

RCP PAPER NO. : **EMC/RCP/58/2011/CP34**

SUBJECT : **REVIEW OF COMPOSITION OF RCP**

FOR : **DECISION**

PREPARED BY : **WANG JING
SENIOR ANALYST**

REVIEWED BY : **PAUL POH LEE KONG
SVP, MARKET ADMINISTRATION**

DATE OF MEETING : **8 November 2011**

Executive Summary

This paper assesses the proposal to assign an equal number of votes for the generation licensee class, retail licensee class and wholesale trader class of MPs on the current Rules Change Panel (RCP).

To address the above proposal, this paper reviews the representation model of the existing RCP, arguments for and against increasing the number of representatives from the wholesale trader class of market participants. In addition, we review the impact of reducing the number of representatives from the generation and retail licensee class. On balance, we do not consider that there are sufficient reasons to increase the number of wholesale traders' representatives, reduce the number of representative of the generator and retailer class or change the current composition of the RCP.

At the 58th RCP Meeting, the RCP by majority vote decided **not to support** the proposal.

1. Introduction

This paper, an issue on the 2011/12 Rules Change Workplan, evaluates a proposal to increase the number of representatives for the wholesale trader class of market participant (MP) such that it is proportionate to the number of licenses issued by EMA. Specifically, the proposer suggests that an equal number of votes be assigned to the generation licensee class, retail licensee class and wholesale trader class of MPs.

To address this proposal, there is a need to assess if the existing composition of RCP should be changed. Section 2 explains the current Rule Change Structure, i.e. the RCP representation model and governance arrangement. Section 3 analyses if the existing structure of RCP composition and the allocation of votes in the RCP should be changed.

2. Current Rule Change Structure

2.1 Existing Model: Representation Model

Section 2.3.1 of Chapter 3 of the current Market Rules provides for a 15-member RCP comprising:

- The Chief Executive of the Energy Market Company (EMC)
- One employee of the EMC not being the Chief Executive
- One representative of the Power Systems Operator (PSO)
- Three representatives of the generation licensee class of MPs
- One representative of the transmission licensee (TL) class of MPs
- Three representatives of the retail electricity licensee class of MPs
- One representative of market support services licensees (MSSLs)
- One representative of the wholesale market trader class of MPs
- One person who is experienced in financial matters in Singapore
- Two persons to represent the interests of the consumers of electricity in Singapore generally

The Market Rules also state that members of the RCP must have a level of technical or commercial knowledge and expertise in the operation of power systems and electricity markets that is acceptable to the EMC Board.

2.2 Choice of Representation Model

To fulfill and promote the objectives of the Market Rules, it is desirable to create a Rules Change Panel that:

- a. Represents the correct set of stakeholders
- b. Has the required level and range of expertise
- c. Is of a size that is conducive to effective decision-making
- d. Does not result in decision-making that seeks to advantage or disadvantage any particular group of market participants, or individual market participants
- e. Does not result in decision-making that seeks to advantage incumbents or any other particular interest group
- f. Results in decision-making that is consistent with the overall goal of an efficient competitive and reliable marketplace

- g. Protects the interest of consumers

In practice, it may be difficult to meet the conditions (d), (e), (f) and (g). For instance, the following decisions would require subjective assessment:

1. What is the right number of votes to be given to sellers (gencos, wholesale traders) and buyers (retailers, wholesale traders)?
2. How should a retailer that is owned by a gencos be classified? (seller or buyer?)
3. What should be the balance of voting power between traders (gencos, retailers, wholesale traders) and service providers (EMC, MSSL, PSO, TL)?

To overcome this difficulty, the Market Rules have in place a governance arrangement that vests the EMC Board and the Energy Market Authority (EMA) with the power, under defined circumstances, to reject recommendations of the RCP. Please refer to section 2.3.

2.3. Governance Arrangement in SWEM

The rule change process is as follows:

The RCP recommends changes to Market Rules

The RCP's role is to consider amendments to the rules, contributing the views of a wide variety of stakeholders to the process. It is the only stakeholder representative body and its composition reflects the stakeholders of the Singapore Wholesale Electricity Market (SWEM), with representation from generators, retailers, consumers and all service providers.

