.

Origin Energy Participant Derogation (Technical Requirements for Mount Stuart Power Station)

Proponents:	Origin Energy
Reason:	This variation to the Rules was considered no longer necessary since the Market Participant was formally registered as the Generator for Mt Stuart effective from 1 January 2007.

Responsible Person Contestability

Proponents:	Metropolis Metering Assets
Reason:	The Commission was unable to proceed with this Rule as metering providers are not "Relevant Participants" for the purpose of enforcement of the National Electricity Rules.

Alternative Snowy Region Boundary

Proponents:	Macquarie Generation
Reason:	The Commission discontinued work on this proposal after receiving a second request (Snowy Split Region) from the proponent, which it considered to be a better solution to the issue of network congestion in the Snowy Region.

Statement of regulatory principles – revenue cap reopening

Proponents:	Electranet
Reason:	The Commission discontinued work on this proposal after the proponent requested that the proposal be withdrawn as its substance (including the proposed Rule provisions) was addressed in the Commission's review of the Electricity Transmission Revenue and Pricing Rules and the associated Rules that were made (Rule No.18 and Rule No.22 of 2006).

Market Reviews

delivering high-quality reviews that provide a balance between investor and consumer interests

During the course of 2006-07, the AEMC conducted 4 detailed electricity market reviews, including 3 carried over from the previous reporting period and 1 new review. Of these, 2 reviews were completed in the year.

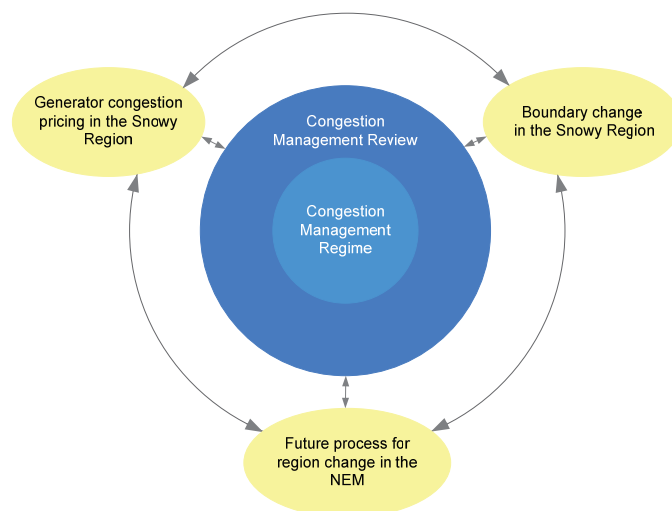
Congestion Management Review

This review formed a major part of the AEMC's overall work program throughout 2006-07. The Commission managed a highly coordinated and integrated program to investigate congestion-related issues in the NEM.

A major initiative of the AEMC during the year was the Industry Leaders Strategy Forum held in October 2006. This forum assisted with drawing together the industry's chief opinion leaders at the one time to discuss views on all the congestion-related projects.

These projects included a total of 7 Rule change proposals addressing network congestion management. As part of the review, the AEMC achieved a greater degree of coordination for public consultation periods of the various Rule change proposals. By aligning the dates for submissions on these projects, the AEMC was able to allow stakeholders the opportunity to simultaneously consider all the alternatives.

In late 2006, the Commission finalised 2 Rule change proposals put forward as a means of managing the congestion-related issue of negative settlement residues in the Snowy Region. Both Rule change proposals offered different solutions aimed at improving the use of the Victoria to Snowy Region transmission interconnector in order that more efficient use was made of electricity generation. The proposal by the Southern Generators was determined as the better option to Snowy Hydro's alternative proposal. The National Electricity Amendment (Management of negative settlement residues in the Snowy Region) Rule 2006 No.14 commenced in November 2006.



Macquarie Generation submitted two separate proposals on the issue of managing congestion in the Snowy Region. The Commission discontinued work on the first proposal, (Alternative Snowy Region Boundary), after receiving the second proposal (Split Snowy Region). Macquarie Generation considered this subsequent proposal was a better solution and therefore the Commission determined not to continue with the first request.

By the close of 2006-07, the AEMC had made significant progress in preparation of the draft report on the Congestion Management Review and also with the related Rule changes.

Review of electricity transmission revenue and pricing Rules

This long-term review project was completed during the 2006-07 year. Due to special provisions under the National Electricity Law (NEL), the AEMC was given the power to propose and decide on new Rules for economic regulation of transmission services.

The new Rules provided greater incentives through revenue and pricing structures to promote more efficient investment in transmission networks. They clarified how transmission network operators could earn revenues from their assets and the prices paid by their customers.

The Commission's review demonstrated a case for developing the NEM through changes to the Rules for determining transmission revenue and pricing. Consultation with market participants in earlier stages of this project had shown that transmission revenue and transmission pricing had to be considered as distinct, yet closely related, issues.

The first Rule to result from this review, the National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006 No.18, commenced operation in November 2006. This Rule formalised an approach of setting revenue caps to more closely align revenue incentives for transmission operators with the service levels they offered. Use of these revenue caps also effectively constrained the potential for transmission owners to exercise undue power in the market.

The National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006 No.22 was the second Rule to result from the review and began operation in December 2006. This Rule simplified the approach for pricing regulation and created a transparent process for making transmission pricing decisions. It also provided scope for future innovation in pricing.

A Rule change proposal put forward by Electranet was discontinued as a result of work on this review. The proposal, Statement of regulatory principles – revenue cap reopening, was withdrawn by Electranet after it and the Commission were satisfied the substance of the proposal was addressed in the 2 new Rules mentioned above.

