



INDEPENDENT  
MARKET  
OPERATOR



## 2015/16 Operational Plan

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## Executive Summary

On 30 September 2015, the Minister for Energy, the Honourable Dr Mike Nahan announced the transfer of the system management and operation of the wholesale electricity market in the South West interconnected System to the Australian Energy Market Operator (AEMO).

The transfer of the functions of the Independent Market Operator (IMO) to AEMO will take place at 8am on Monday 30 November 2015, but will not include the transfer of certain aspects of the rule change or compliance functions which will remain with the IMO until a decision is made on where these functions will reside.

Under Section 32 of the *Electricity Industry (Independent Market Operator) Regulations 2004*, the Minister may return a Draft Operational Plan to the IMO and request it to consider or further consider any matter and deal with it in the draft plan. A letter was received from the Minister for Energy on 13 November 2015 asking the IMO to amend and resubmit the 2015-16 Operational Plan and Budget to accommodate the revised arrangements, recently announced by the State Government to materially alter the future functions and governance arrangements for the Independent Market Operator.

This revised Operational Plan for 2015-16 takes into account the changes requested by the Minister for Energy and also addresses the changes and budgetary impacts of the Minister's announcement on 30 September 2015. Where possible the estimated allocation of costs between the IMO and AEMO for their respective functions have been provided at a total expenditure level.

The functions remaining with the IMO, primarily compliance enforcement and rule administration, will be provided by a team of five staff that will remain IMO employees. All other staff have been made offers to transfer to AEMO in their substantive positions. Corporate Support for the staff and functions remaining with the IMO will be provided by AEMO under a Service Level Agreement until a decision is made on where these staff and functions will reside, most like within another Government agency.

AEMO Management have been consulted in the preparation of the Revised Operational Plan and have advised that the content of the plan is reasonable.

Every three years, the IMO is required to submit a three year Allowable Revenue Submission to the Economic Regulation Authority (ERA) and for the first time the submission for the period 1 July 2013 to 30 June 2016 included a three year Forecast Capital Expenditure for considered as part of the submission.

In April 2013, the ERA determined that the IMO's Wholesale Electricity Market (WEM) Allowable Revenue and Forecast Capital Expenditure should be the full amount proposed by the IMO.

In August 2013, the IMO commenced the initial operation of the Gas Services Information (GSI). For the GSI, the IMO is also required to submit a three year Allowable Revenue Submission to the ERA, including Forecast Capital Expenditure.

In November 2013, the ERA determined that the IMO's GSI Allowable Revenue and Forecast Capital Expenditure should be the full amount proposed by the IMO.

The 2015/16 Revised Operational Plan represents the third and final year of both the WEM and GSI Allowable Revenue and Forecast Capital Expenditure determinations for the period 1 July 2013 to 30 June 2016.

The IMO is required to separately account for both WEM and GSI budgets, with both functions included as separate sections in the Revised Operational Plan.

## Plan Governance and Approval

### Wholesale Electricity Market (WEM)

The IMO received approval in April 2013 of its WEM Allowable Revenue and Forecast Capital Expenditure from the Economic Regulatory Authority (ERA) for the Review Period 1 July 2013 to 30 June 2016.

The Operational Plan and budget is based on the third and final year of the WEM Allowable Revenue and Forecast Capital Expenditure determined by the ERA. Some changes have occurred to the IMO Operations since the WEM Allowable Revenue Determination was made in April 2013 resulting in a variance against the determined Allowable Revenue of 1.84%, well within the 15% tolerance allowed under the Wholesale Electricity Market Rules (Market Rules), as represented below:

	2013/14 (\$'000)	2014/15 (\$'000)	2015/16 (\$'000)	Total (\$'000)
ERA Approved Revenue	15,825	16,265	16,686	48,776
Actual/Budget Revenue	<u>16,657</u>	<u>14,945</u>	<u>18,069</u>	<u>49,671</u>
<b>Variance \$</b>	<b>(832)</b>	<b>1,320</b>	<b>(1,383)</b>	<b>(895)</b>
<b>Variance %</b>	<b>5.26%</b>	<b>(8.11%)</b>	<b>8.29%</b>	<b>1.84%</b>

The IMO Board approved the 2015/16 Revised Operational Plan at its meeting on 20 November 2015, after consulting with AEMO on the content of the Revised Operational Plan.

In accordance with Part 4 of the *Electricity Industry (Independent Market Operator) Regulations 2004*, the IMO is required to submit to the Minister for Energy the 2015/16 Operational Plan by 30 April 2015. This Revised Operational Plan is provided in response to the Minister for Energy's letter dated 13 November 2015, requesting the IMO to review the Operational Plan under Regulation 32 of the *Electricity Industry (Independent Market Operator) Regulations 2004*.

In accordance with section 2.22 of the Market Rules, the IMO is required to provide the Minister for Energy with a WEM budget proposal for the coming financial year, with the Minister for Energy required to make a decision on the budget within 30 business days. This budget proposal forms part of this Revised Operational Plan.

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

### Gas Services Information (GSI)

The IMO received approval in November 2013 of its GSI Allowable Revenue and Forecast Capital Expenditure from the Economic Regulatory Authority (ERA) for the Review Period 2013/14 to 2015/16.

The Operational Plan and budget is consistent with the third and final year of the GSI Allowable Revenue and Forecast Capital Expenditure determined by the ERA.

The IMO Board approved the 2015/16 Operational Plan at its meeting on 22 April 2015.

In accordance with the rule 111 of the Gas Services Information Rules (GSI Rules), the IMO is also required to submit to the Minister for Energy the 2015/16 GSI Budget Proposal by 30 April 2015.

This Operational Plan includes the GSI Budget Proposal for the coming financial year, with the Minister for Energy required to make a decision on the budget.

