

imo 
Independent Market Operator

A background image showing a row of white wind turbines on the left and a series of high-voltage power line towers on the right, all overlaid with a semi-transparent blue filter.

2010/11 Operational Plan

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Executive Summary

The 2010/11 year will be the fourth full year of operation by the Independent Market Operator (IMO) of the Wholesale Electricity Market for Western Australia. This year the IMO will focus on looking for opportunities to improve our service delivery to customers and to support the market in undertaking its next evolutionary step.

As part of the Operational Plan for 2010/11 we will:

- Enhance market transparency through the publication of market data and information on the IMO website and market systems.
- Continue to proactively manage market evolution through the publication and implementation of a Market Rules Evolution Plan.
- Actively manage the operational risks associated with the market systems.
- Build redundancy in market operations (people and systems).
- Undertake the proactive retention of institutional knowledge.

The Operational Plan for 2010/11 is consistent with both the IMO's strategic objectives and the Market Objectives.

Operational priorities have been developed based on the IMO's experience in operating the Wholesale Electricity Market. They are incorporated into the Operational Plan and budget for 2010/11.

From 1 July 2009 to April 2010 the IMO has achieved the majority of its Key Performance Indicators.

Plan Governance and Approval

The IMO received approval in March 2010 of its Allowable Revenue from the Economic Regulation Authority (ERA) for the Review Period 2010/11 to 2012/13.

This Operational Plan and budget is consistent with the ERA's determination on the IMO's Allowable Revenue.

The IMO Board approved the draft 2010/11 Operational Plan at its meeting on 15 April 2010.

In accordance with the *Electricity Industry (Independent Market Operator) Regulations 2004*, the IMO is required to submit to the Minister for Energy the 2010/11 Operational Plan by 30 April 2010.



The Minister is required to approve the Operational Plan within thirty business days.

The IMO must publish the approved budget within five business days of receiving the Minister's approval.



1 Independent Market Operator – Corporate Structure

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

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

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

1.1 Market Objectives

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

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

1.2 IMO Governance Framework

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

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

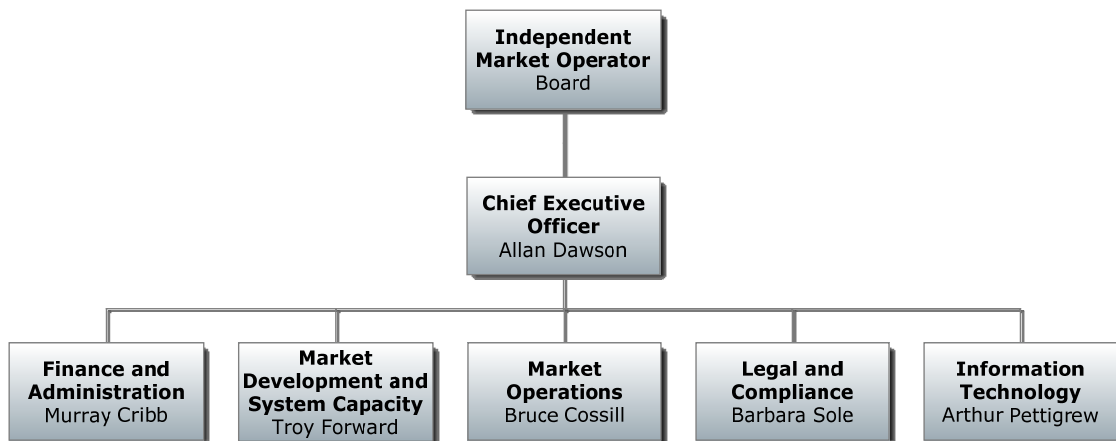


The IMO Board members are:

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

1.3 IMO Organisational Structure

Figure 1. IMO Organisational Chart



The IMO currently has 27 approved positions, corresponding to 26.3 FTE's after adjusting for part-time positions.

Two additional positions (1.4 FTE's) have been provided for and approved through the Allowable Revenue assessment process to meet the ongoing business needs of the IMO:

- Communications Manager (0.4 FTE) – to manage a more effective engagement with stakeholders; and
- Corporate Support Officer (1.0 FTE) – to support a higher administrative workload.

2 2009/10 in Review

The main focus for the IMO in 2009/10 was enhancing the professional delivery of our services. This included:

- Proactively managing market evolution by publishing a Market Rules Evolution Plan.
- Actively participating on the implementation committee established flowing from Government's review of Verve Energy.
- Operationalising an HR strategy.
- Hosting the third APEx (Association of Power Exchanges) Asia-Pacific Region Meeting.
- Leveraging technology to more effectively service stakeholders with the launch of the new website, and distribution of electronic information services (e.g. LoadWatch, RulesWatch).