Section 5.11.1 of Chapter 3 requires the RCP to consider the functions of the EMA in subsection 3(3) of the Electricity Act where they relate to operation of the wholesale electricity market and reliable operation of the power system.



The EMC Board considers RCP's recommendations

The EMC Board's role is to consider recommendations of the RCP. It may override the RCP's recommendations for defined reasons. The rules effectively give the EMC Board the role of ensuring that the market continues to operate efficiently and effectively in an unbiased manner.

Section 5.11.1 of Chapter 3 requires the EMC Board to consider the functions of the EMA in subsection 3(3) of the Electricity Act where they relate to operation of the wholesale electricity market and reliable operation of the power system.



The EMA considers the EMC Board's recommendations

Finally, the existing governance arrangement relies on the EMA to ensure that no change to the market rules introduces biasness, or is inconsistent with the functions of the EMA.

The functions of the EMA in subsection 3(3) of the Electricity Act that relate to operation of the wholesale electricity market and reliable operation of the power system are as follows:

- (a) to protect the interests of consumers with regard to:
- (i) the prices charged and other terms for the supply of electricity;
 - (ii) the reliability, availability and continuity of supply of electricity; and
 - (iii) the quality of electricity services provided;

(b) to promote:

- (i) the efficient use of electricity by consumers; and
- (ii) economic efficiency and the maintenance of such efficiency in the electricity industry;

...

(e) to ensure security of supply of electricity to consumers and to arrange for the secure operation of the transmission system in accordance with the market rules or other codes of practice;

...

(g) to create an economic regulatory framework in respect of the generation, transmission, import, export, trading and retail of electricity, the provision of market support services and the operation of any wholesale electricity market which —

- (i) promotes and safeguards competition and fair and efficient market conduct or, in the absence of a competitive market, prevents the misuse of monopoly or market power; and
- (ii) provides non-discriminatory access to any wholesale electricity market and to transmission services and market support services;

3. Analysis

Using the principles described in section 2.2, this section first analyses if the balance of the RCP composition should be changed. It then examines if the number of representatives for the wholesale trader class of licensee should be increased.

3.1 Balance of Current RCP Composition vis-a-vis Common Interest Groups

The current RCP structure should not result in a decision that is skewed towards any interest group, as described under (d) and (e) in section 2.2. As such, before assessing the merits of the proposer's suggestion, it is important to first examine if these criteria hold in the current RCP composition.

There are currently 14 votes distributed among members of the RCP as in Table 1 below.

Table 1: Allocation of RCP votes among different classes of stakeholders

Class of Stakeholder	No of Licensees in the class	No of MPs in the class	Interest in the market	Votes
Generation Licensees	11 ¹	9	Seller	3
Retail Licensees	6 ²	5	Buyer	3
Wholesale Market Traders	11 ³	8	Seller ⁴	1
Market Support Services Licensee	1	1	Service Provider	1
Transmission Licensee	1	1	Service Provider	1
Power System Operator	1(no license required)	1	Service Provider	1
EMC	1	1	Service	1

¹ ExxonMobile and GMR (Energy) are not registered as a MP in the SWEM yet.

² GMR (Supply) is not registered in the SWEM yet.

³ Chesterfield, Biofuel Industries are not registered in the SWEM yet. IUT Singapore has withdrawn from participating in SWEM.

⁴ Currently, the wholesale market trader class is considered as sellers as this class is made up of interruptible load providers or owners of small generation facilities (less than 10MW). It is possible that contestable consumers may become wholesale market traders and would have interest as buyers.

Class of Stakeholder	No of Licensees in the class	No of MPs in the class	Interest in the market	Votes
			Provider	
Electricity Consumers	(no license required)	0	Buyer	2
Person experienced in financial matters	(no license required)	0	Independent	1
Total				14

Votes are currently evenly distributed between different classes of stakeholders. Sellers, buyers and service providers have 4, 5 and 4 votes respectively. The remaining vote goes to an independent representative. Thus, there is no domination by any single class of participant.

In the extreme scenario, if we consider generation licensees, retail licensees and wholesale traders' representatives as having the common interest of sellers, then the number of votes for this group would be seven, which is one vote short of a majority. Given that every RCP decision is determined by a simple majority, this limits their collective influence.