Completion of the pricing component finalised the AEMC's obligations under the National Electricity Law to carry out a review of economic regulation of transmission services.

Review into the enforcement of and compliance with technical standards

The final report for this review was published by the AEMC in September 2006. It contained several recommendations for modifications to the NER applying to enforcement of, and compliance with, technical standards by generation and transmission operators. The report also highlighted the need for further detailed analysis into specific aspects of the current enforcement and compliance regime.

A key finding of the review was that compliance among the generator businesses with the performance standards proposed at the beginning of the NEM was inconsistent. Compliance with these standards was identified as a matter of urgent priority and as a vital first step in future compliance and enforcement measures.

The AEMC made a series of recommendations in its final report designed to address 3 dimensions to the enforcement and compliance regime for technical standards to ensure that:

- clearly defined technical standards were in place for all existing and future generator businesses;
- effective monitoring processes and procedures were established to ensure compliance with the standards; and
- penalties were sufficient to give adequate incentives for high-level compliance.

Included in the report's recommendations was advice that the MCE propose a total of 6 Rule change requests. At 30 June 2007, the AEMC had not received notification from the MCE on these proposals.

One recommendation for an industry-initiated Rule change proposal, through the National Generators Forum, was progressed and finalised during the year. The National Electricity Amendment (Resolution of existing generator performance standards) Rule 2006 No.21 commenced in December 2006.

Review of the effectiveness of competition in the gas and electricity retail markets

According to the terms of the COAG Australian Energy Market Agreement, the AEMC is required to review the effectiveness of competition in the gas and electricity retail markets of each NEM jurisdiction.

Western Australia was identified as an exceptional case as it is not considered currently cost effective to interconnect this State's electricity supply system to the national grid. The Economic Regulation Authority (ERA) of Western Australia is required to undertake the review of its jurisdiction at an appropriate time.

The purpose of these reviews is to determine if retail price regulation should be retained, removed or reintroduced.

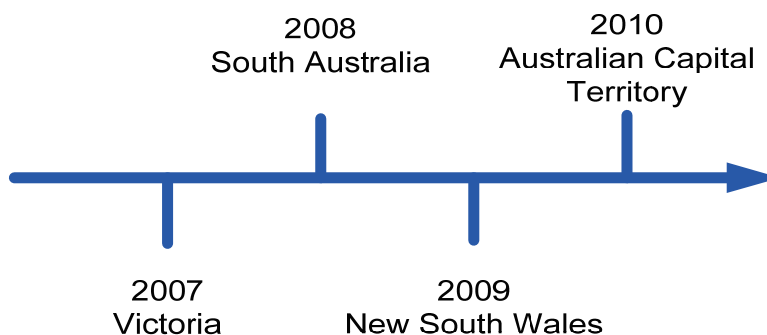
The AEMC's work on this project during the year focused on preliminary consultation, information gathering and other preparatory work necessary to establish the framework for the reviews to be conducted in each jurisdiction.

In November 2006, the MCE requested that the AEMC provide advice on its proposed approach to conducting the reviews, including its approach to the consultation process, the AEMC's proposed methodology and the process for defining relevant gas and electricity markets. The AEMC provided this advice to the MCE in the form of a Statement of Approach in April 2007 following consultation with stakeholders.

In April 2007, the MCE responded to advice from the AEMC and advised that the reviews would be conducted sequentially, commencing in Victoria (Victorian Review).

Subsequently, the AEMC is to review the effectiveness of competition in the gas and electricity retail markets in South Australia in 2008, New South Wales in 2009 and the ACT (if required) in 2010.

The AEMC formally commenced the Victorian Review on 1 June 2007 by releasing an Issues Paper. The Issues Paper called for comment from interested parties on aspects of retail energy competition and the experiences of energy customers specific to Victoria. The AEMC expects to complete the Victorian Review by February 2008.



Expert Panels

drawing together expertise and specialist knowledge

Under the National Electricity Law, the AEMC has direct responsibility for the Reliability Panel and limited oversight duties for the Advocacy Panel.

The AEMC also has the power to establish other committees, panels and working groups to assist in the performance of its functions. The AEMC did not exercise this power during the 2006-07 year.

Reliability Panel

The Reliability Panel is a specialist advisory body with the role of monitoring, reviewing and reporting on the safety, security and reliability of the national electricity system.

The AEMC appoints members of the Reliability Panel and may direct some parts of the work it carries out in relation to its functions.

Reliability Panel Meetings			
Member	Organisation	Eligible	Attended
Ian Woodward (Chairman)	AEMC	10	10
Les Hosking	NEMMCO	10	9
Mark Grenning	Rio Tinto Aluminium	10	8
Gordon Jardine	Powerlink	10	9
George Maltabarow	Energy Australia	10	4
Stephen Orr	International Power Australia	10	9
Jeff Dimery	AGL	10	7
Geoff Willis	Hydro Tasmania	10	6
Jim Wellsmore ¹	Public Interest Advocacy Centre	6	6
Kerry Connors ²	Consumer Utilities Advocacy Centre	2	2

¹ Member resigned January 2007

² Member appointed May 2007

Throughout 2006-07, the Reliability Panel continued its work on the Comprehensive Reliability Review (CRR). This major project was designed to take an integrated approach to reviewing the effectiveness of key, high-level reliability settings in the NEM and to make recommendations for improvements, if appropriate.