2.1 Key Performance Indicators 2009/10 (Current to 31 March 2010)

Strategic Objective: Market Operations

Measure	Performance Expectation	Progress to 31 March 2010
Number of STEM Market Suspensions	≤ 2	0
STEM Market Delay	≤ 5	8 ¹
Unplanned System Availability (3,500 hours per year – 7:00 am – 5:00 pm seven days per week)	≤ 20 hours not available	10 hours 14 minutes
Late Settlement Statements	≤ 2	7 ²

¹ An air conditioning fault caused three of the delays. This is being addressed by relocating server equipment to a commercial data centre in May 2010.

A software technical issue caused remainder of the delays. The issue has been resolved.

² Software technical issues caused delays in the time taken to produce settlement adjustments. Matter has now been resolved.



Strategic Objective: Market Development

Measure	Performance Expectation	Progress to 31 March 2010
Market Rules Evolution Plan agreed and published	2 times per year	1 completed and prioritised ³
Implementing all Rule Changes within agreed timeframes	≥ 95%	87% of rule change timeframes met for the year to date. 16 of 120 (13%) timeframes have been extended to date. ⁴

Strategic Objective: Customers and Stakeholders

Measure	Performance Expectation	Progress to 31 March 2010
Number of registrations for market training	≥ 150 people	372 registrations.
Stakeholder survey completed and results published	Achieved	Stakeholder survey completed and the results published in early 2010.

Strategic Objective: Financial Responsibility

Measure	Performance Expectation	Progress to 31 March 2010
Expenditure Control	≤ Allowable Revenue	Within budget
Capital Expenditure Control	≤ Capital Budget	Within budget

Strategic Objective: IMO Capacity and Capability

Measure	Performance Expectation	Progress to 31 March 2010
Training and development	40 hours per person per year	Average 38 hours per person

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

⁴ The IMO considers that adhering to the originally agreed timeframes for rule changes can sometimes produce sub optimal outcomes and as such has utilised the ability to extend rule change timeframes, as provided for in the Market Rules. The use of timeframe extensions gives the IMO additional analytical time, when necessary, which leads to better outcomes.



3 Strategic Direction and Operational Priorities for 2010/11

THE IMO'S STRATEGIC OBJECTIVES

Market Operations

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

Market Development

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

Customers and Stakeholders

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

Financial Responsibility

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

IMO Capacity and Capability

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

The IMO's strategic objectives remain unchanged from 2009/10.

The 2010/11 Operational Plan is consistent with these strategic objectives.

3.1 Operational Priorities – External Influences

In establishing operational priorities for 2010/11, the IMO is cognisant of several factors that have the potential to affect the development of the Wholesale Electricity Market in WA:

- Issues flowing from the development of Government's Strategic Energy Initiative.
- Implementation of recommendations resulting from Government's review of Verve Energy.
- The need for extensive investment in transmission infrastructure.
- Limited natural gas availability in the medium term (3 to 5 years).

- Managing the impact of federal renewable energy policy and the proposed carbon pollution reduction scheme.

3.2 Operational Deliverables

The IMO's 2010/11 Operational Plan is predicated on operating the Market in compliance with the *Electricity Industry (Wholesale Electricity Market) Regulations 2004*, the *Electricity Industry (Independent Market Operator) Regulations 2004* and the Wholesale Electricity Market Rules.

In performing its functions the IMO relies on strong corporate governance and robust service delivery.

The IMO aims to minimise any disruption in market operations and rule breaches.

The IMO's operational deliverables are built on, and provide support to, the IMO's core functions.

Strategic Objective: Market Operations

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

- Develop and disseminate high-quality market analysis to Market Participants and stakeholders in a timely manner via the enhanced market systems and IMO website.
- Promote the Reserve Capacity Mechanism to prospective Market Participants, investors and financiers.
- Simplify and improve the registration and settlement functions of the market systems.

Strategic Objective: Market Development

The IMO promotes market evolution to meet the needs of the market as a whole. Development is based on robust analysis, objective reasoning and consultation.

- Continue to actively participate in the implementation of the Oates Review ensuring that the outcomes are consistent with the Market Objectives.
- Monitor electricity market evolution in other jurisdictions and incorporate appropriate ideas into the Market Rules Evolution Plan.

Strategic Objective: Customers and Stakeholders

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

- Revise and update the content on the IMO website to meet the needs of our stakeholders.



- Utilise information obtained through the regular stakeholder survey to improve IMO service delivery.
- Maintain market training to meet the needs of our stakeholders.

Strategic Objective: Financial Responsibility

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

- Complete a thorough review of the IMO Independent Expert Panel to ensure that the IMO has the appropriate resources to call upon to effectively undertake its role.
- Planned audits conducted in accordance with approved audit program.

