

Independent Market Operator

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Foreword

Welcome to the first edition of the Independent Market Operator's (IMO) Newsletter.

I am pleased to be able to report that we are on track to commence operation of the Wholesale Electricity Market (WEM) by 1 July 2006.

Since being established on 1 December 2004, the focus of the IMO's work has been on:

- > **Procuring IT systems to support the operation of the WEM.**
- > **Securing new generation capacity for the South West Interconnected System (SWIS) through the Reserve Capacity process.**
- > **Recruitment of staff.**
- > **Establishing operational and administrative policies and procedures.**

This issue of the IMO newsletter provides an update on these activities.

In keeping with our commitment to provide information to industry on the development of the WEM, a newsletter will be regularly issued.

I trust that you find the IMO's newsletter informative and interesting. I encourage you also to regularly visit the IMO's website (www.imowa.com.au) for further updates.

Anne Nolan
Chair

Wholesale Electricity Market Milestone

The establishment of the WEM has taken a significant step closer with the appointment of a contractor to develop and implement the requisite IT systems to operate the market.

After a competitive process, ABB was appointed as the successful tenderer.

A contract for the provision of these systems was signed by the IMO and ABB on 27 July 2005.

The implementation of the IT Systems is the most significant implementation task related to the establishment of the market.

The IMO IT Systems were procured through a two-stage process. The first stage of the procurement process involved an Expressions of Interest (Eoi) request. The closing date for responses to the Eoi Request was 31 March 2005.

The Eoi process identified five companies with the requisite skills, knowledge and experience.

The second stage of the process involved the issue of a Request for Proposals to pre-qualified respondents in the Eoi stage. The tender documents were provided to the five pre-qualified bidders on 29 April 2005. The tender closed on 8 June 2005.

Tenders were evaluated with respect to their technical compliance, as well as against each of the following:

- > **minimum cost;**
- > **the ability to complete implementation of the IT systems by 1 July 2006;**
- > **the ability to operate the market effectively and efficiently; and**
- > **the ability to ensure flexibility to adapt to future changes in the market.**

"A rigorous and competitive process was undertaken. All submissions received were of a high quality," said Ms Nolan.

"The ABB tender was selected based on the proven record of its proposed system and competitive cost".

"Whilst the system will be customised to fit the IMO requirements, the market systems are based on platforms

that ABB has developed or are in final stages of development."

The project is expected to take 12 months, which includes, system development, testing, market trials and an independent certification of systems. A number of key project milestones need to be met to ensure the market goes live by 1 July 2006.

A summary of the key milestones are:

- > **1 Aug 2005 – Functional Specification Delivered**
- > **30 Sept 2005 – Detailed Design and Hardware Approval**
- > **19 Dec 2005 – IMO Market Systems shipped**
- > **13 April 2006 – Availability Test Completed**
- > **21 June 2006 – Market Trials Completed**
- > **28 June 2006 – Market Systems Certificate Issued**
- > **1 July 2006 – Market Start**
- > **18 June 2008 – End of Market System Warranty**

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Wholesale Electricity Market Milestone continued

It is also important that the interface with System Management (within Western Power Networks) is completed in time to enable the effective implementation of the IMO IT Systems. The IMO and System Management are working closely towards establishing and achieving common milestones.

Market Participants will not be required to develop or purchase any special software to effectively interface with the IMO IT Systems to operate in the market. All of the required software will be provided by ABB, Market Participants will only need a web browser.

The Transitional Market Advisory Committee (TMAC) was established earlier this year as the key consultation vehicle to undertake the transitional Market Rules administration processes. It is proposed to now transform TMAC into a Market Readiness Committee to undertake the following tasks:

- > **Design Audit – ensuring the IMO Market Systems design is consistent with the Market Rules;**
- > **Participant Education – assisting Market Participants during the testing phases of the IMO Market Systems implementation;**
- > **Market Trials – designing the Market Trials and assisting with their execution;**
- > **Managing and overseeing the development of the market Procedures.**

The composition of the Market Readiness Committee ensures all Market Participants' interests in regard to market readiness and interfacing with the IMO IT systems are taken on board. Market Participants will be regularly briefed on the progress of the project and will participate in the final stages of market development including market trials and training.

Opportunities for Electricity Generation

Another significant milestone was achieved in early July with the release of the IMO's inaugural Statement of Opportunities Report.

A major responsibility of the IMO is to ensure that sufficient generation capacity is in place to meet the forecast demand for electricity from 2007/08. One key step in this process is the publication of the Statement of Opportunities Report (SOO).

The report has several purposes. It:

- > **provides forecasts of the expected peak electricity demand and usage in the SWIS;**
- > **summarises the amount of generation and demand side management capacity which is expected to be available to the SWIS; and**
- > **identifies opportunities for investors to provide additional capacity.**

A copy of the SOO is available to be downloaded from the IMO website at www.imowa.com.au.