The Reliability Panel conducted extensive consultation with participants in the market, including holding a Stakeholder Forum on the Queensland Gold Coast in July 2006. An Interim Report was issued by the Reliability Panel in April 2007.

The timetable for completion of the CRR was extended to November 2007 following a request by the MCE to expand the review's Terms of Reference and allow for additional consultation time with stakeholders.

Two annual reviews conducted by the Reliability Panel under the NER were integrated into the CRR during the 2006-07 year. The following reviews were completed:

- 2007 Review of Value of Lost Load (VoLL) - April 2007
- Annual Electricity Market Performance Review: Reliability and Security 2006 - December 2006

In addition to the above work program, the Reliability Panel also issued a final determination for the System Operating Incidence Guidelines in October 2006. These guidelines provided clarification of which power system incidents the NEMMCO should investigate under the Rules.

Advocacy Panel

The Advocacy Panel is an independent body established to provide funding under a grant procedure for users of electricity to participate in the decision-making processes for the NEM. The Advocacy Panel prepares its own annual report, which is available online at www.advocacypanel.com.au.

The AEMC is responsible for appointments to the Advocacy Panel. During 2006-07, membership of the Advocacy Panel included:

Interim Advocacy Panel	Advocacy Panel
Frank Peach (Acting Chairperson)	Frank Peach (Chairperson)
Denis Nelthorpe	Bill Russell
Mark Williamson	Catherine Cooper
Mark Brownfield	Gordon Renouf
	Bruce Connery

Members of the interim Advocacy Panel served from 1 July 2006 to 30 November 2006. At this time a set of new Rules started that governed the Advocacy Panel's operations. Members of the Advocacy Panel appointed under the amended Rule commenced their terms from 1 December 2006, with the exception of Mr Bruce Connery who was appointed on 16 January 2007.

The AEMC took the following steps in meeting its obligations for oversight of the Advocacy Panel under the National Electricity Rules:

- 1 July 2006, the National Electricity Amendment (Advocacy Panel) Rule 2006 No.8 commenced operation. This amending Rule implemented governance and accountability changes and addressed the funding arrangements for the Advocacy Panel.
- 17 August 2006, in accordance with clause 8.10.8(c), the AEMC approved the engagement of PricewaterhouseCoopers to conduct the Panel's 2006 audit.
- 16 January 2007, in accordance with clause 8.10.3, the AEMC published its Guidelines for the Appointment of Members of the Advocacy Panel.
- 9 May 2007, in accordance with clause 8.10.6(e), the AEMC determined the Advocacy Panel funding requirements for 2007-08 to be \$2,030,168 (excluding GST).

Financial Statements

for the financial year ended 30 June 2007

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TO THE CHAIRMAN AUSTRALIAN ENERGY MARKET COMMISSION

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 accompanying financial report of the Australian Energy Market Commission for the financial year ended 30 June 2007. The financial report comprises:

- An Income Statement;
- A Balance Sheet;
- A Statement of Changes in Equity;
- A Cash Flow Statement;
- Notes to the Financial Statements; and
- A Certificate by the Chairman, the Chief Executive and the Finance Manager.

The Responsibility of the members for the Financial Report

The members are responsible for the preparation and fair presentation of the financial report in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with the requirements of the *Public Finance and Audit Act 1987* and Australian Auditing Standards. The Auditing Standards require that the auditor complies with relevant ethical requirements relating to audit engagements and plans and performs the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the members, as well as the overall presentation of the financial report.

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

Auditor's Opinion

In my opinion, the financial report presents fairly, in all material respects, the financial position of the Australian Energy Market Commission as at 30 June 2007, and its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards (including the Australian Accounting Interpretations).

A handwritten signature in blue ink, appearing to read 'S O'Neill', with a stylized flourish at the end.

S O'Neill
Auditor-General
26 October 2007

Certification of the Financial Report

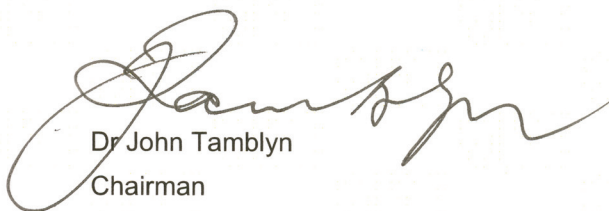
We certify that:

- The attached General Purpose Financial Report for the Australian Energy Market Commission ("The Commission") presents fairly, in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987 (South Australia)*, applicable Australian Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of the Commission as at 30 June 2007, 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 Commission will be able to pay its debts as and when they become due and payable.

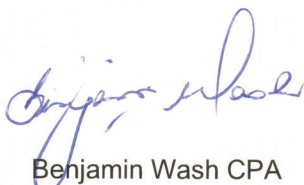
Signed in accordance with a resolution of the Commission.



Steven Graham
Chief Executive
23 October 2007



Dr John Tamblyn
Chairman
23 October 2007



Benjamin Wash CPA
Finance Manager
23 October 2007

Australian Energy Market Commission
ABN 49 236 270 144

Income Statement

for the year ended 30 June 2007

	Note	2007 \$'000	2006 \$'000
Expenses			
Employee benefit expenses	7	3,367	2,918
Supplies and services	8	4,955	4,185
Depreciation and amortisation expense	9	203	182
Interest expense		225	62
Total expenses		8,750	7,347
Income			
Interest revenues	5	407	322
Total income		407	322
Net cost of providing services		(8,343)	(7,025)
Contributions from participating jurisdictions	6	15,273	8,323
Net result		6,930	1,298

The net result is attributable to the participating jurisdictions as owners.