The IMO must publish the approved annual revenue for the GSI by 30 June each year or within five business days of receiving the Minister for Energy's approval should this be received after 30 June.

## 1. Independent Market Operator – Corporate Structure

The IMO is an independent body corporate that was established on 1 December 2004 to administer and operate the Wholesale Electricity Market (WEM) of Western Australia. In May 2011, the IMO was appointed to administer the Gas Services Information (GSI) in Western Australia.

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

- *Electricity Industry (Wholesale Electricity Market) Regulations 2004;*
- *Electricity Industry (Independent Market Operator) Regulations 2004;*
- Wholesale Electricity Market Rules;
- *Gas Services Information Regulations 2012;* and
- Gas Services Information Rules.

### 1.1 Electricity Market Objectives

The Electricity Industry Act 2004 sets the objectives of the WEM. 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 Gas Services Information Objectives

The Gas Services Information Act 2012 sets out the objectives of the GSI. The objectives of the Gas Bulletin Board (GBB) and Gas Statement of Opportunities (GSOO) are to promote the long term interests of consumers and natural gas in relation to:

- the security, reliability and availability of the supply of natural gas in the State;
- the efficient operation and use of natural gas services in the State;
- the efficient investment in natural gas services in the State; and
- the facilitation of competition in the use of natural gas services in the State.

### 1.3 Governance Framework

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

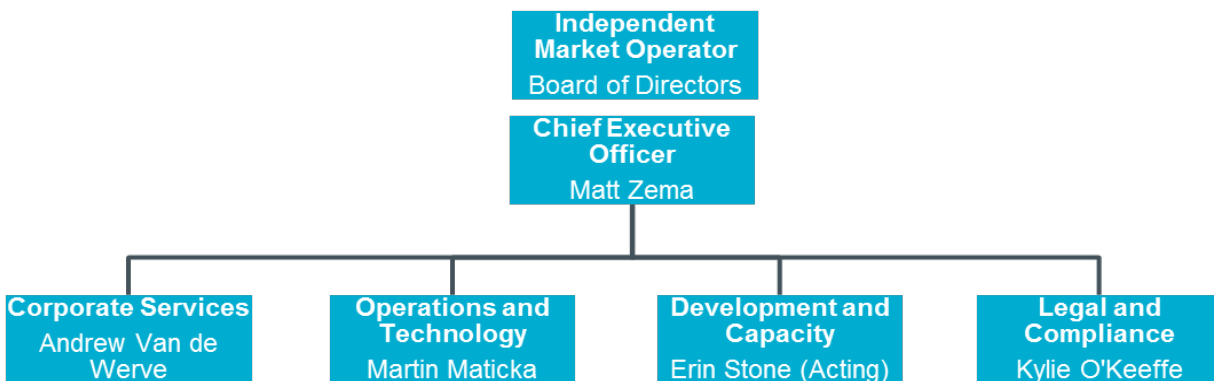
The IMO Board is appointed by the Minister for Energy and operates in accordance with the *Electricity Industry (Independent Market Operator) Regulations 2004*.

The current IMO Board members are:

- Mr John Kelly (Chairman)
- Mr Shaun Dennison
- Mr Roland Sleeman
- Mr Peter Kolf

### 1.4 Organisational Structure

The current IMO management structure changed on 23 October 2015.



The IMO currently has 47 approved positions, corresponding to 45.2 Full Time Equivalents (FTE) after adjusting for part-time positions. This is consistent with the positions included in the Allowable Revenue Determinations approved during 2013/14. The allocation of staff to the functions performed by the IMO is 39.9 FTE for WEM related activities and 5.3 FTE for GSI related activities.

As a result of the Ministerial announcement to transfer the majority of the IMO functions to AEMO, it is anticipated that 40.2 FTE will transfer to AEMO with 5 FTE remaining in the IMO to undertake the Compliance and Market Rule functions.<sup>1</sup>

**Table 1.1: Historical FTE Allocations**

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
WEM Functions	27.7	31.5	35.5	38.5	38.8	39.9
GSI Functions	-	-	4.5	4.5	5.1	5.3
<b>Total FTE Positions</b>	<b>27.7</b>	<b>31.5</b>	<b>40.0</b>	<b>43.0</b>	<b>43.9</b>	<b>45.2</b>

<sup>1</sup> These functions are most likely to transfer a yet to be decided Government Agency during the second half of the 2015/16 financial year.

## 2. 2014/15 in Review

In 2014/15, the IMO's main focuses were:

- Completing a full review of all market compliance obligations and ensuring they are documented in internal or market procedures in readiness for a comprehensive compliance audit on the Electricity functions;
- Completing a comprehensive audit of the compliance obligations under the GSI Rules;
- Continuing to develop market transparency through the publication of market data infographics on the IMO website and by providing market data in more user friendly, self-service format;
- Educating Stakeholders, particularly on stakeholder compliance as we moved from a reactive to proactive approach in this area;
- Continuing to manage market evolution through the publication and implementation of a Market Rules Evolution Plan (MREP), including review and prioritisation by the Market Advisory Committee (MAC);
- Actively managing and reducing the operational risks associated with market systems, in particular reviewing the market settlement processes and upgrading the settlement system;
- Building robust systems and developing staff to reduce key person dependencies including staff rotations to improve institutional knowledge; and
- Contributing to the Electricity Market Review (EMR) process.

Good progress has been made against the 2014/15 Key Performance Indicators, details of which are outlined below.

