

**MINUTES OF THE RULES CHANGE PANEL
51st MEETING
HELD ON FRIDAY, 3 SEPTEMBER AT 9.35AM
AT ENERGY MARKET CO. PTE LTD
238A THOMSON ROAD #11-01
NOVENA SQUARE, SINGAPORE 307684**

Present:	Dave Carlson Daniel Lee Luke Peacocke Kng Meng Hwee Lawrence Lee	Kenneth Lim Philip Tan Michael Lim Robin Langdale
Absent with apologies	Annie Tan Chan Hung Kwan Ng Meng Poh	Dr. Goh Bee Hua Dallon Kay
In Attendance: (EMC)	Paul Poh Mok Xin Ying Henry Wee	Tan Liang Ching Nerine Teo

1.0 Notice of Meeting

The Chairman called the meeting to order at 9.35am. The Notice and Agenda of the meeting were taken as read.

2.0 Confirmation of Minutes of the 50th Rules Change Panel Meeting

The Minutes of the 50th Rules Change Panel meeting held on Tuesday, 6 July 2010 was tabled.

There being no amendments to the Minutes, the Rules Change Panel approved the Minutes.

3.0 Matters Arising

The Panel noted that, as outlined, the follow-up actions for the matters arising were completed.

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3.1 Item 1.0 – Amendment to PSO Budget (Paper No. EMC/RCP/49/2010/293)

(Mr. Kng Meng Hwee declared his conflict of interest with the issue and abstained from the discussion and voting).

Mr. Tan Liang Ching informed the Panel that at the 50th RCP Meeting, the Panel asked EMC to table the proposed rule changes as per its previous discussion. The EMA instead proposed the following rule changes for the RCP's consideration. Some of the key changes include:

- 3.1.1 Under Chapter 2, Section 12.1.1:
- The PSO shall publish the budget 60 days instead of 90 days before start of the financial year
 - The PSO shall publish the proposed expenditure/revenue/schedule of fees once every 5 years (starting this coming financial year), rather than once every year
 - Budget shall be published on EMA's website
 - All interested persons can make written submissions in respect of published expenditure/revenue/schedule of fees
- 3.1.2 Under Chapter 2, Section 12.1.3, 12.1.4, 12.1.5 (Existing)
- To remove the requirement for the RCP to review and report on the PSO's proposed expenditure/revenue/schedule of fees
- 3.1.3 Under Chapter 2, Section 12.1.4 (New Section):
- After the end of each financial year, the PSO shall determine if actual expenditure is more than published expenditure ("under-recovery") or less than published expenditure ("over-recovery")
 - Arising from events/circumstances/factors not anticipated by EMA/PSO at publication of PSO's expenditure/revenue/schedule
- 3.1.4 Under Chapter 2, Section 12.1.5 (New Section):
- Over/Under-recovery shall be made good through a corresponding increase/reduction in the PSO fees over the remainder of the 5-yr fiscal period or longer
 - PSO shall revise and publish revised schedule of fees, which shall supersede previously published schedule of fees
 - Recovery period and revision to schedule of fees subject to the EMA's approval

The Panel unanimously supported the proposed rule changes. These rule changes will be published for consultation and subsequently brought back to the Panel for endorsement at the next RCP meeting.

EMC

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3.2 Item 3.0 – Conflict of Interest Dispatch Coordinator

Mr. Paul Poh informed that at the last Panel meeting, the Panel sought clarification from the EMA on 2 matters:

1. whether EMA considers dispatch coordination arrangements as “control”; and
2. whether an MP with a generator licence needs to seek EMA’s prior approval before it is allowed to act as the agent dispatch coordinator for another MP.

The EMA replied as follows:

1. If an MP wants to register a GRF it must be demonstrated to EMC that the proposed DC of the GRF has the necessary *operational control* to ensure delivery of physical services by the GRF.
2. where the proposed DC of a MP’s GRF is other than that MP, EMA will require
 - a. that MP to seek EMA’s approval; and
 - b. EMC to ensure that EMA’s approval has been obtained before EMC approves the appointment of the proposed DC under the market rules.

The Panel was informed that EMC will check during the facility registration process that, where a registering MP intends to appoint another MP as the DC for its GRF(s), that registering MP had obtained EMA’s approval to appoint the proposed DC.

