

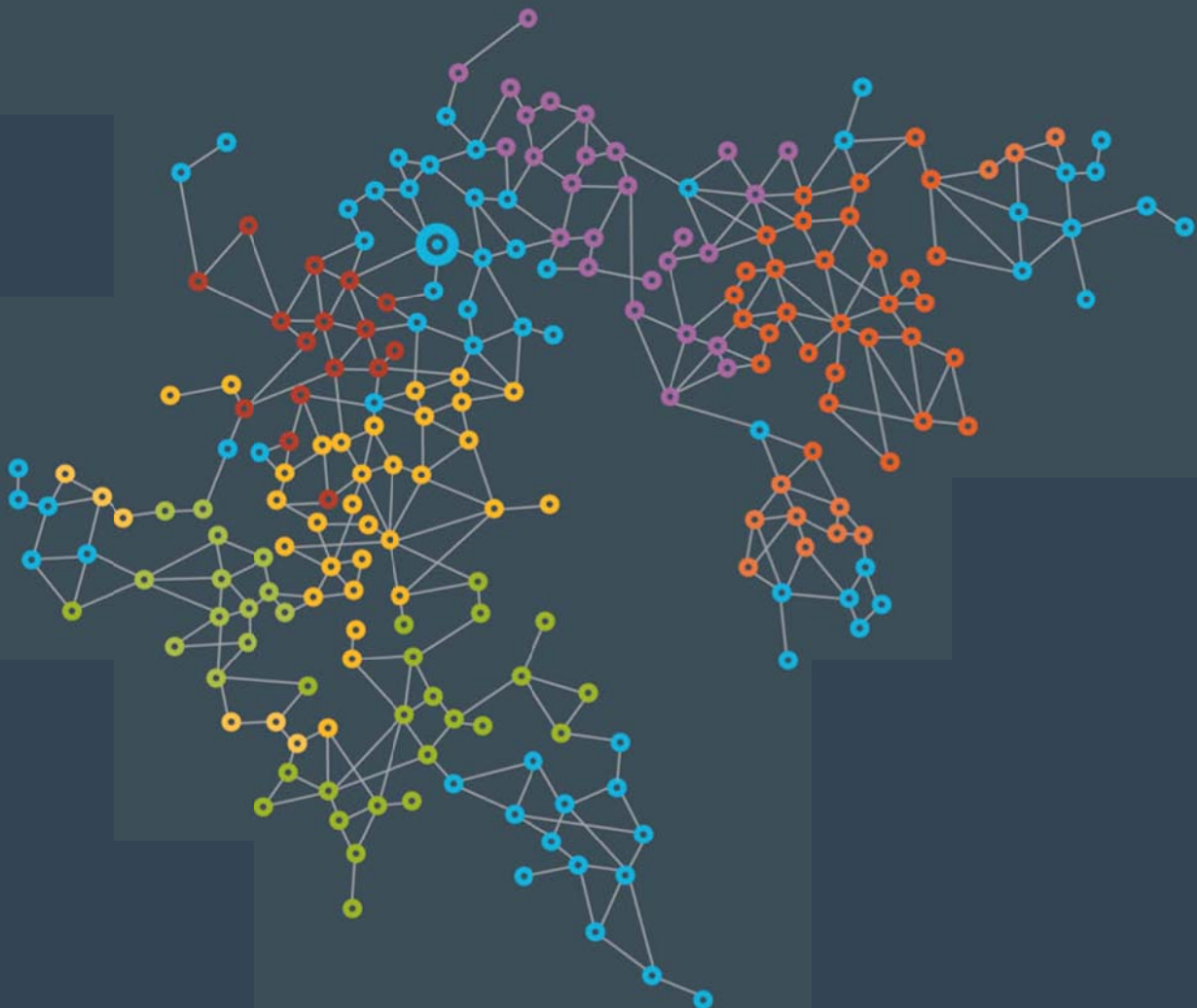


INDEPENDENT  
MARKET  
OPERATOR

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## 2014/15 Operational Plan

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## Executive Summary

The 2014/15 year will be the eighth full year of operation by the Independent Market Operator (IMO) of the Wholesale Electricity Market (WEM) for Western Australia and the second year of operation for the Gas Services Information (GSI) functions.

Every three years, the IMO is required to submit a three year Allowable Revenue Submission to the Economic Regulation Authority (ERA) and for the first time, as a result of a rule change, a three year Forecast Capital Expenditure was also considered as part of the submission. In April 2013, the ERA determined that the IMO's WEM Allowable Revenue and Forecast Capital Expenditure should be the full amount proposed by the IMO.

In August 2013, the IMO commenced the initial operation of the Gas Services Information which was the first service outside of the WEM provided by the IMO. For the GSI, the IMO is also required to submit a three year Allowable Revenue Submission to the ERA, including Forecast Capital Expenditure. In November 2013, the ERA determined that the IMO's GSI Allowable Revenue and Forecast Capital Expenditure should be the full amount proposed by the IMO.

2014/15 represents the second year of the three year Allowable Revenue and Forecast Capital Expenditure period for both the Wholesale Electricity Market and the Gas Services Information.

Engaging with Market Stakeholders will be a continuing focus for the IMO in 2014/15 along with the identification of market data that can be published, improves efficiency and demonstrate transparency in the IMO decision making process for both our Electricity and Gas participants.

2014/15 will also see the IMO undertake a number of comprehensive compliance audits on both the Electricity and Gas functions including compliance with both the Electricity and Gas Rules and procedures. This is expected to be a key point of activity for the IMO during the year.

