

Call for Submissions  
Allowable Revenue of the IMO for  
Review Period 1 July 2007 to 30  
June 2010

21 December 2006

Economic Regulation Authority



WESTERN AUSTRALIA

A full copy of this document is available from the Economic Regulation Authority web site at [www.era.wa.gov.au](http://www.era.wa.gov.au).

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## Introduction

This paper is published pursuant to clause 2.22.3(b) of the *Wholesale Electricity Market Rules* (the **Market Rules**).

The purpose of this paper is to assist interested parties in making submissions on the proposed Allowable Revenue of the Independent Market Operator (**IMO**). The issues identified in this paper are not intended to be exhaustive but to indicate a number of matters which the Economic Regulation Authority (**Authority**) has identified as potentially relevant to its assessment of the Allowable Revenue.

On 30 November 2006, the IMO submitted its proposed Allowable Revenue to the Authority for final determination. The proposal is outlined in the document *ERA Submission Proposal for Allowable Revenue 1 July 2007 to 30 June 2010* (the **Proposal**). A copy of this proposal is available on the Authority's web site at [www.era.wa.gov.au](http://www.era.wa.gov.au). This proposal covers the time period from 1 July 2007 to 30 June 2010 (**Review Period**).

The proposed Allowable Revenue documents are available at no cost from the Authority's web site ([www.era.wa.gov.au](http://www.era.wa.gov.au)). Printed copies of the documentation are also available for \$25.00 per set. Requests for the documents can be made to:

Mr Ignatius Chin  
Assistant Director – Electricity Market Surveillance  
Economic Regulation Authority  
Telephone: (08) 9213 1916  
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Email: [Ignatius.chin@era.wa.gov.au](mailto:Ignatius.chin@era.wa.gov.au)

A notice has been posted on the Authority's web site advising that the proposed Allowable Revenue has been lodged with the Authority.

This notice invites submissions to be lodged with the Authority by 4:00pm (Western Daylight Saving Time) on 31 January 2007.

After considering all submissions, the Authority will determine the final Allowable Revenue of the IMO for the Review Period.

## Background

### Role of the Authority

The Market Rules require the Authority to determine the Allowable Revenue of the IMO for providing the services stated in clause 2.22.1 of the *Wholesale Electricity Market Rules*. These services include:

- a) market operation services, including the IMO's operation of the Reserve Capacity market, STEM and Balancing and the IMO's settlement and information release functions;

- b) system planning services, including the IMO's performance of the Long Term Projected Assessment of System Adequacy (PASA) function and functions under Chapter 5 (of the *Wholesale Electricity Market Rules*); and
- c) market administration services, including the IMO's performance of the Market Rule change process, Market Procedure change process, the operation of the Market Advisory Committee and other consultation, monitoring, enforcement, audit, registration related functions and other functions under the Market Rules.

## The Determination Process

The determination process in relation to the IMO's Allowable Revenue is defined in clause 2.22.3 of the Market Rules. This process is as follows:

- The IMO must submit the proposal for its Allowable Revenue for the Review Period.
- The Authority must undertake a public consultation process in approving this Allowable Revenue. This paper, along with the invitation for public submissions form part of the consultation process.
- The Authority must determine the final Allowable Revenue by 31 March 2007.

In accordance with the Market Rules, the Authority must take the following into account when determining the Allowable Revenue of the IMO:

- the 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 in accordance with the following principles:
  - a) recurring expenditure requirements and payments are recovered in the year of the expenditure;
  - b) capital expenditures are to be recovered through the depreciation and amortisation of the assets acquired by the capital expenditure in a manner that is consistent with generally accepted accounting principles;
  - c) costs incurred by the IMO that are related to market establishment, as designated by the Minister, are to be recovered over a period determined by the Minister from Energy Market Commencement; and
  - d) notwithstanding points (a), (b) and (c) above, expenditure incurred, and depreciation and amortisation charged, in relation to any Declared Market Project are to be recovered over the period determined for that Declared Market Project (see clause 2.22.13 of the Market Rules for the meaning of the word Declared Market Project).
- the Allowable Revenue must include only costs which would be incurred by a prudent provider of the services described in clause 2.22.1 of the Market Rules, acting efficiently, seeking to achieve the lowest practicably sustainable cost of delivering the services described in clause 2.22.1 in accordance with the Market Rules, while effectively promoting the Wholesale Market Objectives.
- where possible, the Authority should benchmark the Allowable Revenue against the costs of providing similar services in other jurisdictions.

## Issues for Consideration

The Authority invites comment on the Allowable Revenue proposed by the IMO. In particular, comment is invited on the following issues:

- Prudence and efficiency
- Benchmarking
- Other Issues

## Prudence and Efficiency

The Authority invites comment on whether the Allowable Revenue proposed reflects that of a service provider acting efficiently in accordance with good electricity industry practice as provided for by clause 2.22.12(b) of the Market Rules.

In particular, the Authority invites comment on:

- Employees benefit expenses
- Supplies and services
- Depreciation

## Benchmarking

The Authority invites comment on the benchmarking of the IMO's Allowable Revenue outlined in the Proposal.

The IMO has specifically stated in its Proposal (page 13) that it “would welcome the opportunity to consider benchmark comparisons that the ERA considers applicable”. The Authority is examining opportunities for benchmarking and invites comment on this matter.

## Making a Submission

Submissions are invited from all interested parties on the proposed Allowable Revenue of the IMO which must be received by 4:00pm (Western Daylight Saving Time) on 31 January 2007.

Interested parties should note that the proposed timetable for this determination process is required to be completed by 31 March 2007.

## Confidentiality

In general, all submissions from interested parties will be treated as in the public domain and placed on the Authority's web site. The receipt and publication of any submission lodged for the purposes of this determination process shall not be taken as indicating that the Authority has formed an opinion as to whether or not any particular submission contains any information of a confidential nature.

Where an interested party wishes to make a submission in confidence, it should clearly indicate the parts of the submission in respect of which confidentiality is claimed.

## Format For Submissions

Submissions with comments on the determination of the Allowable Revenue of the IMO should be in both written and electronic form and addressed to:

Mr Ignatius Chin  
Assistant Director – Electricity Market Surveillance  
Economic Regulation Authority  
Level 6 Governor Stirling Tower  
197 St Georges Terrace  
PERTH WA 6000

Email: [ignatius.chin@era.wa.gov.au](mailto:ignatius.chin@era.wa.gov.au)