



Agenda Item 7a: Market Development Budget 2009/10

BACKGROUND

As part of its Operational Plan¹ the Independent Market Operator (IMO) is required under the Wholesale Electricity Market Rules (Market Rules) to prepare a budget by each functional area within the IMO. As outlined in table 1 the budgeted expenditure for 2009/10 has been broken down by functional service area.

Table 1: IMO budget by functional service area

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

The purpose of this paper is to provide the Market Advisory Committee (MAC) with additional information on the Market Development service area budget for the 2009/10 financial year (in particular this paper focuses on the budget for Market Rule Changes, Market Procedure changes, Market Development Reviews and special projects). The IMO will report on progress against the rule and procedure change development budget throughout the financial year. It is anticipated that this additional information will assist the MAC and the IMO in its prioritisation of work (as part of the Market Rules Evolution Plan process).

The rule and procedure change development budget covers any external advice the IMO procures as part of its development, analysis and decision making processes as well as the IT development and testing costs associated with any changes to the WEMS and Settlements systems for rule or procedure changes. This budget is made up of a number of aspects, outlined in table 2, over the page.

¹ The Operational Plan for 2009/10 is available on the IMO website:
http://www.imowa.com.au/f191,50976/50976_OperationalPlan2009-10.pdf

Table 2: IMO Rule and Procedure Change Development Budget

| Rule and Procedure Change Development Budget | Budgeted 2009/10 (000) |
|---|---------------------------------------|
| Legal Advice | 60 |
| Technical Advice | 300 |
| Special Project (REGWG Works Programme) | 704 |
| IT development and testing (Rule and Procedure Changes)- Capital Cost | 300 |
| Total budgeted expenditure | 1,364 |

The costs associated with developing rule and procedure changes are variable in nature. Expenditure in this area is largely driven by the MAC as part of the Market Rules Evolution Plan process and the Rules and Issues Register (maintained by the IMO).

This budget for rule and procedure change development puts some constraints on the IMO, therefore as rule changes progress and capital expenditure is required for IT development the IMO will report to the MAC. This additional reporting will assist the MAC and the IMO in its prioritisation of future work.

It should be noted that, for example, if the IMO were required to embark on and implement a competitive balancing regime within a short time period i.e. before the end of this financial year it may well be feasible that this budgeted amount for rule and procedure change development is insufficient.

Special Project- Renewable Energy Generation Works Programme

The IMO is undertaking a significant project to evaluate the impact that renewable energy generation will have on the Wholesale Electricity Market. Funding for this project was approved in July 2009.

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. The 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 Generation Working Group (an update is on the September 2009 MAC meeting agenda).

This project is projected to take between 30 and 42 person weeks to complete and is currently scheduled to finish by the end of March 2010. The cost estimate for the project and project manager is \$704,000.

ALLOWABLE REVENUE

For each three year Review Period the IMO must seek approval of its Allowable Revenue from the Economic Regulation Authority for the services provided (market operation, system planning and market administration services, described in clause 2.22.1 of the Market Rules).

The IMO's Allowable Revenue must be sufficient to cover the forward looking costs of providing the services described in clause 2.22.1 of the Market Rules and performing its functions and obligations under the Market Rules.

The Allowable Revenue must include only costs which would be incurred by a prudent provider of the services acting efficiently, seeking to achieve the lowest practicably sustainable cost of delivering the services in accordance with the Market Rules, while effectively promoting the Wholesale Market Objectives.

The IMO has commenced its review of the Allowable Revenue for the next Review Period and would like the MAC to note that the rule and procedure change development budget presented for the 2009/10 year is likely to form a baseline amount for future years. As such the IMO requests that MAC members consider this baseline funding level and the complexity and amount of market evolution work that has been prioritised. The IMO would like the MAC to advise it on the appropriateness of this funding level to assist in its Allowable Revenue review.