

**AUSTRALIAN ENERGY
MARKET COMMISSION
2007-2008 ANNUAL REPORT**

AEMC

Enquiries

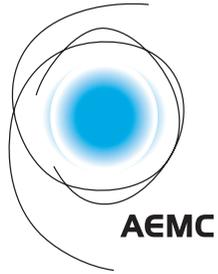
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Australian Energy Market Commission
Level 5, 201 Elizabeth Street
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Our ref: CRM0017

3 October 2008

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

Dear Minister

Australian Energy Market Commission Annual Report 2007-2008

I am pleased to present the Australian Energy Market Commission 2007-2008 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, quality, reliability, safety and security in national energy markets

Operational highlights

Rules

- 14 Rules made by the AEMC amending the National Electricity Rules
- Three determinations made not to proceed with electricity Rule changes
- 14 electricity Rule change proposals started in 2007/2008 and carried forward

Reviews

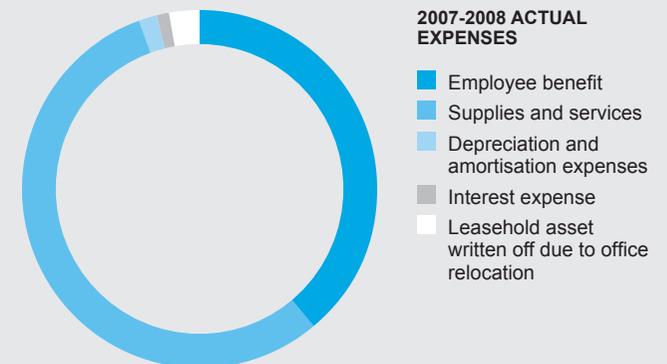
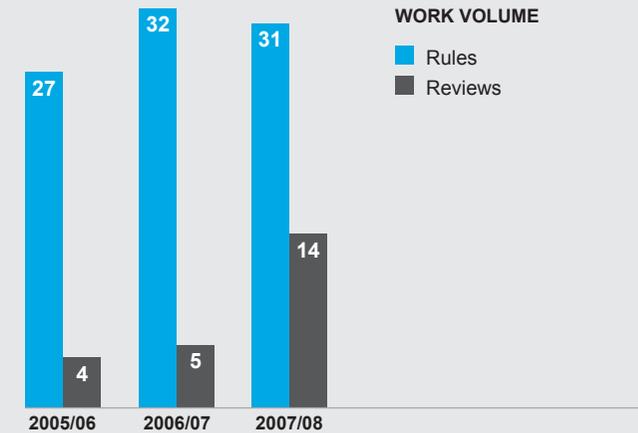
- Seven market reviews undertaken (five new and two carried over from 2006/2007)
- Four reviews completed and three carried forward

Expert Panels

- Three Reliability Panel reviews completed
- Four Reliability Panel reviews started in 2007/2008 and carried forward

Financial highlights

- Costs below budget
- Productivity improvements in management of reviews and Rule change proposals
- Forecast cash position allows AEMC to propose a funding holiday for the funding jurisdictions in 2008-2009



WHO WE ARE

Rule maker and markets developer

| | |
|-----------------------------|---|
| Vision | Our vision is to promote efficient, reliable and competitive energy markets in the interests of all Australians. |
| Mission | The Australian Energy Market Commission (AEMC) delivers high quality and impartial energy market rules and advice to policy makers. |
| Values | <p>The shared values of the people who are the AEMC provide the framework for the success of our organisation. Success depends upon each of us reflecting these values in the way in which we discharge our statutory functions. These values are:</p> <ul style="list-style-type: none"> • Integrity; • Mutual respect; • Pursuit of excellence. |
| Strategic objectives | <p>In pursuit of our vision we will deliver on our mission to provide a market framework capable of encouraging efficient long term investment and use of energy supply. This will be achieved by the execution of the following AEMC strategic objectives:</p> <ul style="list-style-type: none"> • Delivering timely and high quality reviews, rule changes and advice; • Providing predictable, transparent and effective regulatory processes for energy market participants; • Providing balance between sectoral interests; • Maintaining open consultative relationships with industry participants, communities and policy makers; • Maintaining effective working relationships with regulators and market operators. |

WHO WE ARE

| | |
|---------------------------------|---|
| Functions | <p>In 2007-2008 the AEMC performed the following functions under the National Electricity Law and the <i>Australian Energy Market Commission Establishment Act 2004 (SA)</i> and its Regulations:</p> <ul style="list-style-type: none"> • Rule making; • Reviews concerning the National Electricity Market (NEM) and certain electricity and gas retail markets; • Providing advice to the Ministerial Council on Energy (MCE) on electricity issues. |
| Future functions in gas | <p>On 26 June 2008 the South Australian Parliament passed the <i>National Gas (South Australia) Act 2008</i> as lead legislator in this major microeconomic reform for the Australian economy. The Act came into force, after the close of the year under review. On 1 July 2008, the National Gas Law conferred new functions on the AEMC including responsibility for:</p> <ul style="list-style-type: none"> • Reviews concerning natural gas markets; • National Gas Rules; • Providing advice to the MCE on gas issues. |
| Governance | <p>The AEMC is an independent, national body responsible to the Council of Australian Governments (COAG) through its MCE for the performance of its functions. The AEMC was established in 2005 under the <i>Australian Energy Market Commission Establishment Act 2004 (SA)</i>.</p> |
| Organisational structure | <p>At 30 June 2008, the AEMC was led by three Commissioners and employed 34 staff.</p> |
| Financials | <p>Funding for the AEMC was provided by each of the states and territories participating in the NEM.</p> |

WHAT WE DO

Helping markets to function objectively and send the right signals to investors and consumers

| | |
|--------------------------|---|
| Role | <p>In 2007-2008 the AEMC had two key roles in relation to national energy markets – as rule maker for the National Electricity Rules and as an adviser to the Ministerial Council on Energy (MCE) on how best to develop energy markets over time. The AEMC actively considers market development when it considers rule change proposals and in its reviews.</p> |
| Electricity | <p>The National Electricity Market (NEM) has been in operation since 1998. It is a wholesale market for electricity supply in the Australian Capital Territory and the states of Queensland, New South Wales, Victoria, Tasmania and South Australia. It delivers electricity to market customers on an interconnected power system that stretches more than 4,000 km from Queensland to South Australia, and includes a sea-bed cable between Tasmania and Victoria.</p> <p>The NEM is governed by the National Electricity Law (NEL) and the National Electricity Rules. The Rules include details of the NEM's technical and economic operation, covering the wholesale electricity market and the electricity network system.</p> <p>Under the NEL, when exercising its rule making functions, the AEMC must be satisfied that the proposed Rule will or is likely to contribute to the achievement of the national electricity objective. That objective is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to (a) price, quality, safety, reliability and security of supply of electricity; and (b) the reliability, safety and security of the national electricity system.</p> |
| Retail | <p>The National Electricity Rules do not concern retail regulation. The MCE has directed the AEMC to review the effectiveness of retail competition in electricity and gas markets in certain states. Retail price control will be retained by states and territories unless they choose to transfer such arrangements to the AEMC and the Australian Energy Regulator (AER).</p> |
| Gas in the future | <p>Eastern Australia's domestic gas industry was established in the late 1960s with the development of the Cooper Basin (SA/Qld) and Gippsland Basin (Vic). Since that time there has been rapid expansion in production, transmission and consumption. The most significant reserves of proven and probable gas supplies are in Western Australia. Immediately after the close of the year under review the AEMC assumed a new role in relation to natural gas markets. The <i>National Gas (South Australia) Act 2008</i> introduced the National Gas Law (NGL) which commenced in all jurisdictions except Western Australia on 1 July 2008. The initial National Gas Rules commenced at the same time. The AEMC is now responsible for rule making, market development and policy advice concerning access to natural gas pipelines services and elements of the broader natural gas markets.</p> |

CHAIRMAN'S REPORT

While significant advances have been made recently in energy market reform and development, policy and market frameworks must continue to be responsive to changing market circumstances and community expectations for efficient, reliable and affordable energy services. For its part, the AEMC is well prepared to continue and strengthen its contribution to energy market reform and development in Australia.

2007-2008 has been a year of further development and achievement for the AEMC, and it has also marked the commencement of a period of change and challenge for Australia's energy markets.

The year has been characterised by drought constraints on energy capacity, increasing input costs, a further tightening of the balance between energy supply and demand, and an evident requirement for new investment in network and generation capacity to accommodate continuing energy demand growth. The planned government policy responses to climate change risk will also have a significant impact on the structure and performance of our energy markets by requiring a substantial reduction in the emission intensity of our electricity generation sector.

Changing economic and market conditions and economic policy settings are an ongoing reality for commodity markets, including those for energy services. Competitive markets continue to

provide the most effective means of managing flexible and timely responses to changing economic and policy circumstances. Australia's energy policy and market arrangements are based on the premise that effective competition between energy producers and retailers and, where necessary, effective incentive regulation of monopoly energy network businesses will deliver efficient, reliable and safe supplies of energy and maintain the balance between energy supply and demand over the long term.

Achievement of those outcomes through the interaction of numerous decentralised decision-makers on the supply and demand sides of our energy markets requires appropriately defined market rules, commercial incentives and institutional arrangements and confidence of market participants about the way the rules will be developed and applied today and into the future.

The AEMC is the independent body established to develop the rules and to provide policy

advice to governments on the reform and development of the energy markets. The Australian Energy Regulator is responsible for enforcement and network regulation under the rules and the National Electricity Market Management Company (NEMMCO) is responsible for electricity power system and wholesale market operations under the rules. The soon to be established Australian Energy Market Operator will be responsible for both electricity and gas market operations.

Australia's competitive energy markets have performed well since the reforms of the 1990s under these institutional arrangements, accommodating changing economic and market conditions while maintaining reliable energy supplies at internationally competitive prices. Effective performance by our energy markets can be expected to continue as they respond to ongoing market changes and challenges. However, it will be important to continue to review

CHAIRMAN'S REPORT

and evolve our energy market arrangements to ensure that they maintain the resilience to respond flexibly to the significant changes in market conditions and policy settings that are now in prospect.

Through its energy market rule making and market development roles, the AEMC is well placed to contribute to the ongoing review and reform of our energy market arrangements. In performing all of our work we are guided by the national energy market objectives of promoting efficient, reliable and secure energy services for electricity and gas consumers. That involves the development and maintenance of market and regulatory arrangements that facilitate efficient investment in energy generation and network services, promote effective competition in energy wholesale and retail markets and maintenance of secure and reliable operation of energy delivery systems. Having acquired responsibility for gas market development and rule making in July 2008, we are now in a

position to adopt an integrated approach to the converging electricity and gas markets in our future contributions to energy market reform and development. However, in 2007-2008 the focus of the AEMC's work was on the National Electricity Market (NEM).

During the year we completed or substantially progressed a number of reviews and rule changes which will, in combination, strengthen the capacity of the electricity market to respond to changing economic and market conditions. For example, the following priority projects, delivered during the year, represent a comprehensive package of reforms which will improve the investment climate and the efficiency and operational performance of the NEM:

- The MCE-initiated review into the effectiveness of competition in the Victorian small customer energy retail market and provision of advice on the removal of retail price regulation having found that retail competition was effective

in Victoria. (The Victorian Government announced in September 2008 that it would remove retail price regulation, in accordance with the AEMC's recommendations.) The AEMC also commenced its review of energy retail competition in South Australia in January 2008 and will complete that review in December 2008;

- The MCE-directed review to develop an enhanced national electricity transmission planning function, (the National Transmission Planner), together with revisions to the form and application of the current Regulatory Test and development of a consistent national framework for network security and reliability standards;
- The MCE-initiated review to develop enhanced arrangements for the management of transmission network congestion and the associated physical and financial risks;

- Commencement of an AEMC-initiated review of options for improving incentives for efficient demand side participation in the NEM and identification and removal of impediments to efficient demand side responses. This review will be co-ordinated with the processing of a current Rule change proposal addressing a number of demand side issues;
- The Reliability Panel's Comprehensive Reliability Review of the Reliability Standard, the wholesale market price cap arrangements and the NEM reserve trader arrangements;
- Assessment and approval of a number of Rule change proposals on important aspects of the operation of the power system, the central dispatch process and the spot and contract market arrangements, including implementation of a new process for regional boundary change, arrangements for intermittent generators to participate in the central

despatch process, and arrangements to allow the netting-off of spot and contract market positions for the purposes of NEMMCO's credit support requirements.

In anticipation of the potential impacts of climate change policies on the operation and performance of energy markets, the MCE has directed the AEMC to conduct a further review to assess whether there is a need for amendment to energy market frameworks to better accommodate the implementation of those policies. This review will be completed in September 2009 after extensive stakeholder consultation and the publication of two interim reports. The planned climate change policies will result in substantial changes to energy market economics, incentives and behaviour. It is therefore timely and prudent for a thorough assessment to be undertaken of the preparedness of our current energy market frameworks and institutional arrangements to accommodate

CHAIRMAN'S REPORT

the necessary adjustments, while maintaining secure and reliable energy supplies. The review will also assess the need for any adjustments to the market frameworks to mitigate any material risks that it identifies.

To strengthen the effectiveness of its policy advising and market development roles the AEMC has taken steps to improve its consultation and communication with the Ministerial Council on Energy (MCE) and its Standing Committee of Officials. More regular and effective communication has enabled the Commission to contribute to policy thinking and development where that has been appropriate and to keep Ministers and officials informed about the status of priority MCE reviews and Rule proposals.

In delivering its 2007-2008 work program, the AEMC has drawn heavily on the knowledge and experience of its stakeholders during the numerous consultations undertaken on the reviews and rule change

proposals it processed during the year. Stakeholder participation has been an essential means of ensuring that our proposals for change are necessary, proportionate and operationally feasible. The Commission will continue to place a high priority on maintaining open and transparent consultation processes to inform its analysis and decision making in future.

During the year, the AEMC has had the opportunity to contribute to the wider domestic and international discussion on energy reform and regulatory experiences. This has included presentation of papers to, and membership of the steering committee for, the Energy Regulation and Market Development Forum of the Asia-Pacific Partnership on Clean Development and Climate. The Commission has also been invited to present a paper on Australia's energy reform experience later this year at the annual conference of the National Association of Regulatory Utility Commissioners of the United

States. Commissioners and staff made presentations to a number of energy industry and regulatory conferences during the year and met with delegations from the OECD and numerous Asia-Pacific countries as part of this broader exchange of experience and ideas on energy market reform.

Although significant advances have been made recently in energy market reform and development, policy and market frameworks must continue to be responsive to changing market circumstances and community expectations for efficient, reliable and affordable energy services. For its part, the AEMC is well prepared to continue and strengthen its contribution to energy market reform and development in Australia. After three years of operation it is now well established as an experienced and effective energy market rule maker and policy adviser, supported by skilled and experienced managers and staff and sound organisational systems and governance arrangements.

Commissioner Liza Carver submitted her resignation in June 2008 after a period of 3 years of service on the Commission. I want to thank Liza for the important contribution she made to the development of the AEMC and to the quality of our work and I also want to thank Commissioner Ian Woodward for the substantial contribution he has made to the work of the AEMC during the year and for the advice and support he continues to give me.

Finally, and most importantly, I want to recognise and thank the managers and staff of the AEMC for their professionalism and hard work in delivering a demanding work program during 2007-2008. The positive contribution our work is making to the development of Australia's energy markets is a direct reflection of their dedication, skill and commitment to best practice policy development and rule making.

John Tamblyn
CHAIRMAN

CHIEF EXECUTIVE'S REPORT

The Australian Energy Market Commission (AEMC) is now three years old. We have taken big steps in that short time to establish a professional organisation which is committed to fulfilling our statutory obligations and our vision to promote efficient and reliable energy markets in the interests of all Australians.

Our first priority in the foundation years was to focus on the AEMC's work program and resourcing. This year we have broadened that focus to include intensive development of the organisation's capacity including corporate infrastructure, staff, culture and operating systems. In the year under review we have implemented a number of capacity related projects and developed a balanced and highly skilled workforce.

Maturing as an organisation

During the year under review, the AEMC matured as an organisation in terms of the experience and skills of our people; the effectiveness of our processes and support systems; and the quality of our analysis and publications. We have made significant investments in the recruitment of capable staff and in our training and development programme. We now have in place an experienced and capable management team which is contributing to improvements in our organisational effectiveness and the quality of our work.

We have been successful in attracting high calibre people who are equal to the task of analysing complex energy market problems and solutions in the context of changing market conditions. Our focus on the continuing development of the AEMC's culture is having positive results, reflected in the growing productivity and enthusiasm of our people. We are progressively building a reputation as an employer of choice in the field of energy markets reform and development.

Operational processes and systems

The operational processes and systems that have been established to date have contributed to significant improvements in efficiency and effectiveness as evidenced by reduced and more targeted use of external resources, increased productivity, better stakeholder communication and higher quality reports and determinations. While there are further opportunities for increasing the effectiveness in our

work, substantial progress has been made on a number of fronts over the last 12 months. Further investment in business support systems and in the recruitment of capable staff will ensure that we continue to improve the quality and effectiveness of our performance as an organisation.

In the year under review the AEMC moved premises in order to be able to accommodate the staff recruited to address our expanded roles and responsibilities in 2007-2008. We established robust, outsourced IT arrangements and launched an integrated records management and document control system. Towards the end of the year we developed a new Project Control Framework and trained all staff in the application of a transparent, project tracking and costing system. This will support more effective risk management and enable managers and staff to continually assess the status and progress of their projects. It will also allow more effective reporting to the Commission on the status of the work program and inform project performance evaluation

CHIEF EXECUTIVE'S REPORT

against planned objectives and outcomes and statutory timeframes.