### 2.1 Key Performance Indicators 2014/15

#### *Strategic Objective: Operate Markets*

Measure	Performance Expectation Per Year	Actual Performance for 2014/15
<b>STEM Market delays and Suspensions</b>	≤ 5	2
<b>Forecast BMO generation (excluding planned outages)</b>	≥ 99.5%	99.99%
<b>Late Settlement Statements (STEM and Non-STEM)</b>	≤ 2	0
<b>GBB Report Generation (excluding planned outages)</b>	≥ 99%	100%

#### *Strategic Objective: Evolve the WEM and GSI*

Measure	Performance Expectation Per Year	Actual Performance for 2014/15
<b>Formal Review of Market Rules Evolution Plan for 2013 to 2016</b>	Once per year with MAC	Completed at December 2014 MAC meeting

**Strategic Objective: Build and Maintain Strong Relationships**

Measure	Performance Expectation Per Year	Actual Performance for 2014/15
<b>Number of participants in market training sessions</b>	Annual Participant numbers $\geq 250$	30 training courses held with 433 participants attending
<b>Number of forums, workshops and user groups held with the Energy Sector</b>	6 per year	17 industry forums, user groups and workshops were facilitated by the IMO during 2014/15 including: <ul style="list-style-type: none"> <li>• Compliance Update</li> <li>• Reserve Capacity Certification Workshop</li> <li>• Managing Market Information Workshop</li> <li>• Two WEMS IT User Groups</li> <li>• GSOO Briefing</li> <li>• WEMS IT Briefing</li> <li>• 2014 Relevant Methodology Review</li> <li>• Operations and Technology End of Year Update</li> <li>• Six Muja Transformer Stakeholder Briefings</li> <li>• Development of a Gas Market Industry Workshop</li> <li>• SWIS Electricity Demand Outlook</li> </ul>
<b>RulesWatch Newsletters sent to stakeholders</b>	$\geq 40$ per annum	45 RulesWatch Newsletters were sent to stakeholders
<b>Market Advisory Committee and Gas Advisory Board meetings held</b>	$\geq 10$ per annum	12 meetings were held - 7 MAC and 5 GAB



**Strategic Objective: Maintain Strong Financial Responsibility and Risk Management**

Measure	Performance Expectation Per Year	Actual Performance for 2014/15
<b>Expenditure Control</b>	≤ Allowable Revenue	Expenditure Control was 99.2% of Allowable Revenue
<b>Capital Expenditure Control</b>	≤ Forecast Capital Expenditure	Forecast Capital Expenditure was 92.4% of approved expenditure
<b>Risk Management Updates to Board</b>	3 updates per annum	3 Updates provided to Board
<b>Deliver Quarterly Report to Minister</b>	3 Reports per annum	3 Reports provided to the Minister

**Strategic Objective: Develop our Skills and Resources**

Measure	Performance Expectation Per Year	Actual Performance for 2014/15
<b>Employee happiness and satisfaction</b>	Turnover to be ≤ 15%	11.0% (5 resignations)
<b>Effective graduate program</b>	Retain graduates on average 3 years	Average retention current just under 2.5 years (2 graduates)
<b>Recruitment strategy effectiveness</b>	≤ 4 months to fill a position	Average of 2 months

### 3. Strategic Objectives and Operational Deliverables for 2015/16

#### 3.1 Strategic Objectives

##### 3.1.1 IMO Purpose

To achieve the market objectives in the operation and evolution of the Wholesale Electricity Market (WEM) and Gas Services Information (GSI). We accomplish this through collaboration, efficient processes and independent leadership, using our resources efficiently and investing in our people.

The IMO's strategic objectives have been revised for 2015/16 to reflect the continuing maturity of the organisation.

THE IMO'S STRATEGIC OBJECTIVES
<b>OPERATE MARKETS</b> <ul style="list-style-type: none"><li>The IMO operates reliable and efficient markets and information services with integrity and transparency.</li></ul>
<b>EVOLVE THE WEM AND GSI</b> <ul style="list-style-type: none"><li>The IMO leads short-term improvement and supports long-term development of the WEM and GSI, using robust analysis, objective reasoning and consultation.</li></ul>
<b>BUILD AND MAINTAIN STRONG RELATIONSHIPS</b> <ul style="list-style-type: none"><li>The IMO develops enduring relationships with customers and stakeholders based on trust, collaboration and open communication.</li></ul>
<b>MAINTAIN STRONG FINANCIAL RESPONSIBILITY AND RISK MANAGEMENT</b> <ul style="list-style-type: none"><li>All financial transactions have prudent governance oversight, with corporate risks proactively managed.</li></ul>
<b>DEVELOP OUR SKILLS AND RESOURCES</b> <ul style="list-style-type: none"><li>The IMO has the skills and resources to operate professionally and meet stakeholders' expectations.</li></ul>

#### 3.2 Operational Deliverables

The IMO's 2015/16 Operational Plan is predicated on operating the WEM and GSI in compliance with the:

- *Electricity Industry (Wholesale Electricity Market) Regulations 2004;*
- *Electricity Industry (Independent Market Operator) Regulations 2004;*
- Wholesale Electricity Market Rules;
- *Gas Services Information Regulations 2012;* and
- Gas Services Information Rules.

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

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

### 3.2.1 Strategic Objectives: Operate Markets

*The IMO operates reliable and efficient markets and information service with integrity and transparency.*

- Continue to reduce operational risk and improve the system availability in the WEM and GBB.
- Provide timely and accurate data to support decision making in our markets.
- Bring operational maturity of all IMO systems, procedures and culture to an agreed level.
- Improve the transparency of our markets by continuing to develop and publish market data identified as valuable to stakeholders.
- Enhance the IMO's compliance and market monitoring tools.
- Encourage a compliance culture in our markets through education and communication, supported by appropriate enforcement.
- Enhance the settlement process to be more traceable and useable for our customers.
- Improve our understanding and analysis of market trends and drivers to enhance our forecasting capabilities and processes.
- Undertake reviews with integrity and impartiality for the benefit of the Market (e.g. Energy Price Limits, Maximum Reserve Capacity Price, Ancillary Service Review, etc.).