Therefore, we consider that the RCP is not dominated by any group of stakeholders with common interest.

3.2 Should the Number of Votes in Wholesale Trader Class be Increased?

The wholesale trader class of MPs are persons who can trade in the wholesale market and are not required to hold a generation, retail or transmission license. Currently, there are 11 wholesale trader licenses issued, of which 8 are registered as MPs. Of the 8, 2 are interruptible load providers while the remaining 6 own small generation facilities⁵.

The proposer suggests that the RCP should have an equal number of representatives from generation licensee, retail licensee and wholesale trader licensee class of MP. This can be done by either increasing the number of votes for wholesale trader class to 3 or decreasing the number of votes for generation licensee class and retail licensee class to 1.

Table 2 summarises the arguments for and against increasing the number of representatives from the wholesale trader class of market participants.

⁵ Generation facilities with nameplate rating of less than 10 MW.

Table 2: EMC's Analysis of the Proposal

Arguments For Increasing No of Wholesale Trader Representatives	Arguments Against Increasing No of Wholesale Trader' Representatives
<p>1. Increasing number of wholesale licenses issued by the EMA justifies having more wholesale market trader representatives on the RCP</p>	<p>1. Number of votes should be allocated based on the market share of each class of MP rather than based on the number of licenses issued.</p> <p>Wholesale trader class' share of reserve and energy market is small, at 3% and 0.4% respectively. Consequently, the impact of the rules changes has on wholesale trader class is less significant as compared with that of the generation and retail class of licensees.</p> <p>2. Increase in number of votes in wholesale trader class could advantage the sellers group of MPs</p> <p>In an extreme scenario where the generation licensee, retail licensee and wholesale trader class of MPs be considered as representing the interests of sellers, increasing the number of votes for the wholesale trader class of MPs on the RCP to 3 votes would result in a total of 9 votes (out of 16 votes) for the sellers' group. This could lead to the sellers' group dominating votes on the RCP.</p>

On balance, we do not consider that there are sufficient reasons to increase the number of wholesale trader class of representatives nor change the current composition of the RCP.

4. Consultation

EMC published the concept paper for consultation on 1 August 2011. The following comments were received

MSSL's Comments

- 1 MSSL has reviewed the concept paper and agree with EMC's recommendation that the number of wholesale trader class of representatives shall not be increased from 1 to 3 as this will result in Genco/Retailer/Wholesaler's group dominating votes in the Rule Change Panel (RCP).
- 2 However, MSSL is of the opinion that the current composition of RCP is not equitably and fairly populated as generation companies, retailers and wholesale traders have a very large degree of control over the decision making process. The generation companies and retailers are currently represented by six (6) members and wholesale traders by one (1) member, which is one vote short of a majority needed to influence and determine the outcome and position of the RCP over a certain issue. As the remaining members are relatively independent of one another, they stand at a disadvantaged position if any of them are in disagreement with the genco/Retailer group.

- 3 Additionally, on issues where the retailers and generation companies are in opposing positions, given that retail electricity licensees are subsidiaries of generation companies, the MSSL, as the default retailer for non-contestable consumers and contestable consumers buying at the pool price would also be disadvantaged as the other retail electricity licensees will have to align their position with that of generation companies.

EMC's response

We noted MSSL's comments. While it is possible that the service providers and buyers' group are disadvantaged in terms of number of votes if considering generation and retail licensees and the wholesaler traders' representatives having the common interest. However, it is also recognized that:

- a) *Firstly, although RCP members have its own class of market players to represent, each RCP member should still act in the best interests of the wholesale electricity market as a whole⁶. Therefore, although some Gencos and retailers are affiliated to each other, RCP members nominated by such Gencos and retailers should still take the best interest of the market before the interest of the class they represent or the interest of its affiliates.*
- b) *From the record of the past rules changes proposals considered by the RCP, no trend was observed where the representatives from Genco/Retailers/Wholesalers voted as a group against the MSSL/consumers and/or the service provider group in favor of common interest. Out of the 64 rules changes proposals/concept papers considered by RCP from 2006 to 2011, there is only one issue (i.e. RC 272) where Genco/Retailers/Wholesalers group voted against the rest of the panel members. However this proposal was not supported due to a tie vote. Please refer to Annex 1 for historical voting results;*

Overall, we feel that MSSL's concerns on consumers and services providers being disadvantaged are not reflected in the voting records of the RCP's decisions

PSO's comments

Suggest that EMC compile historical voting result of RCP members by market participant classes and broad categories of recommendation that would benefit the class of market participant. This is to see if there is any pattern of Generation & Retail market participants representatives voting in favour of common interests, and voting pattern of representatives of other Market Participants classes or Service Providers on the recommendations.

