



INDEPENDENT
MARKET
OPERATOR



2016/17 Revised Draft Operational Plan

7 September 2016

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1 Executive Summary

Overview

The Independent Market Operator (IMO) is an independent body corporate that was initially established on 1 December 2004 to administer and operate the Wholesale Electricity Market (WEM) of Western Australia. Subsequently, the IMO's role was expanded to include the operation of the Gas Services Information (GSI) in Western Australia.

On 30 September 2015, the Minister for Energy, the Honourable Dr Mike Nahan, announced the government's intention to:

- transfer most of the IMO's functions under the Electricity Industry (Wholesale Electricity Market) Regulations 2004, the Wholesale Electricity Market Rules (WEM Rules), the Gas Services Information Regulations 2012 and the Gas Services Information Rules (GSI Rules) to the Australian Energy Market Operator (AEMO) (collectively, the Regulations and Rules); and
- transfer the IMO's remaining functions under the Regulations and Rules to another Western Australian government entity.

The transfer of functions from the IMO to AEMO took place on 30 November 2015.

By letter dated 29 June 2016¹, the Minister for Energy notified the IMO that:

- the IMO's compliance and enforcement functions under the WEM Rules and the GSI Rules are to be transferred to the Economic Regulation Authority on 1 July 2016; and
- the IMO's rule change and rule administration functions under the WEM Rules and the GSI Rules are to be transferred to the newly established Rule Change Assessment Panel on 1 October 2016.

The transfer of functions from the IMO to the ERA took place on 1 July 2016. The transfer of functions from the IMO to the newly established Rule Change Assessment Panel is expected to take place on 1 October 2016.

Revised Draft Operational Plan

Under Section 32 of the Electricity Industry (Independent Market Operator) Regulations 2004 (IMO Regulations), the Minister for Energy 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. The IMO submitted a Draft Operational Plan to the Minister for Energy on 28 April 2016. By letter dated 27 June 2016, the Minister for Energy asked the IMO to review the Draft Operational Plan to reflect the expected continuation of the IMO until later in 2016, and the current expected arrangements for dissolution of the IMO.

This Revised Draft Operational Plan for 2016/17 takes into account the changes requested by the Minister for Energy. It also covers the full 2016/17 financial year. While the IMO is fully committed to dissolving itself at its earliest opportunity, the timing of its dissolution will be influenced by the date when the IMO's application to the Electricity Review Board for an order for penalties against Vinalco Energy Pty Ltd (ERB Application) is resolved. Accordingly, the extended period is in the nature of a contingency if the IMO cannot be dissolved by the end of

¹ In circumstances where it is proposed to transfer a function of the IMO, regulation 21(2B) of the Electricity Industry (Independent Market Operator) Regulations requires the Minister for Energy to give the IMO a written instrument identifying the function and the person upon whom the function is proposed to be conferred.

2016. It will also avoid the need for the IMO to seek the Minister for Energy's approval to a further Revised Draft Operational Plan if the IMO is not dissolved until after the end of 2016.

The focus of this Revised Draft Operational Plan is on the IMO's continuing functions after 1 July 2016, and on the dissolution of the IMO.

The key strategic deliverables for the IMO in 2016/17 will be:

- transferring the IMO's rule change and rule administration functions to the newly established Rule Change Assessment Panel by the required time;
- resolving the ERB Application that the IMO filed in May 2016;
- completing all governance requirements for the 2015/16 financial year; and
- completing all relevant winding up activities for the dissolution of the IMO including preparation of a final report to the Minister for Energy.

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 IMO Regulations.

The current IMO Board members are:

- Mr Peter Kolf (Chairman);
- Mr Shaun Dennison (Deputy Chairman); and
- Mr Roland Sleeman.

Resources

As part of the transfer of functions from the IMO to AEMO, the IMO was allocated five FTEs (pursuant to an agreement between AEMO and the Public Utilities Office). From 1 July 2016, three resources remained with the IMO, and it is expected that from the date the IMO's rule change and rule administration functions are transferred to the Rule Change Assessment Panel (RCAP Transfer Date), the Chief Executive Officer will be the IMO's only remaining resource. The Board will also remain in place pending completion of the relevant governance reports (including a final report to the Minister for Energy).

Organisational structure

After the RCAP Transfer Date, the organisational structure will remain the same, with the Chief Executive Officer remaining in place and continuing to report to the Board until completion of all relevant governance reports (including a final report to the Minister for Energy) and other relevant winding up activities.

2 Plan Assumptions, Approval and Governance

Assumptions

The IMO has made the following key assumptions in preparing this Revised Draft Operational Plan:

- other than resolving the ERB Application, the IMO won't have any other functions under the Regulations and Rules after the RCAP Transfer Date;
- the IMO's costs for completing activities in connection with its functions under the Regulations and Rules will be recoverable under the WEM Rules and the GSI Rules (as applicable) or, to the extent there is no right or power to do so, the costs will be borne by the State²;
- the IMO will complete all relevant winding up activities for the dissolution of the IMO as soon as possible but no later than 30 June 2017; and
- corporate support for remaining staff and for relevant activities in connection with the dissolution of the IMO will continue to be provided to the IMO by AEMO under the services agreement between the IMO and AEMO, or a services agreement with another entity.

Approval

The IMO Board approved this Revised Draft Operational Plan at its meeting on 18 August 2016.

Governance

Wholesale Electricity Market

In accordance with Part 4 of the IMO Regulations, the IMO is required to submit a Draft Operational Plan to the Minister for Energy by 30 April 2016.