The above statement should be read in conjunction with the accompanying notes.

Balance Sheet

as at 30 June 2007

Current assets

Cash and cash equivalents	25	4,621	4,913
Receivables	11	5,589	1,206
Other current assets	14	47	53
Total current assets		10,257	6,172

Non-current assets

Property, plant and equipment	12(a)	551	673
Intangible assets	12(c), 13	24	61
Total non-current assets		575	734

Total assets

10,832	6,906
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Current liabilities

Payables	15	499	467
Short term borrowings	16	-	2,915
Short term employee benefits	17	269	174
Other current liabilities	18	80	80
Total current liabilities		848	3,636

Non-current liabilities

Long-term employee benefits	17	137	273
Long-term provisions	19	8	8
Other non-current liabilities	18	133	213
Total-non current liabilities		278	494

Total liabilities

1,126	4,130
-------	-------

Net assets

9,706	2,776
-------	-------

Equity

Retained earnings	20	9,706	2,776
Total equity		9,706	2,776

The total equity is attributable to the participating jurisdictions as owners.

Commitments	21
Contingent assets and liabilities	22

The above statement should be read in conjunction with the accompanying notes.

Australian Energy Market Commission
ABN 49 236 270 144

Statement of Changes in Equity

for the year ended 30 June 2007

	Note	Contributed Capital \$'000	Retained earnings \$'000	Total \$'000
Balance at 30 June 2005		-	(1,389)	(1,389)
2005 Error correction		-	2,865	2,865
Restated balance at 30 June 2005			1,476	1,476
Total recognised income and expense for 2005-06 (before error correction)		-	1,341	1,341
Equity contribution from SA Government (before error correction)		173	-	173
Restated balance at 30 June 2006		173	2,817	2,990
2006 Error correction		(173)	(41)	(214)
Restated balance at 30 June 2006	20	-	2,776	2,776
Total recognised income and expense for 2006-07		-	6,930	6,930
Balance at 30 June 2007	20	-	9,706	9,706

All changes in equity are attributable to the participating jurisdictions as owners.

The above statement should be read in conjunction with the accompanying notes.

Cash Flow Statement

for the year ended 30 June 2007

	Note	2007 \$'000	2006 \$'000
Cash flows from operating activities			
Cash outflows			
Employee benefit payments		(3,399)	(2,632)
Supplies and services		(5,006)	(4,586)
GST payments on purchases		(487)	(474)
Cash used in operations		<u>(8,892)</u>	<u>(7,692)</u>
Cash inflows			
Receipt of LSL transferred from previous employers		-	240
Receipts from participating jurisdictions		10,920	10,101
Interest received		268	175
GST input taxed credits		456	386
Cash generated from operations		<u>11,644</u>	<u>10,902</u>
Net cash provided by operating activities	25	<u>2,752</u>	<u>3,210</u>
Cash flows from investing activities			
Cash outflows			
Purchase of property, plant & equipment		(44)	(102)
Purchase of intangibles		-	(24)
Cash used in investing activities		<u>(44)</u>	<u>(126)</u>
Net cash used in investing activities		<u>(44)</u>	<u>(126)</u>
Cash flows from financing activities			
Cash outflows			
Repayment of borrowings		(3,000)	-
Cash used in financing activities		<u>(3,000)</u>	<u>-</u>
Net cash used in financing activities		<u>(3,000)</u>	<u>-</u>
Net (decrease)/increase in cash and cash equivalents		(292)	3,084
Cash and cash equivalents at the beginning of the financial year		<u>4,913</u>	<u>1,829</u>
Cash and cash equivalents at the end of the financial year	25	<u>4,621</u>	<u>4,913</u>

The above statement should be read in conjunction with the accompanying notes.

Australian Energy Market Commission
ABN 49 236 270 144

Notes to the Financial Statements

for the year ended 30 June 2007

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 Commission's key functions under the National Electricity Laws are to:

- a. consider Rule change proposals and the effect that such proposals may have on the national energy market;
- b. conduct energy market reviews and inquiries for the Ministerial Council on Energy (providing analysis and recommendations to inform policy making by the MCE); and
- c. provide policy advice to the MCE as requested or on the Commission's initiatives.

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 South Australian Treasurer's Instructions and South Australian Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987* (PFAA).

Statement of Compliance

Australian accounting standards include Australian equivalents to International Financial Reporting Standards and AAS 29 *Financial Reporting by Government Departments*. Except for the amendments to AASB 101 *Presentation of Financial Statements*, which the Commission has early-adopted, Australian accounting standards and interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Commission for the reporting period ending 30 June 2007.

The Commission has assessed the impact of the new and amended Australian accounting standards and interpretations and considers there will be no impact on the accounting policies or the financial report of the Commission.

The preparation of the financial report requires:

- the use of certain accounting estimates and requires management to exercise its judgment in the process of applying the Commission's accounting policies. The areas involving a higher degree of judgment or where assumptions and estimates are significant to the financial statements are outlined in the applicable notes; and
- compliance with accounting policy statements issued pursuant to section 41 of the *Public Finance and Audit Act 1987*, by authority of South Australian Treasurer's Instruction 19 *Financial Reporting*. In the interest of public accountability and transparency the accounting policy statements require the following note disclosures, that have been included in this financial report:

2 Summary of significant accounting policies

a) Basis of accounting (continued)

- a. revenues, expenses, financial assets and liabilities where the transaction is with an entity within the SA government as at the reporting date, classified according to their nature. A threshold of \$100,000 for separate identification of these items applies;
- b. expenses incurred as a result of engaging consultants (as reported in the Income Statement);
- c. employees whose normal remuneration is \$100,000 or more (within \$10,000 bandwidths) and the aggregate of the remuneration paid or payable or otherwise made available, directly or indirectly by the entity to those employees; and
- d. board/committee member and remuneration information, where a board/committee member is entitled to receive income from membership other than a direct out-of-pocket reimbursement.