The year also saw the development of the AEMC Enterprise Resource Planning (ERP) system. The ERP IT platform is a business operations system for managing monies received and paid, accounting and procurement, recruitment, staff development, and payroll. This system will place all the business information we need at our fingertips.

Enhanced publications and communication

During the year we reviewed the effectiveness of our publications in providing accessible and readable information about the work of the AEMC. The approach being developed will be applied progressively to all new projects and will streamline our documents to highlight key recommendations, changes and supporting arguments. The first major piece of work which adopted some features of the new approach was the final report

of the Congestion Management Review. Our decision to publish information differently reflects our aim of ensuring greater clarity and transparency of our analysis, reasoning and decision making.

During 2008-2009 one of our significant initiatives will be an electronic publishing project which will provide stakeholders with improved access to the Rules and other AEMC documents in searchable form on our website. We want to ensure that the Rules are made available in more convenient formats.

We were also pleased to announce the appointment of Mr Glenn Appleyard, a member of the Commonwealth Grants Commission and Accounting Standards Board, to a position as independent member of the AEMC Audit and Risk Management Committee. This appointment was made as part of an ongoing focus on developing and strengthening our governance frameworks.

The year ahead will be another challenging one for energy

markets and for the AEMC. As we plan the delivery of our future work program we are committed to having more active and frequent dialogue with our stakeholders. In keeping with our maturing status as an organisation, we recognise the importance of spending more time in discussions with community, industry and government stakeholders to ensure that we consider a full range of interests and concerns as we work together to realise the national energy market objectives.

I would like to thank all stakeholders for the quality of their interaction with the AEMC and my colleagues at the AEMC for their dedication to our task of promoting better performing energy markets for the benefit of every Australian. I congratulate them on a job very well done.

Steven Graham
CHIEF EXECUTIVE

NATIONAL ENERGY LAWS FRAMEWORK

The Council of Australian Governments (COAG) established the Ministerial Council on Energy (MCE) in 2001 to implement its National Energy Policy framework. In June 2004, COAG endorsed a new reform program for the long-term development of electricity and gas markets through its Australian Energy Market Agreement 2004 (AEMA). Key reforms to improve and streamline governance arrangements for the nation's energy sector were the establishment of the Australian Energy Market Commission (AEMC) and the Australian Energy Regulator (AER) in 2005.

AEMC in the governance framework

Commencing operations in July 2005, the AEMC is responsible for electricity and gas market rule making and market development at the national level and for providing expert policy advice to the MCE at its request. The AER is responsible for economic regulation and compliance in these markets. The National Electricity Market Management Company (NEMMCO) is the operator and administrator of the power system and electricity wholesale spot market.

The MCE is progressively implementing the full range of functions intended for the AEMC. In 2007-2008 the AEMC's role expanded to include the power to make rules in relation to economic regulation of electricity distribution system services.

In the future

In July 2009, the Australian Energy Market Operator (AEMO) is scheduled to be established, assuming NEMMCO's functions and a national transmission planning role incorporating both gas and electricity planning functions.

Together, the AEMC, the AER and the AEMO will underpin the efficient delivery of national energy services in the long term interests of Australian consumers.

Immediately after the close of the year under review, on 1 July 2008, governance reforms were implemented for the natural gas market, following the electricity market reform model of separating high level policy direction, rule making, economic regulation and rule enforcement.

NATIONAL ENERGY LAWS FRAMEWORK

The AEMC is now responsible for the National Gas Rules governing access to natural gas pipeline services and elements of broader natural gas markets.

Governance at a glance

Council of Australian Governments (COAG)

COAG is 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)

The MCE was established by COAG in 2001 as the national policy and governance body for the Australian energy market (including electricity and gas). The Council's objectives, as agreed by COAG are:

- To provide national oversight and coordination of policy development to address opportunities and challenges facing Australia's energy sector into the future;
- To provide national leadership so that consideration of broader convergence issues and environmental impacts are effectively integrated into energy sector decision making.

The Council comprises Ministers with responsibility for energy within the Australian Government and all states and territories.

Under the National Electricity Law, the MCE may direct the AEMC to conduct a review into a number of matters. The direction may relate to any matter relating to the

National Electricity Market (NEM) or the Rules or the effectiveness of competition in a market for electricity for the purpose of giving advice about whether to retain, remove or reintroduce price controls on prices for retail electricity services.

Australian Energy Market Commission (AEMC)

In the year under review, the AEMC was responsible for rule making, market development and providing advice to the MCE in relation to the NEM. From 1 July 2008 its role was expanded to include functions in relation to access to natural gas pipeline services and elements of broader natural gas markets. We were established in July 2005.

To assist in the performance of its operations, the AEMC has entered into a Memorandum of Understanding (MOU) with: the AER and the Australian Competition & Consumer Commission (ACCC); the National Competition Council (NCC); and NEMMCO.

Australian Energy Regulator (AER)

The AER was also established in 2005 to perform the economic regulatory, compliance and enforcement functions in the NEM under the National Electricity Law and National Electricity Rules. The AER is an independent statutory body and a constituent part of the ACCC.

Australian Competition & Consumer Commission (ACCC)

The ACCC is an independent, national statutory body responsible for promoting competition and fair trading and providing consumer protection to enhance the welfare of

Australians. The ACCC enforces the *Trade Practices Act 1974*.

The MOU between the AEMC, the ACCC and the AER sets out arrangements to promote effective cooperation, communication and coordination between the bodies in the performance of their roles. In particular, the MOU seeks to promote early consultation on any rule change proposals on enforcement and economic regulation issues and competition issues.

National Competition Council (NCC)

The NCC was established to act as a policy advisory body overseeing the implementation of the National Competition Policy. The MOU between the AEMC and the NCC aims to promote effective communication, cooperation and coordination between the bodies in the performance of their roles. In particular, the MOU sets out arrangements to promote cooperation between the bodies on applications for certification of state or territory access regimes.

National Electricity Market Management Company Ltd (NEMMCO)

NEMMCO is currently both market operator of the NEM and operator of the power system that underpins NEM operation. The MOU between the AEMC and NEMMCO sets out arrangements to enhance the effectiveness of both agencies and promote the efficient operation of the NEM. NEMMCO will continue as operator and administrator of the power system and electricity wholesale spot market until AEMO assumes responsibility

NATIONAL ENERGY LAWS FRAMEWORK

for NEMMCO's current functions. A national transmission planning role, incorporating both gas and electricity planning, will be added to AEMO's responsibilities.

State and Territory Regulators

Independent regulators located within each state and territory jurisdiction are tasked with overseeing economic regulation of essential public services.

Legislation

The AEMC is responsible to the MCE for the performance of its functions. The key laws that confer functions on the AEMC are:

- the *Australian Energy Market Commission Establishment Act 2004* and the *Australian Energy Market Commission Establishment Regulations 2005* of South Australia;
- the National Electricity Law, set out in the *National Electricity (South Australia) Act 1996* of South Australia and the relevant application Acts of each jurisdiction participating in the National Electricity Market;
- as from 1 July 2008, the National Gas Law, set out in the *National Gas (South Australia) Act 2008* of South Australia and applied by the relevant application Acts of all other Australian jurisdictions.

The AEMC carries out its functions and powers in accordance with this legislation.

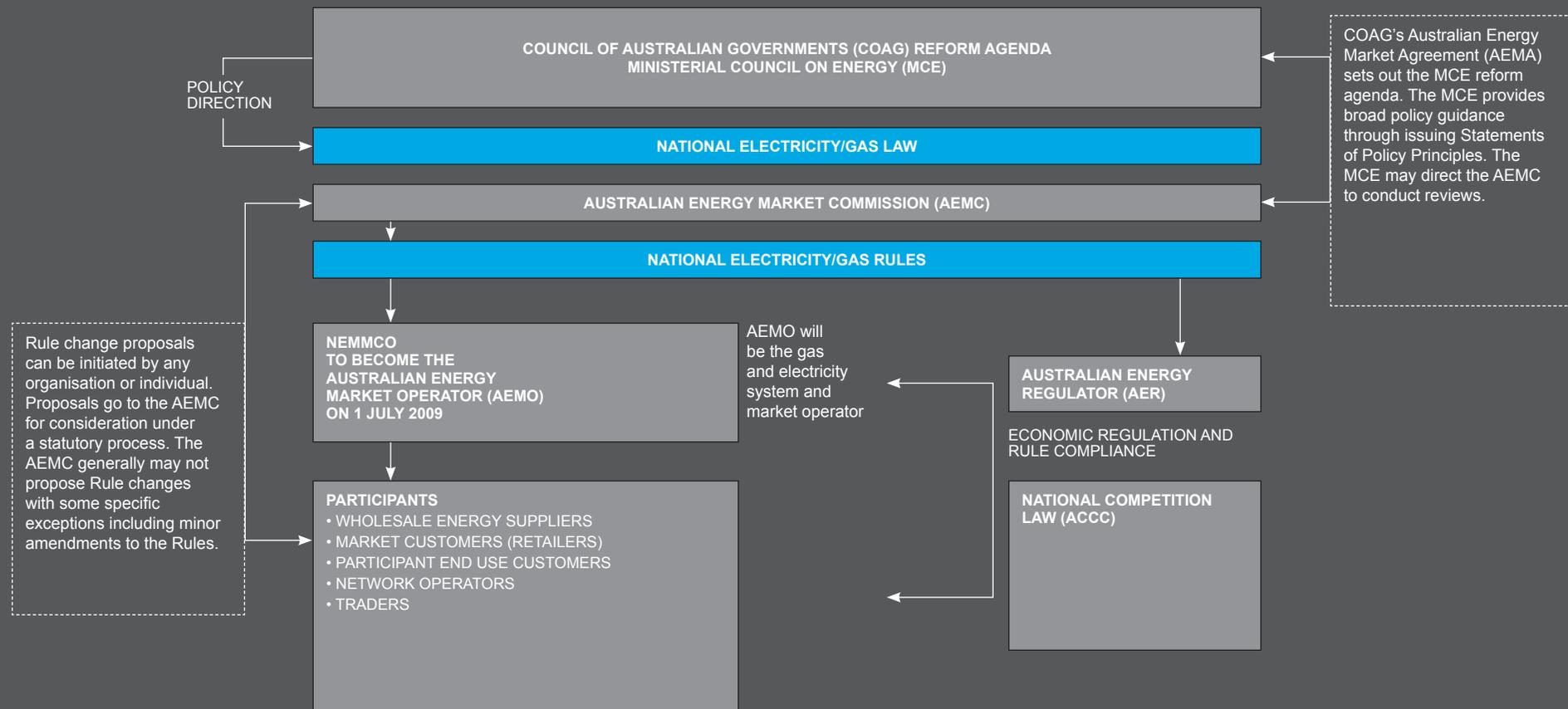
Concerning the National Electricity Market, the AEMC's key functions and powers, including its review functions, are set out in Part 4 of the National Electricity Law. The

rule making process is set out in Part 7 of the National Electricity Law.

Concerning natural gas, the AEMC's key functions and powers, including its review functions, are set out in Part 2 of Chapter 2 of the National Gas Law. The rule making process is set out in Chapter 9 of the National Gas Law.

WORKING TOGETHER ON ENERGY MARKET GOVERNANCE

Promotion of efficient and reliable, long-term performance of energy markets is the responsibility of a number of institutions.



OUR NEW ROLE IN NATURAL GAS MARKETS

On 26 June 2008 the National Gas (South Australia) Act 2008 was passed. Consequently, the new National Gas Law (NGL) commenced operation on 1 July 2008.

The NGL is a cooperative legislative scheme between the Commonwealth, State and Territory governments, developed through the Ministerial Council on Energy (MCE). The NGL brings responsibility for policy and regulation of access to natural gas pipeline services and broader elements of natural gas markets under the national energy market institutions framework alongside National Electricity Market regulation.

Key points of the new National Gas Law

- A national gas objective which largely corresponds to the national electricity objective.
- Regulation and rule making responsibilities for gas markets are now under the national governance framework (except for Western Australia's regulator).
- The introduction of revenue and pricing principles consistent with the principles in the National Electricity Law.
- An alternative "light" form of access regulation to be available for some covered pipelines.
- System and market information will be published on a new national gas market bulletin board to facilitate gas and capacity trading and assist in emergency management.
- The National Competition Council will continue its role for making recommendations on natural gas pipeline coverage applications.

Governance

The key energy market institutions responsible for the economic regulation of natural gas transmission and distribution pipeline services are now the AEMC (rule making and market development) and the AER (national economic regulator) except for Western Australia.

Before 1 July 2008, jurisdictional regulators were responsible for approving gas access arrangements for most distribution pipeline services, while the ACCC did the same for covered transmission pipeline services. The new Law transfers all these functions to the AER. The Western Australia regulator, the Economic Regulation Authority, will continue its jurisdiction over both transmission and distribution pipelines.

Participating Jurisdictions

All states and territories are participating jurisdictions under the NGL. At the time of writing this report all jurisdictions except Western Australia had passed legislation to apply the NGL.

PEOPLE AND STRUCTURE

The people who make up the AEMC – their expert knowledge and technical skills, their professional commitment and the relationships they build with our stakeholders – are vital to our success

Culture

2007-2008 was the second year of the AEMC's structured program to build a strong culture which recognises and values the contribution of our people to our mission. This focus on culture is critical to ensure that the AEMC can attract and retain people with the right skills – recognising that these skills are highly valued in employment markets.

Skilled team

The AEMC continued with the task of building in-house capabilities to support our highly skilled people. At the close of 2007-2008 the AEMC had 34 employees, a growth of 6 positions over the year. One new administration position was created and filled. No positions were abolished or are vacant at 30 June 2008.

Occupational health and safety and rehabilitation programs

We consider the health, safety and welfare of our employees, contractors and visitors to be of primary importance, and we are committed to preventing all occupational injuries and illnesses, and to maintaining a safe and healthy working environment. We are pleased to report that no work related lost time injuries were recorded in the year under review.

We believe that health and safety at work is a shared responsibility and everyone must perform their duties with the highest regard for their own safety and that of others. The AEMC encourages, promotes and demonstrates participation in organisational health and safety through an Occupational Health and Safety Committee. The committee

PEOPLE AND STRUCTURE

meets quarterly and is represented by both staff and senior management. Our focus on injury protection and workplace safety has been expressed through a number of initiatives including ergonomic reviews.

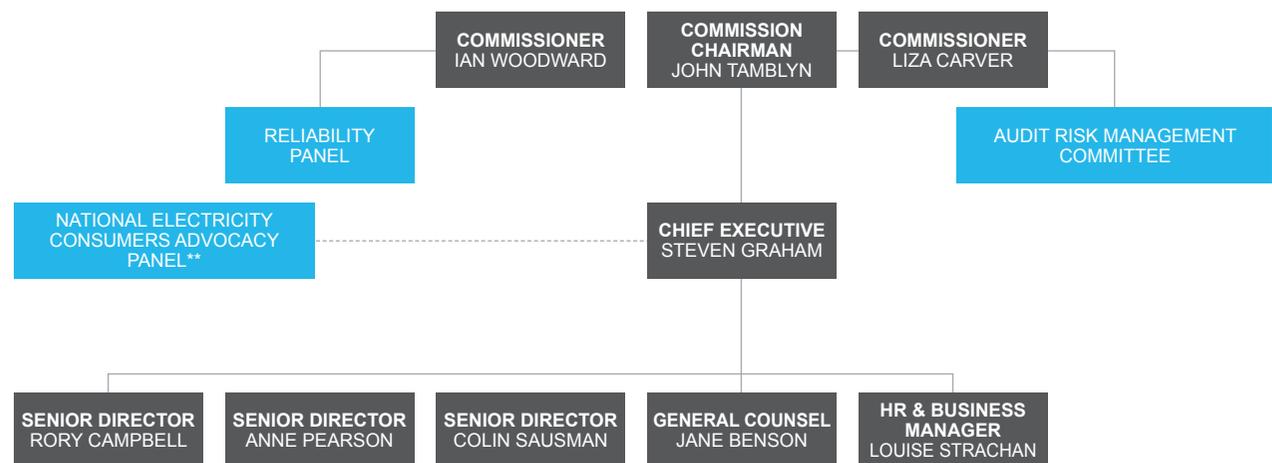
Learning and Development

The AEMC is committed to developing our people through training and development aligned to organisational goals, business direction, career satisfaction and personal growth.

We are encouraging a culture which is collaborative and inclusive. A key feature of this is active staff involvement in how the organisation operates. An example is the commencement of a seminar series organised by a staff-based committee and conducted by in-house experts on aspects of the Rules and national energy markets.

Development, which is a personal responsibility of each member of staff, will be supported by objective one-on-one feedback and review, coaching/mentoring by other members of staff and meaningful development, job and career opportunities. The AEMC's annual performance and development plan program is designed to take a holistic approach combining individual performance objectives together with specific organisational performance requirements. To assist AEMC staff, the AEMC has developed a skills framework which defines the skill set, actions and behaviours for all levels and positions within the organisation. Other initiatives undertaken throughout the year include a project management framework which provides the AEMC Senior Management Team and Project Leaders with the tools required to manage projects effectively and in accordance with the Commission's requirements.

AEMC Organisation Structure *



* Organisation at 30 June 2008. Commissioner Carver resigned in June 2008 after three years of service to the AEMC with effect from September 2008. Mr John Ryan PSM, was appointed on an acting basis while the Ministerial Council on Energy conducts a process for appointment of a replacement part-time Commissioner.

** The National Electricity Consumers Advocacy Panel is to be The Consumer Advocacy Panel from 1 July 2008.

PEOPLE AND STRUCTURE

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. Commissioner Carver resigned in June 2008 after three years of service to the AEMC and her resignation took effect in September 2008. The Ministerial Council on Energy has commenced a process for the appointment of a replacement part-time Commissioner.

