



INDEPENDENT  
MARKET  
OPERATOR



## 2017/18 Operational Plan

27 April 2017

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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.

Most of the IMO's functions have been transferred to other entities. More specifically:

- on 30 September 2015, 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) were transferred to the Australian Energy Market Operator (AEMO);
- on 1 July 2016, the IMO's compliance and enforcement functions under the WEM Rules and the GSI Rules were transferred to the Economic Regulation Authority; and
- on 26 November 2016, the IMO's rule change and rule administration functions under the WEM Rules and the GSI Rules were transferred to the Rule Change Panel.

The IMO, however, continues to have carriage of a transitional compliance function under the WEM Rules. This involves an application to the Electricity Review Board (ERB Application) for orders against a market participant for an alleged contravention of the WEM Rules.

The IMO is to be dissolved after the transitional compliance function has been resolved.

The ERB Application is expected to be resolved before 1 July 2017. Therefore, the focus of this Draft Operational Plan is on the completion of all governance requirements relating to the 2016/17 financial year, and the relevant winding up activities to enable the IMO to be dissolved.

The Draft Operational Plan covers the full 2017/18 financial year as required by the WEM Rules<sup>1</sup> and the GSI Rules.<sup>2</sup> While the IMO is committed to dissolving the IMO by 30 September 2017, the extended period is also in the nature of a contingency if there are any delays resulting from matters outside the IMO's control. It will also avoid the need for the IMO to seek the Minister for Energy's approval to a modified Draft Operational Plan if the IMO is not dissolved by 30 September 2017.

## Governance framework

The IMO Board is appointed by the Minister for Energy and operates in accordance with the Electricity Industry (Independent Market Operator) Regulations. The term of appointment for members of the Board is generally three years, however, they may continue in office until a successor is appointed, even if the period for which the director was appointed has expired.

The current IMO Board members are:

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

<sup>1</sup> Clause 2.22.5 of the WEM Rules.

<sup>2</sup> Rule 111(1) of the GSI Rules.

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

## Resources

The IMO's headcount has progressively reduced in line with the cessation of its functions under the WEM Rules and the GSI Rules.

The IMO's Chief Executive Officer is Mrs Kylie O'Keeffe. Mrs O'Keeffe is the IMO's only current permanent employee.

## Organisational structure

The organisational structure consists of the Chief Executive Officer reporting to the Board.

## 2 Plan Assumptions, Approval and Governance

### Assumptions

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

- the ERB Application will be resolved before 1 July 2017;
- the IMO's obligations under clause 4.1.33 of the WEM Rules will not be triggered;<sup>3</sup>
- the IMO's costs will be recoverable under the WEM Rules and the GSI Rules and, to the extent there is no right or power to do so, the costs will be borne by the Western Australian government;
- the IMO will complete all governance requirements for the 2016/17 financial year no later than 30 September 2017, and all relevant winding up activities to enable the IMO to be dissolved as early as practicable; and
- corporate support 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 Draft Operational Plan at its meeting on 19 April 2017.

### Governance

#### *Wholesale Electricity Market*

In accordance with Part 4 of the Electricity Industry (Independent Market Operator) Regulations 2004, the IMO is required to submit this Draft Operational Plan to the Minister for Energy by 30 April 2017 for approval.

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 IMO's WEM budget proposal forms part of this Draft Operational Plan.

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<sup>3</sup> Clause 4.1.33 of the WEM Rules states that:  
"The IMO must, if directed by the Minister:  
(a) develop an auction process to replace the administered pricing provisions that are contained in section 4.29 with effect from 1 October 2017; and  
(b) propose a rule change under section 2.5 seeking to implement the auction process, allowing reasonable time for the rule change process to be completed and any resulting rule changes to come into effect, in time for any resulting auction process to be used to determine the Monthly Reserve Capacity Price for the 2024 Reserve Capacity Year."

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

#### *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 2017 for approval. The IMO's GSI budget proposal forms part of this Draft Operational Plan.

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

#### *Allowable Revenue*

Unless the Minister for Energy notifies the IMO otherwise, the IMO is not required to seek approval of its Allowable Revenue and Forecast Capital Expenditure for the review period from 1 July 2016 to 1 July 2019 from the Economic Regulation Authority (clause 1.17.4(a) of the WEM Rules and transitional rule 3(3)(a) of Division 2, Part 3, Schedule 3 of the GSI Rules). Instead, the Allowable Revenue and Forecast Capital Expenditure of the IMO from the previous review period continues to apply.

