

# Independent Market Operator

IMO Newsletter / Issue #4 / August 2006

## In this issue

Meet the IMO Operations Team	2
System Capacity well placed for 2008 to 2009	4
Changes to the IMO Board of Directors	6

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## Commencement of Energy Trading

The start of energy trading within the Wholesale Electricity Market will be a key milestone in the electricity reform process. It is the culmination of an enormous amount of work undertaken by industry and Government and is the last stage in the implementation of the market.

The Minister for Energy, Mr Francis Logan, recently announced that Western Australia's wholesale electricity market would commence on 21 September 2006.

"This will be an exciting day for us all," said Mr John Kelly, Chair of the Independent Market Operator (IMO) Board. "From then, all market participants and end-use customers, will be able to enjoy the efficiency and economic benefits that come from a well designed, competitive electricity market."

As from September 21, all market participants will have access to the Short Term Energy Trading Market (or STEM). This will allow them to better match their forecast demand and supply as well as increasing opportunities for economic trading of energy. In addition, the new balancing service will commence which will provide greater certainty for all market participants.

"While the start will be a little later than planned," said Mr Kelly, "the Board considered it essential that the IMO and industry were fully prepared for the market start. Industry participants had also strongly indicated that a two month delay would be beneficial."

The IMO has run a series of training sessions to assist market participants in their preparation for the start of energy trading. All of the training materials are available at the IMO website at [www.imowa.com.au](http://www.imowa.com.au).

## Meet the IMO Operations Team

The IMO Operations Team is responsible for the operation and settlement of the Wholesale Electricity Market (WEM) in Western Australia. The team is also the main point of contact for participants who wish to discuss day-to-day operational issues with the IMO.

The operation of the energy market in the WEM mainly focuses around the “*Scheduling Day*” (the day prior to the “*Trading Day*”) and includes:

- > *Trading Day* load forecast publication;
- > Final acceptance of bilateral contracts for the *Trading Day*;
- > Acceptance of Short Term Energy Market (STEM) bids and offers for the *Trading Day*;
- > Clearing the STEM;
- > Acceptance of balancing data and facility resource plans from market participants;
- > Provision of dispatch information to Western Power.

Other functions such as the determination of balancing prices are performed immediately following the *Trading Day*.

The IMO Operations Team is responsible for settling the market. In the market STEM settlement runs are performed weekly for the *Trading Week* (08:00 Thursday to 08:00 Thursday), while Non-STEM settlement runs are performed monthly.

STEM settlements covers purchases and sales through the STEM.

Non-STEM settlements cover all other aspects of settlement including reserve capacity payments and recovery, balancing market settlements, ancillary services, etc. The Non-STEM settlement process is reliant upon reliable metering data and, as a result, the Non-STEM settlement for a particular month occurs more than one month following the end of the settlement month.

*continued on page 3*

## Meet the IMO Operations Team continued

### The IMO Operations Team includes:

#### Bill Truscott (Manager Market Operations):

Bill migrated from the east coast to join the IMO in January. Bill has 13 years experience in electricity markets and has worked in the market operator, retail and generator sectors.

#### Neil Hay (Senior Operator):

Neil joined the IMO in February and brings with him a wealth of experience after 12 years at Western Power.

#### Gavin White (Operator):

Gavin joined the IMO in March. His previous position was with the Office of Energy and, as such, he has an in-depth understanding of WEM regulatory affairs.

#### Matt Pember (Operator):

Matt started with the IMO in April and comes to us from Western Power, where he worked for 12 months. Matt's appreciation of WEM metering issues is a significant asset.

#### Robbie Flood (Operator):

Robbie commenced with the IMO in May. Robbie also comes to us from Western Power where he performed similar operational tasks.

Over the past six months, the IMO has been commissioning and testing the IT systems used to operate the market. The Operations Team members have been instrumental in this process and have developed a sound understanding of the systems and processes required to operate the market.

The systems commissioning period has culminated in the market trials that are currently underway. The Operations Team members have been in constant communication with participants throughout these trials, providing operational assistance to participants having difficulties.

There has been a significant degree of flexibility employed during the market trials. For example, where participants have experienced difficulties in meeting market time frames, window opening times have been extended. We will continue to provide as much assistance as we can once the commercial market commences.

However, these practices will be tightened up and adherence to the market rules will be important. For instance, compliance with window opening and closing times will be strictly followed. In addition, operators will not be able to enter data for participants. Please bear this in mind when developing your own processes and procedures for operation in this market.

The IMO operations room will be manned on business days between the hours of 07:00 and 19:00. However, the operations phone will be diverted to an operator on call 24 by 7. Please use this number outside of business hours only for urgent operational issues.