Another key driver for the IMO during 2014/15 will be the continuing development of IMO staff and to further develop the successful Graduate Development program to ensure knowledgeable and enthusiastic graduates are appointed to roles with the IMO on completion of their program.

Works will continue to reduce both operational and key person risk by identifying both processes and systems and developing risk mitigation plans to address these issues.

With the recent announcement of the WA Electricity Industry Review, to be conducted by the Public Utilities Office (PUO), the IMO looks forward to supporting and contributing to the review.

The 2014/15 Operational Plan is the first to combine both of the IMO's functions into one operational plan. As the IMO is required to separately account for both WEM and GSI, budgets for both functions have been included as separate sections in the Operational Plan.

The IMO has made good progress on its delivery of the 2013/14 Key Performance Indicators, details of which are included in section 2.1.

## Plan Governance and Approval

### ***Wholesale Electricity Market (WEM)***

The IMO received approval in April 2013 of its WEM Allowable Revenue and Forecast Capital Expenditure from the Economic Regulation Authority (ERA) for the Review Period 2013/14 to 2015/16.

This Operational Plan and budget is consistent with the second year of the WEM Allowable Revenue and Forecast Capital Expenditure determined by the ERA.

The IMO Board approved the draft 2014/15 Operational Plan at its meeting on 17 April 2014.

In accordance with the Electricity Industry (Independent Market Operator) Regulations 2004, the IMO is required to submit to the Minister for Energy the 2014/15 Operational Plan by 30 April 2014.

The Operational Plan is required to include a budget for the coming financial year, with the Minister for Energy required to make a decision on the budget within 30 business days.

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

### ***Gas Services Information (GSI)***

The IMO received approval in November 2013 of its GSI Allowable Revenue and Forecast Capital Expenditure from the Economic Regulation Authority (ERA) for the Review Period 2013/14 to 2015/16.

This Operational Plan and budget is consistent with the second year of the GSI Allowable Revenue and Forecast Capital Expenditure determined by the ERA.

The IMO Board approved the draft 2014/15 Operational Plan at its meeting on 17 April 2014.

In accordance with Section 111 of the Gas Services Information Rules, the IMO is required to submit to the Minister for Energy the 2014/15 GSI Budget Proposal by 30 April 2014. The Minister for Energy is required to make a decision on the budget within 30 business days.

The IMO must publish the Approved Annual Revenue for the GSI by 30 June each year or within five business days of receiving the Minister for Energy's approval should this be received after 30 June.

## 1. Independent Market Operator – Corporate Structure

The IMO is an independent body corporate that was established on 1 December 2004 to administer and operate the Wholesale Electricity Market (WEM) of Western Australia. In May 2011, the IMO was appointed to administer the Gas Services Information (GSI) in 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*;
- *the Gas Services Information Regulations 2012*; and
- the Gas Services Information Rules.

### 1.1. Electricity Market Objectives

The *Electricity Industry Act 2004* sets the objectives of the WEM. 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; and
- To encourage the taking of measures to manage the amount of electricity used and when it is used.

### 1.2. Gas Services Information Objectives

The objectives of the Gas Bulletin Board (GGB) and Gas Statement of Opportunities (GSOO) are to promote the long term interests of consumers and natural gas in relation to:

- The security, reliability and availability of the supply of natural gas in the State;
- The efficient operation and use of natural gas services in the State;
- The efficient investment in natural gas services in the State; and
- The facilitation of competition in the use of natural gas services in the State.

### 1.3. 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 existing IMO Board members are:

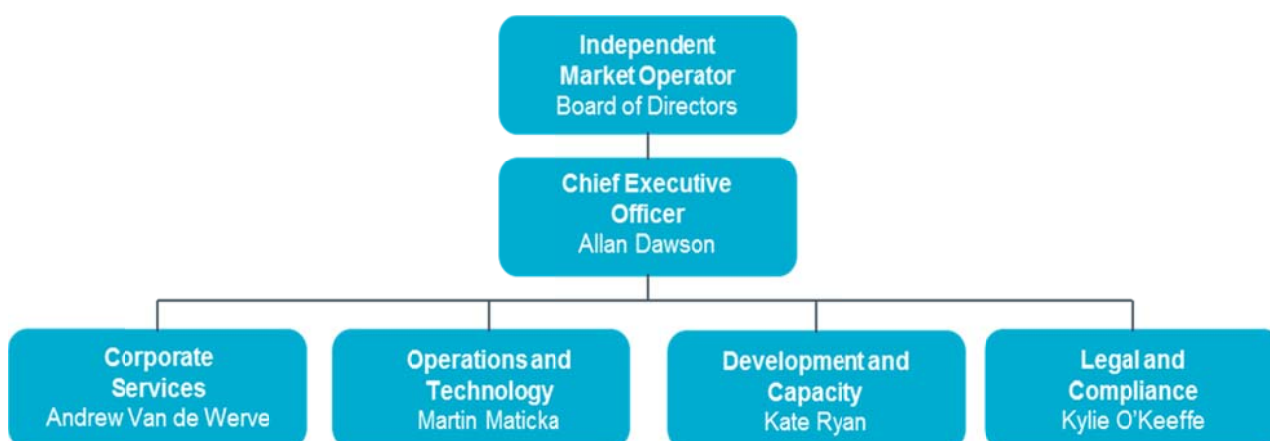
- John Kelly (Chairman);
- Shaun Dennison;
- David Huggins; and
- Roland Sleeman.

In May 2013, Roland Sleeman, was appointed to support the Board's new responsibility for the implementation and operation of the Gas Services Information.

