

imo 
Independent Market Operator

A photograph of a wind farm and power lines, overlaid with a blue tint. The image shows several white wind turbines on the left and a series of high-voltage power line towers on the right, receding into the distance.

2009/10 Operational Plan

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Executive Summary

The 2009/10 year will be the third full year of operation by the Independent Market Operator (IMO) of the Wholesale Electricity Market for Western Australia. Having focused on the launch and consolidation of our market over the last two years, this year the IMO will focus on enhancing the professional delivery of our services.

As part of the Operational Plan for 2009/10 we will:

- Enhance market transparency through the publication of market data and information on the IMO website and market systems.
- Continue to proactively manage market evolution through the publication and implementation of a Market Evolution Plan.
- Actively manage the operational risks associated with the market systems.
- Build redundancy in market operations (people and systems).
- Undertake the proactive retention of institutional knowledge.

During 2008/09 the IMO revised its strategic objectives to more closely align with those of a maturing market operator.

The Operational Plan for 2009/10 is consistent with both the IMO's revised strategic objectives and the Market Objectives.

Operational priorities have been developed based on the IMO's experience in operating the Wholesale Electricity Market. They are incorporated into the Operational Plan and budget for 2009/10.

From 1 July 2008 to mid April 2009 the IMO has achieved the majority of its Key Performance Indicators.

Plan Governance and Approval

The IMO received approval in 2007 of its Allowable Revenue from the Economic Regulation Authority (ERA) for the Review Period 2007/08 to 2009/10.

This Operational Plan and budget is consistent with the ERA's determination on the IMO's Allowable Revenue.



The IMO Board approved the draft 2009/10 Operational Plan at its meeting on 23 April 2009.

In accordance with the *Electricity Industry (Independent Market Operator) Regulations 2004*, the IMO is required to submit to the Minister for Energy the 2009/10 Operational Plan by 30 April 2009.

The Minister is required to approve the Operational Plan within 30 business days.

The IMO must publish the approved budget within five business days of receiving the Minister's approval.



1 Independent Market Operator

The IMO is a body corporate that was established on 1 December 2004 to administer and operate the Wholesale Electricity Market of Western Australia.

The key roles and functions of the IMO are set out in the following instruments:

- Wholesale Electricity Market Rules
- *Electricity Industry (Wholesale Electricity Market) Regulations 2004*
- *Electricity Industry (Independent Market Operator) Regulations 2004*

1.1 Market Objectives

The *Electricity Industry Act 2004* sets the objectives of the Wholesale Electricity Market. These objectives are:

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

1.2 IMO Governance Framework

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

The IMO Board is appointed by the Minister for Energy and operates in accordance with the *Electricity Industry (Independent Market Operator) Regulations 2004*.

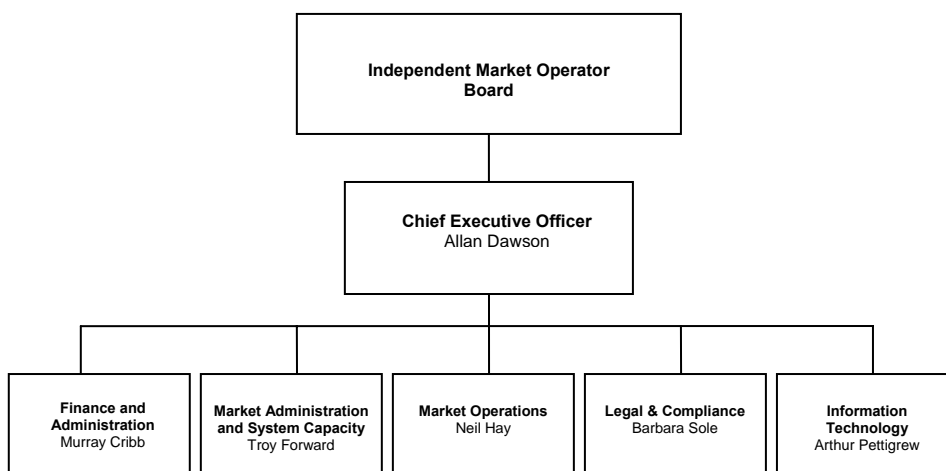


The IMO Board members are:

- John Kelly (Chairman);
- Shaun Dennison; and
- David Huggins.

