

Independent Market Operator

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Energy Trading: First Two Months Completed Successfully

Energy trading in the wholesale electricity market commenced as scheduled on the 20 September 2006, with the first market-traded energy being sent out at 8am on 21 September 2006.

Thank you to all who have participated in establishing Western Australia's wholesale electricity market. We look forward to a successful and competitive energy sector in Western Australia

The smooth launch of the energy market was the culmination of a massive effort by the entire industry. Late August and early September were very busy, with the IMO team, market participants and System Management working together to formally register all participants in accordance with the Market Rules and ensure that all facilities were correctly registered.

Once registration was complete two weeks of market simulation commenced on 4 September 2006. The simulation provided all parties with further opportunity to get used to the operational timetable and the rules under which contingencies are handled.

After so many rehearsals it came as a relief but no surprise when the systems continued operating smoothly for the scheduling day on 20 September.

As the Western Australian Wholesale Electricity Market is based on bilateral contracting, little energy is typically traded through the day-ahead short term energy market (STEM) – but the offers submitted for this market also determine the price applied to any differences between the amount of energy a participant was intending to consume or produce and their actual consumption or production.

Volatility is lower for the entire market when participants are accurately forecasting and trading energy bilaterally well in advance of delivery. The forecasting and communications systems in the market and the strong existing bilateral arrangements between the parties are reflected in the continuing low volumes in the STEM.

Payments in the Market

Payments in the market are made through Austraclear, which allows settlement in minutes – as opposed to overnight for traditional transfer methods.

The short term energy market (STEM) is settled weekly, with each trading week completing on a Thursday, invoices issued on the Friday, and payment due by 10am on the following Tuesday.

All other services provided by the market, including payments for balancing (the difference between energy scheduled in the day-ahead market and actual consumption), are settled as part of non-STEM settlement. This takes place monthly – the settlement for September was completed on 8 November, and payments were made on 10 November.

Reserve Capacity Looking Ahead

The reserve capacity component of the Wholesale Electricity Market has been fully operational since the end of 2004.

Two reviews are currently underway with respect to the reserve capacity mechanism:

- A review of the planning criteria and load forecasting method used in the reserve capacity mechanism
- A review of the method used to set the maximum reserve capacity price

The IMO has established Advisory Groups, representing a range of stakeholders, to assist in both of these reviews.

CRA International has been appointed to undertake the review of reliability criteria and this, along with the forecasting review, is scheduled for completion in the first half of 2007. The first stage of the review of the planning criteria and load forecasting method was to call for public submissions. The window for submissions closed on the 6 December 2006. The relevant documents are available from the market web site, at www.imowa.com.au.

The IMO determines the maximum reserve capacity price each year, which is then used for the subsequent reserve capacity cycle. Following a review of public submissions on its draft report, the IMO is currently in the process of making a final proposal to the Economic Regulation Authority, who will make the final determination on this matter.

New Staff at the IMO

In the run-up to market commencement and shortly afterwards a number of people have joined the IMO.

Magnus Stensson joins Market Administration as an Analyst after a stint as a tester at Metron, who provide the meter data for the market.

Ian Chew has joined the IMO as the Senior Database and Network Administrator. He will be focusing on optimising the performance and reliability of the market systems.

Malcolm Burnaby joins Valerie Jayasinghe in Finance and Administration.

Market Data Available

One feature of the market is a high degree of openness about participant's bidding behaviour. In accordance with the market rules, participant's bids and offers in September's short term electricity market auctions were published on the IMO web site (www.imowa.com.au) at the start of November.

A range of other information is also published regularly on the website, including:

- the current level of electricity consumption
- short term energy market clearing prices and quantities
- balancing market prices and quantities
- load forecasts
- demand and generation capacity expected to be available in the future
- details of rule participants and facilities

Additional information will be provided on the market web site over time.

From 15 December 2006 non-confidential market information can also be requested from the IMO on an ad-hoc basis.

Registration for Generators over 10MW

Anyone connected to the South West Interconnected System who owns, operates, or controls a generator with a capacity of more than 10MW, or who is an electricity retailer, must register as a participant in the Wholesale Electricity Market.

Documents related to registration may be found on the market web site, at www.imowa.com.au

Rule Changes in Progress

A number of proposed rule changes were recently progressed by the Office of Energy under the interim rule change process. These are available from the Office of Energy's web site at www.energy.wa.gov.au

The proposals included:

- A Verve Energy proposal regarding standing STEM submissions
- A Verve Energy proposal regarding the alternative maximum STEM price and maximum STEM price
- A Western Power proposal regarding loss factors
- A Synergy proposal regarding the provision of additional information related to the individual reserve capacity requirement
- An Independent Market Operator (IMO) proposal regarding the short run marginal cost of generation
- An IMO rule change proposal regarding MCAP determination when the STEM is suspended
- An IMO rule change proposal regarding daylight saving
- A Western Power proposal to allow longer on-the-day opportunistic maintenance
- A Western Power proposal regarding dispatch instructions after multiple forced outages
- An IMO proposal on applying tolerances to dispatch schedules
- An IMO proposal on the market fee formula
- An IMO proposal on the formula used for determining resource capacity obligations

The proposals have been considered by the Transitional Market Advisory Committee, and those that will proceed have been submitted to the Minister for approval and gazettal.

Rule and Procedure Change Process

The market operates under publicly available rules, which anyone may propose changes to. The longer-term process for making changes to the Rules will commence on 15 December 2006, with the IMO having a prime role and industry having an important role in commenting on rule change proposals.

Market rule change proposals will be assessed as to how they contribute to meeting the objectives of the market, which are:

- to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;
- to encourage competition among generators and retailers in the South West interconnected system, 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 South West interconnected system; and
- to encourage the taking of measures to manage the amount of electricity used and when it is used.

The normal rule change process includes two rounds of consultation. In the first round submissions on a proposal are sought, and in the second round feedback is sought on a draft report published by the IMO.

The rule change process will usually take around 19 weeks. In consulting on a rule change proposal, the IMO may convene the Market Advisory Committee (and in certain situations must convene it), meet with interested parties, procure technical advisers, or establish a technical working group drawing on industry representatives if this is considered necessary to appropriately develop or evaluate changes.

The IMO Board will make a final decision on a rule amendment. Rule change related to a protected provision require the Minister's approval. The IMO's decision and its reasons will be published on the market website, together with a time and date when accepted rule changes will come into force. Rule changes must be published in the Government Gazette before becoming effective.