### 1.4. Organisational Structure

The current IMO management restructure has been in place since February 2013.

Figure 1 – IMO Organisational Chart



The IMO currently has 45 approved positions, corresponding to 43.9 FTE's after adjusting for part-time positions. This is consistent with the positions included in the Allowable Revenue Determinations approved during 2013/14.

The allocation of staff to the functions performed by the IMO is 38.8 FTE for WEM related activities and 5.1 FTE for GSI related activities.

Historical FTE Allocations	2010/11	2011/12	2012/13	2013/14	2014/15
Wholesale Electricity Market Functions	27.7	31.5	35.5	38.5	38.8
Gas Services Information Functions	-	-	4.5	4.5	5.1
<b>Total Full Time Equivalent Positions</b>	<b>27.7</b>	<b>31.5</b>	<b>40.0</b>	<b>43.0</b>	<b>43.9</b>

## 2. 2013/14 in Review

In 2013/14, the IMO's main focus was on completing the successful implementation of the Gas Bulletin Board and the Gas Statement of Opportunities and to improve its service delivery to customers whilst supporting the WEM's next evolutionary steps. This included:

- Increased market transparency through the publication of market data infographics on the IMO Website and by providing market data in a more user friendly, self service format;
- Continue to proactively manage market evolution through the publication and implementation of a Market Rules Evolution Plan (MREP), including review and prioritisation by the Market Advisory Committee;
- Facilitating the rule and system changes to accommodate the merger of the Synergy and Verve entities;
- Actively manage and reduce the operational risks associated with the market systems, in particular reviewing the market settlement processes;
- Build robust systems and developing staff to reduce key person dependency, particularly in market operations; and
- Undertake proactive sharing and documentation of institutional knowledge, both internally and with key sector stakeholders.

During 2013/14 a number of system developments were made, improving the level of data availability and improving the compliance tools available for market surveillance.

### 2.1. Key Performance Indicators 2013/14 (current to 31 March 2014)

#### Strategic Objective: Operating Markets

Measure	Performance Expectation Per Year	Progress to 31 March 2014 (9 months)
Number of STEM Market Suspensions	≤ 1	0
STEM Market delay	≤ 5	2
Forecast BMO generation (excluding planned outages)	≥99%	99.84%
Unscheduled IT outages	≤ 0.5%	0.16%
Late Settlement statements (STEM & Non-STEM)	≤ 2	0
GBB Reporting generation (excluding planned outages)	≥99%	100%
Deadline for publication of Gas Statement of Opportunities met	IMO adherence to material deadlines in the GSI Rules	2013 GSOO published 26 July 2013 (due 31 July) Publication of 2014 GSOO delayed until 31 January 2014 (due 31 December)
Key deadlines for Reserve Capacity Mechanism published on IMO website and met	IMO adherence to significant published deadlines	All deadlines met to date

### Strategic Objective: Developing the WEM and GSI

Measure	Performance Expectation Per Year	Progress to 31 March 2014 (9 months)
Formal Review of Market Rules Evolution Plan for 2013 to 2016	Once per year with MAC	Completed at October 2013 MAC meeting
Delivery of GISP	On time; < Budget; In consultation with gas industry stakeholders; and Consistent with the objectives in the <i>Gas Services Information Act 2012</i> .	GISP concluded on 2 August 2013 with the launch of the GSOO and GBB On time Delivered <b>9.06% under budget</b> (\$300,399) Extensive consultation with stakeholders Consistent with objectives

### Strategic Objective: Establish and Building Strong Relationships

Measure	Performance Expectation Per Year	Progress to 31 March 2014 (9 months)
Number of market training sessions presented to attendees	≥ 200 Participants	23 training courses held YTD with <b>268 participants</b> attending.
Number of forums, workshops and user groups held with Energy Sector	6 per year	<b>7 Year to Date</b> <ul style="list-style-type: none"> <li>• Operations Stakeholder Forum</li> <li>• Reserve Capacity Workshop</li> <li>• Large User Forum</li> <li>• GSOO Stakeholder Forum</li> <li>• Merger information sessions (2)</li> <li>• Telemetry requirements for DSPs</li> </ul>

### Strategic Objective: Financial Responsibility

Measure	Performance Expectation Per Year	Progress to 31 March 2014 (9 months)
Expenditure Control	≤ Allowable Revenue	<b>Tracking to budget</b> , currently at 70.3% of annual budget
Capital Expenditure Control	≤ Capital Budget	<b>Tracking to budget</b> , currently at 75.2% of annual budget

### Strategic Objective: Skills and Resources

Measure	Performance Expectation Per Year	Progress to 31 March 2014 (9 months)
Employee happiness and satisfaction	Turnover to be ≤ 15%	<b>9.1%</b> (4 Resignations)
Effective graduate program	To retain Graduates on average ≥ 3 years	Avg retention currently <b>2 years 2 months</b>
Recruitment strategy effectiveness	≤ 4 months to fill a position	5 positions recruited with an avg recruitment time of <b>1.5 months</b>



## 3. Strategic Objectives and Operational Deliverables for 2014/15

### 3.1. Strategic Objectives

#### 3.1.1. IMO Purpose

To achieve the market objectives in the operation and evolution of the Wholesale Electricity Market (WEM) and Gas Services Information (GSI). We accomplish this through collaboration, efficient processes and independent leadership, using our resources efficiently and investing in our people.

The IMO's strategic objectives have been revised for 2014/15 to reflect the continuing maturity of the organisation.