1.3 IMO Organisational Structure

Figure 1. IMO Organisational Chart



The IMO currently has 27 staff, one more than was outlined in last year’s operational plan. The additional staff position has been incorporated into the restructured Market Administration & System Capacity team during the 2008/09 year.

This year’s operational plan does not require an increase in the IMO permanent head count.

Two additional contract positions have been included in the operational plan to support:

- Reducing the number of outstanding rule changes; and
- Enhanced market systems testing.

The IMO is planning to commence a graduate program in 2010. This program is expected to provide cover for staff attrition.

2 2008/09 in Review

The main focus for the IMO in 2008/09 was one of consolidation. This included:

- Proactively managing market evolution by publishing and implementing a Market Evolution Plan.
- Actively managing the operational risks associated with the market systems.
- Establishing and implementing an HR strategy.
- Establishing and implementing a stakeholder management strategy.
- Enhancing the analytical capability and capacity of the IMO team.

2.1 Key Performance Indicators 2008/09 (Current to 2 April 2009)

Strategic Objective: IMO Operational Effectiveness and Efficiency

Measure	Performance Expectation	Progress to Date
▪ Audit and Certification of Systems	Certified	Certified
▪ Market System Availability	≥ 95% of time	On target
▪ No. of STEM Suspensions	< 4 pa	1
▪ Release of Market Incident Reports	≤ 20 Business Days	On target
▪ Late Settlement Statements (STEM & Non-STEM)	< 3 pa	1
▪ Reserve Capacity Processes Timelines	Achieved	Not achieved ¹

Strategic Objective: IMO Market Development

Measure	Performance Expectation	Progress to Date
▪ Market Rule & Procedure Changes completed within Rule Timeframes	≤5%	7.4% ²
• IMO initiates process time extensions		
• Reviews of Market Parameters (Price Caps, Ancillary Services, Loss Factors)	Within timelines prescribed by Market Rules	On target
▪ Market Development Reviews	In accordance with the timeframes published in the Market Evolution Plan	Not achieved ³

¹ One timeline in the 2007/08 capacity cycle was breached. The capacity cycle has over 40 separate timelines each year.

² 7.4% of deadlines extended (10 extensions in 135 deadlines)

³ 4 of the 5 reviews for 2008/09 commenced within the timelines published in the Market Evolution Plan.



Strategic Objective: IMO Customer and Stakeholder Satisfaction

Measure	Performance Expectation	Progress to Date
▪ Formal Market Training Sessions	4 pa	14 sessions
▪ Market Information Sessions and Presentations	4 pa	6 sessions

Strategic Objective: IMO Financial Responsibility

Measure	Performance Expectation	Progress to Date
▪ Expenditure Control	Expenditure \leq Budgeted Expenditure	On target
▪ Capital Expenditure Control	Capital Expenditure \leq Plan	On target



3 Strategic Direction and Operational Priorities for 2009/10

During 2008/09 the IMO revised its strategic objectives to more closely reflect those of a maturing market operator.

THE IMO'S STRATEGIC OBJECTIVES

Market Operations

- The IMO operates reliable, efficient energy and capacity markets with integrity and transparency.

Market Development

- The IMO promotes market evolution to meet the needs of the market, consistent with the market objectives. Development is based on robust analysis, objective reasoning and consultation.

Customers and Stakeholders

- The IMO develops relationships with customers and stakeholders, based on trust and knowledge sharing, to support the Market Objectives.

Financial Responsibility

- All financial transactions have prudent governance oversight. IMO expenditure is cost effective.

IMO Capacity and Capability

- The IMO has the capacity and capability to operate the market professionally and meet our stakeholders' expectations.

The 2009/10 Operational Plan is consistent with these strategic objectives.

3.1 Operational Priorities – External Influences

In establishing operational priorities for 2009/10, the IMO is cognisant of several factors that have the potential to affect the development of the Wholesale Electricity Market in WA:

- The impact of the global financial crisis on generation investment.



- The increased industry and regulator focus on the security of fuel supplies, particularly natural gas, as a result of the Varanus Island explosion.
- The need for extensive investment in transmission infrastructure.
- Limited natural gas availability in the medium term (3 to 5 years).
- Managing the impact of federal renewable energy policy and the proposed carbon pollution reduction scheme.