John Tamblyn, Chairman

Commissioner Tamblyn was appointed inaugural AEMC Chairman in June 2005. His background in the regulation of public utility services includes the positions of Chairman of the Essential Services Commission (Vic), and Regulator-General (Vic). Prior to his appointment as Regulator-General, John held senior positions in the Australian Competition & Consumer Commission (ACCC), including Adviser to the ACCC on structural reform and public utility regulation and First Assistant Commissioner responsible for fair trading and consumer protection. He was employed by the International Monetary Fund as adviser to the Government of Seychelles (1986-87). Prior to that appointment he held positions in the Commonwealth Treasury and Department of Finance. He holds a PhD in economics (UCLA); MSc (UCLA); MEc (ANU); BCom, Hon. (Melb).

Liza Carver

Commissioner Carver was appointed AEMC Commissioner in June 2005. She is a partner in the law firm, Gilbert+Tobin, specialising in trade practices and competition law. She has held regulatory roles with the Trade Practices Commission, the Australian Competition & Consumer Commission and the NSW Independent Pricing and Regulatory Tribunal and 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. He is an Adjunct Professor at INSEAD, the global business school. He is also Program Director and Executive Consultant with the Macquarie Group. He chairs the Asia-Pacific Partnership Energy Regulatory and Market Development Forum which comprises energy regulatory and industry leaders across Australia, Korea, China, Japan, India, Canada and the United States. 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 adviser to the US Secretary of Energy. He is an alumni of the University of NSW, the Australian Graduate School of Management, University of New England and Columbia Business School.

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 | 33 | 31 | 12 | 11 |
| Liza Carver | 33 | 31 | 12 | 11 |
| Ian Woodward | 33 | 33 | 12 | 12 |

Senior Management Team

New Operational Structure

In 2008 the AEMC established a new operational structure giving Senior Directors specific responsibility for strategic policy areas covering the organisation's key responsibilities. These three, broad-based areas of focus reflect the maturing role of the organisation which has recently added gas distribution and retail to its responsibilities.

Retail, Distribution & Network Price Regulation Group

This group is responsible for reviews and rule change proposals relating to (a) retail markets and (b) the regulation of revenues or pricing of distribution or transmission companies. The group:

- reviews retail competition at the request of the MCE;
- reviews rule change proposals for regulating revenues & pricing of transmission and distribution network service providers;

PEOPLE AND STRUCTURE

- reviews rule change proposals for regulating third party access to natural gas pipelines;
- reviews requests for jurisdictional and participant derogations.

Wholesale, Environment and Transmission Group

This group is responsible for reviews and rule change proposals relating to wholesale markets, the interactions between the energy sector and government policies on climate change, and transmission. The group:

- oversees rule changes relating to the operation of wholesale pricing & settlement;
- oversees policy on demand-side participation issues.

Technical & Reliability Group

This group is responsible for reviews and rule change proposals relating to the technical operation of energy markets, and the interactions between financial market and energy markets. The group:

- supports the AEMC Reliability Panel;
- acts as working group for financial markets;
- provides advice on financial market issues;
- oversees rule changes relating to integration of financial markets and NEM wholesale markets;
- oversees the theoretical and practical aspects of energy market measurement;
- provides advice on certain technical standards.

Steven Graham

Steven Graham is the AEMC's first Chief Executive. Since beginning his tenure in December 2005, he has led the organisation's establishment and rapid expansion. He has also laid the vision for the organisation's progressive, imagination-driven culture. Building on his broad experience, his priority is to develop an organisation that is professional, capable, responsive and operates with high standards of governance. He has held several change management positions across the national electricity market and government, including roles in RailCorp, Eraring Energy, Pacific Power and NSW Treasury. He is a member of the Australian Institute of Company Directors and has served on the boards of Pacific Western Pty Ltd, Mount Arthur South Pty Ltd, Energy Efficient Research Centre Ltd, Eraring Holdings Pty Ltd, Mount Arthur South Coal Marketing and Finance Pty Ltd. Mr Graham earned his Company Directors Diploma at the Australian Institute of Company Directors and University of New England and a Diploma of Technology (Commerce) at the NSW Institute of Technology.

Colin Sausman

Colin Sausman is an AEMC Senior Director and leader of the Wholesale, Environment and Transmission Group. He joined the AEMC in March 2007 from the Office of Gas and Electricity Markets (Ofgem) in the United Kingdom. In his role as an Associate Director with Ofgem he was involved in a wide range of regulatory reforms in the UK energy sector. These included the integration of the

electricity wholesale market in England & Wales with the market in Scotland, and the design of new incentives schemes for gas and electricity transmission businesses. Colin has been a member of the UK Government Economic Service since 1994, and prior to joining Ofgem in 1999 worked in the Department for Education and Employment. He holds a BA (Econ) from St John's College, Cambridge and a MA (Econ) from the University of Essex. He also holds a post-graduate qualification in Competition Policy.

Anne Pearson

Anne Pearson is an AEMC Senior Director and leader of the Retail, Distribution and Network Regulation Group. Her policy area is responsible for reviews and rule change proposals relating to electricity and gas retail markets and the regulation of revenues and pricing for electricity distribution or transmission companies. Her background in regulatory reform encompasses management roles in energy businesses and as a senior adviser to governments. She was Executive Manager - Retail Regulation at EnergyAustralia responsible for retail and wholesale regulatory strategy and day-to-day consideration of regulatory impacts on the business. Her prior appointments include a period in corporate mergers and acquisitions at Freehills and at Deacons, where she worked on the introduction of retail competition in the NSW retail gas market in addition to the corporatisation of the Snowy Mountains Hydro Electric Scheme. She holds a BA (Sydney); LLB, Hon. (Sydney). She serves on the Board of St Lucy's School Limited, Wahroonga.

PEOPLE AND STRUCTURE

Rory Campbell

Rory Campbell is an AEMC Senior Director and leader of the Technical and Reliability Group. His policy area has responsibility for reviews and rule change proposals relating to the technical operation of energy markets, and the interactions between the financial market and energy markets. This group supports the AEMC Reliability Panel which monitors, reviews and reports on the safety, security and reliability of the national electricity system in accordance with the National Electricity Rules. His background in the trading of complex financial instruments for one of Australia's biggest energy producers, Eraring Energy, informs Rory's grasp of technical issues surrounding pricing, modelling and forecasts. Prior to this appointment he was a trader and analyst at the financial institution, RMB Australia. Rory holds a PhD in pure mathematics (UNSW); BSc, Hon. (UNSW).

Jane Benson

Jane Benson is General Counsel for the AEMC with responsibility for providing and co-ordinating legal advice to the Commission, policy groups and the organisation. Prior to joining the AEMC her extensive legal experience included provision of policy advice at senior levels of the Australian Government, European Commission and global law firms including Clifford Chance (London), Oppenheimer Wolff & Donnelly (Brussels) and Freshfields (London). Jane's prior appointments include senior positions in the Australian Energy Regulator and the Competition and Consumer Policy Division of the Australian Treasury. As part of these roles, she has

assisted in managing Australia's relations on competition policy to the OECD, APEC and WTO. She is admitted as a Solicitor to the Supreme Court of New South Wales and the Supreme Court of England & Wales. She holds a BA (Sydney); LLB (Sydney).

Louise Strachan

Louise Strachan is Human Resources and Business Manager for the AEMC with responsibility for coordinating the activities of a range of diverse administrative functions, including human resources, information technology and telecommunications, finance, planning, supply and other corporate services to ensure that the overall operation of the AEMC runs effectively and efficiently. This year Louise has assisted in the continued growth of AEMC infrastructure and has managed the successful implementation of an electronic document records management system for the Commission. Prior to her appointment to the Commission Louise occupied positions managing systems and administration practices for several major law firms as well as a role as a business education teacher in Queensland. Louise holds a BEd, Hon. (QUT).

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 manage the behaviour of staff as they perform their duties and conduct business on behalf of the Commission.

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 are 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 year under review was the second of a three year internal audit program established in 2006-2007. The

Commission's Audit and Risk Management Committee oversees a risk management framework that includes an internal audit program and external audit by the South Australian Auditor-General. Following a competitive process, Deloitte Touche Tohmatsu, was appointed as internal auditor. A rolling three year audit plan is informed by a risk assessment process with the plan being reviewed annually. During the year under review Mr Glenn Appleyard was appointed to the Commission's Audit and Risk Management Committee as an independent member. Commissioners do not receive additional remuneration as appointees to this committee.

Commission Audit and Risk Management Committee Meetings

| | ELIGIBLE | ATTENDED |
|--------------------------------------|----------|----------|
| Ian Woodward (Chairman) | 7 | 7 |
| John Tamblyn | 7 | 7 |
| Glenn Appleyard (independent member) | 2 | 2 |

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 the annual determinations of the New South Wales Statutory and Other Offices 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, to investigate and take appropriate action on reported breaches. No instances of fraud were identified during the year under review.

Disclosures

Under the AEMC's corporate policies and procedures, staff and Commissioners are required to make declarations about pecuniary interests, conflicts of interest and managing confidentiality of information. Statements made by each of the Commissioners about their management of any direct or indirect conflict of interest that may arise are published on the AEMC's website. Section 22 of the *Australian Energy Market Commission Establishment Act 2004 (SA)* requires Commissioners to disclose any direct or indirect interest in a matter being considered, or about to be considered, by the AEMC, being an interest that could conflict with the proper performance of the Commissioner's functions in relation to a matter arising at a meeting of the AEMC. The AEMC formally records in the minutes of its meetings any such disclosures by a Commissioner and any decisions made in relation to those disclosures.

The following declarations of interest were made by Commissioners in 2007-08:

- Commissioner Carver declared that she was undertaking work for approximately one month for a jurisdictional government in relation to some of its electricity businesses.
 - It was decided that for the period of her engagement on that matter, Commissioner Carver would not participate in decisions on proposals by that jurisdiction's electricity businesses or having a relationship to that matter. Accordingly, Commissioner Carver did not participate in one rule change proposal.
- Commissioner Carver declared that she had acted for an energy business operating in South Australia on a *Trade Practices Act 1974* matter.
 - It was decided that Commissioner Carver would not participate in the AEMC's Review of the Effectiveness of Competition in the Electricity and Gas Retail Markets in South Australia.
- Commissioner Woodward declared a potential conflict of interest following receipt by the AEMC of a submission from Macquarie Capital Finance in the United Kingdom regarding the Victorian Jurisdictional Derogation (Advanced Metering Infrastructure Rollout) Rule change proposal.
 - It was decided that Commissioner Woodward's participation in future discussion and decision-making of that rule change proposal would be decided by the other Commissioners in accordance with the organisation's conflicts policy.

- Commissioner Woodward declared that as Chairman of the Reliability Panel he would not participate in the Commission's decisions on any Rule change proposals submitted to the Commission by the Reliability Panel.
 - Commissioner Woodward's declaration was accepted and accordingly, the other Commissioners made decisions on the rule change proposal concerning NEM Reliability Settings (Information and Safety Net Directions).

RULE MAKING

Providing clear Rules and transparent regulatory processes to inform energy market participants

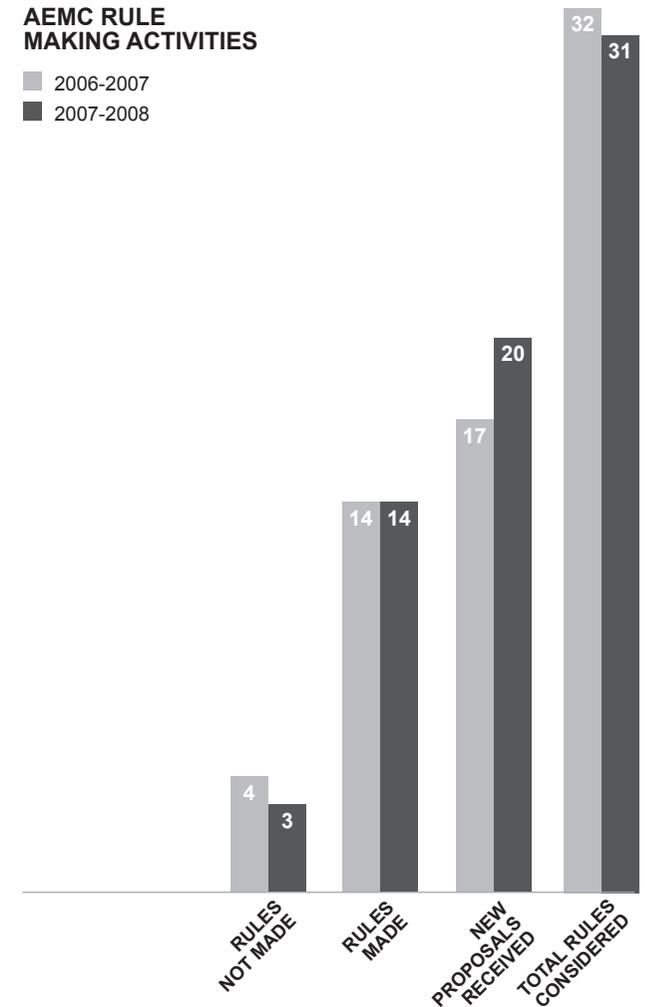
During the 2007-2008 year, the AEMC considered a total of 31 rule change proposals bearing on the National Electricity Market. Of these proposals 20 were new requests received within the year under review. In carrying out its Rule making responsibilities, the AEMC made 14 new electricity Rules and determined not to make three rules as proposed by proponents.

In September 2006, the AEMC made recommendations to the Ministerial Council on Energy to propose six 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. By 30 June 2008, the MCE had addressed these recommendations through a variety of methods including amendments to the National Electricity Law and Rule changes.

The consolidated version of the National Electricity Market Rules at 30 June 2008 was Version 20.

AEMC RULE MAKING ACTIVITIES

■ 2006-2007
■ 2007-2008



RULE MAKING

Rules Made

A total of 14 new rules were made by the AEMC in the 2007-2008 fiscal year.

One rule change, the **National Electricity (Economic Regulation of Distribution Services) Amendment Rules** was made by the Honorable Patrick Conlon MP, Minister for Energy (South Australia) on 16 December 2007. The Rules, Schedule 2 excepted, commenced operation on 1 January 2008 and were consolidated into version 18 of the Rules. Schedule 2 commenced operation on 1 July 2008 and was consolidated into version 21 of the Rules. These changes expanded the role of the AEMC.

National Electricity Amendment (NEMMCO Participant Derogation (Deferral of Settlement Payments due to APEC) Rule 2007 No.4

| | |
|-----------------|--|
| Consolidation: | Version 15 |
| Date made: | 16 August 2007 |
| Date commenced: | 16 August 2007 |
| Proponents: | NEMMCO |
| Category: | Expedited |
| Benefit/Impact: | Moved one NEM settlement date to ensure it did not coincide with APEC public holiday when banks were closed in Sydney and Melbourne. |

National Electricity Amendment (Cost Recovery of Localised Regulation Services) Rule 2007 No.5

| | |
|-------------------|--|
| Consolidation: | Scheduled to commence on 1 January 2009 |
| Date made: | 23 August 2007 |
| Date to commence: | 1 January 2009 |
| Proponents: | National Generators' Forum |
| Category: | Normal |
| Benefit/Impact: | Allowed localised Regulation service costs to be recovered locally, rather than from the entire NEM. |

RULE MAKING

National Electricity Amendment (Efficient Dispatch of Regulation Services) Rule 2007 No.6

| | |
|-------------------|--|
| Consolidation: | Scheduled to commence on 1 January 2009 |
| Date made: | 23 August 2007 |
| Date to commence: | 1 January 2009 |
| Proponents: | Hydro Tasmania |
| Category: | Expedited |
| Benefit/Impact: | Provided more efficient dispatch of Regulation Services (Frequency Control Ancillary Services (FCAS)) in the NEM by allowing the co-optimisation of regulation and delayed services. |

National Electricity Amendment (Abolition of Snowy Region) Rule 2007 No.7

| | |
|-----------------|---|
| Consolidation: | Version 16 |
| Date made: | 30 August 2007 |
| Date commenced: | 30 August 2007 |
| Proponents: | Snowy Hydro Limited |
| Category: | Normal |
| Benefit/Impact: | Final determination abolished the Snowy Region. |

National Electricity Amendment (Minor Changes) Rule 2007 No.8

| | |
|-----------------|--|
| Consolidation: | Version 17 |
| Date made: | 25 October 2007 |
| Date commenced: | 25 October 2007 |
| Proponents: | AEMC |
| Category: | Expedited |
| Benefit/Impact: | The AEMC initiated the proposed "Minor Changes" Rule to make minor and non-material amendments to the National Electricity Rules. The proposal addressed several categories of change which include: updating terminology that relates to referencing within the Rules; correcting spelling mistakes; as well as typographical and cross referencing errors. |

RULE MAKING

National Electricity Amendment (Timing of System Restart Ancillary Services Testing) Rule 2007 No.9

Consolidation: Version 17

Date made: 25 October 2007

Date commenced: 25 October 2007

Proponents: NEMMCO

Category: Expedited

Benefit/Impact: Amendment to the National Electricity Rules to clarify that the requirements for the timing of physical testing of facilities to provide System Restart Ancillary Services (SRAS) are to be carried out after NEMMCO has awarded contracts to successful tenderers.

National Electricity Amendment (Registration of Foreign Based Persons and Corporations as Trader Class Participants) Rule 2007 No.10

Consolidation: Version 18

Date made: 20 December 2007

Date commenced: 1 January 2008

Proponents: BP Energy Asia

Category: Normal

Benefit/Impact: Removed the requirement for Traders to be resident in, or have a permanent establishment in, Australia. It also included some safeguards to manage the risks, particularly in relation to enforcing non-compliance with the auction participation agreement and the settlement residue distribution agreement, by requiring a Trader to have a local office and a local agent.