The Panel noted EMA’s response and agreed that no changes to the markets rules or market manuals are required.

3.3 Item 4.0 – Monitoring List – Payment to Reserve/Regulation Providers that Failed to Provide

Mr. Tan Liang Ching presented to the Panel the paper which:

- analyses reserve and regulation payments to MPs that failed to provide since market start
- presents the estimated costs/lead time to implement a mechanism to claw back these payments going forward

Mr. Philip Tan requested EMC to provide the number of events flagged out by the PSO on a year-by-year basis. However, Mr. Kng stated that it is not the RCP’s role to monitor such non-compliance trends. He nevertheless noted that since the RCP raised the threshold level, there seemed to be an increase in non-compliance payments.

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The Chairman commented that when this issue was first raised in 2004, the RCP decided to set a threshold level given that the total payments to non-providers in 2003 was less than \$65,000. He added that the original thinking was that since this involved the transfer of payments between Gencos, the net effect was likely even smaller. However, it appeared from the trends presented that the total payments are much more substantial at \$1.2 million, and a single MP having accounted for a significant portion of these payments.

Mr. Langdale added that paying MPs for reserve/regulation that they did not provide creates a moral hazard whereby they will not take the effort to provide in future situations. If the figures in 2010 continue, the amount of payments in 2009 and 2010 will cost more than the cumulative total from the previous years.

Mr. Langdale further noted that there were 2 or 3 events of failure to provide, which had a significant financial impact between 2008 and 2010.

Mr. Philip Tan suggested that these incidents should be looked at in detail, as these failures to provide regulation or reserve may have happened despite due diligence from the gencos. The MSCP would be in a better position to make a determination, rather than the Panel. However, the Chairman clarified that this proposal is not to penalise the Gencos, but to recover payments made for a service that they did not provide, regardless of whether it was for bona fide reasons or not.

Mr. Kng agreed that the decision whether to penalise the generator rests with the MSCP and not the Rules Change Panel. He further enquired if the MSCP has information on the amount paid to these non-providers, which could assist them to decide if they should proceed with their investigations.

Mr. Langdale agreed that the MSCP should deal with these non-providing generators. However, if these incidents are recurrent, the market rules should be amended to ensure that generators are aware of the financial consequences if they do not provide reserve and regulation as scheduled.

The Chairman asked the Panel to consider if the materiality threshold has been reached and if the market rule needs to be changed. This is to ensure that non-providers will not be paid.

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On Option B, as proposed by EMC, Mr. Kng felt that it may not be necessary at this point to implement a fully automated option. He suggested implementing a manual system first and monitoring the volume of non-provision, before deciding whether to spend the \$200K required to implement this Option. He added that once the claw back mechanism is implemented, it would incentivise the MPs to provide reserve/regulation as scheduled. This should reduce the volume of non-provision cases, hence further reducing the need for a fully automated system.

Mr. Kng further added that Option B requires the PSO to transcribe the non-compliance information that they already provide to MSCP/MAU, onto another system. This requires double handling by the PSO, which creates risks for the PSO. Mr. Kenneth Lim clarified that currently, the PSO sends the information through faxes, which are subjected to interpretation errors by EMC. He suggested the PSO sending the data in an electronic format (e.g. excel file) to prevent such risks. Mr. Kng and Mr. Lim agreed to discuss the issue offline.

Mr. Kng highlighted that Option A is not feasible as the PSO cannot conclusively determine all non-provision cases within 5 business days of the trading date. He elaborated that the PSO has its own measurements to decide whether a genco provided its scheduled reserve/regulation, and the genco is given a chance to provide its own measurement to counter-check before the PSO makes a determination.

To Mr. Philip Tan's query if the claw back amount is pro-rated based on which point into the period that the Genco failed to provide (e.g. tripped), Mr. Paul Poh replied that the RCP had earlier decided that partial provision is deemed as non-provision, as partial provision already undermines system security.

Mr. Philip Tan commented that to implement Option B – automated system, changes will have to be made to the front-end system and subsequently integrated into the existing infrastructure. He would also like to be provided with details on the claw back adjustments, as they involve several parties.