#### THE IMO'S STRATEGIC OBJECTIVES

##### Operating Markets

- The IMO operates reliable and efficient markets and information services with integrity and transparency.

##### Developing the WEM and GSI

- The IMO leads short term improvement, supports long term evolution of the WEM and GSI using robust analysis, objective reasoning and consultation.

##### Establish and Build Strong Relationships

- The IMO develops enduring relationships with customers and stakeholders based on trust and open communication.

##### Financial Responsibility and Risk Management

- All financial transactions and corporate risks have prudent governance oversight.

##### Skills and Resources

- The IMO has the skills and resources to operate professionally and meet stakeholders' expectations.

The IMO's 2014/15 Operational Plan is consistent with these Strategic Objectives.

## 3.2. Operational Deliverables

The IMO's 2014/15 Operational Plan is predicated on operating the WEM and GSI in compliance with:

- the *Electricity Industry (Wholesale Electricity Market) Regulations 2004*;
- the *Electricity Industry (Independent Market Operator) Regulations 2004*;
- the Wholesale Electricity Market Rules;
- the *Gas Services Information Regulations 2012*; and
- the Gas Services Information Rules.

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

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

### 3.2.1. Strategic Objective: Operating Markets

*The IMO operates reliable and efficient markets and information services with integrity and transparency.*

- Continue to improve the system availability and market data quality in WEMS and GBB.
- Continue to embed the concept of operational maturity into all IMO systems, procedures and culture.
- Undertake an end to end compliance audit for the IMO WEM rule obligations including Market Procedures and Market Systems.
- Improve the transparency of our markets by continuing to develop and publish market data identified as valuable by stakeholders.
- Continue to develop and enhance the IMO's compliance and market monitoring tools.
- Develop a plan and commence implementation of improvements to WEMS settlement that aligns with the IMO's Risk Appetite and ensures a reduction in system risk, clear and efficient processes and auditable outcomes.

### 3.2.2. Strategic Objective: Developing the WEM and GSI

*The IMO leads short term improvement and supports long term evolution of the WEM and GSI, using robust analysis, objective reasoning and consultation.*

- Continue to enhance and encourage active participation in the Balancing and Load Following Ancillary Service Markets.
- Continue to implement the recommendations from the Reserve Capacity Mechanism Review in a robust and timely manner.
- Continue to implement the recommendations from the Outage Planning Review.
- Continue the development of reforms outlined in the Market Rules Evolution Plan.
- Continue the strategic discussions on longer term policy matters (e.g. will the SWIS retain an unconstrained philosophy or adopt a constrained grid policy) that could impact the design and implementation of the WEM systems – the replacement of these systems is scheduled to commence in 2016/17.
- Provide support for the continued development of the WA Energy Sector (e.g. the PUO led industry review and gas short term trading market).

### **3.2.3. Strategic Objective: Establish and Build Strong Relationships**

*The IMO develops enduring relationships with customers and stakeholders based on trust and open communication.*

- Engage, educate and inform our stakeholders.
- Listen to our stakeholders, taking their views into consideration when we make decisions and provide sound explanations when a decision differs from their views.
- Continue to enhance the functionality and content of the IMO website, WEMS Market Participant Interface and GSI systems to meet the requirements of our stakeholders.
- Evolve the IMO market training to meet the needs of our stakeholders.

### **3.2.4. Strategic Objective: Financial Responsibility and Risk Management**

*All financial transactions and corporate risks have prudent governance oversight.*

- Planned audits are conducted in accordance with approved audit program.
- IMO risks are managed within the IMO Board approved Risk Management Framework.
- Continue to improve our processes and procedures to ensure they are robust, effective and efficient.
- Ensure IMO internal resources are efficiently applied to the IMO's work programs.
- Continue to develop and implement a centralised procurement function that ensures all major procurement is conducted using consistent processes and standards.

### **3.2.5. Strategic Objective: Skills and Resources**

*The IMO has the skills and resources to operate professionally and meet stakeholders' expectations.*

- Maintain an integrated approach to performance management including personal development plans for all IMO staff.
- Build organisational resilience through staff development and succession planning.
- Continue to identify and mitigate key person risk.
- Continue the IMO's successful graduate program.

## 4. 2014/15 Budget – Electricity (WEM)

### 4.1. Electricity (WEM) – 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 and Forecast Capital Expenditure in April 2013 for the Review Period 2013/14 to 2015/16.

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 Allowable Revenue and Forecast Capital Expenditure Submission for the period covering 2013-14 to 2015-16 was the first submission as a result of rule change RC\_2011\_02 which expanded the IMO's three yearly funding arrangements to include the ERA Determination of the IMO's Forecast Capital Expenditure.

Forecast Capital Expenditure is defined as the predicted sum of capital expenditure required for a Review Period. The capital expenditure incurred by the IMO is primarily used for developing and maintaining both Market and Non Market related IT systems and infrastructure.

2014/15 is the second year of the 2013/14 to 2015/16 Review Period.

The ERA Determination allowed for:

1. Total operational expenditure across the review period of \$48.926 million (after allowing for interest revenue of \$150,000), including expenditure of \$16.265 million in 2014/15 (after allowing for interest revenue of \$50,000).
2. Total capital expenditure across the review period of \$6.274 million, including \$1.984 million in 2014/15.

### 4.2. Electricity (WEM) – Inter-Period Budget Adjustment

The IMO is required under the Market Rules to return an operating surplus or recover an operating loss from Market Participants via an adjustment to the Allowable Revenue two years hence.

