



Rule Change Notice

Title: LNG to be Added to Liquid Fuel Definition

Ref: RC_2008_23

Standard Rule Change Process

Date: 13 June 2008

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1. THE RULE CHANGE PROPOSAL

1.1. The Submission

On 4 June 2008 NewGen Neeraburp (NewGen) submitted a Rule Change Proposal regarding changes to the Glossary of the Wholesale Electricity Market Rules (Market Rules).

This Rule Change Notice is published according to Market Rule 2.5.7, which requires the IMO to publish a notice within 7 Business Days of receiving a Rule Change Proposal.

1.1.1. Submission details

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Date submitted:	04 th June 2008
Urgency:	3-high
Change Proposal title:	LNG to be Added to Liquid Fuel Definition

1.2. Details of the Proposal

NewGen submits that under the present Market Rules, dispatch on Liquid Fuel as defined in Chapter 11 allows Generators to offer energy at up to the Alternative Maximum STEM Price. However, NewGen notes that the definition of Liquid Fuel does not include Liquefied Natural Gas (LNG) making it, by definition, a Non-Liquid Fuel.

With LNG spot prices comparable to spot prices of other Liquid Fuels (translating into around \$20-\$120/MWh cheaper electricity than that produced by the current range of Liquid Fuels), and materially higher than Non-Liquid Fuels, under the current market rules LNG fuelled generation is not, according to NewGen's submission, economic to dispatch unless a generator can bid above the Maximum STEM Price. Thus, given LNG's comparable price (particularly at call) to other Liquid Fuels, it is currently not economically viable for Generators to use the environmentally friendlier LNG as an alternate back-up fuel to LPG, distillate, or fuel oil.

Pricing analysis, comparing different types of fuels is included in NewGen's Rule Change Proposal, published on the IMO website together with this Notice.

1.3. **The Proposal and the Wholesale Market Objectives**

NewGen submits that the Rule Change Proposal will have the following impact on the market objectives:

- (a) *to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system;*

Making another liquid fuel economically viable will increase potential fuel diversification which in turn may increase reliability.

- (b) *to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors;*

No change, apart from introducing diversity into upstream fuel supply.

- (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;*

Greenhouse gas emissions associated with LNG are 11%-28% lower than emissions associated with the range of Liquid Fuels as presently defined. The proposed rule change will remove the current discrimination against using this cleaner fuel type by making it economic to use. Further details of the environmental credentials claimed by NewGen are set out in the Rule Change Proposal.

- (d) *to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and*

LNG, while being comparably priced to Liquid Fuels as presently defined, is still \$20-\$120/MWh cheaper than the price range of existing Liquid Fuels. Further, adding an additional fuel option will promote further competition in the Liquid Fuel space reducing the cost of Liquid Fuel dispatch and ultimately reducing the cost of wholesale electricity during high-peak periods. Western Australia has significant gas resources and LNG production capability. The West Kimberley Project which has recently been commissioned by EDL represents the benefits of using LNG over diesel in Western Australia. Further price comparative analysis is set out in the Rule Change Proposal.

- (e) *to encourage the taking of measures to manage the amount of electricity used and when it is used.*

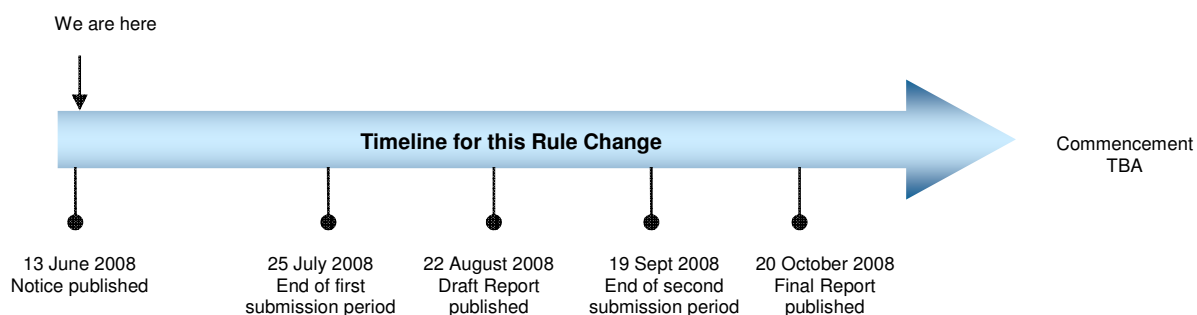
No change.

2. WHETHER THE PROPOSAL WILL BE PROGRESSED FURTHER

The IMO has decided to proceed with this proposal on the basis that the IMO's preliminary assessment indicated that the proposal is consistent with the Wholesale Market Objectives.

The IMO has decided to process this Rule Change Proposal using the Standard Rule Change Process, described in section 2.7 of the Market Rules.

The projected timelines for processing this proposal are:



3. CALL FOR SUBMISSIONS

The IMO is seeking submissions regarding this proposal. The submission period is six weeks from the publication date of this notice. Submissions must be delivered to the IMO by close of business on **Friday 25 July 2008**.

The IMO prefers to receive submissions by email to **marketadmin@imowa.com.au** using the submission form available on the IMO website:
http://www.imowa.com.au/10_5_1_MarketRulesChangeSummary.html

Submissions may also be sent to the IMO by fax or post, addressed to:

Independent Market Operator
Attn: Manager Market Administration
PO Box 7096
Cloisters Square, Perth, WA 6850

Fax: (08) 9254 4399

4. PROPOSED AMENDING RULES

NewGen proposes the following amendments to the Market Rules (~~deleted words,~~
added words):

Chapter 11 – Glossary

Liquid Fuel: Means distillate, fuel oil, or liquid petroleum gas, or liquefied natural gas.

5. ABOUT RULE CHANGE PROPOSALS

Market Rule 2.5.1 of the Wholesale Electricity Market Rules (Market Rules) provides that any person (including the Independent Market Operator) may make a Rule Change Proposal by completing a Rule Change Proposal Form and submit this to the Independent Market Operator (IMO).

The IMO will assess the proposal and, within 5 Business Days of receiving the proposal form, will notify the proponent whether the proposal will be progressed further.

In order for the proposal to be progressed the change proposal must explain how it will enable the Market Rules to better contribute to the achievement of the Wholesale Market Objectives. The market objectives 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.

A Rule Change Proposal can be processed using a Standard Rule Change Process or a Fast Track Rule Change Process. The standard process involves a combined 10 weeks public submission period, while the fast track process involves the IMO consulting with Rule Participants who either advise the IMO that they wish to be consulted or the IMO considers have an interest in the change.