### 3.2.2 Strategic Objectives: Evolve the WEM and GSI

*The IMO leads short term improvement and supports long term development of the WEM and GSI, using robust analysis, objective reasoning and consultation.*

- Enhance and encourage active participation in the Balancing, Short Term Energy and Load Following Ancillary Service Markets.
- Support the continued development of the WA Energy Sector (e.g. the Electricity Market Review and gas short term trading market)
- Subject to the outcomes of the Electricity Market Review:
  - implement the recommendations from the Reserve Capacity Mechanism Review in a robust and timely manner;
  - implement the recommendations from the Outage Planning Review; and
  - develop the reforms outlined in the Market Rules Evolution Plan and Ancillary Services Review.
- Contribute to strategic discussions on longer term policy matters that could impact the design and implementation of the WEM.
- Actively manage and improve our Rules and Procedures to ensure they are robust and clear.

### 3.2.3 Strategic Objectives: Build and Maintain Strong Relationships

The IMO develops ensuring relationships with customers and stakeholders based on trust, collaboration and open communication.

- Engage, educate and inform our stakeholders.
- Listen to our stakeholders, taking their views into consideration when we make a decision and provide sound explanations.
- Evolve and enhance the content and functionality of the IMO website, market systems and publications to meet the requirements of our stakeholders.
- Evolve the IMO market training to meet the needs of our stakeholders.

### 3.2.4 Strategic Objectives: Maintain Strong Financial Responsibility and Risk Management

*All financial transactions have prudent governance oversight, with corporate risks proactively managed.*

- Planned audits are conducted in accordance with the approved audit program.
- IMO risks are actively managed within the approved Risk Management Framework.
- Improve our systems, processes and procedures to ensure they are robust, effective and efficient.
- Ensure resources are efficiently and appropriately applied to the IMO's works programs.
- Evolve a centralised procurement function that ensures all procurement is planned and executed using consistent processes.
- Conduct our operational planning and reporting in accordance with our regulatory obligations supported by appropriate governance arrangements.

### 3.2.5 Strategic Objectives: Develop our Skills and Resources

The IMO has the skills and resources to operate professionally and meet stakeholders' expectations.

- Maintain an integrated approach to performance management including personal development plans for all IMO staff.
- Build organisational resilience through staff development and succession planning.
- Enhance the IMO's successful graduate program.
- Invest in our people to enhance the delivery of our services.

## 4. 2015/16 Budget – Electricity (WEM)

### 4.1 Electricity (WEM) – 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 and Forecast Capital Expenditure in April 2013 for the Review Period 2013/14 to 2015/16.

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.

Forecast Capital Expenditure is defined as the predicted sum of capital expenditure required for a Review Period. The capital expenditure incurred by the IMO is primarily used for developing and maintaining both market and non market related IT systems and infrastructure.

2015/16 is the third and final year of the 2013/14 to 2015/16 Review Period.

The ERA Determination allowed for:

1. Total WEM operational expenditure across the review period of \$48.926 million (after allowing for interest revenue of \$0.150 million), including expenditure of \$16.736 million in 2015/16 (after allowing for interest revenue of \$0.050 million).
2. Total capital expenditure across the review period of \$6.274 million, including \$1.707 million in 2015/16.

### 4.2 Electricity (WEM) – Inter-Period Adjustment

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

In 2013/14 the IMO budgeted for an operating surplus of \$0.993 million to account for the result recorded in 2011/12. The actual result in 2013/14 was a surplus of \$0.979 million being \$0.014 million less than the budgeted surplus of \$0.993 million.

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

	2011/12 (\$'000)	2012/13 (\$'000)	2013/14 (\$'000)	2014/15 (\$'000)	2015/16 (\$'000)
Budgeted Surplus/(Deficit)	(156)	(500)	993	(1,401)	14
Actual Surplus/(Deficit)	<u>(1,149)</u>	<u>901</u>	<u>979</u>	<u>(1,888)</u>	<u>TBD</u>
<b>Variance</b>	<b>(993)</b>	<b>1,401</b>	<b>(14)</b>	<b>(487)</b>	<b>TBD</b>

### 4.3 Electricity (WEM) – IMO Proposed Budget by Functional Areas

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

Functional Service Area	Budgeted 2015/16 (\$'000)	Actual 2014/15 (\$'000) <sup>1</sup>	Budgeted 2014/15 (\$'000)
Market Administration	5,075	5,319	5,498
Market Operations	8,012	8,225	8,502
System Planning	4,183	2,589	2,676
IMO staff on secondment to the PUO	499	<u>300</u>	-
AEMO Transitional Costs	<u>300</u>		
<b>Total Budget</b>	<b>18,069</b>	<b>16,433</b>	<b>16,676</b>

<sup>1</sup> – Actual 2014/15 is based on a percentage allocation to service areas based on the 2014/15 budget.

### 4.4 Specific Projected Identified for 2015/16

#### 4.4.1 IMO staff on secondment to the Public Utilities Office

The Minister for Energy released the Electricity Market Review (EMR) Report on 24 March 2015, outlining a number of recommendations that will alter the future structure and operation of the WA Electricity Market.

The IMO currently has three staff on short term assignment with the Public Utilities Office (PUO), working on the Wholesale Electricity Market workstream. \$0.499 million has been included in the budget to back fill these staff whilst on assignment with the PUO.

#### 4.4.2 AEMO Transitional Costs

As a result of the Minister for Energy's announcement on 30 September 2015 that the functions of the IMO will transfer to AEMO effective from 30 November 2015, some costs will be incurred to ensure people are transferred to AEMO with minimal disruption and that systems and processes are updated and ready for the transition to come into effect on 30 November, with no impacts on the operation of the WEM or GBB.

An amount of \$0.3 million has been budgeted in this submission to ensure the expenditure related to the transfer are captured. A strong focus will be placed on minimising costs during the transition, however there are a small number of unavoidable costs, i.e. transfer of employee and vendor contracts, IT, payroll and finance system changes and other legal costs that will be incurred.

