
Wholesale Electricity Market Rule Change Proposal

Change Proposal Number: RC_2010_20

Received Date: 8 October 2010

Submitted by

Name:	Barbara Sole
Phone:	92544345
Fax:	(08) 9254 4399
Email:	barbara.sole@imowa.com.au
Organisation:	IMO
Address:	Level 3, Governor Stirling Tower, 197 St Georges Terrace
Date submitted:	8 October 2010
Urgency:	Medium
Change Proposal title:	Market Fees
Market Rule(s) affected:	2.23.9, 2.23.11, 2.24.2 and 9.16.2 and new clauses 2.24.2A, 2.24.2B.

Introduction

This Pre Rule Change Discussion Paper can be posted, faxed or emailed to:

Independent Market Operator
Attn:Troy Forward, General Manager Development
PO Box 7096
Cloisters Square, Perth, WA 6850
Fax: (08) 9254 4399
Email: market.development@imowa.com.au

The discussion paper should explain how it will enable the Market Rules to better contribute to the achievement of the wholesale electricity market objectives. The objectives of the market are:

- (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;
 - (b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;
 - (c) 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;
 - (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and
 - (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.
-

Details of the proposed Market Rule Change

1) Describe the concern with the existing Market Rules that is to be addressed by the proposed Market Rule change:

Background

Each year the IMO recovers its budget, System Management's costs and the portion of the Economic Regulation Authority (ERA)'s budget relating to Wholesale Electricity Market activities through a per MWh fee applied to generation and consumption in the South West interconnected system.

The process for determining the IMO's budget (and associated Market Fee rate) is prescribed in clause 2.22 of the Wholesale Electricity Market Rules (Market Rules). In simplified form, the process is as follows:

- The IMO submits its budget proposal for the forthcoming year to the Minister by 30 April (clause 2.22.5);
- The Minister makes a decision on the budget proposal within 30 Business Days (clause 2.22.9); and
- Once the Minister makes a decision the IMO publishes the approved budget within five Business Days (clause 2.22.11).

If the Minister does not make a decision by the start of the new Financial Year, the Market Rules provide that the Market Fees derived from that budget from the previous year will continue to apply (clause 2.22.10).

System Management's fee rate is derived from its approved budget, which is to be provided by System Management to the IMO for publication by 30 June of each year (clause 2.23.11). Note that System Management's budget is approved by the Minister as part of the wider Western Power budget approval process as prescribed in the Electricity Corporations Act 2005. To feed into this external process the IMO reviews System Management's budget proposal and informs the Minister whether or not the proposed budget is consistent with the Allowable Revenue determined by the ERA (clause 2.23.9).

The ERA's fee rate is based on the information it provides to the IMO on the dollar amount it may recover under clause 2.24.5 of the Market Rules.

From the IMO and System Management's approved budget and the information provided by the ERA, the IMO determines and publishes the fee rates that will apply from 1 July onwards (clause 2.24.2). This information must be published before 30 June each year.

Issue

There is currently a disconnect in the process. The IMO must determine the fees charged to Rule Participants by 30 June each year, but two of the inputs to that process are not linked to fixed dates:

- the Minister's approval of the IMO's initial budget; and
- System Management's provision of its approved budget to the IMO (noting that this is contingent on the approval of the Minister of Western Power's budget in accordance with the process outlined in the Electricity Corporations Act 2005).

The deadline in clause 2.24 for publishing Market Fees, System Operation Fees and Regulatory Fees is therefore achievable only if:

- the Minister makes a decision (under clause 2.22.9) before that date required by the Market Rules¹,
- System Management provides details of its approved budget (under clause 2.23.11) to the IMO on time; and
- the ERA provides its notification (under clause 2.24.6) on time.

If the Minister (in approving the IMO's budget), System Management (in providing the IMO with its approved budget)² or the ERA (in providing its notification under clause 2.24.6) is late, the IMO is not able to publish the new schedule of the fees for the new Financial Year before 30 June. This occurred in 2010 when the publication of the 2010 Market Fees was delayed as the IMO's budget was not approved by the Minister prior to 30 June. To ensure transparency of this delay to Market Participants a notice was published on the IMO website.

