
Wholesale Electricity Market Rule Change Proposal

Rule Change ID: RC_2008_23

Date Received: 4 June 2008

Change requested by

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In order for the proposal to be progressed, all fields below must be completed and the change proposal must 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:

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. The definition of Liquid Fuel does not include Liquefied Natural Gas (LNG) making it, by definition of Non-Liquid Fuels a Non-Liquid Fuel. With LNG spot prices comparable to spot prices of other Liquid Fuels (around \$20-\$120/MWh cheaper than the range of Liquid Fuels), and materially higher than other Non-Liquid Fuels, under the current market rules LNG fuelled generation is not economic to dispatch unless a generator can bid above the Maximum STEM Price. As such it is not economically viable for Generators to use the environmentally friendlier LNG as an alternate back-up to LPG, distillate, or fuel oil, given LNG's comparable price (particularly at call) to other Liquid Fuels. Pricing comparisons are set out in more detail in **Attachment 1**.

2. Explain the reason for the degree of urgency:

New facilities for the October 2009 reserve capacity year are presently under construction. Decisions with regard to their back-up fuel strategy will need to be made shortly to allow sufficient construction time. As such the market position on the use of LNG needs to be understood.

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- 3. Provide any proposed specific changes to particular Rules:** (for clarity, please use the current wording of the Rules and place a ~~strikethrough~~

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

Benefits

- Diversification of economic liquid fuel types.
- Potential reduction in wholesale electricity costs during high peak periods by between \$20 & \$120/MWh.
- Reduced greenhouse gas emissions by 11-28%.

Costs

- No Costs
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ATTACHMENT 1 - PRICE COMPARISON OF DIFFERENT FUEL TYPES

An LNG spot market is now starting to develop in As

ATTACHMENT 2 - PRICE VERSUS GREENHOUSE GAS EMISSIONS

While LNG is being priced comparatively to fuel types already included in the Liquid Fuel definition, it is nevertheless still trading more cheaply than the existing Liquid Fuels; the difference is between A\$1/GJ and A\$7/GJ or alternately between A\$20/MWh 26526(M)78252(5)(B)1896478302616(15)2357826 M.35041(ee)1.78252