Strategic Objective: IMO Capacity and Capability

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

- Leverage off expertise available through market operators in other jurisdictions.
- Take measures to identify and mitigate against key person risk.
- Support an annual graduate program.

3.3 Special Projects

3.3.1 Renewable Energy Working Group

The IMO was requested to undertake a significant project in 2009/10 that evaluates the impact of renewable energy targets on the Wholesale Electricity Market. This project included an evaluation of how a higher level of intermittent generation will impact on the operation of the market and the power system.

This project is aligned with the key issues identified by the Australian Energy Market Commission's recently published Review on Energy Market Frameworks in Light of Climate Change Policies. A project scope was developed in conjunction with the Renewable Energy Generation Working Group.

The cost estimate for the project, including the cost of a project manager, was estimated at \$704,000 which was budgeted in 2009/10. Due to timeframes in support of Market Rule development and change processes, not all the budgeted expenditure will be realised by 30 June 2010. At the time of writing, it is assessed that an amount of \$200,000 will need to be carried over to 2010/11.



3.3.2 Review of Verve Energy (Oates Review Implementation)

The IMO continues to be involved in responding to implementation issues flowing from Government's review of Verve Energy (the Oates Review). Since the report's release, the IMO has actively participated on the implementation committee established to guide implementation issues.

The current situation is that several options for market redesign are being considered, with models ranging from essentially enhancing the existing arrangement to a sophisticated gross dispatch model. Irrespective of the model agreed upon, the preliminary timetable anticipates a fully functioning arrangement by June 2011.

The exact nature of the effort and resources required to effect any change will clearly be dependent on the model that is adopted. Notwithstanding, a minimum level of effort will be required though to June 2011, in line with the timetable.

The IMO has engaged specialised consultancy support to provide advice to the implementation committee, at a monthly rate of \$29,200. This will need to continue though 2010/11.

Other "base" level identified costs include the need for legal drafting and review of market rule changes and market procedures (\$100,000), contracting support for development of processes (\$75,000) and engagement of a temporary staffing resource to coordinate and progress issues internally (\$144,000, inclusive of on-costs).

The total costs for 2010/11 amount to \$669,000. For the purposes of maintaining sufficient cash flow, it is important this funding be provided through the budget process.

Once the market design model has been settled, it will then be possible to more completely assess the full costs involved. This will then need to be:

- Submitted to the Minister for Energy as a modification to the 2010/11 Operational Plan (under IMO Regulation 33).
- Submitted to the ERA for consideration as a "Declared Market Project", should the project cause the IMO's approved Allowable Revenue for the new triennium to be exceeded by 15% (under Market Rule 2.22.14).



4 2010/11 Budget

4.1 Three Year Review Period – Approval Provided

In accordance with clause 2.22.3 of the Wholesale Electricity Market Rules, the ERA approved the IMO's Allowable Revenue in March 2010 for the Review Period 2010/11 to 2012/13.

Allowable Revenue is defined as the revenue that may be recovered through fees to meet the costs of providing the IMO's services to the market.

The ERA determination allowed for total expenditure across the review period of \$34.046 million (after allowing for interest revenue of \$102,000), including expenditure of \$10.922 million in 2010/11 (after allowing for interest revenue of \$34,000).

4.2 Inter-Period Budget Adjustment

The IMO is required under the Market Rules to return an operating surplus to Market Participants via an adjustment to the Allowable Revenue two years hence.

In 2008/09 the IMO budgeted for an operating loss of \$2.493 million, to account for the surplus recorded in 2006/07. The actual result in 2008/09 was a loss of \$1.805 million, being \$688,000 less than the budgeted loss of \$2.493 million. The proposed budget in the 2010/11 Operational Plan takes into account an adjustment of this \$688,000 .

The relevant inter-period budget adjustments are set out below.

Financial Budget/Result	2006/07 (000)	2007/08 (000)	2008/09 (000)	2009/10 (000)	2010/11 (000)
Budgeted Profit/(Loss)	Nil	Nil	(2,493)	(2,232)	(688)
Actual Profit/(Loss)	<u>2,493</u>	<u>2,232</u>	<u>(1,805)</u>	<u>TBD</u>	<u>TBD</u>
Variance	2,493	2,232	688	TBD	TBD

4.3 IMO Proposed Budget by Functional Areas

The IMO is required under the Market Rules to prepare a budget for each service. Accordingly the budgeted expenditure has been broken down by functional service area.

Functional service area	Budgeted 2010/11 (000)
Market Administration	2,016
Market Operation	7,058
System Planning	<u>1,848</u>
Total Budget (Normal Operations)	10,922
Special Projects ⁵	<u>869</u>
Total Budgeted Expenditure	11,791

4.4 IMO Sources of Funding

The IMO is required under the *Electricity Industry (Independent Market Operator) Regulations 2004* to estimate the sources of funding.