RULE MAKING

National Electricity Amendment (Process for Region Change) Rule 2007 No.11

Consolidation: Version 21

Date made: 20 December 2007

Date commenced: 1 July 2008

Proponents: MCE

Category: Normal

Benefit/Impact: The Rule as made created Chapter 2A, which contains all matters relating to the new process for region change in the Rules. It introduced an application-initiated process to change regions in situations where there is a material and enduring congestion problem. Under the new process, an intending applicant needs to identify a congestion problem and offer an economically-based and forward-looking solution that promotes economic efficiency in the NEM. The process also formally provides for any interested party to propose alternative solutions. The commencement of the Rule on 1 July 2008 aligned with the abolition of the Snowy region.

National Electricity Amendment (Integration of NEM Metrology Requirements) Rule 2008 No.1

Consolidation: Version 19

Date made: 6 March 2008

Date commenced: 6 March 2008

Proponents: NEMMCO

Category: Normal

Benefit/Impact: Incorporated and harmonised metrology requirements for first tier connection points, which were under the responsibility of individual participating jurisdictions, within the NEM metrology framework. Harmonised current jurisdictional metrology requirements for first tier connection points with requirements for second tier connection points to the maximum extent possible, consistent with jurisdictional policy. Removed duplication of requirements within the existing Rules.

RULE MAKING

National Electricity Amendment (Central Dispatch and Integration of Wind and Other Intermittent Generation) Rule 2008 No.2

| | |
|-----------------|--|
| Consolidation: | Version 20 |
| Date made: | 1 May 2008 |
| Date commenced: | 1 May 2008 (except for Schedule 2) Schedule 2 will commence on 31 March 2009 |
| Proponents: | NEMMCO |
| Category: | Normal |
| Benefit/Impact: | Requires new intermittent generators to register under the new classification of Semi-Scheduled Generator; requires Semi-Scheduled Generators to participate in the central dispatch process, including submitting offers and limiting their output to below a dispatch level whenever the generation is limited by the central dispatch process; and includes grandfathering provisions for intermittent generators registered at the date the final Rule determination is published and projects considered committed at 1 January 2008. |

National Electricity Amendment (Economic Regulation of Transmission Services Undertaken by Distributors) Rule 2008 No.3

| | |
|-----------------|--|
| Consolidation: | Version 21 |
| Date made: | 26 June 2008 |
| Date commenced: | 1 July 2008 |
| Proponents: | EnergyAustralia |
| Category: | Normal |
| Benefit/Impact: | Distribution network service providers (DNSP) are no longer required to apply to the Australian Energy Regulator (AER) for approval to have their dual function assets (DFA) treated as distribution assets for regulatory purposes; and DNSPs must inform the AER of the value of their DFAs as a share of their Regulatory Asset Base to enable the AER to determine whether transmission pricing arrangements should apply. If the AER determines that transmission pricing arrangements should apply they are required to make this known to the DNSP in its Framework and Approach paper. |

RULE MAKING

National Electricity Amendment (WACC, Alignment of Reviews) Rule 2008 No.4

| | |
|-----------------|--|
| Consolidation: | Version 21 |
| Date made: | 26 June 2008 |
| Date commenced: | 1 July 2008 |
| Proponents: | AER |
| Category: | Expedited |
| Benefit/Impact: | Enabled the AER to renew rate of return parameters for distribution and transmission simultaneously. |

National Electricity Amendment (WACC, Technical Drafting Issues) Rule 2008 No.5

| | |
|-----------------|---|
| Consolidation: | Version 21 |
| Date made: | 26 June 2008 |
| Date commenced: | 1 July 2008 |
| Proponents: | AER |
| Category: | Expedited |
| Benefit/Impact: | Clarifies matters which are to be subject of the AER's review of rate of return parameters. |

National Electricity Amendment (NEM Reliability Settings: Information, Safety Net and Directions) Rule 2008 No.6

| | |
|-----------------|--|
| Consolidation: | Version 21 |
| Date made: | 26 June 2008 |
| Date commenced: | 1 July 2008 |
| Proponents: | Reliability Panel |
| Category: | Fast track |
| Benefit/Impact: | Requires NEMMCO to publish a new quarterly information mechanism, the Energy Adequacy Assessment Projection (EAAP)— which is a two year projection of the impact of generation input constraints on energy availability. Replaces existing Reserve Trader arrangements with the Reliability and Emergency Reserve Trader (RERT) from 1 July 2008, which is an enhanced reserve trader with a four year sunset period. Extends NEMMCO's reliability directions powers without a sunset period from 1 July 2008. Includes a requirement for NEMMCO to report annually to the Reliability Panel on the accuracy of its Statement of Opportunities load forecasts and any improvements that have been made to the forecasting process. |

RULE MAKING

Decisions not to make a Rule

There were three decisions taken by the AEMC during the year not to make a Rule as proposed by proponents.

Dispatch of Scheduled Network Services

| | |
|-----------|-------------------------------|
| Proponent | Hydro Tasmania |
| | Decision made in August 2007. |

Split Snowy Region

| | |
|-----------|---------------------------------|
| Proponent | Macquarie Generation |
| | Decision made in November 2007. |

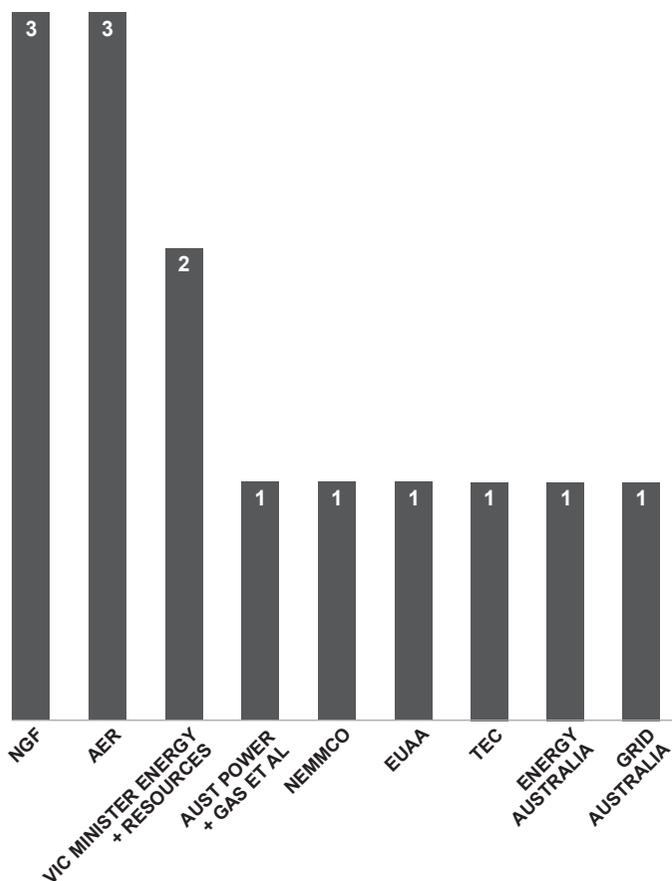
Congestion Pricing and Negative Residue Management Arrangements for the Snowy Region

| | |
|-----------|---------------------------------|
| Proponent | Southern Generators |
| | Decision made in November 2007. |

RULES UNDER CONSIDERATION

Rules Under Consideration

Fourteen rule change proposals remained under consideration at the close of the 2007-2008 year. All of them were new proposals received during the year under review. The majority of these rule change proposals resulted from submissions by Registered Participants.



RULES UNDER CONSIDERATION

Compensation Arrangements under Administered Pricing

| | |
|------------------------|---|
| Proponents: | EnergyAustralia |
| Stage at 30 June 2008: | Preparing Draft Rule Determination |
| Summary | This proposal is to change the methodology and process for calculating compensation payments during administered pricing periods. |

Demand Management (TEC)

| | |
|------------------------|--|
| Proponents: | Total Environment Centre |
| Stage at 30 June 2008: | Preparing Draft Rule Determination |
| Summary | The TEC proposal seeks Rule changes to increase the use of demand management by placing requirements and incentives on electricity providers to consider demand management solutions as the preferred, primary option in advance of infrastructure augmentation. |

Victorian Jurisdictional Derogation (advanced metering infrastructure rollout)

| | |
|------------------------|---|
| Proponents: | Victorian Minister for Energy and Resources |
| Stage at 30 June 2008: | Preparing Draft Rule Determination |
| Summary | This derogation involves establishing local network service providers as the exclusive responsible parties for the roll-out of advanced metering infrastructure to small electricity customers in Victoria. |

Regulatory Test Thresholds and Information Disclosure on Network Replacements

| | |
|------------------------|--|
| Proponents: | ETNOF (now called Grid Australia) |
| Stage at 30 June 2008: | Preparing Draft Rule Determination |
| Summary | The draft Rule and determination regarding this proposal was published after the close of the year under review on 31 July 2008. Consultation was still underway at the time of concluding this report. The draft Rule proposed to increase the new small transmission network asset threshold from \$1m to \$5m; provide for information disclosure on network replacements over \$5 million; and provide a mechanism to maintain the threshold values over time. |

RULES UNDER CONSIDERATION

Futures Offset Arrangements

| | |
|-------------------------------|--|
| Proponents: | Australian Power & Gas, Infratil Energy Australia, Momentum Energy |
| Stage at 30 June 2008: | Preparing Draft Rule determination. |
| Summary | There are two components to this proposal – firstly, to use Futures positions with the Sydney Futures Exchange to adjust/offset liabilities and credit support required by NEMMCO for spot market positions and secondly, to change the methodology used to calculate Maximum Credit Limits. |

Cost Allocation Arrangements for Transmission Services

| | |
|-------------------------------|---|
| Proponents: | National Generators Forum |
| Stage at 30 June 2008: | Preparing Draft Rule Determination |
| Summary | This proposal aims to clarify grandfathering provisions and cost allocation arrangements applying to assets providing certain prescribed transmission services in use as at the commencement of the National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006 No.18. It also seeks to clarify references to the Transmission Ring Fencing Guidelines. |

Performance Standard Compliance of Generators

| | |
|-------------------------------|--|
| Proponents: | National Generators Forum |
| Stage at 30 June 2008: | Second round consultation on Draft Rule Determination |
| Summary | This proposal was primarily in response to the Final Report of the AEMC Review of Enforcement of and Compliance with Technical Standards (1 September 2006). It sought to have the Rule change proposal fast tracked under section 96A of the NEL. This proposal seeks to enact the 2006 Review recommendations. |

Reclassification of Contingency Events

| | |
|-------------------------------|--|
| Proponents: | Australian Energy Regulator |
| Stage at 30 June 2008: | Preparing Draft Rule Determination |
| Summary | This proposal seeks for NEMMCO to develop and re-apply pre-determined risk assessment criteria when considering whether to re-classify a contingency event and to provide market participants with improved information. |

RULES UNDER CONSIDERATION

Setting VoLL Following the shedding of interruptible load

| | |
|------------------------|--|
| Proponents: | Australian Energy Regulator |
| Stage at 30 June 2008: | Preparing Draft Rule Determination |
| Summary | This proposal seeks to oblige NEMMCO to set the dispatch price to VoLL within three dispatch intervals of shedding load after a contingency event. |

Confidentiality arrangements in respect of information required for power system studies

| | |
|------------------------|--|
| Proponents: | National Generators Forum |
| Stage at 30 June 2008: | Consideration of issues |
| Summary | This proposal relates to the confidentiality arrangements in respect of the information required for power system studies. |

WACC Parameter Values – Equity Beta, Gamma

| | |
|------------------------|--|
| Proponents: | Energy Users Association of Australia |
| Stage at 30 June 2008: | Preparing Draft Rule Determination |
| Summary | The proposal seeks to amend Rules prescribing the parameter values (Equity Beta and Gamma) for specified revenue determinations. |

Ramp Rates, Market Ancillary Service Offers and Dispatch Inflexibility

| | |
|------------------------|---|
| Proponents: | Australian Energy Regulator |
| Stage at 30 June 2008: | Preparing Draft Rule Determination |
| Summary | The AER submits that this Rule change proposal would limit a participant's ability to rebid technical parameters to pursue commercial objectives when power system security may be compromised. |

Minor change to technical requirement for generators

| | |
|------------------------|--|
| Proponents: | NEMMCO |
| Stage at 30 June 2008: | Consultation on expedited rule change process |
| Summary | The final Rule determination and Rule on this proposal was made on 7 August 2008 after the close of the year under review. It corrected minor drafting errors in clause S5.2.5.3(c)(6) of the Rules. |

RULES UNDER CONSIDERATION

Total Factor Productivity for Distribution Network Regulation

Proponents: Victorian Minister for Energy and Resources

Stage 30 June 2008: Consideration for first round consultation

Summary Seeks to allow the use of total factor productivity methodology as an alternative economic regulation methodology to be applied by the AER in approving or amending determinations for distribution network service providers.

Decisions not to proceed

The Commission proceeded with all rule change proposals brought to it for consideration in the year under review.

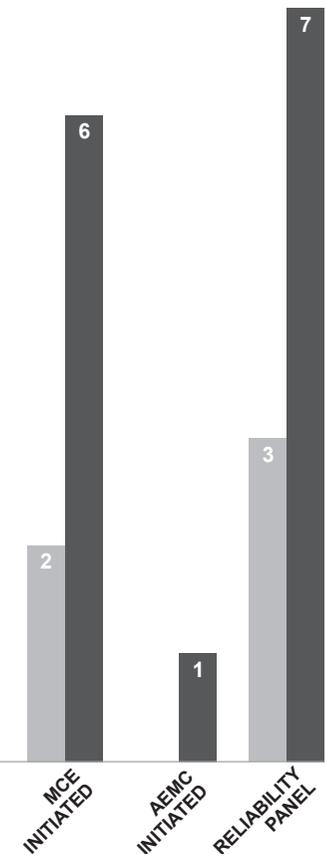
MARKET REVIEWS

AEMC decision making is now guided by the objectives set by the National Electricity Law (NEL) and the National Gas Law (NGL). Reviews conducted by the AEMC must have regard to these objectives which are to promote efficient investment in, and efficient operation and use of, electricity and natural gas services for the long-term interests of consumers with respect to price, quality, reliability and security of supply.

During the 2007-2008 year, the AEMC, together with its independent Reliability Panel, undertook 14 electricity market reviews.

REVIEW ACTIVITIES

■ 2006-2007
■ 2007-2008



MARKET REVIEWS

Reviews undertaken in 2007-2008

| NAME | START DATE | END DATE | STATUS AT 30 JUNE 08 | |
|----------------------------------|--|-------------|-------------------------|------------------|
| MCE Initiated Reviews | | | | |
| 1 | Review of Competition Effectiveness in the Electricity and Gas Retail Markets – Victoria | 1 June 07 | February 08 | Completed |
| 2 | Review of Competition Effectiveness in the Electricity and Gas Retail Markets – South Australia | December 07 | Continuing | New |
| 3 | Congestion Management Review | October 05 | June 08 | Completed |
| 4 | NTP – Implementation Plan for National Electricity Transmission Planning Function | July 07 | July 08 | Completed |
| 5 | NTP – Regulatory Investment Test | July 07 | July 08 | Completed |
| 6 | NTP – Transmission Reliability Standards Review | July 07 | Continuing | New |
| AEMC Initiated Reviews | | | | |
| 7 | Review of Demand Side Participation in the NEM | October 07 | Continuing | New |
| Reliability Panel Reviews | | | | |
| 8 | Comprehensive Reliability Review | June 07 | December 07 | Completed |
| 9 | Annual Electricity Market Performance Review – Reliability and Security 2007 Report | December 07 | 27 February 08 | Completed |
| 10 | VoLL 2008 Review | January 08 | April 08 | Completed |
| 11 | Review of Mainland Frequency Operating Standards During Periods of Supply Scarcity | April 08 | Continuing | New |
| 12 | Review of Frequency Operating Standards for Tasmania | April 08 | Continuing | New |
| 13 | Reliability Panel Technical Standards Review | April 08 | Continuing | New |
| 14 | Guidelines for Return to a Secure Operating State | May 07 | Continuing | New |

Review of competition effectiveness in electricity and gas retail markets – Victoria

Why was the Review conducted?

The AEMC's review of competition in retail gas and electricity markets was initiated by an agreement of the Council of Australian Governments (COAG) and a direction of the Ministerial Council on Energy (MCE) Australian Energy Market Agreement (AEMA, 2 June 2006). The AEMA is a formal COAG agreement to implement key elements of the national energy market reform agenda. It includes an agreement by the Heads of Government that the AEMC will review the effectiveness of retail competition in electricity and gas retail markets in each jurisdiction (except Western Australia) for the purpose of retaining, removing, or reintroducing retail price regulation.

Victoria was the first Review undertaken and its final report was published on 29 February 2008. Where competition is found to be effective, the AEMA requires the AEMC to provide advice on ways to phase out retail price regulation. Where competition is found not to be effective, the AEMC must suggest ways to improve competition.

Overview

In each jurisdictional review the MCE has requested that the AEMC respond to the following criteria in its assessment of the state of competition in this part of the market:

- independent rivalry within a market;
- ability of suppliers to enter the market;
- the exercise of market choice by consumers;
- differentiated products and services;
- prices and profit margins;
- customer switching behaviour.

Key conclusions

The Victorian retail markets Review recommended removal of energy retail price regulation for Victorian residential customers from 1 January 2009. The final report marked the completion of the AEMC's Review of energy retail competition in Victoria and reflected the conclusion of the December 2007 preliminary report that retail competition in Victoria is effective for both electricity and gas.

The report concluded that removal of retail price regulation in Victoria would further extend the benefits of competition to consumers by enabling them to choose from a wider range of price and service options than was the case. Where competition is providing choice and efficient outcomes for energy consumers there is no need for retail price regulation. Maintaining price regulation in an effectively competitive market adds unnecessarily to retail costs and distorts effective functioning of the market to the detriment of energy consumers.