#### 4.5 Electricity (WEM) – 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 2015/16 (\$'000)	Actual 2014/15 (\$'000)	Budgeted 2014/15 (\$'000)
Market Fees (Adjusted <sup>2</sup> )	18,033	14,734	15,225
Inter-period Adjustment (from 2013/14)	(14)	1,401	1,401
Interest Revenue	<u>50</u>	<u>188</u>	<u>50</u>
<b>Total Funding (Normal Operations)</b>	<b>18,069</b>	<b>16,323</b>	<b>16,676</b>

#### 4.6 Electricity (WEM) – IMO Proposed Budget by Classification Categories

The budgeted expenditure and interest approved by the ERA in 2015/16 is set out in the classification categories as shown below:

Classification	Budgeted 2015/16 (\$'000)	Actual 2014/15 (\$'000)	Budgeted 2014/15 (\$'000)
Employee Benefits Expense	6,396	6,273	5,996
Supplies & Services	5,267	4,101	4,980
Accommodation	731	709	782
Depreciation	4,537	4,970	4,444
Borrowing costs	339	457	474
Projects	<u>799</u>	<u>300</u>	-
<b>Total Budgeted Expenditure</b>	<b>18,069</b>	<b>16,810</b>	<b>16,676</b>
Less Interest revenue	(50)	(188)	(50)
Add/(Less) Inter-Period Budget Adjustment	<u>14</u>	<u>(1,401)</u>	<u>(1,401)</u>
<b>Market Fee (To be Levied)</b>	<b>18,033</b>	<b>14,734</b>	<b>15,225</b>

The 2015/16 Total Budgeted Expenditure for the WEM of \$18.069 million has two components:

1. The IMO allocated budget of \$8.220 million which includes budget for all WEM functions from 1 July 2015 to 29 November 2015 (5 months) and the budget related to the compliance and rule change functions from 30 November 2015 to 30 June 2016 (7 months).

<sup>2</sup> Adjusted Market Fee is the net result of the Allowable Revenue approved by the ERA (adjusted to \$18,047,000) plus the Inter-Period Adjustment for 2013/14 (\$14,000).

- The AEMO allocated budget of \$9.849 million for all WEM functions excluding compliance and rule change functions from 30 November 2015 to 30 June 2016 (7 months).

#### 4.7 Electricity (WEM) – Forecast Capital Expenditure

The Allowable Revenue and Forecast Capital Expenditure Submission for the period covering 2013-14 to 2015-16 was the first submission as a result of rule change RC\_2011\_02 which expanded the IMO's three yearly funding arrangements to include the ERA Determination of the IMO's Forecast Capital Expenditure.

Forecast Capital Expenditure is defined as the predicted sum of capital expenditure required for a review period.

The IMO has developed a third iteration of the IMO IT Road Map 2013-2016 which is the key strategic IT planning document used to ensure that the planning, delivery, management and use of the IMO's systems optimally supports the IMO business requirements.

The outcomes of the IMO IT Road Map 2013-2016 were included as part of the State Capital Budget from 2014/15. The IT Road Map 2013-2016 was developed to support the IMO Forecast Capital Expenditure submission for the review period 2013-14 to 2015-16.

The IT Road Map 2013-2016 aims to:

- continue to maintain systems and ensure they remain current and supported by our vendors;
- extend applications to support Market Participants that have a carrying degree of technical sophistication;
- maintain the strategic objective of enhancing market transparency; and
- developing and implementing integrated compliance and monitoring tools in the WEM systems.

The funding determined by the ERA for the WEM review period 2013/14 to 2015/16 was:

	2013/14 (\$'000)	2014/15 (\$'000)	2015/16 (\$'000)	Total (\$'000)
Forecast Capital Expenditure	2,583	1,984	1,707	<b>6,274</b>

A significant investment to replace a large component of the current Wholesale Electricity Market System will be required in 2016/17 as the system reaches the end of its useful life. This will be included as part of the Forecast Capital Expenditure submission for the 2016/17 to 2018/19 Review Period. The timing of this system replacement would now appear broadly consistent with the outcomes of the EMR.

The 2015/16 Forecast Capital Expenditure is allocated to the following IT categories:

IT Category	Budgeted 2015/16 (\$'000)	Actual 2014/15 (\$'000)
Corporate Support (Non-Market Systems)	51	42
Wholesale Electricity Market Systems (WEMS)	782	563
Settlements	170	421



IT Category	Budgeted 2015/16 (\$'000)	Actual 2014/15 (\$'000)
Infrastructure Support (Market Systems)	281	218
Data/Information Provision	<u>423</u>	<u>619</u>
<b>Total Forecast Capital Expenditure</b>	<b>1,707</b>	<b>1,863</b>

Forecast Capital Expenditure is funded through five year fixed term loans from WA Treasury Corporation.

The Principal and Interest repayments form part of the Total Budget Expenditure through the categories of Borrowing Costs (Interest) and Depreciation (Principal) and over the life of the loans are cost neutral to the WA State Budget.

## 5. Market Fees – Electricity (WEM)

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

- The IMO (Market Fees);
- System Management's wholesale market functions (System Operator Fees); and
- The ERA's market functions (Regulator Fees).

The Market Rules provide a methodology for calculating fees for settlement through the market. 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 are also specified, fixed rate application fees set at a level commensurate with the direct costs borne by the IMO.

Prior to 30 June 2015, the IMO must publish each of the following:

- Market Fee rate;
- System Operation Fee rate;
- Regulator Fee rate;
- a rate for each Application Fee for 2015/16;
- total projected IMO Fees for 2015/16;
- total projected System Operator Fees for 2015/16; and
- total projected Regulator Fees for the ERA's market monitoring and regulation services for 2015/16.