Proposal

The IMO proposes to correct this anomaly by amending the Market Rules so that the IMO will publish either a level of fee rate or in the case where the IMO does not have the required inputs an expected level of fee rate (that will later be revised when the required inputs are available) before 30 June. The IMO will determine the:

- expected Market Fee rate, based on the budget (or revised budget) provided to the Minister for approval under clause 2.22; and
- expected System Operation Fee rate, based on System Management either:
 - the budget proposal that System Management has provided to the IMO under clause 2.23.9; or

¹ Note that under clause 2.22.9(b) the Minister may refer the proposal back to the IMO for reconsideration. In this case the IMO must resubmit a revised proposal for the Ministers consideration in accordance with the 30 Business Day timeline specified in clause 2.22.9. In this case the budget proposal would not be approved by 30 June.

² Note that System Management may be late in providing the IMO with its approved budget in a case where the Minister has not yet approved System Management's budget. The Electricity Corporations Act 2005 requires the Minister to reach an agreement on the Statement of Corporate Intent, section 100, (which includes System Management's budget) and Strategic Development Plan, section 90, as soon as possible, and in any event not later than the start of the next financial year.

- in the case where System Management has not yet provided a budget proposal for the upcoming Financial Year to the IMO under clause 2.23.9, the previous year's confirmed budget; and
- expected Regulator Fee rate, based on the most recent information provided to the IMO by the Economic Regulation Authority under clause 2.24.6.

In the case where the IMO has published an expected fee rate for the IMO, System Management, or ERA (whichever is late) a revised fee rate will be published once the IMO:

- receives approval from the Minister; and/or
- is provided System Management's approved budget; and/or
- receives the necessary information the ERA.

Once a revised fee rate has been published it will be adjusted with effect from the start of the Financial Year.

The alternative to this approach would be to not publish any values until the IMO has received approval of its budget from the Minister, been provided with an approved budget from System Management and received the necessary information from the ERA. The IMO considers that it is in the best interest of the market for all stakeholders to be provided with details of the expected fee rate by 30 June. This is because the publication of the expected fee rate, using the most up to date information available to the IMO, will ensure interested parties can take the expected values into account in their own budgeting for the coming Financial Year. Publication of an expected fee rate will also ensure that the Minister is provided with sufficient time to review the IMO's proposed budget and likewise that System Management has sufficient time receive approval from the Minister of its budget and provide details of its approved budget to the IMO for publication on the Market Web Site.

The IMO also proposes to clarify the existing process regarding the confirmation of System Management's budget against its approved Allowable Revenue and the relationship between the approval of System Management's budget under the Electricity Corporations Act 2005 and the process outlined in the Market Rules.

The proposed process for budget approval and determining Market Fees, System Operation Fees and Regulator fees to be paid by Market Participants is shown in the form of a flow chart in Appendix 1.

2) Explain the reason for the degree of urgency:

The IMO proposes that this Rule Change Proposal be progressed through the Standard Rule Change Process.

3) Provide any proposed specific changes to particular Rules (for clarity, please use the current wording of the Rules and place a ~~strike through~~ where words are deleted and underline words added)

The proposed amendment to clause 2.23.9 will require the IMO to provide reasons why it either does or does not consider System Management's budget is consistent with its Allowable Revenue determined by the ERA. The Minister will be able to then take these into account when considering System Management's budget for approval as part of the wider Electricity Networks Corporation budget approval process.

2.23.9. System Management must provide a copy of ~~the~~ its budget proposal to the IMO by 30 April each year. The IMO must review the budget proposal and submit a report containing advice on whether System Management's budget is consistent with the Allowable Revenue determined by the Economic Regulation Authority, including the reasons why, to the Minister by 31 May.

The proposed amendments to clause 2.23.11 will clarify that System Management must provide the IMO with a copy of its approved budget for publication following the decision by the Minister in accordance with the provisions outlined in the Electricity Corporations Act 2005.

2.23.11. System Management must provide ~~the~~ its approved budget to the IMO and the IMO must publish the approved budget by 30 June each year.

The proposed amendment to clause 2.24.2 will provide that where the IMO has not received its approved budget from the Minister, received System Management's approved budget, or been provided with the necessary information from the ERA before 30 June, it must determine and publish an expected fee rate to apply until a revised rate can be determined.

In the case where System Management has not yet provided the IMO a copy of its approved budget, the most recent information provided to the IMO on System Management's budget for the relevant year (this might be either the budget proposal provided under clause 2.23.9 or the previous year's approved budget) will be used to determine the System Operation Fee rate. Likewise in the case where the ERA has not provided the information required under clause 2.24.6, the previous years values will be used by the IMO to determine the expected Regulator Fee rate.