Evidence from Victoria showed that effective retail competition can deliver the efficiently priced, reliable and secure energy supply required by households and small business. Surveys conducted by the AEMC indicated that the large majority of customers (79 per cent of all domestic and 76 per cent of all small business customers) believed that the introduction of retail competition had been a positive development, with respondents citing increased choice, lower prices and a more competitive market as the primary reason for this view.

The report noted that together, effective energy retail competition and the strong Victorian consumer protection regime provided a sound basis for removal of retail price regulation.

The report also recommended a number of improvements to consumer protection in the light of the proposed removal of price regulation:

- replacing the Government's current reserve power to regulate energy retail prices with a conditional

power to regulate those prices only if an AEMC review finds competition is no longer effective and that price regulation is the appropriate response;

- enabling the Government to request such a review quickly in relevant circumstances;
- maintaining the obligation for retailers to offer to supply and sell energy to residential customers;
- requiring all retailers to determine and publish the standing offer prices and other terms and conditions that apply to their obligation to supply and sell energy;
- requiring the Essential Services Commission of Victoria (ESC) to issue guidelines regarding the format in which retailers are to publish standing offer prices;
- for ease of reference and comparison, requiring the ESC to collect and publish on its website details of all retailers' current standing offer tariffs;
- introducing a regime for the ESC to monitor and report publicly on these standing offer prices for a period of at least three years after retail price regulation ends;
- undertaking a consumer awareness program to assist Victorians to understand the changes and to inform them of the opportunities offered by the competitive energy retail market.

Next Steps

The AEMC fulfilled its role by conducting the Review in Victoria and providing its advice to the MCE and the Victorian Government. At the time of writing this report, the Victorian Government in September 2008 announced it would remove retail price regulation in line with recommendations proposed by the AEMC.

Review of competition effectiveness in electricity and gas retail markets – South Australia

Why is the Review being conducted?

South Australia is the second state jurisdiction to be considered in the AEMC's review of competition in retail gas and electricity markets. At the MCE's direction, the AEMC commenced this review in December 2007 for completion by 31 December 2008.

Overview

The AEMC published the draft report of its Review of the Effectiveness of Competition in the Electricity and Gas Retail Markets in South Australia on 4 July 2008 – finding that retail competition for both electricity and gas was effective although competition is relatively more intense in electricity than in gas. The preliminary finding that competition was effective for small electricity and gas customers was opened for a period of public consultation and comment with submissions to be lodged by 13 August 2008.

Key preliminary findings

The draft report noted that the majority of small energy customers in South Australia knew about energy retail competition and were participating actively in the energy market. According to the draft report this was particularly evident from the high rate at which customers were switching to energy market contracts. More than 80% of residential energy customers were aware of retail

competition and more than 60 per cent had switched to market contracts.

There was also evidence of strong rivalry between energy retailers as they competed to gain and retain market share by offering customers the choice of alternative prices and services. New entrant retailers have continued to win market share from the two established South Australian retailers and now account for more than 40 per cent of small customers in both the electricity and gas markets.

The AEMC's draft report recognised that there was now a likelihood of increasing energy costs and prices in future associated with an emerging need for new generation investment and any prospective policies to address climate change risks. It notes that the competitive energy retail market should be able to accommodate such changes in real energy costs, provided retail prices are able to adjust in response, allowing competitive retail margins to be maintained.

Next Steps

The first final report concluding the AEMC's assessment of competition effectiveness was released in September 2008 and the AEMC started consideration of options for advice to the South Australian Government and MCE on modifying or removing retail energy price regulation arrangements in South Australia. Final advice on options will be provided by December 2008.

Congestion Management Review

Why was the Review conducted?

In October 2005 the MCE directed the AEMC to undertake this Review to identify ways of improving the ability of market participants to manage risks resulting from congestion on the transmission networks.

Overview

Electricity is transported from suppliers (generators) to consumers (retailers and large customers) across a transmission network. Congestion is what happens when there is a bottleneck somewhere on this network. Whenever a particular element on the network (e.g. a line or transformer) reaches its limit and cannot carry any more electricity than it is carrying already, it is congested. Congestion can prevent lowest price power from reaching consumers at times of high demand. There is always some level of congestion in a network – the challenge is to ensure it does not persist at unacceptable levels.

The Congestion Management Review (CMR), together with the AEMC's work for the MCE on national transmission planning arrangements, concludes a significant programme of reform to wholesale market and transmission Rules for the National Electricity Market (NEM) over the past three years. This body of work undertaken by the AEMC has clarified the elements of the NEM's Congestion Management Regime, which promotes efficiency, and is proportionate to the materiality of congestion in the NEM historically.

Building on congestion management reforms already being implemented, the CMR final report and its important, incremental recommendations will improve the congestion management regime and provide important direction on the nature and scope of the priority areas for reform in the context of climate change policies.

Key conclusions

The CMR concluded that, historically, network congestion has not been a sufficiently material problem for the NEM to justify significant further change to the market Rules at this time. Significant reforms have been made to the regulation of transmission and the wholesale market over the past three years. A particularly significant step forward is the AEMC work on a detailed implementation plan for COAG's initiative to establish national transmission planning arrangements.

A wide suite of reforms impacts both the emergence and management of transmission congestion in the national electricity market and includes:

- regional boundary reform to the Snowy region to address the one significant, enduring and material point of congestion in the NEM;
- amendments to the Rules to introduce a new process for managing region boundary changes in the future;
- amendments to the Rules to establish a new Last Resort Planning Power (LRPP) to address the risk to the market of significant planning failure by TNSPs; and
- a new framework for the economic regulation of transmission (through the AEMC's amendment of Chapter 6A of the Rules).

The CMR recommends four specific Rule changes which complement the reforms already made and would, if implemented, enable market participants to manage prevailing levels of congestion more efficiently to the benefit of consumers.

These changes would improve the level and quality of information available to the market, and improve the effectiveness of existing financial instruments for managing risk:

- to formalise in the Rules NEMMCO's use of fully co-optimised network constraints for the purposes of dispatching generation and Market Network Service Providers;
- to amend Rules governing the funding of negative settlement residues so as to reduce uncertainty for holders of Inter-Regional Settlement Residue (IRSR) units;
- to establish a new Congestion Information Resource (CIR) to be published by NEMMCO, which will consolidate and enhance existing sources of information relevant to the understanding and management of congestion risk; and
- to clarify and strengthen Rules governing the rights of generators who fund transmission augmentations as a means of managing congestion risk, so that connecting parties will contribute to funded investments from which they benefit.

Next Steps

The CMR final report was given to the MCE on 10 June 2008. The MCE will consider the report and, if it agrees

with the recommendations, it will submit for the AEMC's consideration any rule change proposals required to implement the recommendations.

National Transmission Planner – implementation plan for the national electricity transmission planning function

Why was the Review conducted?

In July 2007, the MCE requested the Commission to conduct a Review on the implementation of a strengthened national electricity transmission planning function. This Review was part of the reform process initiated by COAG, in response to the Energy Reform Implementation Group (ERIG) recommendations on achieving a fully national and efficient energy market. The Review covered:

- Development of an implementation plan for the national transmission planning function, including arrangements for the preparation of a minimum 10 year National Transmission Network Development Plan (NTNDP) to be updated annually. That national transmission planning function will be located in the new AEMO which has responsibility for both electricity and gas ;
- Design of a revised transmission network planning and consultation process to replace the current 'Regulatory Test' with an assessment process that amalgamates the reliability and market benefits criteria of the current Test and expands the definition of market benefits to include national benefits;
- Consideration of the case for simultaneous determination of TNSP revenue caps, in place of the current sequential reviews to further reinforce the

national character of planning arrangements; and

- Review into the electricity transmission network reliability standards, with a view to developing a consistent national framework for NEM reliability and security.

COAG seeks a better-informed, national approach to transmission planning. It also considers transmission investments should be assessed against meeting both local reliability standards and their ability to maximise benefits to the national market. COAG also recognised the importance of establishing a national framework for transmission reliability standards but noted that the review should have regard to the different physical characteristics of the network, existing regulatory treatments in balancing reliability and costs to customers.

Overview

The AEMC started the National Transmission Planner Review in August 2007. We provided the final report on the role and functions of a National Planner (to be located within the new governance framework institution – the AEMO) on 30 June 2008. The final report sets out recommendations and proposed legislative amendments for the governance, functions and operation of a National Transmission Planner (NTP).

Key conclusions

The objective of the NTP was to contribute to the achievement of the National Electricity Objective in a manner that promotes the efficient, strategic and co-ordinated long term development of the national transmission grid. The key role of the NTP is to provide information to the market on the strategic and efficient

long term development of the power system through the annual publication of the National Transmission Network Development Plan (NTNDP). The NTNDP will map out development strategies under a range of credible scenarios for the efficient delivery of transmission capability across current and potential national transmission flow paths. In preparing these development strategies, the NTP will have regard to the jurisdiction reliability standards, the maximisation of net economic benefits from the investment and the local planning performed by the TNSPs. Also in preparing the NTNDP, the NTP will undertake extensive consultation with stakeholders.

In developing its recommendations on the NTP, the Commission recognised that a high quality NTNDP must be based on robust and transparent analysis and that therefore the NTP should be required to maintain an public database of information, data and methods used in producing the annual plan. The NTP will also take over the responsible for the functions currently performed by the Inter-Regional Planning Committee and will also have the option of making submissions during the AER revenue determination process for transmission businesses and new regulatory test.

The Commission also recommended against alignment of TNSP revenue determination periods because the costs are likely to be significant while the benefits do not appear to be material.

The Commission also advised that a formal and transparent inter-regional pricing arrangement is essential to the development of a national and co-ordinated

transmission grid. The current arrangements where TUoS charges cannot be applied inter-regionally reduces the cost reflectivity of transmission charges and may lead to a disincentive on TNSPs to invest in augmentations that have inter-regional benefits.

Next Steps

At the time of this report's writing, the Review's recommendations were under consideration by the MCE. A response will be developed and made public in due course. The MCE response will address the process for implementing the National Transmission Planner functions and powers, and will consider the need to task the Commission to assess further the issue of inter-regional transmission charging.

In its final report on the NTP, the Commission stated that the proposed NTP arrangements would be implemented as part of the general package of reforms necessary to implement AEMO, which is scheduled to commence operations on 1 July 2009. The Commission also recommended that the MCE consider the merits of facilitating suitable arrangements to have the first NTNDP to be published in December 2009.

National Transmission Planner – Regulatory Investment Test

Overview

The Regulatory Test is a requirement for network businesses to address before they undertake investment on their network. Network augmentations above a certain threshold must satisfy this test before the investment is made. The existing Regulatory Test is administered by

the Australian Energy Regulator and has two limbs: one for investments that provide reliability benefits; and one for investments that provide market benefits. The AEMC undertook an extensive review of the Regulatory Test as part of its National Transmission Planning Arrangements Review, and provided its final report to the MCE on 30 June 2008.

Key conclusions

The Commission recommended a new process of consultation and assessment for transmission investment, termed the Regulatory Investment Test for Transmission (RIT-T), will provide a single framework to apply to all transmission investment. It removes the current distinction between reliability driven projects and projects motivated by the delivery of market benefits, and will require further consultation and consideration of the range of options and associated market benefits for any given transmission issue. The purpose of the new RIT-T is to identify the transmission investment option that maximises the net economic benefits, and where applicable, meets deterministic reliability standards.

In developing the new RIT-T, the Commission recognised the importance of the new test being able to be consistent with the changing circumstances of climate change and the tightening energy supply and demand balance. The Commission noted that the treatment of carbon costs and benefits under the RIT-T would need further consideration once the government policy on climate change has been finalised.

Next steps

At the time of writing this report the Commission's recommendations were under consideration by the MCE and a response will be developed and made public in due course. The Commission has recommended that the new test be implemented through an expedited rule change process.

National Transmission Planner – Transmission Reliability Standards Review

Why is the Review being conducted?

In July 2007, the MCE requested the Commission to conduct a Review into electricity transmission network reliability standards, with a view to developing a consistent national framework for network security and reliability. This request was made in conjunction with the MCE's request for the Commission to conduct a Review on the implementation of a strengthened national electricity transmission planning function. See discussion under "National Transmission Planner – implementation plan for the national electricity transmission planning function" above.

Overview

On 17 August 2007, the Commission requested the Reliability Panel to undertake a Review of the jurisdictional transmission reliability standards and provide advice to the Commission. The Panel published three reports for consultation including an Interim Report in which the Panel recommended a nationally consistent framework for transmission reliability standards. Under

that national framework, transmission reliability standards would be set at a jurisdictional level with the option for a jurisdiction to refer standards setting to a national body, and would be economically derived based on a common economic methodology. In its Interim Report, the Panel also recommended establishing a national reference standard as a point of information, clarification and contrast. The Panel provided its final report to the Commission on 1 September 2008.

Next steps

At the time of writing this report the Commission was considering the Panel's advice in the broader policy context of the NTP and RIT-T and was due to make final recommendations to the MCE by the end of September 2008.

Review of Demand Side Participation in the National Electricity Market

Why is the Review being conducted?

The AEMC initiated this Review in October 2007. It is the first Review to be initiated by the AEMC. Since it was established, the AEMC has identified a range of issues relating to the integration of demand side actions in the energy market. We are concerned about the possibility of sub-optimal investment in alternative demand side solutions, compared with other investments in generation and networks. The removal of any impediments to effective demand side participation may boost market efficiency and promote the National Electricity Objective. So, under its policy development role, the AEMC

has decided to investigate the role of demand side participation in the context of furthering the National Electricity Objective.

Overview

The DSP Review will focus on three key questions:

- Can increased Demand Side Participation improve efficiency in the National Electricity Market?
- Are there obstacles or disincentives to efficient DSP in the NEM?
- Where obstacles or disincentives are identified, how can the National Electricity Rules be improved to reduce or remove them in order to facilitate efficient DSP in the NEM?

For the purpose of this Review the Commission has defined demand side participation as follows. Demand side participation is the ability of consumers to make decisions regarding the quantity and timing of their energy consumption which reflects their value of the supply and delivery of electricity.

Next steps

Following the close of the year under review, in July 2008, the Australian Government proposed the introduction of a Carbon Pollution Reduction Scheme (CPRS) and the 20% Mandatory Renewable Energy Target. The planned introduction of these policies to address climate change will influence a wide range of economic activity. A key impact of the CPRS will be on the relative cost of demand side solutions as compared with supply side responses. Accordingly, there is significant overlap between the

Demand Side Participation Review and the AEMC Review of Energy Market Frameworks in Light of Climate Change Policies. The timetables of these two Reviews will be aligned and the DSP Review's draft report is expected to be published in December 2008.

RELIABILITY PANEL REVIEWS Comprehensive Reliability Review

Why was the Review conducted?

This was the first fully integrated review of reliability in the National Electricity Market and was undertaken by the Reliability Panel. It was both an historical and forward looking project conducted within the context of energy only market design.

The reliability settings, comprising a reliability standard, market and intervention mechanisms to ensure the standard is set, are crucial for sending appropriate signals for generation investment and end-use demand. The reliability standard itself had not however, been reviewed since the National Electricity Market (NEM) started in December 1998, and the various market price and intervention mechanisms have only been reviewed as discrete elements, never as part of a coherent and integrated whole. Furthermore, the nature of supply and demand in the NEM has undergone significant change with increasingly peaky demand profiles and a shift in the mix of generation plant including increasing contributions from wind generation. This Review was undertaken to consider all the reliability settings in a comprehensive, holistic manner.

Overview

The Comprehensive Reliability Review (CRR) was undertaken by the Reliability Panel at the request of the AEMC and its Final Report was published in December 2007. The report was a comprehensive plan for action – containing recommendations on improvements to NEM reliability information; the form, level and scope of the Reliability Standard itself; the future of the Reliability Safety Net; medium term settings for VoLL; the Cumulative Price Thresholds and Market Floor Price. This Review's terms of reference were expanded midway through its work program by an AEMC request for the Reliability Panel to act on the Ministerial Council on Energy direction to provide advice on the effectiveness of current market arrangements in managing generation input constraints and energy shortfalls.

Key conclusions

The Final Report concluded that reliability mechanisms in the NEM have performed satisfactorily against the reliability standard to date. It made the observation that good performance in meeting demand had been, historically, bolstered by generation capacity overhang in some regions. It noted that this has perhaps made the reliability standard an easier benchmark to perform against than would otherwise have been the case in a system starting with a tighter supply-demand balance. While the report concluded that the NEM's reliability standard is being met it observed that this might not be the case after 2011 without increased generation or demand-side responses.

Next steps

The Final Report's recommendations launched these actions;

- VoLL to increase to \$12,500/MWh at 1 July 2010. The proposal to change VoLL will go through formal Rule Change process. The proposal is due to come forward to the AEMC from the Reliability Panel.
- NEM Reliability Settings (information, safety net and directions) to provide for the Reliability and Emergency Reserve Trader (RERT)
 - extends the existing reliability safety net in a modified form, with a four year sunset period
 - Energy Adequacy Assessment Projection (projects the impacts of generator input energy constraints over the next two years, updated quarterly)
 - extends NEMMCO's power to direct for reliability indefinitely
 - requires NEMMCO to advise the Reliability Panel of improvements to the process for preparing the SOO load forecasts.
- Reliability Panel is establishing a taskforce looking at how NEMMCO calculates reserve margins.
- Clarification of the 0.002% unserved energy (USE) standard, i.e. which USE is counted.

Annual Electricity Market Performance Review – Reliability and Security 2007 Report

Why was the review conducted?