The Market Rules provide for information about the expected fee rate to be published in the event that, prior to 30 June, the IMO's annual budget has not received approval from the Minister for Energy or the IMO has not been provided with a copy of the relevant information from the System Operator or the Regulator.

## 5.1 Market Fees for 2015/16 – (WEM)

The total revenue to be recovered through Market Fees in 2015/16 is as follows:

Market Fees – Revenue Requirement	Budgeted 2015/16 (\$'000)	Budgeted 2014/15 (\$'000)
IMO Revenue Requirement	18,033	15,225
System Management Revenue Requirement	14,041	15,105
ERA Revenue Requirement	1,218	2,488
<b>Total Revenue to be recovered through Market Fees</b>	<b>33,292</b>	<b>32,818</b>

The IMO has estimated the level of the Market Fee rate, System Operation Fee rate and Regulator Fee rate for 2015/16.

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

IMO Revenue Requirement	Budgeted 2015/16 (\$'000)	Budgeted 2014/15 (\$'000)
Revenue Requirement	18,033	15,225
Indicative IMO Market Fee Rate (MWh)	\$0.478	\$0.405

Trend in IMO Fee Rate	IMO Fee recovered Dollars per MWh	IMO Real Fee recovered Dollars per MWh <sup>1</sup>
2006/07	\$0.307	\$0.386
2007/08	\$0.322	\$0.387
2008/09	\$0.271	\$0.321
2009/10	\$0.266	\$0.305
2010/11	\$0.316	\$0.352
2011/12	\$0.327	\$0.360
2012/13	\$0.439	\$0.468
2013/14	\$0.456	\$0.474
2014/15	\$0.405	\$0.413
2015/16	\$0.478	\$0.478

<sup>1</sup> – The Real Fee is the IMO Fee recovered represented in 2015/16 dollar terms.

The increase in IMO Fee recovered from 2014/15 to 2015/16 of \$0.065/MWh is a result of the following movements:

	\$/MWh
Impact of the backfill of IMO Staff on secondment to the PUO	\$0.013
Impact of the AEMO Transition Costs	\$0.008
Surplus operating position returned to Market Participants in 2014/15 (that reduced the 2014/15 Market Fees)	\$0.028
Movement in Operational expenses	\$0.016
<b>Total Movement</b>	<b><u>\$0.065</u></b>

The increase in IMO Fee recovered from 2011/12 to 2012/13 of \$0.112/MWh is a result of the additional depreciation and borrowing expenditure related to the Market Evolution Program, which was completed and capitalised in 2012/13.

## 6. 2015/16 Budget – Gas (GSI)

### 6.1 Gas (GSI) – Three Year Review Period – Approval Provided

In accordance with clause 108 of the Gas Services Information Rules, the ERA approved the IMO's Allowable Revenue and Forecast Capital Expenditure in November 2013 for the Review Period 2013/14 to 2015/16.

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

Forecast Capital Expenditure is defined as the predicted sum of capital expenditure required for a Review Period.

2015/16 is the third and final year of the 2013/14 to 2015/16 Review Period.

The ERA Determination allowed for:

1. The total operational expenditure across the review period of \$6.919 million, including expenditure of \$2.309 million for 2015/16.
2. Total capital expenditure across the review period of \$0.461 million, including \$0.216 million in 2015/16.

### 6.2 Gas (GSI) – Inter-Period Budget Adjustment

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

The actual result in 2013/14 was a surplus of \$0.444 million. The proposed budget for 2015/16 will be adjusted by an inter-period adjustment of \$0.444 million.

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

Financial Budget/Result	2013/14 (\$'000)	2014/15 (\$'000)	2015/16 (\$'000)
Budgeted Surplus/(Deficit)	0	0	(444)
Actual Surplus/(Deficit)	<u>444</u>	<u>306</u>	<u>TBD</u>
<b>Variance</b>	<b>444</b>	<b>306</b>	<b>TBD</b>

### 6.3 Gas (GSI) – IMO Sources of Funding

Under the GSI Rules, the IMO's funding for the GSI functions was recovered from fees charged to Gas Shippers in accordance with the Rules. On 1 January 2015, this recovery methodology changed to charge both Gas Shippers and Registered Production Facility Operators, splitting the fees evenly between these participants.

Fees are collected quarterly in arrears, based on the actual share of gas deliveries to relevant Gas Shippers and the aggregated daily actual flow for each Registered Production Facility Operator.

Sources of funding	Budgeted 2015/16 (\$'000)	Actual 2014/15 (\$'000)	Budgeted 2014/15 (\$'000)
Producer & Shipper Fees	2,260	2,340	2,340
Inter-Period Adjustment (from 2013/14)	(444)	0	0
<b>Total GSI Funding</b>	<b>1,816</b>	<b>2,340</b>	<b>2,340</b>

### 6.4 Gas (GSI) – IMO Proposed Budget by Classification Categories

The budgeted expenditure approved by the ERA in 2015/16 is set out in the classification categories as shown below:

Classification	Budgeted 2015/16 (\$'000)	Actual 2014/15 (\$'000)	Budgeted 2014/15 (\$'000)
Employee Benefits Expense	824	802	790
Supplies & Services	705	495	727
Accommodation	96	91	102
Depreciation	572	559	634
Borrowing costs	<u>63</u>	<u>87</u>	<u>87</u>
<b>Total Budgeted Expenditure</b>	<b>2,260</b>	<b>2,034</b>	<b>2,340</b>
(Less) Inter-Period Budget Adjustment	<u>(444)</u>	<u>0</u>	<u>0</u>
<b>Total to be recovered through GSI Fees</b>	<b>1,816</b>	<b>2,340</b>	<b>2,340</b>

The 2015/16 Total Budgeted Expenditure for the GSI of \$2.260 million has two components:

1. The IMO allocated budget of \$0.956 million which includes budget for all GSI functions from 1 July 2015 to 29 November 2015 (5 months) and the budget related to the compliance and rule change functions from 30 November 2015 to 30 June 2016 (7 months).
2. The AEMO allocated budget of \$1.304 million for all GSI functions excluding compliance and rule change functions from 30 November 2015 to 30 June 2016 (7 months).