2.24.2. Before 30 June each year, the IMO must determine and publish the level of the Market Fee rate, System Operation Fee rate and Regulator Fee rate and the level of each of the Application Fees to apply over the year starting 1 July. Where:

- (a) the Minister has not approved the IMO's budget proposal, the IMO will determine and publish the expected level of Market Fee rate for the

IMO based on the most recent budget proposal (or revised budget proposal) provided to the Minister under clause 2.22.9;

- (b) System Management has not provided the IMO with its approved budget, under clause 2.23.11, the IMO will determine and publish the expected level of System Operation Fee rate for System Management based on the most recent budget information provided to the IMO under either clause 2.23.9 or clause 2.23.11; and
- (c) the Economic Regulation Authority has not provided the IMO with the information required under clause 2.24.6 by the date which is five Business Days prior to 30 June, the IMO will determine and publish the expected level of Regulator Fee rate based on the most recent information provided to the IMO by the Economic Regulation Authority under clause 2.24.6.

The proposed new clause 2.24.2A will clarify that in the case where information required to determine the Market Fee rate, System Operation Fee rate or Regulator Fee rate is provided late to the IMO and an expected fee rate has been published, the IMO will determine and publish revised fee rates within 5 Business Days of the relevant information becoming available.

2.24.2A The IMO must determine and publish a level of revised Market Fee rate, System Operation Fee rate or Regulator Fee rate (as applicable) within five Business Days of receiving the information, if in any year:

- (a) the Minister's notifies approval of the IMO budget proposal later than 30 June; or
- (b) System Management provides the IMO with its approved budget under clause 2.13.11 later than 30 June; or
- (c) the Economic Regulation Authority provides the IMO with the information required under clause 2.24.6 later than the date which is five Business Days prior to 30 June.

The proposed new clause 2.24.2B will specify that revised fee rates will supersede any expected fee rates previously determined by the IMO and are recoverable from Rule Participants in arrears. The revised fee rates will apply from the start of the relevant Financial Year. The IMO notes that the amendments to allow for fees to be recoverable in arrears are consistent with the current approach applied in market settlement. That is when revised metering data is received further adjustments are made to Market Participants settlement statements.

2.24.2B A revised Market Fee rate, System Operation Fee rate and Regulator Fee rate will supersede any expected Market Fee rate, System Operation Fee rate and Regulator Fee rate and are recoverable from Market Participants in arrears with effect from the start of the Financial Year to which they apply.

The proposed amendment to clause 9.16.3 will allow for the level of Market Fee rate, System Operation Fee rate and Regulator Fee rate to be applied from 1 July of the relevant year in arrears in the case where the Minister does not approve the IMO's budget until after June 30, or if System Managements budget is not confirmed by the IMO or if the ERA does not provide the IMO with details of the dollar amount it may recover under clause 2.24.5

9.16.3. The IMO must undertake a process for adjusting settlements ("**Adjustment Process**") at least once every three months. The purpose of the process is to review the relevant Settlement Statements which were issued in the 12 months prior to the commencement of the Adjustment Process ("**Relevant Settlement Statements**") to facilitate corrections resulting from Notices of Disagreement, the resolution of Disputes, ~~and~~ revised metering data provided by Metering Data Agents and any revised Market Fee rate, System Operation Fee rate or Regulator Fee rate (as applicable). Adjustments may only be made to Relevant Settlement Statements. Adjustments may not be made to Settlement Statements outside of an Adjustment Process.

4) Describe how the proposed Market Rule change would allow the Market Rules to better address the Wholesale Market Objectives:

The IMO considers that the proposed changes will correct a current anomaly in the Market Rules which would result in the IMO not having a current schedule of fees to publish if any of the inputs into that process are late in being provided. The proposed changes will also clarify that once the inputs are provided, revised fee rates will be published and will apply in arrears. The IMO considers that the proposed amendments will improve the integrity of the Market Rules and therefore are consistent with the Wholesale Market Objectives.

5) Provide any identifiable costs and benefits of the change:

Costs:

- The IMO will encounter settlement systems costs associated with undertaking an adjustment process which takes into account any revised Market Fees.

Benefits:

- Greater clarity over the application of Market Fees in arrears in the case where the Minister is late in approving the IMO's budget, System Management's budget is not confirmed as being consistent with its Allowable Revenue and/or the ERA is late in providing the IMO with details of the dollar amount it may recover under clause 2.24.5.
- Remove a current anomaly in the Market Rules around the requirement for the IMO to publish its Market Fee rates before June 30 despite it being possible that the Minister may not have approved the IMO's budget.

Appendix 1: Proposed Revised Process