A reliable national electricity system is critically important for all Australians. Consumers, energy supply and

distribution organisations, and governments all have a direct interest in security and reliability. The Reliability Panel of the AEMC reviews the performance of the interconnected national electricity system on an annual basis.

Overview

The events, circumstances and activities that have either positively or adversely affected the supply of electricity to consumers are assessed in terms of two main criteria – the availability of adequate bulk supply to meet consumer demand (reliability) and the technical security of the power system itself (security). The Panel is responsible for dealing with reliability and security matters in the wholesale bulk electricity market and transmission. The current standard for reliability is that there should be sufficient generation and bulk transmission capacity so that over the long term, no more than 0.002 per cent of the annual energy for consumers in any region is at risk of not being supplied. Or to put it another way, that the maximum permissible unserved energy (USE) is 0.002 per cent. This is the Reliability Standard.

Key conclusions

The Reliability Standard was not breached in 2007. There was a significant amount of USE due to security events during the year, often due to multiple-contingency events. Notwithstanding the issues raised following specific incidents, the reliability and security performance of the power system during the 2006-2007 year appear to have been generally robust.

Next steps

The Panel started its annual review of the performance of the National Electricity Market for the 2007-2008 year in September 2008.

Value of Lost Load (VoLL) 2008 Review

Why was the review conducted?

The Volume of Lost Load (VoLL) Review is an annual report undertaken by the Reliability Panel.

Overview

The 2008 report reiterated the recommendations made by the Comprehensive Reliability Review (CRR) in December 2007 which included detailed reliability analysis as part of its in-depth, integrated brief to examine all aspects of reliability in the NEM. This work will be conducted as part of the VoLL Review in the years ahead.

Key conclusions

The CRR recommended VoLL to increase from 1 July 2010.

Next Steps

Following the CRR, a proposal for a rule change to raise VoLL will come to the Commission from the Reliability Panel. The proposal will go through the rule change process and involve public consultation accordingly.

Review of Mainland Frequency Operating Standards During Periods of Supply Scarcity

Why is the Review being conducted?

The Australian Energy Regulator (AER) identified a need for this Review following its review of an incident in Victoria on 16 January 2007 when a large portion of the load was shed based on the Under Frequency Load Shedding Scheme. The AER recommended that the National Electricity Market Management Company (NEMMCO) should seek clarification on whether the lower limit of the NEM mainland frequency operating standards could be reduced to 47.5 Hz during periods of supply scarcity associated with load restoration.

Overview

The mainland frequency operating standards define the range of allowable frequencies for the power system while the load is being restored following a major power system incident on the mainland of the National Electricity Market (NEM). At the close of the year under review the Reliability Panel was considering NEMMCO's recommendations.

Next Steps

The Reliability Panel will engage in public consultation on the issues and submit a draft report followed by further consultation with a final report to the AEMC due in late 2008.

Review of Frequency Operating Standards for Tasmania

Why is the Review being conducted?

Prior to Tasmania's entry into the National Electricity Market (NEM) in May 2005, annual reviews of the Tasmanian frequency operating standards were undertaken by the Tasmanian Reliability and Network Planning Panel. The AEMC Reliability Panel conducted its first review of the state's frequency operating standards in 2006 and foreshadowed the need for this review once NEMMCO had gained sufficient experience in operating Basslink (since April 2006). This review started in April 2008.

Overview

The Reliability Panel's analysis shows that there is a need for new and diverse generation for the future security and reliability of Tasmania's electricity supply. Large higher efficiency thermal generating units cannot connect to the Tasmanian network under existing frequency operating standards which allow frequencies down to 46 Hz and as high as 60 Hz. While some stakeholders have proposed tightening the operating standards to a range of 47 to 52 Hz, other stakeholders expressed concerns that this would raise the costs of running the state's power system (given that additional ancillary services are required to ensure that the system can maintain its performance).

The Panel started consultation with a range of stakeholders and held a well attended stakeholder forum in Hobart on 6 June 2008. As required under the Rules, the Panel also sought NEMMCO's advice on the

implications of changes to the standards and associated matters proposed by stakeholders. In addition, the AEMC engaged consultants CRA to assist the Panel by performing the economic and technical assessment of the various proposals it received. The Panel has reviewed the information provided in submissions, NEMMCO's advice and CRA's report, and has developed a set of proposed changes to the Tasmanian frequency operating standards that would allow efficient thermal generators, such as single shaft industrial combined cycle gas turbines, to operate.

Next Steps

The Panel anticipates completing its review by late November 2008.

Technical Standards Review

Why is the Review being conducted?

In November 2005 the Ministerial Council on Energy directed the AEMC to perform a review of the enforcement and compliance with technical standards. The AEMC published the final report for its *Review of Enforcement and Compliance with Technical Standards* on 1 September 2006. One of the dimensions addressed by the AEMC review was ensuring that there are clear and appropriate technical standards. This review responds to the AEMC request that the Reliability Panel undertake a review of the adequacy and content of the technical standards.

Overview

The NEM technical standards define the level of performance required of the equipment that makes up, and is connected to, the NEM power system. The overall power system is operated to these standards and allows the power system operator, NEMMCO, to effectively manage power system security. If all generators adhere to these standards a power system incident is less likely to lead to a cascading failure and endanger power system security. Other aspects of the technical standards specify the quality of the electricity services that the network and those connected to the network can expect. This allows parties to invest in and operate equipment with a reasonable assurance of the quality and expected performance of other parties connected to the network.

The AEMC approved the Terms of Reference for this review in February 2008. One of the main objectives of this Review is to improve the clarity of the technical standards in addition to their appropriateness. The Review's Issues Paper was published in May 2008 and submissions closed on 13 June 2008.

Next Steps

The AEMC Terms of Reference requires the Panel to deliver its final report by December 2008.

Guidelines for a Return to a Secure Operating State

Why is the Review being conducted?

One of the functions of the Reliability Panel is to prepare guidelines that determine how NEMMCO should, when

returning the power system to a secure operating state following a contingency event, take into account both the costs and benefits to market participants and the need for a timely return to a secure state. The Reliability Panel is preparing the guidelines for clause 4.2.6(b)(2) of the Rules.

Next Steps

The Reliability Panel has formed a short term technical reference group to prepare recommended guidelines for consultation.

ENERGY MARKETS AND CLIMATE CHANGE

At its meeting of 13 June 2008 the Ministerial Council on Energy (MCE) directed the AEMC to conduct a Review of the current energy frameworks in light of climate change policies. The Review will consider both electricity and gas markets in all states and territories.

The Chairman of the AEMC, Dr John Tamblyn, announced the Review of Electricity and Gas Market Frameworks in the Light of New Climate Change Policies on 25 August 2008 following the MCE's provision of Terms of Reference to the AEMC.

The Review will focus on assessing how the introduction of the Carbon Pollution Reduction Scheme (CPRS) and the expanded Renewable Energy Target may affect Australia's energy market frameworks and determine what, if any, amendments are needed to those frameworks as a result.

AEMC decision making is guided by the objectives set by the National Electricity Law (NEL) and the National Gas Law (NGL). The outcomes of the Review will provide advice to the MCE on adjustments that may be necessary to the energy market frameworks so that the objectives of the NEL and NGL can continue to be met.

EXPERT PANELS

Drawing together specialist knowledge

Under the National Electricity Law (NEL), the AEMC established the Reliability Panel and the National Electricity Consumers Advocacy Panel.

On 1 July 2008 the new Consumer Advocacy Panel replaced the National Electricity Consumers Advocacy Panel. The AEMC will provide administrative support to the new Panel, including employment of the Panel's staff. The new Panel is not subject to direction by the AEMC or the MCE in the performance of its functions. The AEMC will be responsible for meeting the grant funding requirements of the new Panel, as set out in its approved budget, in respect of consumer advocacy and research projects relating to natural gas.

The AEMC 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 2007-2008 year.

Reliability Panel

The Reliability Panel monitors, reviews and reports on the safety, security and reliability of the national electricity system in accordance with the Rules. As expert advisers to the Commission, members of the Reliability Panel play a vital role in making recommendations on arrangements to manage these matters.

The AEMC appoints members of the Reliability Panel in accordance with Chapter 8 of the National Electricity Rules.

EXPERT PANELS

Membership

The Chairman of the Reliability Panel and AEMC Commissioner, Mr Ian Woodward, remains in his position until June 2011 following his reappointment by the Commission in May 2008. The Chief Executive Officer, or a delegate, of NEMMCO has a permanent position on the Panel. Managing Director and CEO of NEMMCO, Mr Les Hosking, will remain as the NEMMCO's representative. With the exception of Mr Woodward and Mr Hosking, the appointments of remaining members expire in December 2008.

RELIABILITY PANEL MEETINGS

| MEMBER | ORGANISATION | ELIGIBLE | ATTENDED |
|-------------------------|--|----------|----------|
| Ian Woodward (Chairman) | AEMC | 10 | 10 |
| Les Hosking | NEMMCO | 10 | 10 |
| Gordon Jardine | Powerlink Queensland | 10 | 10 |
| George Maltabarow | EnergyAustralia | 10 | 8 |
| Stephen Orr | International Power | 10 | 7 |
| David Swift* | Electricity Supply Industry Planning Council (ESIPC) | 3 | 3 |
| Geoff Willis | Former Hydro Tasmania | 10 | 9 |
| Jeff Dimery | AGL | 10 | 8 |
| Mark Grenning | Rio Tinto | 10 | 8 |
| Kerry Connors | CUAC | 10 | 6 |

* David Swift joined the Reliability Panel in March 2008

Reliability Panel Appointments 2008

Nominations to fill these positions were called for in July 2008, just after the close of year under review. As required by the National Electricity Rules, the AEMC has sought nominations to appoint at least five, but not more than eight persons as Members of the Panel to commence operations from 1 January 2009 for terms of up to three years. The National Electricity Rules also allow existing members of the Reliability Panel to be re-nominated from 1 January 2009.

Panel members must include:

- a person representing Generators;
- a person representing Market Customers;
- a person representing Transmission Network Service Providers;
- a person representing Distribution Network Service Providers; and
- a person representing the interests of end use customers for electricity.

EXPERT PANELS

The National Electricity Consumers Advocacy Panel

The National Electricity Consumers Advocacy Panel was an independent body established to provide funding under a grant procedure for users of electricity to participate in the decision-making processes for the National Electricity Market. In accordance with the *Australian Energy Market Commission Establishment Act 2004 (SA)*, the National Electricity Consumers Advocacy Panel prepared its own annual report, which is appended to this AEMC Annual Report 2007-2008 and is also available online at www.advocacypanel.com.au.

The AEMC was responsible for appointments to the National Electricity Consumers Advocacy Panel.

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

- approved the engagement of auditors;
- approval of the 2008-2009 budget;
- appointed one new member, Karen Chalmers-Scott, to fill a vacancy on the panel and extended terms of other panel members to ensure continuity until the commencement on 1 July 2008 of amendments to the *Australian Energy Market Commission Establishment Act 2004 (SA)*.

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
30 JUNE 2008

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REPORT OF THE AUDITOR-GENERAL

INDEPENDENT AUDITOR'S REPORT



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Auditor-General's Department

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To The Chairperson 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 2008. 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 from the Chairperson, the Chief Executive Officer and the Corporate Accountant

The Responsibility of the members of the Australian Energy Market Commission for the Financial Report

The members are responsible for the preparation and the 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 control 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 auditor's 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 2008, 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).

S O'Neill
AUDITOR-GENERAL
9 October 2008

CERTIFICATION OF THE FINANCIAL REPORT

We certify that the attached general purpose financial report for the Australian Energy Market Commission ("the Commission"):

- complies with relevant Treasurer's instructions issued under Section 41 of the *Public Finance and Audit Act 1987* and relevant Australian Accounting Standards;
- are in accordance with the accounts and records of the Commission; and
- we certify that internal controls employed by the Commission for the financial year over its financial reporting and preparation of the general purpose financial report have been effective throughout the reporting period; and
- presents a true and fair view of the financial position of the Commission as at 30 June 2008 and the results of its operations and cash flows for the financial year.

Signed in accordance with a resolution of the Commission.



Steven Graham
CHIEF EXECUTIVE OFFICER

3 October 2008



Dr John Tamblyn
CHAIRMAN

3 October 2008



Cindy Yang
CORPORATE ACCOUNTANT

3 October 2008

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2008

| | NOTE | 2008 \$'000 | 2007 \$'000 |
|--|------|-----------------|----------------|
| EXPENSES | | | |
| Employee benefit expenses | 7 | 4,925 | 3,540 |
| Supplies and services | 8 | 6,482 | 4,782 |
| Depreciation and amortisation expense | 9 | 180 | 203 |
| Borrowing costs | | – | 225 |
| Net loss on disposal of non-current assets | 10 | 334 | – |
| Other expense | | 124 | – |
| Total expenses | | 12,045 | 8,750 |
| INCOME | | | |
| Commonwealth revenues | | 913 | – |
| Interest revenues | 5 | 455 | 407 |
| Total income | | 1,368 | 407 |
| Net cost of providing services | | (10,677) | (8,343) |
| Contributions from participating jurisdictions | 6 | 13,102 | 15,273 |
| Net result | | 2,425 | 6,930 |

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 2008

| | NOTE | 2008 \$'000 | 2007 \$'000 |
|--------------------------------------|-----------|----------------|----------------|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 25 | 9,942 | 4,621 |
| Receivables | 12 | 3,942 | 5,589 |
| Other current assets | 15 | 67 | 47 |
| Total current assets | | 13,951 | 10,257 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 13(a) | 287 | 551 |
| Intangible assets | 13(c), 14 | 389 | 24 |
| Total non-current assets | | 676 | 575 |
| Total assets | | 14,627 | 10,832 |
| CURRENT LIABILITIES | | | |
| Payables | 16 | 1,688 | 499 |
| Short term employee benefits | 17 | 343 | 269 |
| Other current liabilities | 18 | – | 80 |
| Total current liabilities | | 2,031 | 848 |
| NON-CURRENT LIABILITIES | | | |
| Long-term payables | 16 | 59 | – |
| Long-term employee benefits | 17 | 338 | 137 |
| Long-term provisions | 19 | 20 | 8 |
| Other non-current liabilities | 18 | 48 | 133 |
| Total non-current liabilities | | 465 | 278 |
| Total liabilities | | 2,496 | 1,126 |
| Net assets | | 12,131 | 9,706 |

BALANCE SHEET

AS AT 30 JUNE 2008

| | NOTE | 2008 \$'000 | 2007 \$'000 |
|--|------|----------------|----------------|
| EQUITY | | | |
| Retained earnings | 20 | 12,131 | 9,706 |
| Total equity | | 12,131 | 9,706 |
| The total equity is attributable to the participating jurisdictions as owners. | | | |
| Unrecognised contractual commitments | 21 | | |
| Contingent assets and liabilities | 22 | | |

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2008

| | NOTE | CONTRIBUTED CAPITAL \$'000 | RETAINED EARNINGS \$'000 | TOTAL \$'000 |
|--|------|----------------------------------|--------------------------------|-----------------|
| Balance at 30 June 2006 | | – | 2,776 | 2,776 |
| Total recognised income and expense for 2006-07 | | – | 6,930 | 6,930 |
| Balance at 30 June 2007 | | | 9,706 | 9,706 |
| Total recognised income and expense for 2007-08 | | – | 2,425 | 2,425 |
| Balance at 30 June 2008 | | – | 12,131 | 12,131 |

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 2008

| | NOTE | 2008 \$'000 | 2007 \$'000 |
|---|------|-----------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| CASH OUTFLOWS | | | |
| Employee benefit payments | | (4,650) | (3,399) |
| Supplies and services | | (6,628) | (5,493) |
| Other Payments | | (59) | – |
| GST paid to the ATO | | (211) | – |
| Cash used in operations | | (11,548) | (8,892) |
| CASH INFLOWS | | | |
| Receipts from participating jurisdictions | | 16,100 | 10,920 |
| Receipts from Commonwealth | | 463 | – |
| Interest received | | 402 | 268 |
| GST recovered from the ATO | | 519 | 456 |
| Cash generated from operations | | 17,484 | 11,644 |
| Net cash provided by operating activities | 25 | 5,936 | 2,752 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| CASH OUTFLOWS | | | |
| Purchase of property, plant & equipment | | (206) | (44) |
| Purchase of intangibles | | (409) | – |
| Cash used in investing activities | | (615) | (44) |
| Net cash used in investing activities | | (615) | (44) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| CASH OUTFLOWS | | | |
| Repayment of borrowings | | – | (3,000) |
| Cash used in financing activities | | – | (3,000) |
| Net cash used in financing activities | | – | (3,000) |
| Net (decrease)/increase in cash and cash equivalents | | 5,321 | (292) |
| Cash and cash equivalents at the beginning of the financial year | | 4,621 | 4,913 |
| Cash and cash equivalents at the end of the financial year | | 9,942 | 4,621 |

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

Note 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.

Note 2. Summary of significant accounting policies

A) STATEMENT OF COMPLIANCE

The financial report is a general purpose financial report. The accounts have been prepared in accordance with relevant 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)*.

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards and AAS 29 *Financial Reporting by Government Departments*. 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 2008. 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.

B) BASIS OF PREPARATION

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
- accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events are reported; 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:
 - 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.

The accounting policies set out below have been applied in preparing the financial report for the year ended 30 June 2008 and the comparative information presented for the year ended 30 June 2007.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

Note 2. Summary of significant accounting policies (continued)

C) REPORTING ENTITY

The Commission's financial report includes both controlled 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.

D) 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.

E) ROUNDING

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

F) 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

Note 2. Summary of significant accounting policies (continued)

G) 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 2007-08, apart from funding received from SA Government entities, there are no other transactions with SA Government entities above the threshold of \$100,000. Funding revenue from SA Government entities was \$1,040,507.