## 6.5 Gas (GSI) – Forecast Capital Expenditure

The Allowable Revenue and Forecast Capital Expenditure Submission for the period covering 2013/14 to 2015/16 was the first submission in relation to the GSI.

The IMO has developed a third iteration of the IMO IT Road Map covering the period 2013-2016 which is the key strategic IT planning document used to ensure that the planning, delivery, management and use of the IMO's systems optimally supports the IMO business requirements.

The IT Road Map 2013-2016 was developed to support the IMO Forecast Capital Expenditure submission for the review period 2013/14 to 2015/16.

The outcomes of the IMO IT Road Map 2013-16 were included as part of the State Capital Budget from 2014/15.

The IT Road Map 2013-2016 aims to:

- continue to maintain systems and ensure they remain current and supported by our vendors;
- extend applications to support Market Participants that have a carrying degree of technical sophistication;
- maintain the strategic objective of enhancing market transparency; and
- developing and implementing integrated compliance and monitoring tools in the WEM Systems.

The funding determined by the ERA for the GSI Review Period 2013/14 to 2015/16 was:

	2013/14 (\$'000)	2014/15 (\$'000)	2015/16 (\$'000)	Total (\$'000)
Forecast Capital Expenditure	88	157	216	<b>461</b>

The 2015/16 Forecast Capital Expenditure is allocated to the following IT categories:

IT Category	Budgeted 2015/16 (\$'000)	Budgeted 2014/15 (\$'000)
Corporate Support (Non-Market Systems)	74	17
Gas Bulletin Board	<u>142</u>	<u>140</u>
<b>Total Forecast Capital Expenditure</b>	<b>216</b>	<b>157</b>

Forecast Capital Expenditure is funded through five year fixed term loans from WA Treasury Corporation.

The Principal and Interest repayments form part of the Total Budget Expenditure through the categories of Borrowing Costs (Interest) and Depreciation (Principal) and over the life of the loans are cost neutral to the WA State Budget.

## 7. GSI Fees – Gas

One of the IMO’s responsibilities under the GSI Rules is to charge Registered Shippers and Registered Production Facility Operators an amount equal to the Approved Annual Revenue for the Financial Year.

The GSI Rules provide a methodology for invoicing the GSI Fees on a quarterly in arrears basis.

Prior to 30 June 2015, the IMO must publish on the GSI Website, the Approved Annual Revenue which will be charged as the Registered Shippers and Registered Production Facility Operator Fee.

### 7.1 Registered Shippers and Registered Production Facility Operator Fees for 2015/16

The total revenue to be recovered through the Registered Shippers and Registered Production Facility Operator Fees in 2015/16 is as follows:

Market Fees - Revenue Requirement	Budgeted 2015/16 (\$'000)	Budgeted 2014/15 (\$'000)
IMO GSI Revenue Requirement	1,816	2,340
<b>Total GSI Revenue to be recovered through Registered Producer &amp; Shipper Fees</b>	<b>1,816</b>	<b>2,340</b>

## 8. Proposed Key Performance Indicators – 2015/16

### Strategic Objective 1: Operate Markets

Measure	Performance Expectation
STEM Market delay and Suspensions	≤ 5
Forecast BMO generation (excluding planned outages)	≥99.5%
Late Settlement statements (STEM & Non-STEM)	≤ 2
GBB Report generation (excluding planned outages)	≥99%

### Strategic Objective 2: Evolve the WEM and GSI

Measure	Performance Expectation
Formal Review of Market Rules Evolution Plan for 2013 to 2016	Once per year with MAC

### Strategic Objective 3: Build and Maintain Strong Relationships

Measure	Performance Expectation
Number of participants in market training sessions	Annual participant numbers ≥ 250
Number of forums, workshops and user groups held with the Energy Sector	7 per year
RulesWatch Newsletters sent to stakeholders	≥ 40 per annum
Market Advisory Committee and Gas Advisory Board meetings Held	≥ 10 per annum
Watts On (IMO Periodic Newsletter to Stakeholders)	≥ 4 per annum

### Strategic Objective 4: Maintain Strong Financial Responsibility and Risk Management

Measure	Performance Expectation
Expenditure Control	≤ Allowable Revenue
Capital Expenditure Control	≤ Forecast Capital Expenditure
Risk Management Updates to Board	3 Updates per annum
Deliver Quarterly Report to Minister	3 Reports per annum

### Strategic Objective 5: Develop our Skills and Resources

Measure	Performance Expectation
Employee happiness and satisfaction	Turnover to be ≤ 15%
Effective graduate program	Retain graduates on average 2 years
Recruitment strategy effectiveness	≤ 4 months to recruit a position