Mr. Kenneth Lim informed that the original Option B proposed by EMC involves building a system to claw back monthly payments, while the revised Option B presented have these adjustments reflected in the preliminary and final settlement statements. He sought clarification from the RCP what they had in mind for a manual or minimum automation version of Option B. For the latter, so long as it involves enhancements to the settlement system, there will be system costs involved.

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Mr. Philip Tan commented that having a total manual system is akin to EMC sending out letters to indicate the claw back amount, which is unthinkable. The Chairman added that proceeding with an interim manual solution could involve EMC hiring an extra headcount, only to release the headcount when the claw back mechanism is automated.

Mr. Langdale noted that, from January 2009 to July 2010, there were only 5 months when the total non-provision payments exceeded \$30,000. He thus suggested setting a monthly threshold of \$30,000 above which EMC would proceed with claw back and refunds i.e. only deal with those with serious financial impact. This could help to reduce the need for automation under Option B and reduce cost. Mr. Peacocke supported Mr. Langdale's suggestion.

The Chairman requested EMC to provide a more detailed cost benefit analysis, so that the RCP can decide on the best option to deal with the claw back payments, while minimising system changes.

Mr. Tan Liang Ching concluded that EMC will work with the PSO on how best to implement Option B with a view to strike a balance between the level of automation and cost, taking into consideration if setting a monthly threshold of \$30,000 before proceeding with clawbacks and refunds would reduce cost. EMC will also draft the market rules to implement option B in parallel. These will be presented to the Panel at the 52nd RCP meeting.

EMC/PSO

4.0 Monitoring List

The Panel noted the contents of the paper.

5.0 Summary of Outstanding Rule Changes

The Panel noted the contents of the paper.

6.0 Rules Change Workplan Status Update

The Panel noted the contents of the paper.

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7.0 Requirement for MP Invoice to show details of EMC Settlement Clearing Account (Paper No. EMC/RCP/51/2010/297)

Ms. Mok Xin Ying presented the rule change proposal to remove the requirement, as stated in Section 5.8.2.4 of Chapter 7 of the market rules, for details of the EMC settlement clearing account to be shown on each invoice issued by the EMC to a market participant (MP) - including the bank name, account number and electronic funds transfer instructions – to which any amounts owed by the MP are to be paid.

In the Singapore Wholesale Electricity Market (SWEM), payments in respect of settlement matters between MPs and EMC are generally made via electronic funds transfers instructions issued by EMC to the single clearing bank where EMC and MPs maintain their bank accounts. Thus, the requirement to show details of the EMC settlement clearing account on each MP invoice is not necessary. It was recommended that Section 5.8.2.4 of Chapter 7 of the market rules be deleted.

The Panel unanimously endorsed EMC's rule change proposal and will support its recommendation to the EMC Board for further endorsement.

8.0 Review of Economic Incentives for generator reliability (Paper No. EMC/RCP/51/2010/298)

Ms. Nerine Teo informed the Panel that in 2008, EMA engaged KEMA Consulting to review existing generation reliability practices in the Singapore Wholesale Electricity Market (SWEM). KEMA reverted with the following findings:

- There are sufficient reliability incentives in the SWEM for frequently-run plants (CCGTs and some STs)
- KEMA noted lags in submission of revised offers following a trip/failure to synchronise.

Discussion on KEMA's views and proposal

Ms. Teo informed that EMC submitted KEMA's view and proposed Market Rules to their external legal advisor for review, as discussed below.

- a. KEMA is of view that Chapter 6, Section 10.4.1 of the Market Rules on gate closure seems to "allow" rather than "require" generators to re-declare their availability following a forced outage, even within gate closure.

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Ms. Teo conveyed that EMC agreed with KEMA's conclusion regarding Section 10.4.1. However the current rules requiring re-declaration are provided for in Sections 5.1.5 and 5.1.6 and not in Section 10.4.1.

- b. Chapter 6, Section 5.1.5 of the existing Market Rules requires immediate re-declaration if dispatch coordinator reasonably expects offer quantity exceed actual output by more than 10MW or 5 percent of offer quantity.

KEMA contends this section of the Market Rules do not impose stringent obligations in enforcing re-declarations on the GRFs' part as the phrase "reasonably expects" provides a "degree of latitude to the generators".

EMC's external legal advisor refutes KEMA's claim, on grounds that the dispatch coordinator, charged with operational control of the GRF cannot absolve himself of such responsibilities or knowledge.