The SOO replaces Western Power's Generation Status Review.

The SOO shows that the SWIS will require 4000MW of capacity to be in place in 2007/08 to meet the forecast maximum demand with a reserve margin.

Capacity requirement for 2007/08 in the SOO is higher than that published in Western Power's previous Generation Status Review.

"The increase reflects the strength of the State economy as well as the increasing sales of air-conditioners," said Ms Nolan.

This strong demand, coupled with the projected closing of a number of older generating units, means that around 270MW of new capacity will be required for 2007/08. However, the SOO also identifies around 750 MW of proposed new capacity that could meet this requirement.

Looking further ahead, the SOO shows that 300MW of new capacity will be required for 2008/09. Again, a number of potential new developments have been identified which could fill this gap. These include the Power Procurement Process (Stage II plant) as well as cogeneration and open cycle gas turbine plants.

Although the IMO is not responsible for ensuring that there is adequate capacity in place for the next two years, the SOO indicates, existing and committed plant is sufficient to meet the forecast demand over the next two summers.

"The report clearly indicates that there are opportunities for private investors to participate in the WA electricity industry going forward", said Ms Nolan.

Certification of Reserve Capacity

Another key role of the IMO is to conduct the Reserve Capacity Mechanism process. This is important in ensuring sufficient generation capacity is available in the SWIS.

Under the WEM Rules, Market Participants offer generation capacity as reserve capacity into the SWIS. The IMO in turn is required to assess all generation facilities that are offered. This process, called Certification, is designed to make sure that generating plant and demand side management, will actually provide the capacity that is claimed.

In the certification process, the IMO assesses several key aspects of any proposal, including the facility's ability to deliver the maximum capacity as claimed, ensuring environmental clearances have been secured and if necessary, network access arrangements have been put in place.

Once these elements are confirmed, then the IMO can be assured that the facility has a high degree of certainty to deliver the required amount of capacity to the system by the scheduled time.

Certification is currently underway for plant that is planned to be in service for the period October 2007 through to September 2008. To secure capacity credits, either through bi-lateral trade or through a capacity auction, plant must be certified.

The date for completion of certification for 2007/08 has been extended to 5 pm (WST) on Friday, 19 August 2005.

The procedures that an applicant must follow, including the necessary application forms, are available on the IMO website.

Other key dates associated with securing reserve capacity are as follows:

- > **On or before 9 September 2005, Market Participants must advise the IMO how much of their certified reserve capacity will be traded bilaterally and/or offered into a Reserve Capacity Auction Market. Participants will also need to provide securities for the full amount of capacity.**
- > **On 16 September 2005, the IMO will advise whether a Reserve Capacity Auction will be held.**
- > **On or before 29 September 2005, if a Reserve Capacity Auction is required, capacity offers must be lodged with the IMO.**
- > **On 3 October 2005, an Auction will be held, if determined necessary.**

Market Participants will also need to register their facilities. The provisions in the WEM Rules requiring the registration of facilities have not commenced yet and are likely to be commenced in early 2006.

Who's in the Market?

Under the WEM Rules, participants who intend to enter the market as a generator or retailer are required to register with the IMO. At the end of July 2005, a total of nine participants had registered as generators and two as retailers.

The following participants are registered as generators:

- > **Alinta Power Services Pty Ltd**
- > **Alinta Sales Pty Ltd**
- > **EDWF Holdings 1 Pty Ltd**
- > **Eneabba Gas Ltd**
- > **Griffin Power Pty Ltd**

- > **Griffin Windfarm Pty Ltd**
- > **Transfield Services Kemerton Pty Ltd**
- > **Wambo Power Ventures Pty Ltd**
- > **Wesfarmers Energy Ltd**

Alinta Sales Pty Ltd and Eneabba Gas Ltd have also registered as retailers.

By registering, participants agree to comply with the WEM Rules and provide standing data necessary for the operation of the market. At this stage, the IMO has implemented a basic registration process, which only requires a minimum level of data.

Establishment of the Independent Market Operator

The IMO was established on 1 December 2004.

The IMO is a statutory corporation that was established by the Electricity Market (Independent Market Operator) Regulations 2004 to administer and operate the WEM. An independent entity, with no commercial interest in the market, the IMO will ensure transparency, fairness and confidentiality (where necessary) in the implementation of market arrangements and processes.

The IMO operates from offices on Level 22, The Forest Centre, 221 St Georges Terrace, Perth.

A Board of three Directors governs the IMO. The current directors of the IMO are Anne Nolan and Mr John Kelly, both of who are well known to industry participants. Each brings a wealth of knowledge with respect to the operations of the electricity industry and electricity reform matters.

Enquiries or to register as an interested party, can be made to the IMO by:

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