3.2 Operational Plans

The IMO's 2009/10 Operational Plan is predicated on operating the Market in compliance with the *Electricity Industry (Wholesale Electricity Market) Regulations 2004*, the *Electricity Industry (Independent Market Operator) Regulations 2004* and the Market Rules.

In performing its functions the IMO relies on strong corporate governance and robust service delivery.

The IMO's operational priorities are built on, and provide support to, the IMO's core functions.

Strategic Objective: Market Operations

The IMO operates reliable, efficient energy and capacity markets with integrity and transparency.

- Develop and disseminate high-quality market analysis to Market Participants and stakeholders in a timely manner via the enhanced market systems and IMO website.
- Develop within the market systems a suite of market verification tools to enhance the validation and review of market outcomes.
- Work proactively with Market Participants and Western Power to secure high quality metering data for market settlement.
- Promote the Reserve Capacity Mechanism to prospective Market Participants, investors and financiers.

Strategic Objective: Market Development

The IMO promotes market evolution to meet the needs of the market as a whole. Development is based on robust analysis, objective reasoning and consultation.

- Support the Office of Energy in the development of a long-term industry roadmap.
- Review and simplify market settlement including prudential security.



- Monitor electricity market evolution in other jurisdictions and incorporate appropriate ideas into the Market Evolution Plan.

Strategic Objective: Customers and Stakeholders

The IMO develops relationships with customers and stakeholders, based on trust and knowledge sharing, to support the Market Objectives.

- Maintain a regular IMO newsletter.
- Revise the IMO website to meet the needs of our stakeholders.
- Monitor stakeholder satisfaction through a regular stakeholder survey.
- Continue to evolve market training to meet the needs of our stakeholders.

Strategic Objective: Financial Responsibility

All financial transactions have prudent governance oversight. IMO expenditure is cost effective.

- Undertake a thorough review of the IMO Independent Expert Panel to ensure that the IMO has the appropriate resources to call upon in order to effectively undertake its role.

Strategic Objective: IMO Capacity and Capability

The IMO has the capacity and capability to operate the market professionally and meet our stakeholders expectations.

- Implement an HR strategy that ensures the IMO recruits, retains and develops its staff.
- Assess the roles, responsibilities and appropriate remuneration of all IMO positions.
- Implement a graduate program for 2010.

3.3 Special Projects

The IMO has been requested to undertake a significant project that evaluates the impact of renewable energy targets on the Wholesale Electricity Market. This project will include an evaluation of how a higher level of intermittent generation will impact on the operation of the market and the power system.

This project is aligned with the key issues identified by the Australian Energy Market Commission's recently published Review on Energy Market Frameworks in Light of Climate Change Policies.



A project scope has been developed in conjunction with the Renewable Energy Generators Working Group.

This special project is projected to take between 30 and 42 weeks to complete. The cost estimate for the project, including the cost of a project manager, is between \$560,000 and \$704,000.



4 2009/10 Budget

4.1 Three Year Review Period – Approval Provided

In accordance with clause 2.22.3 of the Wholesale Electricity Market Rules, the ERA approved the IMO's Allowable Revenue for the Review Period 2007/08 to 2009/10.

Allowable Revenue is defined as the revenue that may be recovered through fees to meet the costs of providing the IMO's services to the market.

The ERA determination allowed for total expenditure across the review period of \$29.717 million after allowing for interest revenue of \$48,000.

Market Rules 2.22.7 and 2.22.8 provide for the Allowable Revenue for the three-year Review Period to be reallocated between years, provided the total Allowable Revenue for the Review Period is not exceeded by 15%.

4.2 Approved Adjustments - Previous Years

The proposed budget in the 2009/10 Operational Plan takes into account an adjustment of \$2.232 million as the reported surplus from 2007/08.

The budget approved in the 2008/09 Operational Plan took into account an adjustment of \$2.493 million as the reported surplus from 2006/07.

4.3 IMO Proposed Budget by Functional Areas

The IMO is required under the Market Rules to prepare a budget for each service. Accordingly the budgeted expenditure has been broken down by functional service area.

Functional service area	Budgeted 2009/10 (000)
Market Administration	3,013
Market Operation	6,557
System Capacity	1,194
Special Projects	704
Total budgeted expenditure (excluding interest revenue)	11,468

Special Projects will be allocated to Market Administration.



4.4 IMO Sources of Funding

The IMO is required under the *Electricity Industry (Independent Market Operator) Regulations 2004* to estimate the sources of funding.

