



Final Rule Change Report

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DOCUMENT DETAILS

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- (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

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Synergy submitted that it would like to see the definition of Liquid Fuel extended to include all other types of gas that have been stored and which are subsequently used to

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5. SUBMISSIONS RECEIVED IN THE SECOND SUBMISSION PERIOD

Following the publication of the Draft Rule Change Report on the IMO web site, the second submission period was between 25 August 2008 and 19 September 2008. The IMO received one submission from Verve Energy. The submission is summarised below, and the full text is available on the IMO website.

In its submission Verve Energy noted its support for the proposed rule change. In addition to this Verve Energy contended that the proposal does not address potential issues and inefficiencies created by the inclusion of lower-cost alternatives to distillate, such as LPG and LNG, in the liquid fuel definition. These include:

- the requirement for System Management to dispatch Verve Energy facilities in balancing when lower-cost IPP generation may be available; and
- the increased potential for Market Generators to extract unreasonable profits based on the higher Alternate Maximum STEM Price, the absence of SRMC pricing obligations on all participants and adequate competition in the fuel segment.

Verve Energy contended that these issues could be adequately addressed via the introduction of a third fuel type with an associated price cap, or by introduction of an improved balancing regime, removal of the Maximum STEM Price and/or imposition of SRMC based pricing obligations on all market participants, including in balancing. Given that such changes would be significantly more complex and encompass broader considerations than simply the definition of LNG, Verve Energy considered they would be best addressed via a separate rule change proposal.

The IMO agrees that any potential amendments to address the issues raised by Verve Energy would require greater analysis and would be more appropriately dealt with as a further proposal to amend the Market Rules.

As part of the Market Rules Evolution Plan 2008 – 2011 the IMO intends to undertake reviews of both the balancing mechanism and the price caps which will address the issues raised in the Verve Energy submission.

6.1.2 The IMO's Assessment

According to clause 2.4.2 of the Market Rules *“the IMO must not make Amending Rules unless it is satisfied that the Market Rules, as proposed to be amended or replaced, are consistent with the Wholesale Market Objectives”*.

The IMO considers that the proposed Amending Rules will have the following impact on how the Market Rules address the Wholesale Market Objectives:

Impact	Wholesale Market Objectives
Allow the Market Rules to better address objective	a , c and d
Consistent with objective	b and e
Inconsistent with objective	-

The IMO's assessment against market objectives (a), (c) and (d) is as follows:

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

The proposed amendments allow the Market Rules to better address objective (a) of the Market Objectives. The change will allow LNG to be a financially viable back up fuel for generators. Currently, distillate is the primary back up fuel source in the SWIS and using LNG will help to mitigate the risk of relying solely on distillate for this purpose. In its submission, LGP agreed with this assessment.

- (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;*

The proposed amendments allow the Market Rules to better address objective (c) of the Market Objectives. The proposed rule change will make LNG an economically viable fuel source to use in the SWIS.

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

The proposed amendments allow the Market Rules to better address objective (d) of the Market Objectives. LNG, while priced above natural gas, is still cheaper than the range of existing liquid fuels. A generator using LNG will be able to offer electricity at a lower price than electricity generated from other liquid fuels. Further, allowing LNG to become

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a financially viable fuel option for generators will promote further competition in the liquid fuel space and potentially contribute to reducing the cost of liquid fuel dispatch during peak demand periods. In its submission, LGP agreed with this assessment.

In accordance with Clause 2.4.3(b) of the Market Rules, in deciding whether or not to take Amending Rules, the Commission must consider the following factors:

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8. GENERAL INFORMATION ABOUT RULE CHANGE PROPOSALS

Clause 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 submitting this to the Independent Market Operator (IMO).

In order for the proposal to be progressed, the change proposal must explain how it will