

watt's on

From the CEO



With the dawn of a new financial year, it is timely to reflect on all that has been achieved by the IMO in collaboration with Participants over the past twelve months. Achievements of particular note are:

- the establishment of the Market Rules Evolution Plan which allows Market Participants to prioritise the IMO's work program;
- securing 5,493 MW of Capacity for 2011/12 year as compared to 3,531 MW five years ago;
- the reduction of high priority rule changes from four in June 09 to nil this year despite receiving eight high priority rule changes during the year. (As a comparison, in April 2008 there were fourteen);
- the development of a Long Term Road Map for the industry providing a clear direction for all (this was submitted as part of the IMO Strategic Energy Initiative (SEI) submission);
- securing funding to commence and progress the Renewable Energy Working Group program of work;
- hosting the APEx Asia-Pacific Regional Meeting and an industry breakfast which enabled the Western Australian industry to have an insight into markets in other jurisdictions;
- the undertaking of a twelve month long review of the MAC membership and the implementation of a new MAC which was approved in Feb 2010;
- the implementation of a new website and phase one of the MPI.

The most significant project the IMO and the industry have been involved in over the past year is the Market Design Review Project which

will materially shape the future of the IMO and the Market. The Market Design Review team presented three potential pathways for the future of the Market to MAC. At the July MAC meeting, Pathway 1 was chosen (see page 2).

We continue to see evidence of a robust market that is delivering downward pressure on prices as reflected in the graph below.

In the period 21 September 2006 to 30 June 2007:
the average STEM Price was \$55.45 and the average Balancing Price was \$67.45.

At the end of June 2010:
the average STEM Price was \$31.30 and the average Balancing Price was \$32.57.

During the same period the market volume exposed to STEM and Balancing Prices has moved from 5.5% of volume traded to 11.3% in 2010.

Since Market start the forces of supply and demand have reduced prices – as is to be expected in an increasingly competitive market.

A considerable amount of progress has been made in the last year and I would like to take this opportunity to thank all IMO staff for their efforts and to acknowledge the major contribution from

the industry.

The strategic input from industry is extremely important and supports the significant volume of work undertaken each year by the IMO ensuring the best outcomes.

In June, the IMO was one of two shortlisted candidates asked to submit a statement of capability to perform the role of WA Gas Market Operator.

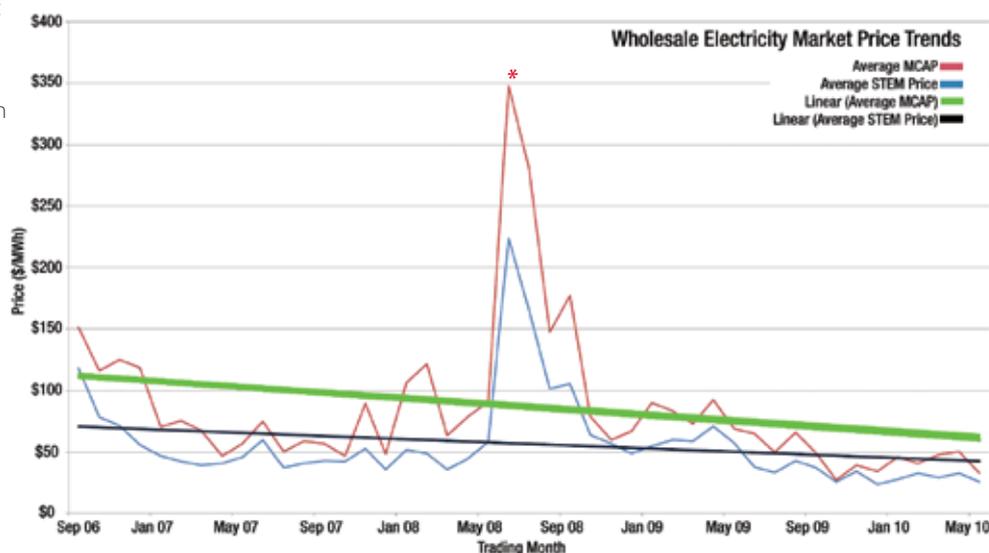
If the IMO is successful, the industry will benefit from having a single operator for gas and electricity. Both markets would be coordinated efficiently and developed in the best interests of WA.