Sources of funding	Budgeted 2010/11 (000)
Market Fees (Adjusted ⁶)	10,200
Inter-Period Adjustment (from 2008/09)	688
Interest Revenue	<u>34</u>
Total Funding (Normal Operations)	10,922
Special Projects ⁷	<u>869</u>
Total Budgeted Funding	11,791

⁵ Special Projects will be allocated to Market Administration.

⁶ Adjusted Market Fees is the net result of the Allowable Revenue approved by the ERA (\$10,888,000) less the Inter-Period Adjustment from 2008/09 (\$688,000).

⁷ Special Projects will be funded from Market Fees.

4.5 IMO Proposed Budget by Classification Categories

The budgeted expenditure and interest approved by the ERA in 2010/11 is set out in the classification categories as shown below:

Classification	TOTAL \$'000
Employee Benefits Expense	4,013
Supplies & Services	4,684
Accommodation	325
Depreciation	1,712
Borrowing costs	<u>188</u>
Total Expenditure (Normal Operations)	10,922
Special Projects ⁸	<u>869</u>
Total Budgeted Expenditure	11,791
Less Interest revenue	(34)
Less Inter-Period Budget Adjustment	<u>(688)</u>
Market Fees (To be Levied)	11,069

⁸ Special Projects will be funded from Market Fees.

5 Market Fees

One of the IMO's responsibilities under the Market Rules is to charge Market Fees to recover the costs of:

- the IMO;
- System Management's wholesale market functions; and
- the Economic Regulation Authority's (ERA) market functions.

The Market Rules provide a methodology for calculating fees for settlement. The fee rates will be set to recover allowable revenue on the following basis:

- 50% on the basis of the forecast annual generation; and
- 50% on the basis of the forecast annual load.

There is fixed rate application fee set at a level commensurate with the direct costs borne by the IMO.

Prior to 30 June 2010 the IMO must publish the:

- Market Fee rate
- System Operation Fee rate
- Regulator Fee rate
- Rate for each Application Fee for 2010/11
- Total projected IMO fees for 2010/11
- Total projected System Operation Fees for 2010/11
- Total projected Regulator Fees for the ERA's market monitoring and regulation services for 2010/11

5.1 Market Fees for 2010/11

The total revenue to be recovered through Market Fees in 2010/11 is as follows:

Market Fees - Revenue Requirement	(\$000's)
IMO Revenue Requirement	10,200
System Management Revenue Requirement	TBA
ERA Revenue Requirement	TBA
Total Revenue to be recovered through Market Fees	TBA

The IMO is yet to receive advice from the ERA or System Management on their revenue requirements for 2010/11.

Following the release of updated energy forecasts in June 2010, the IMO will determine and publish the level of the Market Fee rate, System Operation Fee rate and Regulator Fee rate for 2010/11.

The indicative Market Fee rate relating to the IMO is set out below:

IMO Revenue Requirement 2010/11	(\$000's)
Revenue Requirement	11,069
Indicative IMO Market Fee Rate (MWh) ⁹	\$0.305

Trend in IMO Fee rate	IMO Fee recovered Dollars per MWh
2006/07	\$0.307
2007/08	\$0.322
2008/09	\$0.271
2009/10	\$0.266
2010/11 Projected ⁹	\$0.305

⁹ Influenced by Special Project funding in 2010/11 of \$869,000. The Market Fee rate without the Special Funding would be 0.281MWh



6 Proposed Key Performance Indicators – 2010/11

Strategic Objective: Market Operations

Measure	Performance Expectation
Number of STEM Market Suspensions	≤ 1
STEM Market delay	≤ 5
Unplanned system availability (3,500 hours per year – 7:00 am – 5:00 pm seven days per week)	≤ 20 hours not available
Late Settlement statements (STEM & Non-STEM)	≤ 2

Strategic Objective: Market Development

Measure	Performance Expectation
Market Evolution Plan reviewed and updated	1 time per year
High Priority Rule Changes on Market Rule log	Each change progressed within 3 months
Medium Priority Rule Changes on Market Rule log	Less than 5 outstanding issues (by the end of 2010/11)
Conduct Investor Information Briefings	Three national briefings conducted, with potential for one international briefing

Strategic Objective: Customers and Stakeholders

Measure	Performance Expectation
Number of market training sessions presented	≥ 25 courses

Strategic Objective: Financial Responsibility

Measure	Performance Expectation
Expenditure Control	≤ Allowable Revenue
Capital Expenditure Control	≤ Capital Budget



Strategic Objective: IMO Capacity and Capability

Measure	Performance Expectation
Training and development undertaken by IMO staff	40 hours per person