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

Gas Services Information

In accordance with the rule 111 of the GSI Rules, the IMO is required to submit a GSI budget proposal for the coming financial year to the Minister for Energy by 30 April 2016 for his approval.

The IMO's GSI budget proposal forms part of this Revised Draft Operational Plan.

The Minister for Energy is required to make a decision on the GSI budget proposal within 30 business days.

² The IMO is liaising with the Public Utilities Office as to what costs (if any) relating to, or arising from, dissolution of the IMO should be recovered from WEM participants and/or GSI participants instead of being borne by the State (via a reduction in the State's equity in the IMO).

3 Strategic Objectives and Operational Deliverables for 2016/17

Purpose

To transfer or discharge (as applicable) the IMO's remaining functions, and to complete all governance requirements and relevant winding up activities for the dissolution of the IMO.

Strategic objectives and deliverables

The IMO's strategic objectives and deliverables for 2016/17 are set out below.

THE IMO'S STRATEGIC OBJECTIVES AND DELIVERABLES
<p>Objective: TRANSFER RULE CHANGE AND RULE ADMINISTRATION FUNCTIONS</p> <ul style="list-style-type: none">The successful transfer of the IMO's rule change and rule administration functions to the newly established Rule Change Assessment Panel. <p>Deliverable</p> <ul style="list-style-type: none">Complete all relevant activities (including preparation of transaction documents) by the required time.
<p>Objective: RESOLVE ERB APPLICATION</p> <ul style="list-style-type: none">The IMO resolves the ERB Application as quickly and cost-effectively as possible. <p>Deliverable</p> <ul style="list-style-type: none">Resolve the matter within budgeted expenditure.To do all things reasonably necessary (including preparing and filing documents) to facilitate a timely decision by the Electricity Review Board.
<p>Objective: DISSOLVE THE IMO</p> <ul style="list-style-type: none">The IMO carries out all relevant activities to dissolve the IMO in an orderly manner with appropriate governance oversight. <p>Deliverable</p> <ul style="list-style-type: none">Final audits are conducted in accordance with relevant standards.Complete all governance requirements for the 2015/16 financial year by 31 October 2016.Complete all relevant winding up activities as soon as possible, but no later than 30 June 2017 (including a final report).
<p>Objective: MAINTAIN STRONG FINANCIAL RESPONSIBILITY AND RISK MANAGEMENT</p> <ul style="list-style-type: none">All financial transactions have prudent governance oversight, with corporate risks proactively managed. <p>Deliverable</p> <ul style="list-style-type: none">IMO risks are actively managed within the approved Risk Management Framework.Conduct IMO's planning and reporting in accordance with regulatory obligations supported by appropriate governance arrangements.

4 2016/17 Budget

IMO Proposed budget by classification categories

The budgeted expenditure to 30 June 2017 is set out in the classification categories as shown below.

The IMO has prepared one budget on the basis that the IMO's activities after 1 July 2016 are applicable to the WEM and to the GSI.

Classification	Budgeted 2016/17 (\$'000)
Employee Benefits Expense	\$ 849 (Note 1)
Supplies & Services	\$ 511 (Note 2)
Accommodation	\$ 53
Total Budgeted Expenditure	\$1,413

Note 1: Budgeted expenditure includes provision for payment of annual leave and long service leave and \$334,000 (as at 1 October 2016) of potential redundancy payments for the IMO's three remaining staff (the IMO is unable to determine whether any redundancy payments will crystallise until the Economic Regulation Authority makes its employment offers in due course).

Note 2: Budgeted expenditure includes legal fees of \$200,000 relating to the ERB Application which has been calculated on the assumption the application will be relatively uncontested. Legal fees, and other associated costs, will be significantly higher if the application is contested.

IMO sources of funding

The sources of funding are shown in the table below.

The proportionate allocation of part of the budget to WEM participants, GSI participants and the State reflects the progressive cessation of the IMO's functions under the WEM Rules and the GSI Rules. That is:

- for the period 1 July 2016 to the RCAP Transfer Date, the IMO will have functions under both the WEM Rules and the GSI Rules;
- for the period from the RCAP Transfer Date until the ERB Application is resolved (nominated as 31 May 2017 for the purposes of the following table), the IMO will have functions under the WEM Rules only; and
- after the ERB Application is resolved (nominated as June 2017 for the purposes of the following table) the IMO's activities will solely relate to dissolving the IMO.

Sources of Funding	Budgeted 2016/17 (1 July 2016 – 30 September 2016) (\$'000)	Budgeted 2016/17 (1 October 2016 – 31 May 2017) (\$'000)	Budgeted 2016/17 (June 2017) (\$'000)	Budgeted 2016/17 (\$'000)
WEM participants	\$423	\$628	0	\$1,051
GSI participants	\$ 58	0	0	\$ 58

Sources of Funding	Budgeted 2016/17 (1 July 2016 – 30 September 2016) (\$'000)	Budgeted 2016/17 (1 October 2016 – 31 May 2017) (\$'000)	Budgeted 2016/17 (June 2017) (\$'000)	Budgeted 2016/17 (\$'000)
WA Government's Equity	0	0	\$304	\$ 304
Total Funding	\$481	\$628	\$304	\$1,413

The IMO's anticipated costs in connection with the intended dissolution of the IMO have been allocated to the State as the IMO will not have any functions under the WEM Rules or GSI Rules at the time it undertakes (or completes) the relevant activities to allocate those costs.