In 2012/13 the IMO budgeted for an operating loss of \$0.500 million to account for the result recorded in 2010/11. The actual result in 2012/13 was a profit of \$0.901 million being \$1.401 million more than the budgeted loss of \$0.500 million. The proposed budget in the 2014/15 Operational Plan takes into account an adjustment of this \$1.401 million.

The relevant inter-period budget adjustments are set out below:

Financial Budget/Result	2010/11 (\$'000)	2011/12 (\$'000)	2012/13 (\$'000)	2013/14 (\$'000)	2014/15 (\$'000)
Budgeted Profit/(Loss)	(772)	(156)	(500)	993	(1,401)
Actual Profit/(Loss)	<u>(272)</u>	<u>(1,149)</u>	<u>901</u>	<u>TBD</u>	<u>TBD</u>
<b>Variance</b>	<b>500</b>	<b>(993)</b>	<b>1,401</b>	<b>TBD</b>	<b>TBD</b>

### 4.3 Electricity (WEM) – 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 2014/15 (\$'000)	Budgeted 2013/14 (\$'000)
Market Administration	5,498	5,052
Market Operation	8,502	8,033
System Planning	<u>2,676</u>	<u>2,730</u>
<b>Total Budget</b>	<b>16,676</b>	<b>15,815</b>

### 4.4 Electricity (WEM) – 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 2014/15 (\$'000)	Budgeted 2013/14 (\$'000)
Market Fees (Adjusted <sup>1</sup> )	15,225	16,758
Inter-Period Adjustment (from 2012/13)	1,401	(993)
Interest Revenue	<u>50</u>	<u>50</u>
<b>Total Funding (Normal Operations)</b>	<b>16,676</b>	<b>15,815</b>

### 4.5 Electricity (WEM) – IMO Proposed Budget by Classification Categories

The budgeted expenditure and interest approved by the ERA in 2014/15 is set out in the classification categories as shown below:

Classification	2014/15 (\$'000)	2013/14 (\$'000)
Employee Benefits Expense	5,996	5,568
Supplies & Services	4,980	5,004
Accommodation	782	715
Depreciation	4,444	3,946
Borrowing costs	<u>474</u>	<u>582</u>
<b>Total Budgeted Expenditure</b>	<b>16,676</b>	<b>15,815</b>
Less Interest revenue	(50)	(50)
Add/(Less) Inter-Period Budget Adjustment	<u>(1,401)</u>	<u>993</u>
<b>Market Fees (To be Levied)</b>	<b>15,225</b>	<b>16,758</b>

<sup>1</sup> Adjusted Market Fees is the net result of the Allowable Revenue approved by the ERA (adjusted to \$16,626,000) less the Inter-Period Adjustment from 2012/13 (\$1,401,000).

## 4.6 Electricity (WEM) – Forecast Capital Expenditure

The Allowable Revenue and Forecast Capital Expenditure Submission for the period covering 2013-14 to 2015-16 was the first submission as a result of rule change RC\_2011\_02 which expanded the IMO's three yearly funding arrangements to include the ERA Determination of the IMO's Forecast Capital Expenditure.

Forecast Capital Expenditure is defined as the predicted sum of capital expenditure required for a review period.

The IMO has developed a third iteration of the IMO IT Road Map 2013-2016 which is the key strategic IT planning document used to ensure that the planning, delivery, management and use of the IMO's systems optimally supports the IMO business requirements.

The IMO IT Road Map 2013-2016 was endorsed by the Minister for Energy in October 2012 and was considered as part of the State Capital Budget from 2013/14. The IT Road Map 2013-2016 was developed to support the IMO Forecast Capital Expenditure submission for the review period 2013-14 to 2015-16.

The IT Road Map 2013-2016 aims to:

- Continue to maintain systems and ensure they remain current and supported by our vendors;
- Extend applications to support Market Participants that have a carrying degree of technical sophistication;
- Maintain the strategic objective of enhancing market transparency; and
- Developing and implement integrated compliance and monitoring tools in the WEM Systems.

The funding determined by the ERA for the WEM review period 2013/14 to 2015/16 was:

	2013/14	2014/15	2015/16	Total
Forecast Capital Expenditure (\$'000)	2,583	1,984	1,707	<b>6,274</b>

A significant investment to replace a large component of the current Wholesale Electricity Market System will be required in 2016/17 as the system reaches its end of useful life. This will be included as part of the Forecast Capital Expenditure submission for the 2016/17 to 2018/19 Triennium.

The 2014/15 Forecast Capital Expenditure is allocated to the following IT categories:

IT Category	2014/15 (\$'000)	2013/14 (\$'000)
Corporate Support (Non-Market Systems)	128	130
Wholesale Electricity Market Systems (WEMS)	385	654
Settlements	70	368
Infrastructure Support (Market Systems)	999	972
Data/Information Provision	<u>402</u>	<u>459</u>
<b>Total 2014/15 Forecast Capital Expenditure</b>	<b>1,984</b>	<b>2,583</b>

Forecast Capital Expenditure is funded through five year fixed term loans from WA Treasury Corporation.

The Principal and Interest repayments form part of the Total Budget Expenditure through the categories of Borrowing Costs (Interest) and Depreciation (Principal) and over the life of the loans are cost neutral to the WA State Budget.

## 5. Market Fees – Electricity (WEM)

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 ERA's market functions.

The Market Rules provide a methodology for calculating fees for settlement through the market. 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 a fixed rate application fee set at a level commensurate with the direct costs borne by the IMO.