EMC's response

The historical voting results for the rules changes proposals considered by RCP from 2006-2011 are compiled in Annex 1.

5. Discussion at the 57th RCP Meeting.

At the 57th RCP meeting on 13th September 2011, the Panel concluded that it is not appropriate to increase the number of wholesale market trader representatives. Instead, the Panel requested for EMC to analyse the impact of reducing the number of representatives from the generation and retail licensee class of MP. EMC's analysis is set out section 6.

⁶ This is clearly stated in each RCP member's appointment letter.

6 Should the Number of Votes in Generator and Retailer Class be Decreased?

In this section, we first assess the impact of reducing one representative each from the generator and retail classes, followed by an assessment of reducing two representatives from each of these classes.

Table 3: Distribution of votes across different interest groups

No of votes reduced	Votes allocated to Generation and Retail Class Respectively	Buyers	Sellers	Service Providers	Independent	Total Votes
Reducing Generation/ Retail Class by 1 vote each	Two (Normal Scenario)	4	3	4	1	12
	Two (Extreme Scenario 1)*	2	5	4	1	12
	Two (Extreme Scenario 2)**	5	2	4	1	12
Reducing Generation/ Retail Class by 2 vote each	One (Normal Scenario)	3	2	4	1	10
	One (Extreme Scenario 1) *	2	3	4	1	10
	One (Extreme Scenario 2) **	4	1	4	1	10

* situation whereby generators, retailer and wholesaler representatives have common interest as a seller

** situation whereby both wholesale and retailer representatives have common interests as a buyer.

Under-Representation of Sellers' Group

As illustrated in Table 3 above, reducing the number of representatives from both the generators and retailers class by equal number would not result in any particular interest group dominating the RCP. However, it could result in an under-representation of the sellers' group under certain situations. For example, under the Extreme Scenario 2 in Table 3 (where both the RCP members from retailer and wholesale class represent buyer's interest), reducing each generator and retail class by 2 votes (or 1 vote) would result in a large swing in votes towards the buyers' group of 5 votes (or 4 votes) versus 2 votes (or 1 vote) under the sellers' group.

Impact on Market Players versus Non-Market Players

Reducing the number of votes from generator and retailers class could result in inadequate representation from Market Players. As shown in Table 4 below, the percentage of votes allocated to these Market Players would drop significantly from currently 50% to 30% if the votes of both the generators and retailers are reduced.

Table 4: Votes of Market Players vs Non-Market Players

No of Votes Reduced	No of votes for each class of Generators/ Retailers	Votes of Market Players ⁷ on RCP	Votes of Non-Market Players on RCP ⁸	% of votes allocated to Market Players
None (Current Allocation)	3	7	7	50%
Reducing Generation/ Retail Class by 2 votes each	2	5	7	41.7%
Reducing Generation/ Retail Class by 1 vote each	1	3	7	30%

From a financial perspective, Market Players who trade in the SWEM are directly impacted by changes made to the SWEM. This financial impact varies depending on Market Players' portfolio of plants, services they sell or procure from the SWEM and business strategy they employ. Conversely, the impact on non-Market Players such as service providers is generally non-financial as they can usually recover costs incurred under their regulatory regime. In the case of consumers, the impact are indirect via changes in wholesale energy and regulation prices.

Also, Market Players representatives would generally have better knowledge and experience on how changes to the SWEM would impact their costs and consequently, trading and pricing in the SWEM.

Thus, it is advantageous for Market Players' to be adequately represented on the RCP so that their perspective is adequately considered on the RCP.

Overall, we do not consider there are sufficient reasons to reduce the number of votes of the generation licensee and retail licensee class of MP on the RCP.

7 Conclusion

In conclusion, we do not consider that there are sufficient reasons to change the existing composition of RCP.