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.

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) Reporting entity

The Commission's financial report includes both commissioned and administered items. The Commission's financial statements include the use of assets, income, expenses and liabilities, controlled or incurred by Commission in its own right. As administered items are insignificant in relation to the Commission's overall financial performance and position, they have been disclosed as notes to the accounts.

c) Comparative information

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

Where presentation or classification of items in the financial report has been amended comparative amounts have been reclassified unless reclassification is impractical.

The restated comparative amounts do not replace the original financial report for the preceding period.

d) Rounding

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

2 Summary of significant accounting policies (continued)

e) Taxation

The Commission is not required to pay income tax. The Commission is liable for payroll tax, fringe benefits tax and goods and services tax (GST). Income, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods or services is not recoverable from the Australian Taxation Office, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as part of receivables or payables in the Balance Sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from the Australian Taxation Office is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to the Australian Taxation Office.

f) Income and expenses

Income and expenses are recognised to the extent it is probable that the flow of economic benefits to or from the Commission will occur and can be reliably measured.

Income and expenses have been classified according to their nature and have not been offset unless required or permitted by another accounting standard, or where offsetting reflects the substance of the transaction or other event.

The notes accompanying the financial statements 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.

In 2006-07, there are no transactions with SA Government entities above the threshold of \$100,000.

The following are specific recognition criteria:

Contributions from participating jurisdictions

Contributions are recognised as an asset and income when the Commission 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 - this will be when the agreement becomes enforceable i.e. the earlier of when the receiving entity has formally been advised that the contribution (eg grant application) has been approved; agreement/contract is executed; and/or the contribution is received.

2 Summary of significant accounting policies (continued)

f) Income and expenses (continued)

- Contributions with conditional stipulations - this will be when the enforceable stipulations specified in the agreement occur or are satisfied; that is income would be recognised for contributions received or receivable under the agreement.

All contributions received by the Commission have been contributions with unconditional stipulations attached and have been recognised as an asset and income upon receipt.

Interest income and expenses

Interest income comprises of interest income on funds invested and discounting of an interest free loan. Interest income on funds invested is recognised as it accrues, using the effective interest method.

Interest expense comprises of the unwinding of the discount on interest free loan.

g) 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.

h) Cash and cash equivalents

Cash and cash equivalents in the Balance Sheet and for the purposes of the Cash Flow Statement includes cash at bank and cash on hand.

Cash is measured at nominal value.

i) Receivables

Receivables consist of GST receivables and funding receivables.

j) 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 \$1,500 or greater in accordance with South Australian Accounting Policy Framework III *Asset Accounting Framework* paragraph APS 2.16. The capitalisation threshold for non-current assets was changed in February 2007 from \$150 to \$1,500.

k) Revaluation of non-current assets

All non-current tangible assets are valued at written down current cost (a proxy for fair value); and revaluation of non-current assets or group of assets is only performed when its fair value at the time of acquisition is greater than \$1 million and estimated useful life is greater than three years. No revaluation was performed for the year ended 30 June 2007 as the Commission did not have non-current assets which meet the revaluation criteria.

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.

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 tangible 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.

Assets' residual values, useful lives and amortisation methods are reviewed and adjusted if appropriate, on an annual basis.

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. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

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 \$1,500, in accordance with South Australian Accounting Policy Framework III *Asset Accounting Framework* paragraph APS 2.16.

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.

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 makes contributions to several externally managed superannuation schemes on behalf of employees. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes.

The Commission makes contributions to several externally managed superannuation schemes. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes. The only liability outstanding at balance date relates to any contributions due but not yet paid.

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.

Wages, salaries, annual leave and sick leave

Liability for salary 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. In the unusual event where salary and wages and annual leave are payable later than 12 months, the liability will be measured at present value.

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 for sick leave.

p) Employee benefits (continued)

Long-term employee benefits

The liability for long service leave is recognised from the employees commencement date.

The Commission's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at 30 June 2007 on Commonwealth Government bonds that have maturity dates approximating the terms of the Commission's obligations.

The unconditional portion of the long service leave provision is classified as current as the Commission does not have an unconditional right to defer settlement of the liability for at least 12 months after reporting date. The unconditional portion of long service leave relates to an unconditional legal entitlement to payment arising after ten years of service.

q) Financial liabilities

In accordance with the South Australian Accounting Policy Statements contained in the South Australian 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).

r) Provisions

A provision is recognised when the Commission has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect of the time value of money is material, provisions are discounted for the time value of money and the risks specific to the liability.

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 lease payments are recognised as an expense in the Income Statement on a straight-line basis over the lease term. The straight-line basis is representative of the pattern of benefits derived from the leased asset. 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 various insurers, to insure all major risks of the Commission. There is no exposure in relation to workers compensation.

3 Financial risk management

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.

The funding for the Commission until 30 June 2009 was approved as at 30 June 2006.

The Commission is exposed to funding/liquidity risk. This is managed through the working capital reserve established by the MCE in February 2007.