Prior to 30 June 2014 the IMO must publish each of the following:

- Market Fee rate;
- System Operation Fee rate;
- Regulator Fee rate;
- Rate for each Application Fee for 2014/15;
- Total projected IMO fees for 2014/15;
- Total projected System Operation Fees for 2014/15; and
- Total projected Regulator Fees for the ERA's market monitoring and regulation services for 2014/15;

The Market Rules provide for information about the expected fee rate to be published in the event that, prior to 30 June, the IMO's annual budget has not received approval from the Minister for Energy or the IMO has not been provided with a copy of the relevant information from the System Operator or the Regulator.

## 5.1. Market Fees for 2014/15 – WEM

The total revenue to be recovered through Market Fees in 2014/15 is as follows:

Market Fees - Revenue Requirement	2014/15 (\$'000)	2013/14 (\$'000)
IMO Revenue Requirement	15,225	16,758
System Management Revenue Requirement	TBA	12,616
ERA Revenue Requirement	TBA	2,589
<b>Total Revenue to be recovered through Market Fees</b>	<b>TBA</b>	<b>31,963</b>

The IMO is yet to receive advice from System Management or the ERA on their revenue requirements for 2014/15.

Following the release of updated energy forecasts in June 2014, the IMO will determine and publish the level of the Market Fee rate, System Operation Fee rate and Regulator Fee rate for 2014/15.

The indicative Market Fee rate relating to the IMO is set out below:

IMO Revenue Requirement	2014/15 (\$'000)	2013/14 (\$'000)
Revenue Requirement	15,225	16,758
Indicative IMO Market Fee Rate (MWh) <sup>2</sup>	\$0.409	\$0.456

Trend in IMO Fee rate	IMO Fee recovered Dollars per MWh	IMO "Real" Fee recovered <sup>3</sup> Dollars per MWh
2006/07	\$0.307	\$0.369
2007/08	\$0.322	\$0.371
2008/09	\$0.271	\$0.308
2009/10	\$0.266	\$0.292
2010/11	\$0.316	\$0.337
2011/12	\$0.327	\$0.345
2012/13	\$0.439	\$0.450
2013/14	\$0.456	\$0.456
2014/15 <sup>2</sup>	\$0.409	\$0.409

The increase in IMO Fee recovered from 2011/12 to 2012/13 of \$0.112/MWh is a result of the additional depreciation and borrowing expenditure related to the Market Evolution Program (MEP) which was completed and capitalised in 2012/13.

<sup>2</sup> Influenced by inter-period budget adjustment of (\$1,401,000). The Market Fee rate without the inter-period budget adjustment would be \$0.446/MWh.

<sup>3</sup> The IMO "Real" Fee recovered brings the value of the prior year fees recovered into "real" dollars today based on the All Groups CPI for the Perth Region. This data has been sourced from the Australian Bureau of Statistics website in March 2014.



## 6. 2014/15 Budget - GSI

### 6.1. GSI – Three Year Review Period – Approval Provided

In accordance with clause 108 of the Gas Services Information Rules, the ERA approved the IMO's Allowable Revenue and Forecast Capital Expenditure in November 2013 for the Review Period 2013/14 to 2015/16.

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

Forecast Capital Expenditure is defined as the predicted sum of capital expenditure required for a Review Period.

2014/15 is the second year of the 2013/14 to 2015/16 Review Period.

The ERA Determination allowed for:

1. Total operational expenditure across the review period of \$6.919 million, including expenditure of \$2.360 million in 2014/15.
2. Total capital expenditure across the review period of \$0.461 million, including \$0.157 million in 2014/15.

### 6.2. GSI – Inter-Period Budget Adjustment

The IMO is required under the GSI Rules to return an operating surplus or recover an operating loss from Market Participants via an adjustment to the Allowable Revenue two years hence.

As 2013/14 was the first year of operations of the Gas Services Function, the actual result for the period is yet to be finalized and subjected to an external audit. As a result, there will be no Inter-period adjustment related to the Gas Services Information functions during 2014/15. The first GSI inter-period adjustment will take place in 2015/16.

The relevant inter-period budget adjustments are set out below:

Financial Budget/Result	2013/14 (\$'000)	2014/15 (\$'000)	2015/16 (\$'000)
Budgeted Profit/(Loss)	0	TBD	TBD
Actual Profit/(Loss)	<u>TBD</u>	<u>TBD</u>	<u>TBD</u>
<b>Variance</b>	<b>TBD</b>	<b>TBD</b>	<b>TBD</b>

### 6.3. GSI – IMO Sources of Funding

Under the GSI Rules, the IMO's funding for the GSI functions is recovered from fees charged to Gas Shippers in accordance with the Rules.

Fees are collected quarterly in arrears, based on the actual share of gas deliveries to relevant Gas Shippers.

Sources of funding	Budgeted 2014/15 (\$'000)	Budgeted 2013/14 (\$'000)
Shipper Fees	2,340	2,250
<b>Total GSI Funding</b>	<b>2,340</b>	<b>2,250</b>

### 6.4. GSI – IMO Proposed Budget by Classification Categories

The budgeted expenditure approved by the ERA in 2014/15 is set out in the classification categories as shown below:

Classification	2014/15 (\$'000)	2013/14 (\$'000)
Employee Benefits Expense	790	798
Supplies & Services	727	629
Accommodation	102	103
Depreciation	634	570
Borrowing costs	<u>87</u>	<u>150</u>
<b>Total Budgeted Expenditure</b>	<b>2,340</b>	<b>2,250</b>

## 6.5. GSI – Forecast Capital Expenditure

The Allowable Revenue and Forecast Capital Expenditure Submission for the period covering 2013-14 to 2015-16 was the first submission as a result of rule change RC\_2011\_02 which expanded the IMO's three yearly funding arrangements to include the ERA Determination of the IMO's Forecast Capital Expenditure.