We recommend the RCP not to support the proposal.

8 Decision at the 58th RCP meeting

At the 58th RCP meeting, the Panel by majority vote decided not to support the proposal to change the existing composition RCP.

⁷ Market Players in this instance refer to Market Participants who trade in the SWEM. The transmission licensee, who is also a market participant as defined in the market rules, is not considered as a market player but a service provider instead.

⁸ Non-Market Players in this instance refer to service providers, independent member and consumer representatives.

The details of the votes are as follows:

Those who voted to **support** the proposal:

1. Mr. Dallon Kay (Representative of Wholesale Electricity Market Trader)

Those who voted to **not support** the proposal:

1. Mr. Michael Lim (Representative of Consumers of Electricity in Singapore)
2. Dr Goh Bee Hua (Representative of Consumers of Electricity in Singapore)
3. Mr. Lawrence Lee (Representative of Market Support Services Licensee)
4. Mr. Luke Peacocke (Representative of Generation Licensee)
5. Mr. Philip Tan (Representative of Generation Licensee)
6. Mr. Daniel Lee (Representative of Generation Licensee)
7. Mr. Sean Chan (Representative of Retail Electricity Licensee)
8. Mr. Robin Langdale (Person experienced in Financial Matters in Singapore)

Those who **abstained**:

1. Mr. Kng Meng Hwee (Representative of the PSO)
2. Mr. Chan Hung Kwan (Representative of Transmission Licensee)

Annex 1 Proposals Considered by RCP during 2006-2011

RCP	RC No	RC Title	Decision	Votings							
					Genco	Retailer	whole-saler	Service providers	Consumers	Independent	total
56	CP31	New forms of collateral	unanimously not support								
	300	Recovery and Refund of Reserve and Regulation	support	for	3	2		4	1	1	11
				against			1				1
	303	Eligibility of Regulation Offers	unanimously support								
	302	publish generation registered capacity	unanimously support								
53	CP28	Obligation To Revise Offers In The Event Of Complete System Outage At EMC	unanimously not support								
52	CP17	Modeling of Multi-Unit Contingency	not support	for			1	1	1	1	4
				against	3			3			6
	293	Amendment to PSO Budget & Fees Review Process	unanimously support								
	299	Extension Of Exemption To Allow Affiliates OF Temasek To Be Represented On The RCP	unanimously support								
51	CP27	Conflict of interest for dispatch coordinator	unanimously not support								
	298	Review of economic incentives for generator reliability	support	for	2			3		1	6
				against	1						1
	297	Invoice to show EMC settlement account	unanimously support								

RCP	RC No	RC Title	Decision	Votings							
					Genco	Retailer	whole-saler	Service providers	Consumers	Independent	total
50	296	Requirement for GRFs to submit positive energy offer quantities unless physically unavailable	not support	for	2		1	4	1	1	9
				against		1					1
	CP 22	compensation for excess regulation	unanimously not support								
49	295	review of MP/MSSL Application Form	unanimously support								
48	CP24	Proposed Extension of type 4 price re-run	not support	for	2	1					3
				against	1			3	1		5
47	CP23	allocation of reserve cost to load and GSF	unanimously not support								
	CP19	shortlist of data considered for release	unanimously not support								
	291	publication of historical dispatch schedule	support	for	1	2	1		1	1	6
				against	2			1			3
46	CP20	Review of EMC Fees on Interruptible Load Providers	not support	for	1			1			2
				against	2	1	1	2	1	1	8
	290	Extension Of Exemption To Allow Affiliates OF Temasek To Be Represented On The RCP	support	for	2	2	1	3	1	1	10
				against	1						1
	289	Amendments to the Requirements for Transfer of registered facility	unanimously support								
45	282	MIP Reserve	unanimously support								
	285	Disqualification of BG issued by Clearing Bank	unanimously not support								