Sources of funding	Budgeted 2009/10 (000)
Market Fees	9,169
Interest revenue	67
Surplus from previous year 2007/08	2,232
Total funding	11,468

4.5 The Adjusted Three Year View

The IMO adjusted expenditure for the review period based on actual results for 2007/08, projected results for 2008/09 and the 2009/10 budget is \$28.1 million. This amount includes interest revenue, the approved adjustments from previous years and the inclusion of special project costs.

Expenditure and Interest revenue	Actual 2007/08 (000)	Projected 2008/09 (000)	Budgeted 2009/10 (000)	TOTAL	ERA Submission
Wages & salaries	2,656	3,268	3,582	9,506	9,485
Other staffing costs	108	110	114	332	522
Accommodation	285	259	271	815	823
Supplies & services	2,303	3,667	4,243	10,213	10,720
Borrowing costs	388	380	88	856	1,042
Interest revenue	(280)	(314)	(67)	(661)	(48)
Depreciation	2,986	3,376	2,466	8,828	7,173
Total	8,446	10,746	10,697	29,889	29,717
Adjustments					
Previous year (2006/07)	-	(2,493)	-	(2,493)	-
Special projects	-	-	704	704	-
Adjusted expenditure	8,446	8,253	11,401	28,100	29,717

5 Market Fees

One of the IMO's responsibilities under the Market Rules is to charge Market Fees to recover the costs of:

- the IMO;
- System Management's wholesale market functions; and
- the Economic Regulation Authority's (ERA) market functions.

The Market Rules provide a methodology for calculating fees for settlement. The fee rates will be set to recover allowable revenue on the following basis:

- 50% on the basis of the forecast annual generation; and
- 50% on the basis of the forecast annual load.

There is fixed rate application fees set at a level commensurate with the direct costs borne by the IMO.

Prior to 30 June 2009 the IMO must publish the:

- Market Fee rate
- System Operation Fee rate
- Regulator Fee rate
- Rate for each Application Fee for 2009/10
- Total projected IMO fees for 2009/10
- Total projected System Operation Fees for 2009/10
- Total projected Regulator Fees collected for the Economic Regulation Authority's market monitoring and regulation services for 2009/10

5.1 Market Fees for 2009/10

The total revenue to be recovered through Market Fees in 2009/10 is as follows:

Revenue Requirement	2009/10 (\$000's)	2008/09 (\$000's)
IMO Revenue Requirement	9,169	9,368
System Management Revenue Requirement	4,357	4,742
ERA Revenue Requirement	TBA	1,452
Total Revenue to be recovered through Market Fees	TBA	15,562

Please note that the IMO is yet to receive advice from the ERA on its revenue requirements for 2009/10.

Following the release of updated energy forecasts in June 2009, the IMO will determine and publish the level of the Market Fee rate, System Operation Fee rate and Regulator Fee rate for 2009/10.

IMO Revenue Requirement 2009/10	(\$000's)
Revenue Requirement	9,169
Indicative IMO Market Fee Rate (MWh)	\$0.247

Trend in IMO Fee rate	IMO Fee recovered Dollars per MWh
2006/07	\$0.307
2007/08	\$0.322
2008/09	\$0.271
Projected for 2009/10	\$0.247



6 Proposed Key Performance Indicators – 2009/10

Strategic Objective: Market Operations

Measure	Performance Expectation
Number of STEM Market Suspensions	≤ 2
STEM Market delay	≤ 5
Unplanned system availability (3,500 hours per year – 7:00 am – 5:00 pm seven days per week)	≤ 20 hours not available
Late Settlement statements (STEM & Non-STEM)	≤ 2

Strategic Objective: Market Development

Measure	Performance Expectation
Market Evolution Plan agreed and published	2 times per year
Implementing all Rule Changes within agreed timeframes	≥ 95%

Strategic Objective: Customers and Stakeholders

Measure	Performance Expectation
Number of registrations for market training	≥ 150 people
Stakeholder survey completed and results published	Achieved

Strategic Objective: Financial Responsibility

Measure	Performance Expectation
Expenditure Control	≤ Allowable Revenue
Capital Expenditure Control	≤ Capital Budget

Strategic Objective: IMO Capacity and Capability

Measure	Performance Expectation
Training and development	40 hours per person