Forecast Capital Expenditure is defined as the predicted sum of capital expenditure required for a review period.

The IMO has developed a third iteration of the IMO IT Road Map covering the period 2013-2016 which is the key strategic IT planning document used to ensure that the planning, delivery, management and use of the IMO's systems optimally supports the IMO business requirements.

The IMO IT Road Map 2013-2016 was endorsed by the Minister for Energy in October 2012 and was considered as part of the State Capital Budget from 2013/14.

The IT Road Map 2013-2016 was developed to support the IMO Forecast Capital Expenditure submission for the review period 2013-14 to 2015-16.

The IT Road Map 2013-2016 aims to:

- Continue to maintain systems and ensure they remain current and supported by our vendors;
- Extend applications to support Market Participants that have a carrying degree of technical sophistication;
- Maintain the strategic objective of enhancing market transparency; and
- Developing and implement integrated compliance and monitoring tools in the WEM Systems.

The funding determined by the ERA for the GSI review period 2013/14 to 2015/16 was:

	2013/14	2014/15	2015/16	Total
Forecast Capital Expenditure (\$'000)	88	157	216	461

The 2014/15 Forecast Capital Expenditure is allocated to the following IT categories:

IT Category	2014/15 (\$'000)	2013/14 (\$'000)
Corporate Support (Non-Market Systems)	17	20
Gas Bulletin Board	<u>140</u>	<u>68</u>
<b>Total 2014/15 Forecast Capital Expenditure</b>	<b>157</b>	<b>88</b>

Forecast Capital Expenditure is funded through five year fixed term loans from WA Treasury Corporation.

The Principal and Interest repayments form part of the Total Budget Expenditure through the categories of Borrowing Costs (Interest) and Depreciation (Principal) and over the life of the loans are cost neutral to the WA State Budget.

## 7. GSI - Registered Shippers Fees

One of the IMO's responsibilities under the GSI Rules is to charge Registered Shippers an amount equal to the Approved Annual Revenue for that Financial Year.

The GSI Rules provide a methodology for invoicing the GSI fees on a quarterly in arrears basis.

Prior to 30 June 2014 the IMO must publish on the GSI website, the Approved Annual Revenue which will be charged as the Registered Shippers Fee.

### 7.1. Registered Shippers Fees for 2014/15

The total revenue to be recovered through the Registered Shippers Fees in 2014/15 is as follows:

<b>Market Fees - Revenue Requirement</b>	<b>2014/15 (\$'000)</b>	<b>2013/14 (\$'000)</b>
IMO GSI Revenue Requirement	2,340	2,250
<b>Total GSI Revenue to be recovered through Registered Shipper Fees</b>	<b>2,340</b>	<b>2,250</b>

## 8. Proposed Key Performance Indicators – 2014/15

### Strategic Objective: Operating Markets

Measure	Performance Expectation Per Year
STEM Market delay and Suspensions	≤ 5
Forecast BMO generation (excluding planned outages)	≥99.5%
Late Settlement statements (STEM & Non-STEM)	≤ 2
GBB Report generation (excluding planned outages)	≥99%

### Strategic Objective: Developing the WEM and GSI

Measure	Performance Expectation
Formal Review of Market Rules Evolution Plan for 2013 to 2016	Once per year with MAC

### Strategic Objective: Establish and Build Strong Relationships

Measure	Performance Expectation
Number of participants in market training sessions	Annual participant numbers ≥ 250
Number of forums, workshops and user groups held with the Energy Sector	6 per year
<i>RulesWatch</i> Newsletters sent to stakeholders	≥ 40 per annum
Market Advisory Committee and Gas Advisory Board meetings Held	≥ 10 per annum

### Strategic Objective: Financial Responsibility and Risk Management

Measure	Performance Expectation
Expenditure Control	≤ Allowable Revenue
Capital Expenditure Control	≤ Forecast Capital Expenditure
Risk Management Updates to Board	3 Updates per annum
Deliver Quarterly Report to Minister	3 Reports per annum

### Strategic Objective: Skills and Resources

Measure	Performance Expectation
Employee happiness and satisfaction	Turnover to be ≤ 15%
Effective graduate program	Retain graduates on average ≥ 3 years
Recruitment strategy effectiveness	Less than 4 months to fill a position