Additionally, as both markets mature and gas and electricity become even more integrated, a coordinated approach will become even more important.

The IMO in collaboration with the industry will always seek out opportunities such as these to deliver the best outcomes for customers.

Much has been achieved in the 2009/10 year. The IMO team remains committed to supporting the industry in the 2010/11 financial year and beyond.

*The graph below shows how prices have trended downwards since market start with the exception of the price increases as a result of the Varanus Island incident.**



These trends indicate increasing competition in the WEM and represent a positive market outcome.

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Market Design Review Update

As reported in the last edition of “watt’s on”, the IMO’s Market Rules Evolution Plan and recommendations of the Verve Energy Review identified the need for an evaluation of the Market Rules.

A Market Rules Design team comprising representatives from System Management, Oakley Greenwood and the IMO considered amongst other things, changes relating to day ahead planning and real time dispatch reflected in the operation of the STEM, balancing market and ancillary services.

Four conceptual options were presented to a special MAC meeting in April. Due

to the complex nature of the issues, a workshop was held on 10 May to give all interested stakeholders the opportunity to offer feedback on and understand how the different options would impact their organisations. A summary of the meeting is available at http://www.imowa.com.au/design_review

From this meeting, three potential market development pathways were identified. The pathways involved choice between:

1. enhancements to the current hybrid market design to push it as far as practical (Pathway 1);

2. transitional enhancements to the current market design while a fully contestable gross or net dispatch market design is implemented (Pathway 2), and
3. moving to a fully contestable market design as soon as practicable (Pathway 3).

At a special MAC meeting held on 19 July, Pathway 1 was chosen. The IMO will now commence the process for acceding the necessary changes to the Market highlighted in the Market Rules Evolution Plan and Oates Review.

For more information, please contact market.development@imowa.com.au

Spotlight – Bruce Cossill, Manager, Market Operations



In June, Bruce Cossill was appointed Manager, Market Operations. He inherited a dedicated team of IMO staff who operate the daily energy market and manage the market settlements process.

Bruce brings a wide range of experience to his current role. His background as a police officer and an investigator for the New Zealand Commerce Commission, the equivalent of the ACCC, exposed him to the concepts of network industries and consumer and competition law.

In 1999, Bruce moved into the electricity industry when he joined market operator M-co New Zealand in a compliance role. He was later seconded to work in the Singapore electricity industry establishing the governance and compliance regime for the Singapore market.

During his time at M-co, Bruce was involved in a number of consulting projects relating to energy market reform in parts of South East Asia.

In addition to energy market experience, Bruce has also worked in the equities market as managing director of Unlisted, New Zealand’s leading unregistered securities exchange. Bruce is looking forward to working with the local industry.

The New MPI

As part of the IMO’s IT roadmap, the new Market Participant Interface (MPI) has been designed to assist Participants by making more data available in an easier and more user-friendly manner. This is one of the more significant initiatives the IMO has been working on over the past year. There are six planned phases in the MPI project - stage one went live on May 6. Stage two - which focuses on improvements to the registrations screen and making it easier to gain access to registration information - is currently being worked on.





Energy Price Limits

The IMO sets Energy Price Limits on an annual basis, which take effect from the first of October each year. The review includes information on gas prices in Western Australia as an input variable. This year, due to the amount of industry discussion on the gas prices used in 2009, the IMO commissioned a separate piece of advice on wholesale gas prices as part of the 2010 Energy Price Limits review.

Independent consultants, ACIL Tasman, (economic policy strategy advisers) were engaged to support the IMO team with the review.

Pleasingly, during the process there was a high level of consultation and input from

both electricity and gas industry participants. We acknowledge and thank them for their contribution.

This report has been well received by the industry. For full information go to the 2010 Review of Gas Prices section on the IMO website at <http://www.imowa.com.au/gaspricesreview2010>

WEMS certification training review

Back this year by popular demand, a WEMS training session was held on Friday 4 June to guide Market Participants through the complex process of applying for Capacity Credits. Some 40 Participants attended this year – almost double that of last year – requiring the session to be held offsite at the Convention Centre.