The operations phone numbers are:

Operations: (08) 9254 4336.

Manager Market Operations: (08) 9254 4308.

## System Capacity well placed for 2008 to 2009

### **Strong Response within Expressions of Interest**

Our last Newsletter announced the commencement of the Expression of Interest process for acquiring generation and demand side management (DSM) capacity for the period from 1 October 2008 through to 1 October 2009. This process has now been completed.

"We are very pleased with the positive responses from potential developers" said Ms Anne Nolan, the IMO's Chief Executive. "Seven Expressions of Interest were received covering generation and DSM. If they were all to proceed, they would add a total of 712.6 MW to system capacity. Whilst we do not expect that all of these projects will proceed immediately, this level of interest suggests that the future looks positive."

"What is particularly encouraging," said Ms Nolan, "is the depth of interest and variety of proposals being offered. It is clear that the Reserve Capacity Mechanism is well understood and strongly supported by developers and, importantly, their financiers. In addition, the underlying strength of the local economy is encouraging interest in power generation projects and the design of the capacity market is fostering an environment where investment is efficient and timely."

The IMO has also commenced the process of certifying capacity for the 2008/09 capacity year. Through this process, the IMO ensures that facilities will be able to deliver the capacity that is claimed by Market Participants.

For existing facilities, the IMO's main focus is on ensuring that the maximum rating is appropriate. Where a developer is offering new capacity, the IMO must also stringently assess whether this facility can be placed into service at the required time. This process concluded on July 20 allowing the IMO time to assign capacity credits in August (or early-September if a reserve capacity auction is required).

### **Positive Outlook in the Statement of Opportunities Report**

The 2006 Statement of Opportunities Report (SOO) has now been published and is available on the IMO website at [www.imowa.com.au](http://www.imowa.com.au). This is the second SOO to be published by the IMO and it indicates that the recent strong growth in electricity demand within the South West Interconnected System will continue. This growth, however, appears to be well matched by the construction of new generation capacity.

The requirement for new generation and DSM capacity continues to be driven by increases in maximum system demand (ie peak demand). This is expected to grow at around 3.2% per year, which will require around 130 MW of new capacity annually to cover growth plus the associated reserve plant margin. In addition, new capacity is required to off-set the closure of some older plant at Kwinana Power Station.

Electricity consumption is growing a slower rate, around 2.2% per year. However, both consumption and maximum demand will be strongly influenced by the commencement of operations at the proposed Boddington Gold Mine. Boddington will be the largest load on the SWIS and will increase maximum demand by around 4% and electricity consumption by around 6%.

"Our planning is still underway at present," said Ms Nolan, "but preliminary indications are that the system will be well placed in 2008/09. Not surprisingly, the strong growth in electricity demand is continuing and but with two major generation facilities already under construction, and with other projects being actively pursued, the SWIS should have adequate capacity available to maintain reliability."

*continued on page 5*

## System Capacity well placed for 2008 to 2009 continued

The SOO shows that to maintain the reliability criteria set out in the Market Rules, the system capacity will need to be increased from 4,115.4 MW in 2007/08 to 4,322 MW in 2008/09 and to 4,463 MW in 2009/10. The IMO anticipates that 4,446 MW of currently existing and committed capacity will be available for service in 2008/09.