## Appendix A

### IMO Wholesale Electricity Market (WEM) Operating Budget : 2010/11 to 2012/13 and 2013/14 to 2015/16 Trienniums

Description	Previous Triennium 2010/11 to 2012/13				New Triennium 2013/14 to 2015/16							
	Actual				ERA Approved - April 2013				Projected Expenditure			
	Actual 2010/2011 <sup>1</sup> \$'000	Actual 2011/2012 <sup>1</sup> \$'000	Actual 2012/2013 <sup>1</sup> \$'000	Total \$'000	2013/2014 \$'000	2014/2015 \$'000	2015/2016 \$'000	Total \$'000	Projected 2013/2014 <sup>2</sup> \$'000	Projected 2014/2015 \$'000	Projected 2015/2016 \$'000	Total \$'000
1	2	3	4	5	6	7	8	9	10	11	12	
<b>REVENUE</b>												
User Fees and Charges - WEM	11,459	11,853	16,083	39,395	15,825	16,265	16,686	48,776	16,322	15,225	17,032	48,579
Interest and Other revenue	225	571	103	899	50	50	50	150	69	50	50	169
<b>TOTAL REVENUE</b>	<b>11,684</b>	<b>12,424</b>	<b>16,186</b>	<b>40,294</b>	<b>15,875</b>	<b>16,315</b>	<b>16,736</b>	<b>48,926</b>	<b>16,391</b>	<b>15,275</b>	<b>17,082</b>	<b>48,748</b>
<b>EXPENDITURE</b>												
Employees Benefit Expense	4,650	5,093	5,724	15,467	5,568	5,851	6,102	17,521	5,443	5,996	6,102	17,541
Accommodation Costs	336	358	603 <sup>4</sup>	1,297	715	753	784	2,252	701	782	784	2,267
Supplies and Services	5,368	5,586 <sup>3</sup>	4,889	15,846	5,065	4,952	4,984	15,001	5,151	4,980	4,984	15,115
Borrowing Costs	178	532	819	1,529	582	391	304	1,277	520	474	304	1,298
Depreciation	1,424	2,003	3,250 <sup>5</sup>	6,677	3,945	4,368	4,562	12,875	3,929	4,444	4,562	12,935
<b>TOTAL EXPENDITURE</b>	<b>11,956</b>	<b>13,573</b>	<b>15,285</b>	<b>40,817</b>	<b>15,875</b>	<b>16,315</b>	<b>16,736</b>	<b>48,926</b>	<b>15,744</b>	<b>16,676</b>	<b>16,736</b>	<b>49,156</b>
<b>SURPLUS/(DEFICIT) Operating Result</b>	<b>(272)</b>	<b>(1,149)</b>	<b>901</b>	<b>(520)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>647</b>	<b>(1,401)</b>	<b>346</b>	<b>(408)</b>
<b>Operational Plan Budgeted Result Surplus/(Deficit)<sup>6</sup></b>	<b>(772)</b>	<b>(156)</b>	<b>(500)</b>	<b>(1,428)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>993</b>	<b>(1,401)</b>	<b>346</b>	<b>(62)</b>
<b>Carried forward future period adjustment as per WEM Rules<sup>7</sup></b>	<b>500</b>	<b>(993)</b>	<b>1,401</b>	<b>908</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(346)</b>	<b>-</b>	<b>-</b>	<b>(346)</b>
<b>Underlying Profit/(Loss) result for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**NOTE:**

1. Per audited results.
2. Per 2013/14 YTD March Internal Management Reporting.
3. Includes \$350,000 related to initial Gas Information Services Project (GISP) activity, which was offset by corresponding revenue contribution from the Public Utilities Office.
4. Increase in Accommodation Costs from 2011/12 to 2012/13 was a result of a new accommodation lease entered in September 2013.
5. Depreciation reduces to \$3,250,000 as a result of converting the effective useful life of IT assets from 3 years to 5 years – decision by IMO Board in October 2012, effective 1 July 2012.
6. Budgeted Result as per Draft Operational Plan submitted to the Minister for Energy for the corresponding period.
7. Under WEM Rule 2.22.7, The IMO is required to return an operating surplus or recover an operating deficit from Market Participants via an adjustment to the operational budget two years hence.

## Appendix B

### IMO Gas Services Information (GSI) Operating Budget : 2013/14 to 2015/16 Triennium

Description	New Triennium 2013/14 to 2015/16							
	ERA Approved - November 2013				Projected Expenditure			
	2013/2014 \$'000	2014/2015 \$'000	2015/2016 \$'000	Total \$'000	Projected 2013/2014 <sup>1</sup> \$'000	Projected 2014/2015 \$'000	Projected 2015/2016 \$'000	Total \$'000
1	2	3	4	5	6	7	8	
<b>REVENUE</b>								
User Fees and Charges - GSI	2,251	2,360	2,310	6,921	2,251	2,340	2,101	6,692
<b>TOTAL REVENUE</b>	<b>2,251</b>	<b>2,360</b>	<b>2,310</b>	<b>6,921</b>	<b>2,251</b>	<b>2,340</b>	<b>2,101</b>	<b>6,692</b>
<b>EXPENDITURE</b>								
Employees Benefit Expense	798	761	793	2,352	791	790	793	2,374
Accommodation Costs	103	99	103	305	91	102	103	296
Supplies and Services	629	727	628	1,984	525	727	628	1,880
Borrowing Costs	150	127	103	380	142	87	103	332
Depreciation	571	646	683	1,900	493	634	683	1,810
<b>TOTAL EXPENDITURE</b>	<b>2,251</b>	<b>2,360</b>	<b>2,310</b>	<b>6,921</b>	<b>2,042</b>	<b>2,340</b>	<b>2,310</b>	<b>6,692</b>
<b>SURPLUS/(DEFICIT) Operating Result</b>	-	-	-	-	209	-	(209)	-
<b>Operational Plan Budgeted Result Surplus/(Deficit)<sup>2</sup></b>	-	-	-	-	-	-	(209)	(209)
<b>Carried forward future period adjustment as per GSI Rules<sup>3</sup></b>	-	-	-	-	209	-	-	209
<b>Underlying Profit/(Loss) result for the year</b>	-	-	-	-	-	-	-	-

**NOTE:**

1. Per 2013/14 YTD March Internal Financial Reporting.
2. Budgeted Result as per Draft Operational Plan submitted to the Minister for Energy for the corresponding period.
3. Under GSI Rule 111.3, The IMO is required to return an operating surplus or recover an operating deficit from Registered Shippers via an adjustment to the operational budget two years hence.