

Response to comments on Proposed Rule Modifications for Forward Sales Contract Scheme

Submitted by	Reference	Comments and Feedback	EMC's Response
Credit support requirements			
YTL PowerSeraya	-	<p>a) YTL PowerSeraya's understanding is that EMA's intention is for EMC to determine the additional prudential requirements such as credit support to cover potential liabilities of the Forward Sales Contract arising in the wholesale electricity market.</p> <p>The drafting of the amendments to the Market Rules is such that it is for EMA as the Authority to determine the additional credit support required to cover potential liabilities of the Forward Sales Contract arising in the wholesale electricity market. It should therefore be clarified as to who is to determine the additional prudential requirements such as credit support to cover potential liabilities of the Forward Sales Contract arising in the wholesale electricity market. If it is EMA, then EMA would need to determine the additional prudential requirements such as credit support required before forward sales quantities start being settled in the wholesale electricity market. If it is EMC, then the proposed modifications to the Market Rules would need to be amended accordingly.</p> <p>Taking into consideration that the implementation of the Forward Sales Contract Scheme in the Market Rules is in the form of a change directed by EMA, the appropriate party to be determining the additional prudential requirements such as credit support required looks to be EMA.</p>	<p>As drafted in the proposed rule modifications, the amount of additional FSC credit support required to be provided by a FSC Holder is to be determined by the Authority.</p> <p>As the EMC is not a party to the agreements relating to the forward sales contract scheme, we are not at liberty to disclose the details. We will forward your comment to the EMA.</p>
PacificLight Power	Chapter 2, Section 7.6.1A	<p>b) The proposed new provision states the obligation of market participants is to provide and maintain additional credit support for its Forward Sales Contract (FSC). However, it does not provide the rationale for requiring additional credit support, namely to recognise that that the FSC holder becomes liable for penalty fees should it decide to opt out from the Enhanced FSC Scheme.</p> <p>The modifications to the Market Rules do not provide details on the rationale, methodology and applicability that has been used to derive the</p>	<p>Please refer to our response to (a) above. We will forward your comment to the EMA.</p>

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		<p>additional FSC credit support and how it is applied to participants.</p> <p>c) PLP propose that in addition to the existing calculation method to determine the credit support requirement for market participants, the EMC could adopt a similar margining requirement as is used by the SGX and Mark-to-Market the FSC contract with future prices once these are available, at least for the prompt quarter. EMC could then request for additional credit support if the existing credit is insufficient due to adverse changes in the FSC holders' financial position.</p> <p>d) PLP would propose the following change to section 7.6.1A to aid clarity:</p> <p>"A market participant <u>with a forward sales contract</u> shall provide to the EMC and shall at all times maintain such additional credit support as the Authority may require in respect of the market participant's forward sales contract..."</p>	<p>We do not think the proposal is appropriate as the settlement of the forward sales contract is linked to spot prices in the wholesale market, not electricity futures prices.</p> <p>For the forward sales contract settlement credit (FSSC), the Market Rules will require parties to the forward sales contract to provide credit support based on the same methodology as that applied to parties to vesting contracts for their VCSC.</p> <p>The proposed section 7.6.1A of Chapter 2 as drafted already specifies that the additional FSC credit support that can be required by the Authority is "in respect of the market participant's forward sale contract". The proposed addition (in double underline) is thus not necessary.</p>
	Chapter 2, Section 7.8.1A	<p>e) PLP would propose a change to Section 7.8.1A to ensure there is clarity on the circumstances that would negate the necessity of additional FSC credit support:</p> <p>"Where the Authority notifies the EMC that all additional FSC credit support for the time being held by the EMC in respect of a market participant is no longer required <u>due to the exit of the market participant from the Enhanced FSC Scheme or the Scheme ceases to be in effect</u>, the EMC shall return such additional FSC credit support to such market participant within two business days of such notification".</p>	<p>Since the requirements for additional FSC credit support is determined by the Authority, it would suffice to allow the Authority to determine when such additional FSC credit support ceases to be required. Hence, the proposed addition (in double underline) is not required.</p>

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Settlement Data			
PacificLight Power	Chapter 7, Section 2.7.5.3	<p>f) The new section states that the EMC has no obligation to verify settlement amounts and can continue to rely on such data even if there is inconsistency in the data provided between the MSSL counterparty or other persons.</p> <p>In this regard, can the EMA clarify which party is responsible to verify any inconsistencies and highlight such occurrence to the MSSL counterparty in order that corrective measures can be taken? A neutral party should verify that in the market settlement process that there has not been any under or over payment made by the FSC holder.</p> <p>PLP would also request clarification on how any errors are treated. The current draft rules do not seem to address the situation where an FSC holder has been overpaid over a period of time and how any claw back mechanism would be managed.</p> <p>We would request confirmation on whether there would be any punitive action placed on the MSSL counterparty to help to ensure the accurate and timely computation of data to EMC? If the data is not provided accurately and timely there could be an impact to the market settlement process which would be exacerbated if there is no claw back mechanism in place.</p>	<p>Since the data comes from MSSL, it is not possible for EMC to verify the accuracy of such data. It is MSSL's responsibility to ensure that accurate data has been transmitted to the EMC.</p> <p>For any errors regarding either the FSSC (which will be included in the preliminary settlement statement) or the additional exit fee, there are already provisions and procedures for notice of disagreements to be raised.</p> <p>In relation to the comments on (i) the verification of the market settlement process by a neutral party and (ii) whether punitive action will be placed on the MSSL counterparty to help ensure accurate and timely computation of data sent to EMC, we will forward them to the EMA.</p>
Others			
SP Services	Chapter 7, Section 2.7.7	<p>g) MSSL have one comment on Section 2.7.7 of the Market Rules (on page 38/39 of 63) and Section 4.1 of the Market Manual.</p> <p><i>"As soon as the MSSL counterparty becomes aware of any termination or intended termination of any forward sales contract confirmation, the MSSL counterparty shall immediately notify the EMC of the same and provide to the EMC"</i></p> <p>We feel that it is too vague. We propose setting it as <u>1 business day after</u></p>	<p>Given that the forward sales contract is entered into between the MSSL counterparty and a FSC Holder, we do not think that it is appropriate to limit the requirement for the MSSL to notify EMC of a termination or intended termination of a forward sales contract confirmation only to the case whereby EMA informs the MSSL. As such, we have retained the</p>

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		<p><u>EMA informed us.</u></p>	<p>requirement for MSSL to notify EMC <u>upon the MSSL being aware of a termination or intended termination</u>, rather than only upon being informed by the EMA.</p> <p>However, we have revised section 2.7.7 of Chapter 7 of the proposed rule modifications and section 4.1 of the market manual to specify the 1 business day notification timeline.</p>