We were very pleased with this year's level of interest. Many Participants found the training extremely useful as it enables them to apply for Capacity Credits with minimum input from the IMO.

We look forward to continuing to provide this training annually as a service to Market Participants.

Certification update

The IMO is receiving applications for certification for Reserve Capacity until Tuesday 20 July at 5pm. So far 25 applications have been received. Early applications are encouraged as the IMO is then able to provide early notification.

Following a review of applications which will conclude on 5 August, the IMO will send out notification of certification status. Capacity Credits will then be assigned. Details will be published on the IMO website on 11 August at <http://www.imowa.com.au/capcreditinfo>



SOO

This year's Statement of Opportunities (SOO) published on 1 July, was particularly well received by the industry as it was expanded to improve information for investors and Market Participants and follows:

- As announced by the Minister for Energy on 28 June 2010, Western Power has prepared the Generation Connection Capacity Map to inform developers of the ability of the SWIS to accommodate additional mid-sized generation projects with minimal connection cost.

- A detailed commentary was included on the availability of fuel for generation.

This SOO is the IMO's determination of capacity requirements. It provides aggregate forecasts of maximum peak demand and energy usage for all loads that form part of the South West Interconnected System (SWIS).

The SOO focuses on opportunities for investment in generation capacity and Demand Side Management over the medium term. From it, the IMO provides estimates of the amount of

capacity that will be available to meet demand in future years and the extent that this exceeds, or is less than, the forecast demand.

The 2010 SOO places emphasis on the 2012/13 and 2013/14 Capacity Years and sets the amount of capacity required to be available from 1 October 2012, a key parameter of the Reserve Capacity Mechanism in the WEM.

The SOO can be found on our website at <http://www.imowa.com.au/soo>

d-cyphaTrade workshop



d-cyphaTrade will be holding a one-off workshop in Perth on Electricity Futures & Options Trading.

The workshop will be held at the IMO offices on 22 September 2010.

The cost is \$1,000 per person and includes training notes, lunch, morning and afternoon tea.

This is an introductory workshop which provides an understanding of the d-cyphaTrade ASX Electricity Futures and Options Market and how the market is traded.

Topics include:

- The Australian Electricity Pool Market (i.e. NEM);
- The Electricity Futures and Options Market;
- How Generators and Retailers hedge electricity risk using futures & options;
- Characteristics of a Centrally Cleared Futures Market;
- Electricity Futures and Options Contract Specifications;
- SFE Trading Mechanisms;
- Daily Futures Price Settlement Procedures;
- Margining at SFECC and more.

For more information or to register please visit www.d-cyphatrade.com.au or call 1800 3301 101.

Western Power

Western Power is seeking public submissions regarding the Mid West Energy Project (Southern Section) - Stage 1 (A proposed new 200 km double circuit 330 kV transmission powerline from Neerabup to Eneabba, together with establishing a new 330/132kV terminal substation at Three Springs). Public submissions on the project can be lodged with Western Power until 4 August 2010 (see Western Power's website for details of how to lodge a submission). A series of public forums are being hosted in Perth, Three Springs and Geraldton to provide more information. Details regarding the public forums and how to lodge a submission are available on the Western Power website (from 7 July 2010).

www.westernpower.com.au



Loud Shirt day

In May, IMO staff, led by Tim De Boer, Lead Support and Applications Developer, participated in Loud Shirt Day - an annual appeal dedicated to raising money for deaf and hearing impaired children.

This year IMO staff really got on board and committed some serious fashion crimes all for a good cause. All monies raised went to the Telethon Speech and Hearing Centre. Thanks to Tim for organising. Can't wait to see what everyone wears next year!



Contact the IMO:

We welcome your feedback at any time. If you would like more information or would like to receive a copy of **WATT'S ON**, please email us at imo@imowa.com.au

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ENROL NOW!

To broaden your knowledge or refresh it, the IMO offers training on:

- Market Overview
- Market Operations and the Short Term Energy Market (STEM)
- Reserve Capacity Mechanism
- Non-STEM Settlements

Go to www.imowa.com.au/training or contact Tonia Tardivel-Jones on T: 9254 4300 E: imo@imowa.com.au