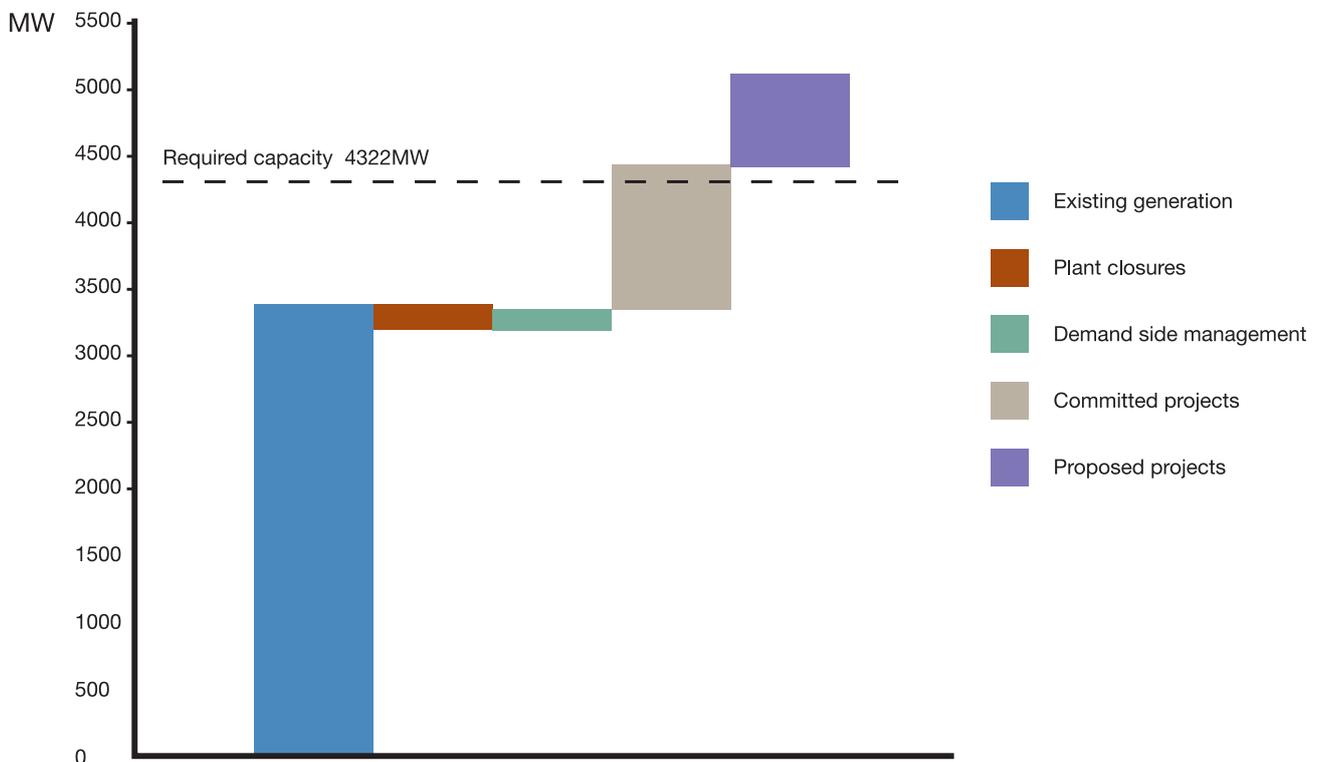
*(See diagram below)*

This would provide a margin of about 124 MW above the capacity requirement (peak demand plus a reserve plant margin), which provides some additional cover in the event that demand grows faster than expected. This is similar to the level of margin that the IMO anticipates will exist in 2007/08 where 4115.4 MW of capacity has been secured to cover the forecast requirement of 4,024 MW (based on the 2006 forecast).

### Continuing Opportunities for New Investment

Whilst it appears that the capacity requirement for 2008/09 is well covered, there are good opportunities for investment within the SWIS. As well as Boddington, there are a number of significant large mineral based loads that may occur over the next few years. This, with the steady underlying increase in demand and the expected closure of older facilities, provides real opportunities for efficient investment within the Western Australian electricity industry.

### System of capacity requirements and availability for 2008 to 2009



## Changes to the IMO Board of Directors

### Changes to the IMO Board of Directors

As we enter the final stages of implementation of the wholesale electricity market, several changes have been made to the structure of the Board of Directors of the IMO.

Ms Anne Nolan resigned from Chair of the Board in March 2006. Ms Nolan has subsequently been appointed as the inaugural Chief Executive Officer of the IMO. Ms Nolan has extensive leadership experience as well as experience in strategic policy setting and commercial matters in Treasury and the energy sector.

**Mr John Kelly**, who has been on the IMO Board since it commenced operations, was appointed Chair in April 2006. Mr Kelly has spent his working career in the power industry and retired from Western Power, as General Manager Distribution, in 2000. Mr Kelly was a member of the Electricity Reform Taskforce that provided a blueprint for a competitive electricity industry to Government in 2002. He became the Independent Member of the Electricity Reform Implementation Steering Committee.

Mr Kelly has a Bachelor of Engineering (Mechanical), a Diploma in Business Management and is a Fellow of the Institute of Engineers, Australia.

The IMO has also secured the services of two well-qualified persons to join the Board of Directors. Both were appointed to the Board in April 2006.

**Mr Shaun Dennison** has had 14 years experience in corporate advisory and project management roles with a focus on energy sector reform. He was appointed by the electricity industry as one of two independent members of the Information Exchange committee, established under the National Electricity Rules.

Mr Dennison has a Bachelor of Commerce and is a Member of the Institute of Chartered Accountants and the Institute of Company Directors.

**Ms Danielle McGrath** is a corporate lawyer with more than 12 years of legal experience and has detailed knowledge of, and experience in, the Australian financial markets. Ms McGrath has particular expertise in relation to derivatives markets.

Ms McGrath has a Bachelor of Economics and a Bachelor of Laws (First Class Honours) and a Diploma of Applied Finance and Investment.