

**MINUTES OF THE RULES CHANGE PANEL
21st PANEL MEETING
HELD ON TUESDAY, 5 JULY 2005 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 Robin Langdale Francis J. Gomez	Eu Pui Sun Low Boon Tong Dr. Daniel Cheng T P Manohar
Absent with	Ben Lau Tan Boon Leng	Kok Shook Kwong
In Attendance:	Paul Poh, EMC Ramon Staheli, EMC Teo Wee Guan, EMC	Poa Tiong Siaw, EMC Shashank Swan, 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 19th Rules Change Panel Meeting

The Minutes of the 19th Rules Change Panel Meeting held on Tuesday, 3 May 2005 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 19th Rules Change Panel Meeting held on 3 May 2005

The Panel noted that the matters arising as outlined in Matters Arising had been completed.

Point 5.0 – Dispute Resolution Process

(Paper No. EMC/RCP/19/2005/240(R) – 15 March 2005)

The Panel sought clarification on the use of “calendar days” in Sections 3.12.2 and 2.13.1.

The Panel was informed that calendar days is the appropriate time frame to set the deadline for PSO and EMC to pay compensation after the corresponding amounts have been recovered through the monthly energy uplift charge ("MEUC"). This is because EMC estimates the MEUC (based on projected monthly withdrawal energy quantity) for each calendar month before the beginning of that month. MEUC (in \$/MWh) is recovered from load in each settlement interval in each trading day, which is also a calendar day.

The Panel also requested EMC to define the term "relative" under the "Declaration for Nomination" form. Mr. Paul Poh informed the Panel that the market rules in Section 2.7.3.6 of Chapter 3 defined "relative" as "*parent, child or sibling of such person*". Mr. Robin Langdale requested EMC to put the definition, in brackets, in the declaration form for clarity. EMC has taken note of the request.

Point 7.0 – Study on Accuracy of Very Short Term Loan Forecast

The Panel was informed that MSSL is still investigating the presence of "negative losses" inferred from the metering data for certain dispatch periods in 2004.

4.0 Monitoring List

The Panel noted the contents of the paper.

Chairman advised that EMA had requested for the information being monitored. Instead of providing the information on an ad-hoc basis it is useful to provide the information on a routine basis. The RCP agreed that EMC provide the Monitoring List to EMA after the RCP has considered the List at its meeting.

5.0 Allocation of Reserve Cost (Paper No. EMC/RCP/19/2005/CP09 – 3 May 2005)

At the 19th RCP Meeting, it was proposed that reserve cost be allocated based on scheduled energy instead of IEQ. The RCP requested EMC to provide detailed analysis of three forced outages, the financial impact of the two different allocation bases and the period after the outage where reserve price was higher than the energy price.

Ms. Janice Leow presented four examples of forced outages, which showed that the allocation of reserve cost based on scheduled energy would provide generators an incentive to revise offers following a forced outage and would not discourage generators from responding to a contingency.

Mr. Robin Langdale stated that it seemed inequitable that generators that provided increased generation in a black out situation would be penalised with high reserve costs, when the failure to produce energy was due to external circumstances. Mr. Langdale was informed that if a generator had made an offer to produce energy, the generator would then be obliged to keep its commitment to provide the supply.

Mr. Eu Pui Sun reiterated his concerns on the constraints placed on reserve and the use of co-optimisation for energy and reserve in an emergency situation where reserve price can exceed energy price. The RCP was of the view that Mr Eu's concern was on the price of reserve relative to energy i.e. how co-optimization works and not the appropriate basis (IEQs vs energy schedule) for allocating reserve cost which this rule change is concern with. It was suggested by the RCP that the concern of reserve price exceeding energy price during impending emergencies be looked at by the TWG at an appropriate time during which Mr. Eu could be asked to assist and articulate his observations.