- c. KEMA proposes requiring a GRF to re-declare its capacity no later than 30 minutes following a trip or failure to synchronise as they believed that this would tighten re-declaration obligations and reduce time lags in the price signalling process.

KEMA proposes to keep Section 10.4.1 intact due to wider implications on gate closure, but introduce a new section to work alongside it.

EMC's external legal advisor is of view that KEMA's 30-minute re-declaration proposal gives the dispatch coordinator greater latitude as to when to submit an offer variation. This contradicts the original intent for timely price signals reflective of actual system conditions. As such, EMC does not support KEMA's proposal.

Mr. Kng queried if there was any consultation with the MSCP on the proposed rule changes by KEMA as the MSCP decides whether any potential rule breach warrants investigation.

The Chairman informed that these cases of failure to re-declare will be brought to the MSCP's attention. The onus is thereafter on the MP to demonstrate that they did not have a reasonable expectation of these changes in output.

Mr. Philip Tan commented that under the Market Rules, the real-time dispatch schedule begins 5 minutes before the dispatch period. The proposed 30-minute re-declaration rule may result in loopholes whereby the re-declaration result would not appear in the next period, but only subsequent period if re-declaration takes place in the 28th or 29th minute.

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The Chairman added that it is up to the Panel to design the Market Rules and up to the judiciary body to interpret these rules. It is reasonable for the Market Rules to have latitude on the definition of “reasonable expectation”. This would also allow the MSCP to take into account of other circumstances that has led to the dispatch coordinator being unable to foresee a change in its unit’s output.

Ms. Teo said that EMC notes the confusion between Section 10.4.1 on gate closure and Section 5.1.5 on revision of offers, specifically as to which rule should supersede during gate closure i.e. 65 minutes before the dispatch period. She conveyed that with gate closure, generators are given reasonable certainty of whether they will be dispatched in real-time, which provides lead-time to start-up/synchronise their plants. The PSO is also provided with improved certainty that there are adequate generation resources to meet system demand. In addition, the gate closure rules already allow for re-declaration under certain circumstances e.g. force outages. As such, the gate closure rules should supersede the re-declaration obligation rules.

EMC proposes the following Market Rules refinements to make this clarification, as follows:

Relevant Sections	Proposed Changes	Reasons for Change
Chapter 6, Section 5.1.5	To include the words “for that dispatch period”.	To make clear that the offer variation required to be submitted must be for the dispatch period with the expected energy shortfall.
Chapter 6, Section 5.1.5 – 5.1.7	To include the words “Subject to Section 10.4.1”	To make clear that sections 5.1.5, 5.1.6 and 5.1.7 are subject to the gate closure rules in section 10.4.1.
Chapter 6, Section 10.4.1	To include the words “Notwithstanding sections 5.1.5, 5.1.6 and 5.1.7”	To make clear a dispatch coordinator should not re-declare if it is within gate closure, even if required under sections 5.1.5, 5.1.6 and 5.1.7, unless it falls under the exceptions provided for in section 10.4.1.
Chapter 6, Section 10.4.1.1(c) and (d)	To introduce the words “pertaining to which the EMC has issued an advisory notice under section 9.3.1”	To make clear that the exceptions in 10.4.1.1(c) and 10.4.1.1(d) only apply respectively to offer variations or revised standing offers which are intended to contribute positively to the resolution of energy surplus or energy, reserve or regulation shortfall situations where the EMC has issued advisory notices under section 9.3.1 of Chapter 6.

Mr. Kng wondered if scheduled units that are unable to synchronise to the system under Chapter 6, Section 5.1.6 of the Market Rules should be included as one of the exceptions under Section 10.4.1.

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Mr. Philip Tan also proposed to consider other situations to be included such as a running unit is unable to provide ancillary services and unit back off loads due to gas curtailment.

Mr. Kng said that the Panel should not get into further rules change than what has currently been proposed by EMC. If there are further proposed changes, these should be submitted as separate proposed rule changes.

The Chairman said that the recommendation is not to accept the rules change proposals from KEMA but to take the opportunity to clarify that the existing gate closure rules under Section 10.4.1 should supersede the existing re-declaration rules under Section 5.1.5.

