

**MINUTES OF THE RULES CHANGE PANEL
15TH PANEL MEETING
HELD ON TUESDAY, 31 AUGUST 2004 AT 10.10AM
AT ENERGY MARKET CO. PTE LTD
9 RAFFLES PLACE #22-01
REPUBLIC PLAZA, SINGAPORE 048619**

Present:	Allan Dawson (Chairman) Yip Pak Ling Dr. Daniel Cheng Robin Langdale	Eu Pui Sun Ben Lau Kok Shook Kwong Tan Boon Leng
Absent with Apologies	Francis J. Gomez T P Manohar	
In Attendance:	Paul Poh, EMC Shashank Swan, EMC Ramon Staheli, EMC	Teo Wee Guan, EMC Poa Tiong Siaw, EMC Janice Leow, EMC

1.0 Notice of Meeting

The Chairman called the meeting to order at 10.10am. The Notice and Agenda of the meeting were taken as read.

2.0 Confirmation of Minutes of the 14th Rules Change Panel Meeting

The Minutes of the 14th Rules Change Panel Meeting held on Tuesday, 6 July 2004, having previously been circulated, was tabled and taken as read.

There being no amendments to the Minutes, the Rules Change Panel unanimously accepted and approved the Minutes

3.0 Matters Arising from the 14th Rules Change Panel Meeting

**Point 1.0 Reserve and Regulation Payments to Non-Complying Units
(Concept Paper No. EMC/RCP/14/2004/01)**

The Panel requested EMC to further study the following:

1. study how other jurisdictions treat such non-compliance
2. estimate the costs of changing the settlement system
3. consider the potential motivation for market participants to comply with dispatch
4. reconsider the approach to the MSCP

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The Panel was informed that the rule books of Ontario, New Zealand and Australia with real-time reserve/regulation markets contain no provisions to prevent or recover payments to non-complying units. The Panel was also informed that non-compliance issues are referred to their equivalent of our MSCP for determination.

On implementation costs, there are two possible approaches:

- (a) An Automated Pre-Settlement Reserve/Regulation Filter prevents reserve/regulation payments to non-complying units in the first place and is a fully automated system with audit trails.

The one-time system development cost is estimated to be between S\$111,000 and S\$180,000. There is a requirement for the EMC or PSO to provide input on instances of non-compliance to EMC before the preliminary settlement run.

- (b) The Manual Post-Settlement Adjustment approach requires that the PSO issues (by fax) notice of non-compliance to EMC. EMC then maintains details of non-compliance in an offline spreadsheet and manually calculates the amount of reserve/regulation payment made to MPs that should be returned, and the amounts to be returned to parties that paid for reserve/regulation. These amounts would be settled on a monthly or quarterly basis.

EMC, however, does not recommend this approach as manual intervention would result in unacceptable settlement risks and would generate manual verification costs for affected MPs. Manual audit trails are also not desirable.

On the incentive for MPs to comply with dispatch, the Panel was advised that, to the extent that MPs rely on the current arrangement for financial benefit, stopping/recovering undue payments would encourage compliance. In general, incentive for compliance is improved by removing the reward for non-compliance.

On the issue of whether writing to the MSCP would be an effective solution, EMC clarified that its earlier recommendation did not mean passing the problem to the MSCP. EMC had recommended that the RCP advise the MSCP that given the current low quantum of payment for non-compliance, it is not cost effective to implement a settlement solution to prevent or recover such payments. Hence, the MSCP, in deciding on non-compliance cases relating to reserve/regulation, may want to consider that payments are made to units despite their non-compliance under the current arrangement.

On the issue of payment mismatch if reserve/regulation payments are recovered via a MSCP-imposed financial penalty, EMC advised that removing the financial incentive of non-compliance was more important. The distribution of the penalty back to the market should be a secondary concern.

The Panel supported EMC's recommendations on the following:

1. EMC to monitor the amount of undue reserve/regulation payments made on a quarterly basis and notify the Panel when the amount exceeds S\$600,000 on a rolling 12-month basis.

2. A letter expressing the RCP's views on the matter be written to the MSCP for consideration.

4.0 Publishing Outage Reports Submitted to the MSCP

(Paper No. EMC/RCP/15/2004/076)

The proposed rule change is for the outage report that PSO submits to the MSCP to be published. The intent of the proposal is to promote transparency.

The Panel was reminded of its earlier decision to refer the test on National Security to the EMA in its 13th meeting. The EMA has issued a written response to EMC on 5 July 2004, advising that information on equipment outages is sensitive and should not be released to the public domain.

EMC advised that the proposal thus fails the national security test. Hence, EMC cannot recommend that the outage report be published.

The Panel **supported** EMC's recommendation not to publish the outage report and to make the necessary recommendation to the EMC Board not to modify the market rules.

5.0 Clarifying Rules on Determining Reserve and Regulation Quantity when MCE cannot be re-run

(Paper No. EMC/RCP/15/2004/167)

This is a rule change proposal by EMC to clarify the rules on how the reserve and regulation quantities would be determined if the market-clearing engine (MCE) cannot be re-run for any reason.

The Panel was informed that in rare instance when MCE fails to produce a RTS, the PSO normally uses procedure described in System Operation Manual (SOM) for dispatch. While the rules state that EMC will use 'PSO dispatch instructions and the process described in the applicable market manual' in the case when MCE re-run is not possible, the market manuals do not describe this process. Since the SOM already stipulates PSO's action in the event that the RTS is not available, re-documenting similar procedure in the market manual is not necessary and hence the reference to the 'applicable market manual' is to be deleted. EMC has also proposed that an explanatory note be added that makes reference to PSO's dispatch instructions.