4 Segment reporting

The Commission operates in Australia from a single office in Sydney.

The Commission's main function is to assess rule change proposals and undertake reviews of aspects of the electricity market as directed.

	2007 \$'000	2006 \$'000
5 Interest revenues		
Interest income from discounting of non interest bearing loan	139	147
Interest earned on bank accounts	268	175
Total interest revenues	407	322

6 Contributions from participating jurisdictions

Due to inaccurate cut-off for the years ended 30 June 2006 and 30 June 2005, contributions from participating jurisdictions was overstated by \$41,757 in 2005/06.

Operational funding	13,445	8,150
Working Capital	1,828	173
Total contributions from participating jurisdictions	15,273	8,323

The error also had the effect of overstating payables as at 30 June 2006 by \$1,684,000, understating receivables as at 30 June 2006 by \$966,000 and understating retained earnings as at 30 June 2006 by \$2,824,000.

The errors have been corrected by restating each of the affected financial statement line items for the prior year.

Australian Energy Market Commission
ABN 49 236 270 144

	2007 \$'000	2006 \$'000
7 Employee benefit expenses		
Salaries and wages	2,772	2,484
Long service leave	52	34
Annual leave	223	94
Employment on-costs - superannuation	235	223
Relocation expenses	85	83
Total employee benefit expenses	3,367	2,918

Total staff of the Commission, including Commissioners at 30 June 2007 was 28 (2006: 24).

Staff are appointed under common law contracts and are not employees under the South Australian *Public Sector Management Act 1994*. 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 2004*.

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

Remuneration of employees	2007 No.	2006 No.
The number of employees whose remuneration received or receivable falls within the following bands:		
100,001 – 110,000	3	1
110,001 – 120,000	1	1
120,001 – 130,000	1	-
130,001 – 140,000	1	-
140,001 – 150,000	1	-
150,001 – 160,000	1	2
160,001 – 170,000	1	-
200,001 – 210,000	-	1
210,001 – 220,000	-	1
220,001 – 230,000	1	-
280,001 – 290,000	1	-
410,001 – 420,000	1	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. The total remuneration received by these employees for the year was \$2,072,041 (2006: \$1,362,407).

	2007 \$'000	2006 \$'000
8 Supplies and services		
Supplies and services provided by entities external to the SA Government		
Property expenses	326	305
Information technology expenses	90	157
Accounting and audit expenses	94	121
Legal expenses	42	140
Project contractor expenses	2,399	2,286
Other contractor and consultancy expenses	1,136	541
Administration expenses	250	207
Travel and accommodation expenses	121	115
Payroll and fringe benefit tax	173	132
Recruitment	200	143
Staff training	82	23
Other	42	15
Total supplies and services – Non SA Government entities	4,955	4,185

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

	No.	2007 \$'000	No.	2006 \$'000
Below \$10,000	2	9	-	-
Between \$10,000 and \$50,000	2	66	2	24
Above \$50,000	5	506	1	119
Total paid/payable to the consultants engaged	9	581	3	143

	2007 \$'000	2006 \$'000
9 Depreciation and amortisation expense		
Depreciation		
Office equipment	23	21
IT Infrastructure	54	47
Total depreciation	77	68
Amortisation		
Intangibles	37	25
Leasehold improvements	89	89
Total amortisation	126	114
Total depreciation and amortisation	203	182
9 Auditor's Remuneration		
Audit fees paid/payable to the SA Auditor-General's Department	20	18
Total Audit Fees – SA Government entities	20	18
Other Services		
No other services were provided by the Auditor-General's Department.		
11 Receivables		
Receivables from Non SA Government entities		
Funding receivable	5,442	1,089
GST receivable	147	117
Total receivables from Non SA Government entities	5,589	1,206

Interest rate and credit risk

Receivables are raised for all government contributions due and for which payment has not been received. Receivables are normally settled within 30 days. Receivables are non-interest bearing. The carrying amount of receivables approximates net fair value due to being receivable on demand.

12(a) Property, Plant and Equipment

Plant and Equipment	239	225
Less: Accumulated depreciation	(49)	(26)
Total Plant and Equipment	190	199
IT Infrastructure	224	202
Less: Accumulated depreciation	(107)	(53)
Total IT infrastructure	117	149
Leasehold improvements	439	431
Less: Accumulated amortisation	(195)	(106)
Total Leasehold improvements	244	325
Total property, plant and equipment	551	673

12(b) Impairment

There were no indications of impairment of property, plant and equipment and intangible assets at 30 June 2007.

	2007 \$'000	2006 \$'000
12(c) Reconciliation of non current assets		
The following table shows the movement of Property, Plant and Equipment during 2006 and 2007.		
Office Equipment		
Carrying amount at beginning of the year	199	176
Additions	14	44
Depreciation	(23)	(21)
Carrying amount at the end of the year	190	199
IT Infrastructure		
Carrying amount at beginning of the year	149	138
Additions	22	58
Depreciation	(54)	(47)
Carrying amount at the end of the year	117	149
Leasehold improvements		
Carrying amount at beginning of the year	325	414
Additions	8	-
Depreciation	(89)	(89)
Carrying amount at the end of the year	244	325
Intangible assets		
Carrying amount at beginning of the year	61	62
Additions	-	24
Depreciation	(37)	(25)
Carrying amount at the end of the year	24	61
13 Intangible assets		
Computer software		
Computer software – at cost	94	94
Less: Accumulated amortisation	(70)	(33)
Total computer software	24	61
The useful life of the above intangible assets are disclosed in Note 2(l).		
14 Other assets		
Current assets		
Prepayments	47	53
Total current other assets	47	53

	2007 \$'000	2006 \$'000
15 Payables		
Current		
Creditors	-	18
Accrued expenses	443	402
Employment on-costs	56	47
Total current payables	<u>499</u>	<u>467</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.