### **3 Business and Service Performance Targets for 2017/18**

#### **Purpose**

To complete all governance requirements relating to the 2016/17 financial year and all relevant winding up activities to enable the IMO to be dissolved.

#### **Business and service performance targets**

The IMO's business and service performance targets for 2017/18 are set out below.

| THE IMO'S BUSINESS AND SERVICE PERFORMANCE TARGETS   |
|--|
| <p><b>Objective: COMPLETE 2016/17 GOVERNANCE REQUIREMENTS</b></p> <ul style="list-style-type: none"><li>The IMO carries out all relevant governance requirements relating to the 2016/17 financial year.</li></ul> <p><b>Deliverable</b></p> <ul style="list-style-type: none"><li>Annual audits are conducted in accordance with relevant standards.</li><li>Complete all governance requirements for the 2016/17 financial year no later than 30 September 2017.</li></ul>   |
| <p><b>Objective: DISSOLVE THE IMO</b></p> <ul style="list-style-type: none"><li>The IMO carries out all relevant activities to dissolve the IMO in an orderly manner with appropriate governance oversight.</li></ul> <p><b>Deliverable</b></p> <ul style="list-style-type: none"><li>Final audits are conducted in accordance with relevant standards.</li><li>Complete all relevant winding up activities as early as practicable.</li></ul>   |
| <p><b>Objective: MAINTAIN STRONG FINANCIAL RESPONSIBILITY AND RISK MANAGEMENT</b></p> <ul style="list-style-type: none"><li>All financial transactions have prudent governance oversight, with corporate risks proactively managed.</li></ul> <p><b>Deliverable</b></p> <ul style="list-style-type: none"><li>IMO risks are actively managed within the approved Risk Management Framework.</li><li>Conduct IMO's planning and reporting in accordance with regulatory obligations supported by appropriate governance arrangements.</li></ul> |

## 4 2017/18 Budget

### IMO proposed budget by classification categories

The budgeted expenditure to 30 June 2018 is set out in the classification categories as shown below.

| Classification                    | Budgeted<br>(1 July 2017 – 30<br>September 2017)<br>(\$'000) | Budgeted 2017/18<br>(\$'000) |
|-----------------------------------|--|------------------------------|
| Employee Benefits Expense         | \$309  | \$626                        |
| Supplies & Services               | \$164  | \$301                        |
| Accommodation                     | \$7  | \$30                         |
| <b>Total Budgeted Expenditure</b> | <b>\$480</b>   | <b>\$957</b>                 |

Notes:

- Budgeted expenditure includes a provision for potential redundancy payments for the IMO's remaining staff (approximately \$210,000 at 30 September 2017).
- Budgeted expenditure includes \$40,000 of direct costs relating to the IMO's dissolution (i.e. \$10,000 for final audit report and a provision of \$30,000 for legal advice).

### IMO sources of funding

The sources of funding are shown in the table below.

| Sources of Funding                | Budgeted<br>(1 July 2017 –<br>30 September 2017)<br>(\$'000) | Budgeted 2017/18<br>(\$'000) |
|-----------------------------------|--|------------------------------|
| WEM Participants                  | \$387  | \$864                        |
| GSI Participants                  | \$53   | \$53                         |
| WA Government's Equity            | \$40   | \$40                         |
| <b>Total Budgeted Expenditure</b> | <b>\$480</b>   | <b>\$957</b>                 |

The proportionate allocation of part of the budget to WEM Participants and GSI Participants is for the IMO's costs to complete the remaining governance activities in relation to the IMO's functions during the 2016/17 financial year. The proportionality factor as between the WEM Participants and the GSI Participants is consistent with the IMO's historical practice (88% WEM: 12% GSI). However, the cost allocation to GSI Participants to 30 September 2017 has been held constant for the full financial year on the basis that, after completion of the 2016/17 governance requirements, the IMO will have no further activities that relate to the GSI. Rather, its residual activities (if triggered) are in the WEM.<sup>4</sup>

The IMO's direct costs in connection with the proposed dissolution of the IMO have been allocated to the Western Australian government on the basis those activities don't fall within the IMO's current functions<sup>5</sup> under the WEM Rules or the GSI Rules and, therefore, are not recoverable from the WEM Participants or the GSI Participants via relevant market fees.

<sup>4</sup> Clauses 4.1.33 and 4.11.1E of the WEM Rules.

<sup>5</sup> The IMO's functions are set out in clause 2.1 of the WEM Rules and rule 8(1A) of the GSI Rules.