The following Panel members VOTED to support EMC's proposed rule changes:

- Kenneth Lim (Employee of EMC)
- Kng Meng Hwee (Representative of the PSO)
- Lawrence Lee (Representative of Market Support Services Licensee)
- Daniel Lee (Representative of Generation Licensee Class)
- Luke Peacocke (Representative of Generation Licensee Class)
- Robin Langdale (Representative experience in financial matters)
- Michael Lim (Representative of Consumers)

The following Panel member VOTED NOT to support EMC's proposed rule changes:

- Philip Tan (Representative of Generation Licensee Class)

With a vote of 7 for and 1 against EMC's proposed rule changes, the RCP will make its recommendation to the EMC Board for further endorsement.

{Mr. Philip Tan sought the Chairman's permission to leave the meeting}

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Discussion on KEMA'S Proposed Penalty Scheme

In order to incentivise the proposed 30-minute re-declaration rule, KEMA proposes a penalty scheme using the following formula:

$$\text{Minimum Penalty}^1 = \text{Late Re-declaration Charge} \times \text{No. of MWs}$$

Where:

- Late Re-declaration Charge: $0.15 \times \text{VoLL}^2 = \text{S\$750}$.
- Number of MWs: Maximum MW scheduled in the dispatch period (if due to synchronise within period) or following dispatch period (if due to synchronise towards end of dispatch period)

Ms. Teo conveyed that the penalty scheme is not congruent with the SWEM's design principle of self-commitment. As GRFs are required to comply with dispatch instructions, imposing financial penalties on GRFs that fail to comply with their dispatch instructions without acceptable reasons would already incentivise them to revise their offers to comply with their dispatch instructions.

Mr. Kng pointed out that there is some merit in KEMA's proposed Chapter 6, Section 5.1.10, which proposed that EMC should report any MP's failure to re-declare availability following an outage to the MSCP.

Specifically, Mr. Kng queried if EMC could provide reporting to the MSCP if an MP do not submits offers variation after a tripping or failure to synchronise. This is because EMC will have the information on offer variations submitted after an outage.

The Chairman agreed to check with the MAU on whether the MSCP requires such information.

The
Chairman

The Panel unanimously VOTED **not to support** KEMA's proposed penalty scheme.

9.0 Modeling of Multi-Unit Contingency ("MUC") Risk
(Paper No. EMC/RCP/51/2010/CP17)

Ms. Mok Xin Ying informed that the PSO had raised concerns about insufficient reserve being procured against MUC events. This could cause the system to lose multiple generation facilities and could potentially result in interruption of load.

¹ For example a 350MW unit which tripped completely and failed to re-declare within 30 minutes of the incident occurring would be subject to a penalty of at least S\$262,500 ($0.15 \times \$5000/\text{MWh} \times 350\text{MW}$).

² The VoLL is currently set at \$5,000/MWh

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She then presented the paper's conceptual proposal i.e. the MUC method to modify the existing reserve regime by taking into account MUC events when the MCE produces the dispatch schedule and the results of the CBA (cost-benefit analysis), between the MUC method and the RAF method, on the recent MUC event in May 2010 when PSO had applied a higher RAF to the primary reserve.

On the EENS (Expected Energy Not Served) figures – Mr. Kng pointed out that in reality load shedding would be carried out in blocks e.g. of 100 MW. Mr Paul Poh clarified that during the CBA methodology discussion, PSO had similarly raised this comment and EMC has indicated that if the PSO could provide the range of blocks to be loadshed, EMC could take that into account in the CBA computations. Mr. Kng was of the view that the load shed table is already in the PSO SOM.

Looking at the CBA results, the Chairman noted that the MUC method seems to be providing more reserve than the RAF method.

Mr. Langdale noted that applying the MUC method will further affect the cost of reserve, which may indicate that the MUC method is providing for more reserves, thus it is worthwhile to implement the MUC method.

Mr. Kng informed that the PSO is not keen to use the RAF method as it is brute force attempt to acquire the pre-estimate required reserve to cater for multiple units forced outage regardless of , vs MUC which would enable MCE to schedule just sufficient reserve to cover multiple units forced outage ,failing which MCE would lower combine output of MUC units to match the available reserve. The other advantage of the MUC method is that the genco who owns the MUC unit(s) will bear the "lion's share" of the additional reserve cost, thus, the genco will be incentivised to rectify the problem causing the MUC event otherwise it will be affected financially. In comparison, with the RAF method, the additional reserve cost is spread amongst all the gencos.