EMC

The Panel **supported** EMC's recommendation to:

- a. Endorse a change to allocating reserve cost using scheduled energy quantities specification, and
- b. Task EMC to draft changes to the Market Rules to give such effect, evaluate the timeframe required to implement system changes, and present these to the RCP for consideration at a later date.

6.0 Publication of Ancillary Service Contracts (Paper No. EMC/RCP/21/2005/235)

At the 18th RCP meeting held on 15 March 2005, EMC presented a rule change proposal to amend Sections 8.7.1.3 and 8.7.1.4 of Chapter 5 relating to the publication of ancillary service contracts. The rule change proposal was raised by the MSCP. The MSCP felt that it is not the appropriate body to confirm the presence (or absence) of market power in relation to contracted ancillary services, as required under sections 8.7.1.3 and 8.7.1.4 of Chapter 5 of the market rules. At that meeting, EMC suggested that the MSCP be replaced by EMA instead for the confirmation of market power in relation to contracted ancillary services. However, the Panel then recognized there were difficulties associated with determining the presence (or absence) or market power. The difficulties arose because:

1. 'market power' is not clearly defined in the Market Rules or the Electricity Act; and
2. it is not clear from the current legislative framework who should be responsible for confirming the absence or presence of 'market power' in related to contracted ancillary services.

The RCP then agreed that the amount of information relating to the ancillary service contracts to be published by EMC should tie in with the mechanism (or process) employed by EMC to procure the services. In short, how EMC procures contracted ancillary services will determine the amount of information relating to the ancillary service contracts which EMC must publish. It requested the EMC to revise the rule change paper accordingly.

In its revised paper, EMC recommended that where EMC concludes ancillary service contracts under section 8.3.2.1, Chapter 5 of the market rules, (i.e. where practicable, EMC shall employ a competitive tendering or negotiation process to identify multiple potential ancillary service providers.

This is to determine competitive prices and other terms for the ancillary service contracts). EMC shall treat the commercial terms of the contracts as confidential information and if not, EMC shall publish the relevant terms of the contracts.

The Panel **supported** EMC's recommendation in the revised rule change paper and to make the necessary recommendation to the EMC Board for adoption.

7.0 Rectification of Price Neutralisation Rule (Paper No. EMC/RCP/21/2005/243)

This paper assessed EMA's rule modification submission to rectify a drafting error in the Market Rules for nodal price neutralization for embedded generators and their associated load.

The Panel was informed that an embedded generator offset its associated load (withdrawals) with energy injections into the grid. The settlement adjustment to achieve this is called (USEP+HEUC)/Nodal Price Neutralisation. This adjustment is meant to remove nodal price risk faced by embedded generators who generate for self-consumption under a gross pool arrangement. It is to ensure that embedded generators can consume up to their full gross injection at their respective nodal prices (MEPs).

The normal settlement process calculates energy payments owing to embedded generators at their respective MEPs and the energy charges for their withdrawals at USEP+HEUC. The way to "neutralize" their position is to calculate and apply an additional settlement item (NELC or NEGC) to them such that they are effectively settled on net injections at MEPs (generator's nodal prices) or net withdrawal at USEP + HEUC (load prices) for the energy portion.

Section 4.4.4 of Chapter 7 currently states that Net Energy Load Credit (NELC) would be calculated when a group of embedded generation facilities' withdrawal (or load) is **greater than** its injection. This would imply that when withdrawal equals injection, no NELC would be calculated. The rule should have provided for the calculation of NELC when withdrawal is **greater than or equal to** injection.

The Panel **supported** EMC's recommendation to amend the market rule to reflect this change and to make the necessary recommendation to the EMC Board for adoption.

8.0 Imposition of Default Levy (Paper No. EMC/RCP/21/2005/CP08)

At the 18th RCP meeting in March 2005, the Panel requested EMC to further study the following three issues:

- a) How generators are better-placed to mitigate third-party default risks than retailers;

- b) Is the current default levy allocation method in line with the intent of market design; and
- c) Whether parallels can be drawn from other types of exchange.

