DETERMINATION OF THE MARKET SURVEILLANCE AND COMPLIANCE PANEL
MSCP/2011/D3

Market Surveillance and Compliance Panel ("MSCP")
Mr Thean Lip Ping, Chair
Professor Lim Chin
Mr Lee Keh Sai
Mr TPB Menon
Mr Philip Chua

Date of Determination
10 May 2011

Party
Energy Market Company Pte Ltd ("EMC")

Subject
Failure to notify a market participant when its estimated net exposure reached 60% and issue a margin call when its estimated net exposure reached 70%

Applicable Rule(s) in the Singapore Electricity Market Rules

1. Section 7.4.1 of Chapter 2

   "The EMC shall notify a market participant when the estimated net exposure of the market participant reaches sixty percent of the value of the credit support currently provided by that market participant."

2. Section 7.4.2 of Chapter 2

   "The EMC shall issue a margin call to a market participant when the estimated net exposure of the market participant reaches a value equal to or greater than seventy percent of the value of the credit support currently provided by that market participant."

Facts and Circumstances

3. Under section 7.3.2 of Chapter 2 of the Singapore Electricity Market Rules (the "market rules"), a market participant is to provide to EMC a credit support of 30 times its estimated daily exposure as a form of security to EMC for the payment of its financial obligations to EMC.

4. In January 2011, during the audit of EMC's settlement functions, EMC discovered that it had not notified an embedded generator when its estimated net exposure reached 60% of its credit support value and had not issued it with a margin call when its estimated net exposure reached 70%. At that time, the embedded generator had provided a security deposit of $100,000.

5. EMC said that since the commencement of NEMS, it has been monitoring diligently daily the estimated net exposure of market participants, particularly the retailers, where there will be financial obligations owed to EMC. EMC had in almost all cases without fail issued the required notices and margin calls when required.

6. EMC said that although the generators would be receiving payments from EMC rather than having to pay to EMC and are not required to provide credit supports, three generators (including the above mentioned embedded generator) nonetheless have maintained credit supports with EMC and one of them had started maintaining it from November 2006.

7. EMC stressed that the failure to notify or issue margin calls might have involved these three generators on other occasions since November 2006.

8. EMC said that the incident did not have any financial issue or impact as such market participants would have with EMC their credit supports to ensure that all payments due to EMC would be paid.

9. Due to this close monitoring and the provision of credit supports by the three generators to EMC, there is no risk of payment default by the generators. So far**,** EMC has not drawn on any credit supports of the three generators.

10. EMC thought that as there is no danger of the generators not being able to pay the money owed to EMC, and if there is any, EMC would have been able to drawn down the credit support when any of the three generator's estimated net exposures reach 100%.

11. EMC said that after the discovery, it amended its control work processes and had issued notice when one of the generators' estimated net exposure reaches 60% of its credit support value and issued margin call when its estimated net exposure reaches 70% with effect from January 2011.

Determination

12. On 6 April 2011, the MSCP issued a letter informing EMC that it considered that EMC had prima facie breached sections 7.4.1 and 7.4.2 of Chapter 2 of the market rules and invited EMC to make written representations. EMC replied that it did not wish to make written representations.

13. The MSCP determined on the basis of the facts referred to above that EMC breached sections 7.4.1 and 7.4.2 of Chapter 2 of the market rules.

14. However, this incident was self-reported and did not have a significant impact on the wholesale electricity markets.

15. Therefore, the MSCP determined that the appropriate enforcement action to be taken is to issue a letter of non-compliance to EMC and directs EMC to pay costs, fixed at $1,300.

Thean Lip Ping
Chair, Market Surveillance and Compliance Panel