Mr. Peacocke said that for the CBA study in the concept paper, done on the historical MUC events, there was a hypothetical application of both the RAF and the MUC methods. He questioned whether the Net Benefit shown in the CBA results on the single real-case MUC event in May 2010 - when a higher RAF had been applied by PSO to the primary reserve - would be reflective of future real-case MUC events.

The Chairman stated that the Panel would need to make a decision on whether to support the implementation of the MUC proposal. He informed that EMC's implementation cost of the MUC proposal was estimated to be \$676K.

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Mr. Daniel Lee said that he did not object to the MUC proposal but there needs to be further refinements to it before he would support it. He said that generation licensees are not able to mitigate against certain gas supply risks and therefore should not be singled out to bear those risks. He said that generation licensees if required to bear risks that they cannot mitigate against would need to price in those risks which would result in higher electricity prices. He proposed maintaining the current RAF method for those risks.

Mr. Peacocke said that he would support the MUC proposal, subject to the following 3 conditions:

- a) the parties responsible for creating each risk type should bear the associated reserve cost – to achieve this, the EMA should ensure that the transmission licensee and the gas operator pay reserve costs when their actions give rise to Types 2 and 3 MUC risks.
- b) gencos should receive additional information which is necessary for gencos to manage their MUC risks, in the manner suggested in the concept paper.
- c) PSO and the gas operator should have specific responsibilities to ensure that MUC risks are considered and minimized e.g. in their coordination and approval of maintenance schedules.

Mr. Kng said that there are possible issues in allocating reserve costs to the gas operator which are not market participant in the NEMS, i.e. for giving rise to a Type 3 MUC risk, because both the gas operator and the gencos will carry out maintenance for their respective gas equipment. The gencos could schedule their gas/diesel facility maintenance not at the same time as the gas operator, which could also give rise to a Type 3 MUC risk.

The Chairman asked if the implementation of the MUC proposal will be reflected in the PSO SOM. Mr. Kng said that this will only be after approval of the MUC proposal, but not in the manner suggested by Mr. Peacocke on gas maintenance activities as the responsibility of approving gas facility maintenance is that of the gas system operator, not part of the PSO's functions. However, the PSO does have standing arrangements with the gas operators and the gencos to coordinate gas facility maintenance.

Mr. Kng asked if the implementation of the MUC proposal could be carried out in 2 phases:

- i. phase 1 – For the MCE to model MUC events and take such events into account when producing dispatch schedules
- ii. phase 2 – For allocation of reserve cost under the MUC proposal

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Mr. Poh said that it is preferable for the MUC proposal to be implemented holistically. Clarity on the implementation process would be critical due to the complexity involved with rules changes and operational procedures to be worked out with PSO.

The Chairman also said that even if the implementation is carried out in 2 phases, both phases would need to be done in parallel.

The Chairman pointed out that the Transmission Licensee had previously expressed concerns on whether it was right for reserve cost to be allocated to itself for certain Type 2 MUC events. This issue has since been resolved as the EMA has clarified that the causer-pay principle – which was proposed in the concept paper – should indeed be applied when allocating reserve cost. Therefore if the Transmission Licensee is the causer of an MUC event, it should be allocated reserve cost.

Mr Kng suggested to implement Type 1 MUC first as there have been no disagreement on the causer. Mr. Kng also said that there have been numerous discussions on who is the causer in Type 2 & 3 MUC events. If this cannot be agreed on, it will be difficult to allocate reserve cost under the MUC proposal thus further delay decision on the MUC rules change proposal.

The Chairman concluded that there is no clear mandate to start rule / system changes to implement the MUC proposal at this stage. Since Panel members at this meeting still had reservations on the allocation of reserve cost under the MUC proposal, all Panel members should provide any further comments with the cost allocation if such comments has not been reflected and responded to by EMC in the Concept paper. EMC will collate these comments, which will be presented and discussed at the next RCP meeting.

The RCP will discuss the proposed cost allocation at the next Panel meeting.

RCP
members /
EMC

There being no other matters, the meeting ended at 1.30pm.

Dave E Carlson
Chairman

Minutes taken by:
Eunice Koh
Senior Executive – Corp. Secretariat