RCP	RC No	RC Title	Decision	Votings							
					Genco	Retailer	whole-saler	Service providers	Consumers	Independent	total
	287	Review of SOM Procedure	unanimously not support								
44	280	Conflict of Interest Management for MSCP	unanimously support								
	CP18	shortening of settlement cycle	unanimously not support								
43	284	Review of LRF registration and transfer form	unanimously support								
	286	change of clearing bank	unanimously support								
40	276	Auditing of Contracted Ancillary Services Proposal	unanimously support								
	275	Registration of GRF at the same generating station	unanimously support								
	274	Extension Of Exemption To Allow Affiliates OF Temasek To Be Represented On The RCP	unanimously support								
	CP16	Publish Offer and Dispatch Quantities	not support	for	1			1			2
				against	1	1		2	2		6
	281	Update of Market Operations Market Manual	unanimously support								
	279	Review of Qualification for Members of DRCP	unanimously support								
38	277	Submission Timeline For Bilateral Contract Data	unanimously support								
	272	Changes Arising from the Review of Price Revision in SWEM ⁹ (remove type 4 re-run)	support	for	1	1		3	1	1	7

⁹ For this rules change proposal (RC 272), EMC put up two recommendations for RCP's decision. The first recommendation is to remove type 4 re-run. The second recommendation is to compensate generators based on the "loss".

RCP	RC No	RC Title	Decision	Votings							
					Genco	Retailer	whole-saler	Service providers	Consumers	Independent	total
				against	2	1					3
	272	Changes Arising from the Review of Price Revision in SWEM (compensation to generator)	not support	for				2	2	1	5
				against ¹⁰	3	1	1				5 ¹¹
	278	Implementation of Proposed Prudential Methodology using the Generalised Extreme Value (GEV) distribution	support	for		1		1	2	1	5
				against	2						2
36	273	Extension Of Exemption To Allow Affiliates OF Temasek To Be Represented On The RCP	unanimously support								
35	235(R)	Publication of ancillary services contracts	unanimously support								
35	271	Modification to Market Manual for EMC to Perform Self-Billing	unanimously support								
34	CP15	Equity Between Generators And Interruptible Loads In Reserve Provision	unanimously not support								
33	263 (R)	Mixed Integer Program Based Modeling of Regulation Constraints	unanimously support								
33	267	Discretion to Revise / Revoke Margin Call Requirements in the Presence of Manifest Error(s)	unanimously support								
33	264	Re-Modeling Type 2 Artificial Lines	unanimously								

¹⁰ Those voted against counter proposed to compensate generators based on the “loss” plus “surplus”.

¹¹ As there was no majority vote on this issue of compensation, no changes are proposed to the Market Rules to provide for compensation to affected generators when prices are revised.

RCP	RC No	RC Title	Decision	Votings							
					Genco	Retailer	whole-saler	Service providers	Consumers	Independent	total
			support								
33	270	Re-Modeling Type 1 Artificial Lines	unanimously support								
32	268	Cancellation Procedures for Registered Facility	unanimously support								
32	269	Removal of Registration Application Fee	support	for	3	1		4	1	1	10
				against			1				1
31	266	Rewrite of Section 5.5.1, 5.5.5 and 5.5.6 of Chapter 7	unanimously support								
30	263	Mixed Integer Program Based Modeling of Regulation Constraints	unanimously support								
30	254	Imposition of default levy	unanimously support								
29	261	Requirement to provide GST registration number	unanimously support								
29	262	Extension Of Exemption To Allow Affiliates Of Temasek To Be Represented On The RCP	unanimously support								
28	259	incurrence of violation penalty group	unanimously support								
28	245	Appointment of Consumer Representatives to the RCP	unanimously support								
28	260	close of banking business	unanimously support								
27	258	Re-write of Sections 7.5 and 11 of Chapter 1	unanimously support								
27	253	Compensation Arising From MEP Revisions	support	for	3			1		1	5
				against		1		2			3

RCP	RC No	RC Title	Decision	Votings							
					Genco	Retailer	whole-saler	Service providers	Consumers	Independent	total
27	257	Re-write of Section 3 & 6 of Chapter 2	unanimously support								
27	256	Treatment of Negative IEQ In Price Neutralisation	unanimously support								
26	255	Re-write of Section 6.4 of Chapter 1	unanimously support								
25	252	Modeling Phase-Shifting Transformer In MCE	unanimously support								
24	251	Re-write of Sections 4 and 5 and Appendix 6F of Chapter 6	unanimously support								
24	CP11	Guidelines for Compensation	unanimously support								
24	CP12	Treatment of reserve costs	unanimously support								