The following are specific recognition criteria:

Income

Contributions from participating jurisdictions

The AEMC funding is provided through contributions by the jurisdictions participating in the National Electricity Market. During the period additional funding was provided by the Commonwealth to fund the National Transmission Planner project. SA's contribution to the AEMC is an expense of the SA Government not an interagency transaction.

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.
- 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 when invoiced.

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.

Expense

Employee benefits

Employee benefit expense includes all costs related to employment including wages, salaries and leave entitlements. These are recognised when incurred.

Superannuation

The amount charged to the Income Statement represents the contributions made by the Commission to the employees externally managed superannuation funds.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

Note 2. Summary of significant accounting policies (continued)

G) INCOME AND EXPENSES (CONTINUED)

Expense

Interest expense

Interest expense is recognised as an expense. Interest expense comprises of the unwinding of the discount on interest free loan and General Interest Charge paid to the ATO.

Profit / Loss on disposal of non-current assets

Profit / loss on disposal of non-current assets is recognised when control of the asset has passed to the buyer and determined by comparing proceeds with the carrying amount.

H) CURRENT AND NON-CURRENT CLASSIFICATION

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

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

I) CASH AND CASH EQUIVALENTS

Cash and cash equivalents 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.

J) RECEIVABLES

Receivables consist of GST receivables, funding receivables and interest receivable. Collectibility of receivables is reviewed on an on-going basis. An allowance for doubtful debts is raised when there is objective evidence that the Commission will not be able to collect the debt. Bad debts are written off when identified.

K) NON-CURRENT ASSET ACQUISITION AND RECOGNITION

Non-current assets are initially recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition. Non current assets are subsequently measured at fair value less accumulated depreciation.

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.

L) 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 2008 as the Commission did not have non-current assets which meet the revaluation criteria.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

Note 2. Summary of significant accounting policies (continued)

M) 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.

N) 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 |
| IT Infrastructure | Straight Line | 3-5 |

O) 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 amortization and any accumulated impairment losses. The acquisition of, or internal development of, software is capitalized 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.

P) 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*.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

Note 2. Summary of significant accounting policies (continued)

P) PAYABLES (CONTINUED)

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 only liability outstanding at balance date relates to any contributions due but not yet paid.

Q) 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.

Long service leave

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 2008 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.

Employee benefit on-costs

Employee benefit on-costs (payroll tax and superannuation) are recognised separately under payables.

R) 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).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

Note 2. Summary of significant accounting policies (continued)

S) 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.

T) 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. 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 (where applicable).

U) 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.

V) EVENTS AFTER BALANCE DATE

Where an event occurs after 30 June but provides information about conditions that existed at 30 June, adjustments are made to amounts recognised in the financial statements.

Note disclosure is made about events between 30 June and the date the financial statements are authorised for issue where the events relate to a condition which arose after 30 June and which may have a material impact on the results of subsequent years.

Note 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.

Note 4. Segment reporting

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

| | 2008 \$'000 | 2007 \$'000 |
|---|----------------|----------------|
| Note 5. Interest revenues | | |
| Interest income from discounting of non interest bearing loan | – | 139 |
| Interest earned on bank accounts | 455 | 268 |
| Total interest revenues | 455 | 407 |

Note 6. Contributions from participating jurisdictions

| | | |
|---|---------------|---------------|
| Operational funding | 13,086 | 13,445 |
| Working capital | 16 | 1,828 |
| Total contributions from participating jurisdictions | 13,102 | 15,273 |

Of the above amount \$10,389,262 are payments covered by appropriations.

Note 7. Employee benefit expenses

| | | |
|--|--------------|--------------|
| Salaries and wages | 3,708 | 2,772 |
| Long service leave | 267 | 52 |
| Annual leave | 323 | 223 |
| Employment on-costs – superannuation | 301 | 235 |
| Payroll and Fringe Benefits Tax | 231 | 173 |
| Relocation expenses | 95 | 85 |
| Total employee benefit expenses | 4,925 | 3,540 |

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*.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

Note 7. Employee benefit expenses (continued)

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

| | 2008 NO. | 2007 NO. |
|---|-------------|-------------|
| REMUNERATION OF EMPLOYEES | | |
| The number of employees whose remuneration received or receivable falls within the following bands: | | |
| 100,001 – 110,000 | 2 | 3 |
| 110,001 – 120,000 | 4 | 1 |
| 120,001 – 130,000 | – | 1 |
| 130,001 – 140,000 | 4 | 1 |
| 140,001 – 150,000 | 1 | 1 |
| 150,001 – 160,000 | 2 | 1 |
| 160,001 – 170,000 | 1 | 1 |
| 170,001 – 180,000 | 3 | – |
| 210,001 – 220,000 | 1 | – |
| 220,001 – 230,000 | – | 1 |
| 280,001 – 290,000 | – | 1 |
| 290,001 – 300,000 | 1 | – |
| 410,001 – 420,000 | 1 | 1 |
| Total number of employees | 20 | 12 |

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 \$3,282,076 (2007: \$2,072,041).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

| | 2008 \$'000 | 2007 \$'000 |
|--|----------------|----------------|
| Note 8. Supplies and services | | |
| Supplies and services provided by entities external to the SA Government | | |
| Property expenses | 438 | 326 |
| Information technology expenses | 170 | 90 |
| Accounting and audit expenses | 309 | 94 |
| Legal expenses | 170 | 42 |
| Project contractor expenses | 3,154 | 2,399 |
| Other contractor and consultancy expenses | 1,145 | 1,136 |
| Administration expenses | 357 | 250 |
| Travel and accommodation expenses | 234 | 121 |
| Recruitment | 256 | 200 |
| Staff training | 170 | 82 |
| Other | 79 | 42 |
| Total supplies and services – Non SA Government entities | 6,482 | 4,782 |

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

| | NO. | 2008 \$'000 | NO. | 2007 \$'000 |
|--|-----------|----------------|----------|----------------|
| Below \$10,000 | 6 | 20 | 2 | 9 |
| Between \$10,000 and \$50,000 | 9 | 194 | 2 | 66 |
| Above \$50,000 | 9 | 1,420 | 5 | 506 |
| Total paid/payable to the consultants engaged | 24 | 1,634 | 9 | 581 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

| | 2008 \$'000 | 2007 \$'000 |
|--|----------------|----------------|
| Note 9. Depreciation and amortisation expense | | |
| DEPRECIATION | | |
| Office equipment | 27 | 23 |
| IT Infrastructure | 67 | 54 |
| Total depreciation | 94 | 77 |
| AMORTISATION | | |
| Intangibles | 44 | 37 |
| Leasehold improvements | 42 | 89 |
| Total amortisation | 86 | 126 |
| Total depreciation and amortisation | 180 | 203 |

Note 10. Net loss on disposal of non-current assets

| | | |
|--|------------|----------|
| PLANT AND EQUIPMENT | | |
| Proceeds from disposal | – | – |
| Less net book value of assets disposed/written off | 132 | – |
| Net loss from disposal of plant and equipment | 132 | – |
| LEASEHOLD IMPROVEMENTS | | |
| Proceeds from disposal | – | – |
| Less net book value of assets disposed/written off | 201 | – |
| Net loss from disposal of leasehold improvements | 201 | – |
| INTANGIBLE ASSETS | | |
| Proceeds from disposal | – | – |
| Less net book value of assets disposed/written off | 1 | – |
| Net loss from disposal of intangible assets | 1 | – |
| TOTAL ASSETS | | |
| Total proceeds from disposal | – | – |
| Less total value of assets disposed | 334 | – |
| Total net loss on disposal of assets | 334 | – |

The majority of the above assets were disposed when the Commission terminated the lease on No 1 Margaret Street as title on these assets was held by the landlord.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

| | 2008 \$'000 | 2007 \$'000 |
|--|----------------|----------------|
| Note 11. Auditor's Remuneration | | |
| Audit fees paid/payable to the SA Auditor-General's Department | 22 | 20 |
| Total Audit Fees – SA Government entities | 22 | 20 |

OTHER SERVICES

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

Note 12. Receivables

RECEIVABLES FROM NON SA GOVERNMENT ENTITIES

| | | |
|--|--------------|--------------|
| Funding receivable | 3,889 | 5,442 |
| Interest receivable | 53 | – |
| GST receivable | – | 147 |
| Total receivables from Non SA Government entities | 3,942 | 5,589 |

ALLOWANCE FOR DOUBTFUL DEBTS

As at 30 June 2008, there was no objective evidence that a receivable was impaired. Therefore the Commission has not recognised an allowance for doubtful debts.

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. It is not anticipated that counterparties will fail to discharge their obligations. The carrying amount of receivables approximates net fair value due to being receivable on demand. There is no concentration of credit risk. For maturity analysis of receivables and categorisation of financial instruments and risk exposure information please refer to Note 26.

Note 13(a). Property, Plant and Equipment

| | | |
|--|------------|------------|
| Plant and Equipment | 177 | 239 |
| Less: Accumulated depreciation | (34) | (49) |
| Total Plant and Equipment | 143 | 190 |
| IT Infrastructure | 298 | 224 |
| Less: Accumulated depreciation | (174) | (107) |
| Total IT infrastructure | 124 | 117 |
| Leasehold improvements | 20 | 439 |
| Less: Accumulated amortisation | – | (195) |
| Total Leasehold improvements | 20 | 244 |
| Total property, plant and equipment | 287 | 551 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

2008
\$'000

2007
\$'000

Note 13(b). Impairment

There were no indications of impairment of property, plant and equipment and intangible assets at 30 June 2008.

Note 13(c). Reconciliation of non current assets

The following table shows the movement of Property, Plant and Equipment during 2007 and 2008

PLANT AND EQUIPMENT

| | | |
|--|-------|------|
| Carrying amount at beginning of the year | 190 | 199 |
| Additions | 112 | 14 |
| Disposals | (132) | – |
| Depreciation | (27) | (23) |
| Carrying amount at the end of the year | 143 | 190 |

IT INFRASTRUCTURE

| | | |
|--|------|------|
| Carrying amount at beginning of the year | 117 | 149 |
| Additions | 74 | 22 |
| Depreciation | (67) | (54) |
| Carrying amount at the end of the year | 124 | 117 |

LEASEHOLD IMPROVEMENTS

| | | |
|--|-------|------|
| Carrying amount at beginning of the year | 244 | 325 |
| Additions | 21 | 8 |
| Disposals | (201) | – |
| Depreciation | (44) | (89) |
| Carrying amount at the end of the year | 20 | 244 |

INTANGIBLE ASSETS

| | | |
|--|------|------|
| Carrying amount at beginning of the year | 24 | 61 |
| Additions | 408 | – |
| Disposals | (1) | – |
| Depreciation | (42) | (37) |
| Carrying amount at the end of the year | 389 | 24 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

| | 2008 \$'000 | 2007 \$'000 |
|-----------------------------------|----------------|----------------|
| Note 14. Intangible assets | | |
| COMPUTER SOFTWARE | | |
| Computer software – at cost | 484 | 94 |
| Less: Accumulated amortisation | (95) | (70) |
| Total computer software | 389 | 24 |

The useful life of the above intangible assets are disclosed in Note 2(n).

Note 15. Other assets

CURRENT ASSETS

| | | |
|-----------------------------------|-----------|-----------|
| Prepayments | 67 | 47 |
| Total current other assets | 67 | 47 |

Note 16. Payables

CURRENT

| | | |
|-------------------------------|--------------|------------|
| Accrued expenses | 1,097 | 443 |
| GST payable | 485 | – |
| Superannuation | 56 | – |
| Employment on-costs | 50 | 56 |
| Total current payables | 1,688 | 499 |

NON-CURRENT

| | | |
|-----------------------------------|-----------|----------|
| Employment on-costs | 59 | – |
| Total non-current payables | 59 | – |

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. For maturity analysis of payables and categorisation of financial instruments and risk exposure information please refer to Note 26.

The Commission has a GST payable as a result of GST collected on funding received from the Victorian Government for the period 1 July 2005 to 30 September 2008 due to advice received during the year from same which indicated that Victoria's funding was not covered by an appropriation.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

| | 2008 \$'000 | 2007 \$'000 |
|---|----------------|----------------|
| Note 17. Employee benefits | | |
| CURRENT | | |
| Annual leave | 248 | 163 |
| Accrued salaries and wages | 95 | 106 |
| Total current employee benefits | 343 | 269 |
| NON-CURRENT | | |
| Long term long service leave | 338 | 137 |
| Total non-current employee benefits | 338 | 137 |
| Total employee benefits | 681 | 406 |
| Note 18. Other liabilities | | |
| Lease incentive | – | 399 |
| Less: lease incentive amortisation | – | (186) |
| | – | 213 |
| Current other liabilities | – | 80 |
| Non-current other liabilities | 48 | 133 |
| Total other liabilities | 48 | 213 |
| Note 19. Provisions | | |
| NON-CURRENT | | |
| Provision for make good | 20 | 8 |
| Total non-current provisions | 20 | 8 |
| Reconciliation of provision for make good | | |
| Balance at the beginning of financial year | 8 | 8 |
| Reductions resulting from settlement without cost | (8) | – |
| Additional provisions recognised | 20 | – |
| Balance at end of the financial year | 20 | 8 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

| | 2008 \$'000 | 2007 \$'000 |
|-----------------------------------|----------------|----------------|
| Note 20. Retained earnings | | |
| WORKING CAPITAL | | |
| New South Wales | 750 | 750 |
| Victoria | 556 | 556 |
| Queensland | 432 | 432 |
| South Australia | 173 | 173 |
| Tasmania | 54 | 54 |
| Australian Capital Territory | 36 | 36 |
| Western Australia | 14 | – |
| Northern Territory | 2 | – |
| Total Working Capital | 2,017 | 2,001 |
| Operational Funding | 10,114 | 7,705 |
| Total Retained earnings | 12,131 | 9,706 |

Note 21. Unrecognised contractual commitments

OPERATING LEASE COMMITMENTS

The Commission was party to two operating leases for office accommodation in the 2008 year. Under the first lease, the lessor was Perpetual Trustee Company Limited. This lease was terminated early with the approval of the landlord in October 2007. The lease was non-cancellable with a term of 5 years with an option to renew of a further 5 years. Rent was payable on first day of the month.

The total amount of gross rental expense for minimum lease payments for the period ended 30 June 2008 was nil (2007: 286,428). This was offset by amortisation of the lease incentive of nil (2007: \$79,857).

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

| | 2008 \$'000 | 2007 \$'000 |
|---|----------------|----------------|
| Within 1 year | – | 297 |
| More than 1 year but not later than 5 years | – | 520 |
| | – | 817 |

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

Note 21. Unrecognised contractual commitments (continued)

OPERATING LEASE COMMITMENTS (CONTINUED)

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. This is now the only lease held by the Commission.

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

| | 2008 \$'000 | 2007 \$'000 |
|---|----------------|----------------|
| Within 1 year | 468 | 376 |
| More than 1 year but not later than 5 years | 2,077 | 1,993 |
| More than 5 years | 672 | 1,224 |
| | 3,217 | 3,593 |

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

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:

| | 2008 \$'000 | 2007 \$'000 |
|--|----------------|----------------|
| Within 1 year | 665 | 624 |
| Later than 1 year but not later than 5 years | 998 | 1,248 |
| Total remuneration commitments | 1,663 | 1,872 |

The remuneration of three Commissioners for a five year term as required by the Australian Energy Market Commission Establishment Act 2004 is included in the above figures. As a result of the resignation of one Commissioner in August 2008 an acting Commissioner was appointed on a contract until June 2009. Even though a five year contract is not yet in place for this Commissioner, there is still a legal obligation under the Act and therefore the commitment for the entire five years has been included in the above figures.

The above figures are based on the salaries paid for the 30 June 2008 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 \$203,621 (2007: \$200,000) payable on early termination.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

Note 22. Contingent assets and liabilities

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

Note 23. Remuneration of Board and Committee Members

Members that were entitled to receive remuneration for membership during the 2008 financial year were:

AUDIT COMMITTEE

Mr Glenn Appleyard (appointed 9 Nov 2007).

Remuneration of members reflect all costs of performing committee member duties including sitting fees. The total remuneration received or receivable by members was \$2,417 (2007: nil).

Note 24. Events after balance date

On 1 July 2008, the Consumer Advocacy Panel ("the Panel") was established by the *Australian Energy Market Commission Establishment Act 2004* ("the Act"), as amended, to replace the Advocacy Panel. The AEMC will be responsible for funding the gas market related activities of the Consumer Advocacy Panel from 1 July 2008 and NEMMCO will continue to fund the electricity market activities. The AEMC's contribution to 2008-2009 gas market activities is \$550,000.

On 1 July 2008 the National Gas Law commenced. Consequently the Commission assumes responsibility for the National Gas Rules, reviews, enquiries and the provision of advice to the MCE on gas market issues.