Issue 1: How are gencos better placed to mitigate default risk?

The Panel was informed that EMC's analysis did not produce a definitive answer on which party is best-placed to manage default risk. However, when looking at the wholesale market level, there are two undesirable outcomes associated with the current default levy arrangement. EMC then illustrated with two examples the following undesirable outcomes

- § How less credit-worthy retailers are advantaged
- § How smaller retailers are disadvantaged

Conclusion

- 1. It is inconclusive if generators are best placed to manage retailer default risk
- 2. The current default levy arrangement creates intra-class inequity among retailers

Issue 2: Current Arrangement inconsistent with design intent?

The Panel was informed that this question has been answered by the conclusion to the first issue. The current arrangement does not reflect design intent because it:

- 1. Causes retailers to compete on unequal footing; and
- 2. Does not reflect the principle of equity, although a secondary consideration.

Issue 3: Other Exchanges

The Panel was informed that risk to clearing houses, in general, are dealt with in the following ways:

- a) Owner of the clearing house absorb the risk
- b) Clearing members of the clearing house share the risk
- c) Purchase insurance to cover the risk
- d) A combination of the above

In the context of NEMS, method (b) is relevant to the discussion, where all clearing members bear some portion of the loss. However, in financial exchanges, clearing members are typically brokers and traders. They cannot be singularly classified as buyers or sellers in the market, i.e. they can appear on both the selling and buying side at the same time. Hence, it is natural that all clearing members bear a portion of any default loss.

For NEMS, however, the wholesale electricity market is a physical market where buyers and sellers are clearly distinct.

The Proposed Alternative

The alternative is to allocate default levy only to net creditors (typically generators) proportionately to their trade value. Generators may then price the added risk of default levy into the prices of their offers into the wholesale market. The logic behind this arrangement is as follows:

1. All MPs participate in a compulsory pool;
1. Sellers (generators) cannot choose who (retailers) they sell to;
2. All generators face in aggregate all retailers' default risks;
3. Since a default levy is allocated to generators in direct proportion to their net invoice value, generators of all sizes bear the same default risk per dollar of sales;
4. Generators can choose to price this equal per-dollar default risk into their offers in the wholesale market;
5. Retailers cannot choose their sellers;

Generators bear the default risk of other retailers indirectly through the risk premiums factored into wholesale prices by generators. Hence, the implied default risk is shared between retailers in an unbiased way.

In view of the potential undesirable outcomes associated with the current arrangement, EMC recommended that the RCP task EMC to propose a rule change to implement this alternative arrangement.

Mr. Eu Pui Sun pointed out that in periods of negative prices generators could potentially owe money to the market and go bust. He asked if the proposed method would still work. Mr. Paul Poh confirmed that it would. This is because the default levy allocation methodology does not distinguish an entity by its status as a generator or retailer, but as a debtor or creditor. During periods of negative prices, generators become debtors and upon their default, retailers (creditors now) would bear collectively bear any default levy.

Mr. Robin Langdale remarked that he supported the proposal strongly and thought that the sensible thing is for the creditors (generators) to collectively cover the default risk. However, he also suggested that EMC look into allocating the default levy to creditors based on energy earnings over a period of time, rather than based on the creditors' trade value at the trading periods for which the default took place.

Mr. Eu Pui Sun informed the Panel that the issue on default levy was previously debated by market participants. As the concept paper has been amended with further illustrations, Mr. Eu requested that the revised concept paper be published for comments. The RCP agreed to Mr. Eu's request.

The Panel supported the analysis and recommendation in this concept paper, subject to further comments from stakeholders.

9.0 Date of Next Meeting

The next Panel meeting is scheduled to be held on 5 September 2005 at 10.00am at the EMC Board Room.

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

ALLAN DAWSON
Chairman

Minutes taken by:
Eunice Koh
Market Panel Administrator