## Appendix A

### IMO Wholesale Electricity Market (WEM) Operating Budget : 2010/11 to 2012/13 and 2013/14 to 2015/16 Trienniums

Description	Previous Triennium 2010/11 to 2012/13				New Triennium 2013/14 to 2015/16							
	Actual				ERA Approved - April 2013				Projected Expenditure			
	Actual 2010/2011 <sup>1</sup> \$'000	Actual 2011/2012 <sup>1</sup> \$'000	Actual 2012/2013 <sup>1</sup> \$'000	Total \$'000	2013/2014 \$'000	2014/2015 \$'000	2015/2016 \$'000	Total \$'000	Actual 2013/2014 \$'000	Actual 2014/2015 <sup>1</sup> \$'000	Projected 2015/2016 \$'000	Total \$'000
1	2	3	4	5	6	7	8	9	10	11	12	
<b>REVENUE</b>												
User Fees and Charges - WEM	11,459	11,853	16,083	39,395	15,825	16,265	16,686	48,776	16,445	14,739	18,019	49,203
Interest and Other revenue	225	571	103	899	50	50	50	150	212	206	50	468
<b>TOTAL REVENUE</b>	<b>11,684</b>	<b>12,424</b>	<b>16,186</b>	<b>40,294</b>	<b>15,875</b>	<b>16,315</b>	<b>16,736</b>	<b>48,926</b>	<b>16,657</b>	<b>14,945</b>	<b>18,069</b>	<b>49,671</b>
<b>EXPENDITURE</b>												
Employees Benefit Expense	4,650	5,093	5,724	15,467	5,568	5,851	6,102	17,521	5,617	6,273	6,396	18,286
Accommodation Costs	336	358	603 <sup>4</sup>	1,297	715	753	784	2,252	684	709	731	2,124
Supplies and Services	5,368	5,586 <sup>3</sup>	4,889	15,846	5,065	4,952	4,984	15,001	4,914	4,101	5,267	14,282
Borrowing Costs	178	532	819	1,529	582	391	304	1,277	553	457	339	1,349
Depreciation	1,424	2,003	3,250 <sup>5</sup>	6,677	3,945	4,368	4,562	12,875	3,911	4,970	4,537	13,418
IMO Staff on Secondment to PUO	-	-	-	-	-	-	-	-	-	300	499	799
AEMO Transition Costs	-	-	-	-	-	-	-	-	-	-	300	300
<b>TOTAL EXPENDITURE</b>	<b>11,956</b>	<b>13,573</b>	<b>15,285</b>	<b>40,817</b>	<b>15,875</b>	<b>16,315</b>	<b>16,736</b>	<b>48,926</b>	<b>15,679</b>	<b>16,810</b>	<b>18,069</b>	<b>50,558</b>
<b>SURPLUS/(DEFICIT) Operating Result</b>	<b>(272)</b>	<b>(1,149)</b>	<b>901</b>	<b>(520)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>978</b>	<b>(1,865)</b>	<b>-</b>	<b>(887)</b>
<b>Operational Plan Budgeted Result Surplus/(Deficit)<sup>6</sup></b>	<b>(772)</b>	<b>(156)</b>	<b>(500)</b>	<b>(1,428)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>993</b>	<b>(1,401)</b>	<b>15</b>	<b>(393)</b>
<b>Carried forward future period adjustment as per WEM Rules<sup>7</sup></b>	<b>500</b>	<b>(993)</b>	<b>1,401</b>	<b>908</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(15)</b>	<b>(464)</b>	<b>(15)</b>	<b>(494)</b>
<b>Underlying Surplus/(Deficit) result for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**NOTE:**

1. Per audited results.
2. Includes \$350,000 related to initial Gas Information Services Project (GISP) activity, which was offset by corresponding revenue contribution from the Public Utilities Office.
3. Increase in Accommodation Costs from 2011/12 to 2012/13 was a result of a new accommodation lease entered in September 2013.
4. Depreciation reduces to \$3,250,000 as a result of converting the effective useful life of IT assets from 3 years to 5 years – decision by IMO Board in October 2012, effective 1 July 2012.
5. Budgeted result as per Draft Operational Plan submitted to the Minister for Energy for the corresponding period.
6. Under clause 2.22.7 of the Market Rules, the IMO is required to return an operating surplus or recover an operating deficit from Market Participants via an adjustment to the operational budget two years hence.



## Appendix B

### IMO Gas Services Information (GSI) Operating Budget : 2013/14 to 2015/16 Triennium

Description	New Triennium 2013/14 to 2015/16							
	ERA Approved - November 2013				Projected Expenditure			
	2013/2014 \$'000	2014/2015 \$'000	2015/2016 \$'000	Total \$'000	Actual 2013/2014 <sup>1</sup> \$'000	Actual 2014/2015 <sup>1</sup> \$'000	Projected 2015/2016 \$'000	Total \$'000
	1	2	3	4	5	6	7	8
<b>REVENUE</b>								
User Fees and Charges - GSI	2,251	2,360	2,310	6,921	2,255	2,340	1,816	6,411
<b>TOTAL REVENUE</b>	<b>2,251</b>	<b>2,360</b>	<b>2,310</b>	<b>6,921</b>	<b>2,255</b>	<b>2,340</b>	<b>1,816</b>	<b>6,411</b>
<b>EXPENDITURE</b>								
Employees Benefit Expense	798	761	793	2,352	775	802	824	2,401
Accommodation Costs	103	99	103	305	90	91	96	277
Supplies and Services	629	727	628	1,984	422	495	705	1,622
Borrowing Costs	150	127	103	380	73	87	63	223
Depreciation	571	646	683	1,900	451	559	572	1,582
<b>TOTAL EXPENDITURE</b>	<b>2,251</b>	<b>2,360</b>	<b>2,310</b>	<b>6,921</b>	<b>1,811</b>	<b>2,034</b>	<b>2,260</b>	<b>6,105</b>
<b>SURPLUS/(DEFICIT) Operating Result</b>	-	-	-	-	444	306	(444)	306
<b>Operational Plan Budgeted Result Surplus/(Deficit)<sup>3</sup></b>	-	-	-	-	-	-	(444)	(444)
<b>Carried forward future period adjustment as per GSI Rules<sup>4</sup></b>	-	-	-	-	444	306	-	750
<b>Underlying Surplus/(Deficit) result for the year</b>	-	-	-	-	-	-	-	-

**NOTE:**

1. Per audited results.
2. Budgeted result as per Draft Operational Plan submitted to the Minister for Energy for the corresponding period.
3. Under rule 111(3) of the GSI Rules, the IMO is required to return an operating surplus or recover an operating deficit from Registered Shippers and Registered Production Facility Operators via an adjustment to the operational budget two years hence.