Apart from the above, 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

2008
\$'000

2007
\$'000

Note 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:

| | | |
|---------------------|-------|-------|
| Cash flow statement | 9,942 | 4,621 |
| Balance sheet | 9,942 | 4,621 |

RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES TO NET RESULT

| | | |
|---|---------|-------|
| Net cash provided by operating activities | 5,936 | 2,752 |
| Add/(less) non-cash items: | | |
| Rent incentive amortisation expense | 213 | 80 |
| Depreciation and amortisation expense | (180) | (203) |
| Interest revenue from discounting of interest free loan | – | 140 |
| Interest expense from discounting of interest free loan | – | (140) |
| Interest expense capitalised | – | (85) |
| Net loss on disposal of non-current assets | (334) | – |
| Change in assets and liabilities | | |
| Increase/(decrease) in receivables | (1,534) | 4,383 |
| (Decrease)/increase in other assets | 46 | (6) |
| (Increase)/decrease in payables | (1,383) | (32) |
| Decrease /(increase) in employee benefits | (339) | 41 |
| Net result | 2,425 | 6,930 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

Note 26. Financial instruments / Financial risk management

Details of significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised with respect to each class of financial asset, financial liability are disclosed in Note 2 Summary of Significant Accounting Policies.

| CATEGORY OF FINANCIAL ASSET AND LIABILITY | BALANCE SHEET LINE ITEM | NOTE | CARRYING AMOUNT 2008 \$'000 | FAIR VALUE 2008 \$'000 | CARRYING AMOUNT 2007 \$'000 | FAIR VALUE 2007 \$'000 |
|---|------------------------------------|------|--------------------------------------|---------------------------------|--------------------------------------|---------------------------------|
| FINANCIAL ASSETS | | | | | | |
| Cash and cash equivalents | Cash and cash equivalents | 25 | 9,942 | 9,942 | 4,621 | 4,621 |
| Loans and receivables | Receivables ⁽¹⁾ | 12 | 3,942 | 3,942 | 5,442 | 5,442 |
| | Total financial assets | | 13,884 | 13,884 | 10,063 | 10,063 |
| FINANCIAL LIABILITIES | | | | | | |
| Financial liabilities | Payables ⁽¹⁾ | 16 | 945 | 945 | 407 | 407 |
| | Total financial liabilities | | 945 | 945 | 407 | 407 |

(1) Receivable and payable amounts disclosed here exclude amounts relating to statutory receivables and payables. In government, certain rights to receive or pay cash may not be contractual and therefore in these situations, the requirements will not apply. Where rights or obligations have their source in legislation such as levy receivables/ payables, tax equivalents, commonwealth tax etc they would be excluded from the disclosure. The standard defines contract as enforceable by law. All amounts recorded are carried at cost (not materially different from amortised cost) except for employee on-costs which are determined via reference to the employee benefit liability to which they relate.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

Note 26. Financial instruments / Financial risk management (continued)

CREDIT RISK

Credit risk arises when there is the possibility of the Commission's debtors defaulting on their contractual obligations resulting in financial loss to the Commission. The Commission measures credit risk on a fair value basis and monitors risk on a regular basis and has minimal concentration of credit risk. The Commission does not engage in any high risk hedging for its financial assets. For the year ended 30 June 2008 no allowance for impairment of financial assets was deemed necessary. The Commission does not hold any collateral as security to any of its financial assets.

The following table discloses the aging of financial assets, past due including impaired assets past due.

| | OVERDUE FOR < 30 DAYS \$'000 | OVERDUE FOR 30-60 DAYS \$'000 | OVERDUE FOR > 60 DAYS \$'000 | TOTAL \$'000 |
|--|------------------------------------|-------------------------------------|------------------------------------|-----------------|
| AGEING ANALYSIS OF FINANCIAL ASSETS | | | | |
| 2008 | | | | |
| Not impaired | | | | |
| Receivables | 3,942 | – | – | 3,942 |
| 2007 | | | | |
| Not impaired | | | | |
| Receivables | 5,259 | – | 183 | 5,442 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

| | CARRYING AMOUNT \$'000 | LESS THAN 1 YEAR \$'000 | 1-5 YEARS \$'000 | > 5 YEARS \$'000 |
|--|---------------------------|-------------------------------|---------------------|---------------------|
|--|---------------------------|-------------------------------|---------------------|---------------------|

Note 26. Financial instruments / Financial risk management (continued)

CREDIT RISK (CONTINUED)

The following table discloses the maturity analysis of financial assets and financial liabilities.

MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

| 2008 | | | | |
|------------------------------------|---------------|---------------|-----------|----------|
| Financial assets | | | | |
| Cash & cash equivalent | 9,942 | 9,942 | – | – |
| Receivables | 3,942 | 3,942 | – | – |
| Total financial assets | 13,884 | 13,884 | – | – |
| Financial liabilities | | | | |
| Payables | 945 | 886 | 59 | – |
| Total financial liabilities | 945 | 886 | 59 | – |
| | | | | |
| 2007 | | | | |
| Financial assets | | | | |
| Cash & cash equivalent | 4,621 | 4,621 | – | – |
| Receivables ⁽¹⁾ | 5,442 | 5,442 | – | – |
| Total financial assets | 10,063 | 10,063 | – | – |
| Financial liabilities | | | | |
| Payables ⁽¹⁾ | 407 | 407 | – | – |
| Total financial liabilities | 407 | 407 | – | – |

(1) Receivable and payable amounts disclosed here exclude amounts relating to statutory receivables and payables. In government, certain rights to receive or pay cash may not be contractual and therefore in these situations, the requirements will not apply. Where rights or obligations have their source in legislation such as levy receivables/ payables, tax equivalents, commonwealth tax etc they would be excluded from the disclosure. The standard defines contract as enforceable by law.

Liquidity risk – Liquidity risk arises where the Commission is unable to meet its financial obligations as they fall due. The continued existence of the Commission in its present form is dependent on Government policy in each of the National Electricity Market jurisdictions and on continuing contributions from participants for the Commission's administration and programs. Undisputed accounts are settled within 30 days from the date of the invoice or date the invoice is first received. In the event of a dispute, payment is made 30 days from resolution. The Commission's exposure to liquidity risk is insignificant based on past experience and current assessment of risk.

Market risk – The Commission's exposure to Market risk is insignificant based on past experience and current assessment of risk. There is no exposure to interest rate risk as there is no interest bearing liabilities. In addition, there is no exposure to foreign currency or other price risks.

Sensitivity disclosure analysis – A sensitivity analysis has not been undertaken for the interest rate risk as it has been determined that the possible impact on profit and loss or total equity from fluctuations in interest rates is immaterial.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

| | 2008 \$'000 | 2007 \$'000 |
|---|----------------|----------------|
| Note 27. Disclosure of administered items | | |
| RECEIPTS | | |
| Receipts from the National Electricity Market Management Company Limited (NEMMCO) | 1,779 | 1,879 |
| Total receipts | 1,779 | 1,879 |
| PAYMENTS | | |
| Payments to the Advocacy Panel | (1,779) | (1,879) |
| Total payments | (1,779) | (1,879) |
| Net cash | – | – |

The Commission is required pursuant to the Rules under the National Electricity (SA) Act 1996 to receive monies from NEMMCO to fund the Advocacy Panel activities and pass these on to the Advocacy Panel in full. An administrative arrangement is in place whereby NEMMCO make payments directly to the 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 2008. The total administered equity at 30 June 2008 is nil.

On 1 July 2008, the Consumer Advocacy Panel (“the Panel”) was established by the *Australian Energy Market Commission Establishment Act 2004* (“the Act”), as amended, to replace the Advocacy Panel. The current members of the Panel continue in office in accordance with the Act.

The Ministerial Council on Energy decided that in order to provide for long-term energy advocacy arrangements which dealt with both gas and electricity and to enable clear and transparent governance and accountability mechanisms, the most appropriate mechanism to implement the new consumer advocacy arrangements would be through amendments to the Australian Energy Market Commission Establishment Act 2004. This Bill establishes the Consumer Advocacy Panel (the Panel) as a constituent, but independent, part of the Australian Energy Market Commission. While the Australian Energy Market Commission will be responsible for the administration of the new Consumer Advocacy Panel, to ensure the independence of the Panel is not compromised, the Bill clearly states the Panel’s functions in allocating grants and commissioning research are not subject to the direction or control of the Australian Energy Market Commission or Ministerial Council on Energy.

STATUTORY REPORTS

External consultants

The AEMC has established a panel of providers to provide advice and assistance in relation to the economic and related regulation of energy markets. Panel providers have been appointed on two year terms with optional extensions. The AEMC also seeks competitive proposals for individual work scopes where the nature of the work warrants.

The following tables set out the organisations engaged to provide consultancy services and the projects to which the services relate.

Table 1: Panel Providers

| COMPANY | DESCRIPTION OF WORK | \$ |
|--------------------------------|---|--------------|
| Allen Consulting Group | Review of Competition Effectiveness in Electricity and Gas Retail Markets – Victoria Review of Competition Effectiveness in Electricity and Gas Retail Markets – South Australia | \$25,222 |
| CRA International Pty Ltd | Comprehensive Reliability Review Review of Competition Effectiveness in Electricity and Gas Retail Markets – Victoria Congestion Management Review | \$311,315.78 |
| Firecone Ventures Pty Ltd | National Transmission Planner Review Review of Current Energy Frameworks in light of Climate Change Policies | \$159,284.29 |
| Frontier Economics Pty Limited | Congestion Management Review Abolition of Snowy Region Split Snowy Region Congestion Pricing and Negative Residue Management Arrangements for the Snowy Region Review of Demand Side Participation in the NEM Compensation for Administered Price Caps | \$596,578.60 |
| LECG | Review of Competition Effectiveness in Electricity and Gas Retail Markets – Victoria Review of Competition Effectiveness in Electricity and Gas Retail Markets – South Australia Victorian Jurisdictional Derogation (Advanced Metering Infrastructure Roll Out) | \$381,813.52 |
| McGregor Tan Research | Review of Competition Effectiveness in Electricity and Gas Retail Markets – South Australia | \$99,200 |
| NERA Australia Pty Ltd | National Transmission Planner Review Review of Competition Effectiveness in Electricity and Gas Retail Markets – Victoria Review of Competition Effectiveness in Electricity and Gas Retail Markets – South Australia Review of Demand Side Participation in the NEM | \$290,470.00 |

STATUTORY REPORTS

| COMPANY | DESCRIPTION OF WORK | \$ |
|---------------------------------------|--|--------------|
| Phacelift Consulting Services Pty Ltd | Review of Competition Effectiveness in Electricity and Gas Retail Markets – Victoria Central Dispatch and Integration of Wind and Other Intermittent Generation Integration of NEM Metrology Requirements Victorian Jurisdiction Derogation (Advanced Metering Infrastructure Roll Out) | \$102,608.34 |
| ROAM Consulting Pty Ltd | National Transmission Planner Review | \$24,750.00 |
| The Brattle Group, Inc | Demand Management National Transmission Planner Review | \$191,173.98 |

Table 2: Non-Panel Providers

| NON-PANEL COMPANY | DESCRIPTION OF WORK | \$ |
|---------------------------------------|--|--------------|
| Birmingham Research & Development Ltd | Review of Competition Effectiveness in Electricity and Gas Retail Markets – Victoria | \$21,572.08 |
| EGR Consulting Ltd | Congestion Management Review | \$16,032.00 |
| KEMA Consulting | National Transmission Standards Review | \$79,224.32 |
| Wallis Consulting Group Pty Ltd | Review of Competition Effectiveness in Electricity and Gas Retail Markets – Victoria | \$138,450.00 |

Occupational Health and Safety

The AEMC is subject to the New South Wales Occupational Health and Safety Act and Workers Compensation Laws. This is the second year of operation for the AEMC's Occupational Health and Safety Committee which is made up of staff representatives and a member of the Senior Management Team. This Committee is responsible for;

- Providing guidance and a systematic approach to managing occupational health and safety 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 zero workplace injuries during the year.

MCE Statements of Policy Principles

In 2007-2008 there was one Statement of Policy Principles made by the MCE on 14 June 2008. It related to the accelerated roll-out of smart meters in the National Electricity Market. Details can be accessed on the MCE website.

Last Resort Planning Power

The AEMC has a power under clause 5.6.4 of the National Electricity Rules to direct one or more registered participants in the NEM to:

- identify a potential transmission project and apply the regulatory test for transmission investment to that project; or
- to apply the regulatory test for transmission investment to a potential transmission project identified by the Commission.

This is known as the Last Resort Planning Power and its purpose is to ensure timely and efficient inter-regional transmission investment for the long term interests of consumers of electricity. The Last Resort Planning Power is only applicable to projects and problems relating to constraints in national transmission flow paths. The AEMC did not exercise its Last Resort Planning Power in the 2007/2008 financial year. The AEMC is currently considering projects and problems to which it may exercise the power and we envisage that this process will involve industry participation.

Demand Side Participation

The Australian Energy Market Commission initiated a Review on Demand Side Participation in the National Electricity Market in October 2007. It is the first Review to be initiated by the AEMC. Since it was established in 2005 the AEMC has identified a range of issues relating to the integration of demand side actions in the energy market. For detail on this Review see the Market Reviews section.

Freedom of Information

The AEMC is subject to the Freedom of Information Act 1991 (SA). A Freedom of Information statement is available to all on the AEMC web site. There were no requests lodged under Freedom of Information in 2007-2008.

NEMMCO's Use of Powers of Direction

In 2007-2008 NEMMCO issued the following reports on directions:

- 18 August 2007 South Australia region (one direction);
- 10 October 2007 Queensland region (three directions);
- 29 October 2007 Queensland region (one direction);
- 5 November 2007 Queensland region (one direction);
- 31 December 2007 Tasmania region (one direction).

There were no directions in 2008 (1 January 2008 to 30 June 2008 inclusive).

Use by Registered Participants of Inspection and Testing Rights

NEMMCO has informed us that no inspections were conducted under clause 5.7.1 of the National Electricity Rules during the year under review. Restart tests are conducted in accordance with the requirements of the ancillary service agreements.

COMPLIANCE INDEX

The AEMC Annual Report 2007-2008 is prepared in accordance with the *Australian Energy Market Commission Establishment Act 2004* (SA) (the Act) and satisfies the requirements of the *Australian Energy Market Commission Establishment Regulations 2005* (SA). This index indicates where each of the items the AEMC must report on is located within the report.

- 1) A report of the AEMC under section 27 of the Act must include a report on the following in respect of the financial year concerned:
 - a) the National Energy Law provisions and other legislative provisions that confer functions on the AEMC
[National Energy Laws page 12](#)
 - b) the AEMC's relationship to other bodies involved in the administration of National Energy Laws
[National Energy Laws page 12](#)
[Energy Market Governance page 15](#)
 - c) the membership and organisation of the AEMC
[People and Structure page 17](#)
[Expert Panels page 47](#)
 - d) the AEMC's strategic plans and the relationship of the plans to objectives set out in the National Energy Laws
[Chairman's Report page 7](#)
 - e) the AEMC's activities and their efficiency and effectiveness
[Chairman's Report page 7](#)
[Chief Executive's report page 10](#)
 - f) the AEMC's financial affairs
[Financial Statements page 50](#)
 - g) disclosures made by Commissioners under section 22 of the Act
[AEMC Governance page 22](#)
 - h) positions in the employment of the AEMC, including salary levels for the positions, any positions created or filled and any positions abolished or vacated
[People and Structure page 17](#)
[Notes to Financial Statements page 66](#)
 - 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
[Statutory Reports page 81](#)
 - j) the occupational health, safety and rehabilitation programs of the AEMC and their effectiveness
[Statutory Reports page 82](#)
 - k) any instances of fraud in the operations of the AEMC and the strategies implemented to prevent and control fraud
[AEMC Governance page 23](#)
 - l) in relation to electricity
 - I. the extent to which the operation of the Rules has met the national electricity market objective and the strategic development of the Rules to meet the national electricity market objective.
[Rule Making pages 24-35](#)
 - 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 page 82](#)
 - III. The Rule making activities of the AEMC under the National Electricity Law, including
 - A) requests for Rules in each of the categories of jurisdictional derogations, participant derogations, non-controversial Rules and urgent Rules and
[Rule making pages 24-31](#)
 - B) the stages at which proposed Rules are in the Rule making procedure, and
[Rule making pages 31-35](#)
 - C) decisions of the AEMC not to proceed with requests for Rules, and
[Rule making page 35](#)
 - D) Rules made, and
[Rule making pages 24-31](#)
 - E) Rules that have come into operation
[Rule making pages 24-31](#)
 - IV. MCE directed reviews and AEMC initiated reviews under the National Electricity Law
[Market Reviews pages 36-46](#)
 - V. Market development functions
[Chairman's Report page 7](#)
[Market Reviews pages 36-46](#)
 - VI. Recommendations made by the AEMC for the MCE to request the making of Rules
[Rule making page 24](#)
 - 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 page 47](#)
 - VIII. NEMMCO's use of powers of direction in relation to power station security under clause 4.8.9(a) of the Rules
[Statutory Reports page 83](#)
 - 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 page 83](#)
 - 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 page 83](#)
[Market Reviews page 42](#)
- 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 page 50](#)
- Include as a part in the AEMC Annual Report the National Electricity Consumers Advocacy Panel's report. The Panel's accounts must also be included.
[Appendix One page 86](#)

TERMS AND ABBREVIATIONS

| | |
|-------------------|--|
| ACCC | Australian Competition & Consumer Commission |
| AEMA | Council of Australian Governments Australian Energy Market Agreement |
| AEMC | Australian Energy Market Commission |
| AEMO | Australian Energy Market Operator |
| AER | Australian Energy Regulator |
| COAG | Council of Australian Governments |
| Commission | See AEMC |
| 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 rule change process (urgent rules and non-controversial rules under section 96 of the NEL) |
| Jurisdiction | An area over which legal authority extends – Australian State, Territory or Commonwealth |
| MCE | Ministerial Council on Energy |
| NCC | National Competition Council |
| NEL | National Electricity Law |
| NEM | National Electricity Market |
| NEMMCO | National Electricity Market Management Company |
| NER | National Electricity Rules |
| NGL | National Gas Law |
| NGM | National Gas Market |
| NGR | National Gas Rules |

APPENDIX 1

National Electricity Consumers Advocacy Panel

Annual Report 2007-2008

The following report is the report of the National Electricity Consumers Advocacy Panel published in accordance with the provisions of the *Australian Energy Market Commission Establishment Act 2004* of South Australia as amended.

The National Electricity Consumers Advocacy Panel is an independent body and as such its accounts are not consolidated into the accounts of the AEMC.