16 Borrowings**Current**

Borrowings	-	2,915
Total current borrowings	<u>-</u>	<u>2,915</u>

The above borrowings are interest free and were recorded at the present value of expected repayments discounted using an interest rate of 5.84%. (2006: 5.14%).

17 Employee benefits**Current**

Annual leave	163	110
Accrued salaries and wages	106	64
Total current employee benefits	<u>269</u>	<u>174</u>

Non-current

Long term long service leave	137	273
Total non-current employee benefits	<u>137</u>	<u>273</u>

Total employee benefits	<u>406</u>	<u>447</u>
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	2007 \$'000	2006 \$'000
18 Other liabilities		
Lease incentive	399	399
Less: lease incentive amortisation	(186)	(106)
	<u>213</u>	<u>293</u>
Current other liabilities	80	80
Non-current other liabilities	133	213
Total other liabilities	<u>213</u>	<u>293</u>
19 Provisions		
Non-current		
Provision for make good	8	8
Total non-current provisions	<u>8</u>	<u>8</u>
<i>Reconciliation of provision for make good</i>		
Balance at the beginning of financial year	8	7
Unwind of discount	-	1
Balance at end of the financial year	<u>8</u>	<u>8</u>
20 Retained earnings		
Working Capital		
New South Wales	750	-
Victoria	556	-
Queensland	432	-
South Australia	173	173
Tasmania	54	-
Australian Capital Territory	36	-
Total Working Capital	<u>2,001</u>	<u>173</u>
Operational Funding	7,705	2,603
Total Retained earnings	<u>9,706</u>	<u>2,776</u>

21 Commitments

Operating lease commitments

The Commission is party to two operating leases for office accommodation. Under the first lease, 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 2007 was \$286,428 (2006: 274,529). This was offset by amortisation of the lease incentive of \$79,857 (2006: \$79,857).

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

	2007 \$'000	2006 \$'000
Within 1 year	297	286
More than 1 year but not later than 5 years	520	817
	817	1,103

The weighted average interest rate implicit in the lease is 4 %.

Under the second lease, the lessor is Perron Investments Pty Ltd & Perpetual Trustee Company Limited. The lease is non-cancellable with a term of 7 years with an option to renew of a further 3 years. Rent is payable on first day of the month.

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

	2007 \$'000	2006 \$'000
Within 1 year	376	-
More than 1 year but not later than 5 years	1,993	-
More than 5 years	1,224	-
	3,593	-

The weighted average interest rate implicit in the lease is 4.25 %.

Until the Commission takes up occupancy the lease with Perpetual Trustee Company Limited will remain in force.

21 Commitments (continued)

Remuneration commitments

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

	2007 \$'000	2006 \$'000
Within 1 year	624	624
Later than 1 year but not later than 5 years	1,248	1,872
Total remuneration commitments	1,872	2,496

The above figures are based on the salaries paid for the 30 June 2007 financial year. The Commissioners' conditions of appointment provide that the salary of the Commissioners is 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.

The employment contracts for the above also include redundancy clauses with a total amount of \$200,000 (2006: \$200,383) payable on early termination.

22 Contingent assets and liabilities

The Commission is not aware of any contingent assets and liabilities.

23 Remuneration of Board and Committee Members

The Commission has no Committee Members who were entitled to receive remuneration for membership during the 2006/07 financial year.

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 other item, transaction or event of a material and unusual nature, likely, in the opinion of the Commissioners, to affect significantly the operations of the Commission, the results of those operations, or the state of affairs of the Commission, 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:

	2007 \$'000	2006 \$'000
Cash flow statement	4,621	4,913
Balance sheet	4,621	4,913

Reconciliation of net cash provided by operating activities to net result

Net cash provided by operating activities	2,752	3,210
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Add/(less) non-cash items:

Rent incentive amortisation expense	80	80
Depreciation and amortisation expense	(203)	(182)
Interest revenue from discounting of interest free loan	140	146
Interest expense from discounting of interest free loan	(140)	(62)
Interest expense capitalised	(85)	-

Change in assets and liabilities

Increase/(decrease) in receivables	4,383	(1,845)
(Decrease)/increase in other assets	(6)	40
(Increase)/decrease in payables	(32)	185
Decrease /(increase) in employee benefits	41	(274)
Net result	6,930	1,298

26 Disclosure of administered items

	2007 \$'000	2006 \$'000
Receipts		
Receipts from the National Electricity Market Management Company Limited (NEMMCO)	1,879	-
Total receipts	<u>1,879</u>	<u>-</u>
Payments		
Payments to the Consumer Advocacy Panel	(1,879)	-
Total payments	<u>(1,879)</u>	<u>-</u>
Net cash	<u>-</u>	<u>-</u>

The Commission is required pursuant to the Rules under the National Electricity (SA) Act 1996 to receive monies from NEMMCO to fund the Consumer Advocacy Panel activities and pass these on to the Consumer Advocacy Panel in full. An administrative arrangement is in place whereby NEMMCO make payments directly to the Consumer Advocacy Panel.

The amounts are not controlled by the Commission and are not recognised by the Commission.