The Panel **supported** EMC's recommendation and to make the necessary recommendation to the EMC Board for adoption.

6.0 Modifications to Market Operations Manual (Chapter 7) – Settlement: Enabling Electronic Invoicing (Paper No. EMC/RCP/15/2004/236)

This proposal is to amend Sections 7.2 and 7.3 of the Market Operations Manual – Settlement to provide for electronic invoicing by EMC.

The modifications would enable EMC to issue invoices to MPs via secured email, resulting in the following benefits:

- (a) Greater reliability of invoice delivery
- (b) Lower usage of hardcopy invoices through facsimile and normal mail

The Panel was also informed that each MP is required to procure and install a digital certificate in order to receive the secured e-mail from EMC and MPs are aware of the costs and supportive of the initiative.

The Panel **supported** EMC's recommendation and to make the necessary recommendation to the EMC Board for adoption.

7.0 Embedded Generation and Co-Generation (Concept Paper No. EMC/RCP/15/2004/01)

This paper examines whether embedded generation and co-generation should be distinguished from all other generation in the market rules and be treated differently in relation to rules on gate closure and compliance with dispatch instructions.

The Panel was informed that, in principle, the wholesale electricity market design framework adopts a non-discriminatory approach to generation participation i.e. all generation are treated equally, to achieve efficiency and equity/fairness. However, there are circumstances under which treating certain generators differently from others can be justified and in such cases, the benefits must exceed the costs. Additionally, different treatment of generators should not be based on some artifice or create the incentive for perverse behaviour. Neither should it result in the ability to avoid charges that are attributable to cost socialization of essential services or social cost-sharing without a commensurate reduction in the underlying costs.

The Panel was also informed that currently there are two situations in Singapore where different treatment of generators is warranted. First, small generators below a certain threshold size are not subject to mandatory licensing, registration and dispatch requirements. This is because the costs associated with mandatory licensing, registration and dispatch exceeds the benefits of efficiency and equity. Second, exemptions had been granted to 7 legacy organisations prior to market-start for their own local generation to directly offset their captive loads. A special provision has also been incorporated into the market rules (section 4.4, Chapter 7) for generators who, upon application, are granted 'embedded generators' status by the EMA to be eligible for "(USEP+HEUC)/Nodal Price Neutralisation".

The analysis concluded that the existing exemptions and special provisions provided for 'embedded generators' by EMA and in the market rules are sufficient. There is currently no situation which warrants the need to further treat embedded generation and co-generation differently from all other generation in the market rules. Hence, EMC recommended that there should be no change to the market rules.

The Panel agreed with EMC's recommendation.

8.0 Priority Rights Auction Mechanism (Concept Paper No. EMC/RCP/15/2004/02)

This paper assesses a proposal by EMA to introduce a priority rights auction mechanism which will determine priority dispatch when the market has multiple offers of energy at -\$4,500 per MWh which exceeds demand. Such a situation has led some MPs to be concerned about not being dispatched when they have offered the lowest bid possible under the market rules, which could lead to some of the generation plant be unintentionally de-commissioned.

The Panel was informed that EMC's analysis shows that the likelihood of such an event occurring is extremely remote and implementing this proposal would entail major IT system changes and more importantly, implementing the proposal does not guarantee priority dispatch to the auction winners, thus defeating the intent.

The Panel agreed with EMC's recommendation not to implement such a priority auction rights mechanism.

The Panel requested EMC to

- (a) continue to monitor for each quarter the maximum aggregate MWs offered at -\$4,500 and to report to the RCP;
- (b) in thinking forward as to what can be done more effectively.

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9.0 Resignation from Rule Change Panel
(Paper No. EMC/RCP/15/2004/03)

The Panel was informed that Mr. Lee Sin Chong has tendered his resignation as a member of the Rule Change Panel on 16 July 2004. EMC has acknowledged his resignation.

The Panel was also informed that EMC had written to PowerSeraya to nominate another member to the Panel. EMC has received a nomination and this will be presented to the EMC Board for approval.

The Panel invited Mr. Tan Zing Yuen and Mr. Gan Bock Yeng of EMC to the meeting.

10.0 Financial Performance for Year from 01 April 2003 to 31 March 2004
(Paper No. EMC/RCP/15/2004/04)

This paper is to update the Panel on the financial performance of EMC for the financial year from 1 April 2003 to 31 March 2004.

The Panel was informed that the total over-recovery in fees for the twelve month period amounted to S\$4,548,670. This over-recovery will therefore be refunded to the market participants in the current financial year through the reduction in the fees to be collected for the period 1 October 2004 to 31 March 2005.

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The proposed refund of over-recovery will be:

Total over-recovery of expenses	\$4,254,054
Over-recovery of margin	\$294,616
Total over-recovery to be refunded	\$4,548,670
October 2004	\$758,112
November 2004	\$758,112
December 2004	\$758,112
January 2005	\$758,112
February 2005	\$758,112
March 2005	\$758,110
Total	\$4,548,670
\$/M/wh (based on 5.36mn MWH traded per month)	\$0.07

The refund will result in a reduction in fee of \$0.07 per MWh per month for the current fiscal year.

The Panel noted the contents of the paper.

11.0 Date of Next Meeting

The next Panel meeting is scheduled to be held on Tuesday, 02 November 2004 at 10.00am at EMC's Board Room.

There being no other matters, the meeting ended at 11.25pm with a vote of thanks to the Chair.

ALLAN H. DAWSON
Chairman

Minutes taken by:
Eunice Koh
Market Panel Administrator