There are no items to report on the balance sheet for the administered items at 30 June 2007. The total administered equity at 30 June 2007 is nil.

Statutory Reports

External Consultants

During 2006-07, the AEMC engaged external consultants to meet specialist skill demands in the areas of economic and technical advice relating to energy markets and corporate functions such as information technology, internal audit, records management and human resources.

Occupational Health and Safety

The AEMC is subject to NSW Occupational Health and Safety Act and Workers Compensation laws.

During the year, the AEMC established an Occupational Health and Safety Committee (OH&SC) comprising both staff representatives and an executive representative. The OH&SC are responsible for:

- providing guidance and a systematic approach to managing occupational health and safety (OH&S) matters within the AEMC;
- identifying actions required to prevent or reduce the likelihood of workplace accidents, illness and injury;
- reporting and investigating workplace accidents, illness and injury; and
- minimising the impacts, including personal, social and financial costs, associated with workplace accidents, illness and injury.

There were no workplace injuries during the year.

MCE Statements of Policy Principles

The Ministerial Council on Energy made no statements of policy principles during the year.

Last Resort Planning Power

The AEMC did not exercise its Last Resort Planning Power under the National Electricity Rules during the year.

Demand Side Participation

The AEMC took no action with regard to demand side participation in the National Electricity Market during the year.

Freedom of Information

The AEMC is subject to the *Freedom of Information Act 1991 (SA)*. A Freedom of Information statement is available on the AEMC web site.

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

NEMMCO's Use of Powers of Direction

In 2006-07 the following reports on directions were published on NEMMCO's website:

- Queensland Region - 10 January 2007
- Victoria and South Australia Regions - 16 January 2007 (7 directions)
- Queensland Region - 20 May 2007 (2 directions)

Use by Registered Participants of Inspection and Testing Rights

There were no requests for these rights recorded during the year.

Compliance Index

The AEMC Annual Report 2006-2007 is prepared in accordance with the *Australian Energy Market Commission Establishment Act 2004* and satisfies the requirements of the *Australian Energy Market Commission Establishment Regulations 2005*. This index indicates where each of the items the AEMC must report on is located within the report.

- | | |
|---|---|
| <p>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:</p> <p>a) the National Energy Law provisions and other legislative provisions that confer functions on the AEMC</p> <p>Administering the National Energy Laws – pages 11-12</p> <p>b) the AEMC's relationship to other bodies involved in the administration of National Energy Laws</p> <p>Administering the National Energy Laws – pages 11-12</p> <p>c) the membership and organisation of the AEMC</p> <p>People and Structure – pages 9-10</p> <p>d) the AEMC's strategic plans and the relationship of the plans to objectives set out in the National Energy Laws</p> <p>Chairman's Report – pages 5-6</p> <p>e) the AEMC's activities and their efficiency and effectiveness</p> <p>Chairman's Report – pages 5-6</p> <p>f) the AEMC's financial affairs</p> <p>Financial Statements – pages 30-55</p> <p>g) disclosures made by Commissioners under section 22 of the Act</p> <p>AEMC Governance – pages 13-14</p> | <p>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</p> <p>People and Structure – pages 9-10</p> <p>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</p> <p>Statutory Reports – pages 57-58</p> <p>j) the occupational health, safety and rehabilitation programs of the AEMC and their effectiveness</p> <p>Statutory Reports – pages 57-58</p> <p>k) any instances of fraud in the operations of the AEMC and the strategies implemented to prevent and control fraud</p> <p>Statutory Reports – pages 57-58</p> <p>l) in relation to electricity;</p> <p>(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</p> <p>Chairman's Report – pages 5-6</p> |
|---|---|

- (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

[Statutory Reports – pages 57-58](#)

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

[Rule-making – pages 15-22](#)

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

[Rule-making – pages 15-22](#)

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

[Rule-making – pages 15-22](#)

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

[Rule-making – pages 15-22](#)

- D) Rules made, and

[Rule-making – pages 15-22](#)

- E) Rules that have come into operation

[Rule-making – pages 15-22](#)

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

[Market Reviews – pages 23-26](#)

- v) market development functions

[Chairman's Report – pages 5-6](#)

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

[Rule-making – pages 15-22](#)

- 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 27-29](#)

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

[Statutory Reports – pages 57-58](#)

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

[Statutory Reports – pages 57-58](#)

- 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

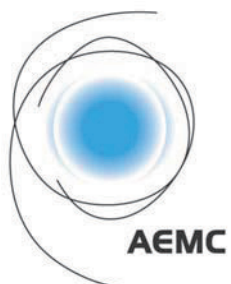
[Statutory Reports – pages 57-58](#)

- 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.

[Financial Statements – pages 30-55](#)

Terms and Abbreviations

ACCC	Australian Competition & Consumer Commission
AEMA	COAG Australian Energy Market Agreement
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
COAG	Council of Australian Governments
Derogation	An exemption from a Rule for an individual or organisation (Participant Derogation) or State or Territory (Jurisdictional Derogation)
Expedited Process	Proponents may request a proposal be considered through a shortened process (Urgent Rules and Non-controversial Rules under section 96 of the NEL)
Jurisdiction	An area over which legal authority extends - Australian State or Territory
MCE	Ministerial Council on Energy
NEL	National Electricity Law
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company
NER	National Electricity Rules
PASA	Projected Assessment of System Adequacy – a forecast of the daily supply and demand balance conditions in the National Electricity Market compiled by NEMMCO based on reports from all generators.



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