

Notice of Market Rules Modification

Paper No.: EMC/RCP/32/2007/269

Rule reference: Chapter 2, Section 3 / Market Administration Market Manual (Part 1 of 4)

Proposer: Market Administration, EMC

Date received by EMC: 30 March 2007

Category allocated: 3

Status: Approved by EMA

Effective Date: 20 June 2007

Summary of proposed rule modification:

This is a proposal to remove the charging of registration application fee for participation in the wholesale electricity market.

Date considered by Rules Change Panel: 8 May 2007

Date considered by EMC Board: 24 May 2007

Date considered by Energy Market Authority: 14 June 2007

Proposed rule modification:

See attached paper.

Reasons for rejection/referral back to Rules Change Panel (if applicable):

PAPER NO. : **EMC/BD/03/2007/06(b)**

RCP PAPER NO. : **EMC/RCP/32/2007/269**

SUBJECT : **REMOVAL OF REGISTRATION APPLICATION FEE**

FOR : **DECISION**

PREPARED BY : **POA TIONG SIAW
SENIOR ECONOMIST**

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

DATE OF MEETING : **24 MAY 2007**

Executive Summary

This paper considers the proposal to remove the registration application fee payable by an applicant to participate in the Singapore Wholesale Electricity Market. It concludes that the registration application fee:

1. is seen by some small producers as a high cost to participate in SWEM;
2. has negligible impact on portion of EMC fees collected on a per Mwh basis; and
3. if removed, is unlikely to result in undesirable behavior such as frivolous applications

By a majority vote, RCP recommends that the EMC Board **adopt** this proposal.

1. Introduction

This paper assesses the proposal to remove the registration application fee¹ payable by an applicant to participate in the Singapore Wholesale Electricity Market.

2. Background

Majority of EMC's services are charged to Market Participants (MPs) and the Market Support Services Licensee (MSSL) via the EMC Fee, which is a per MWh charge dependent on their volume of trade (IEQs and WEQs) in the wholesale market. Separately, the Registration Fee (\$5,000) and Derogation Fee (\$5,500) are two fixed charges collected by the EMC from a registration or derogation applicant respectively. They are both collected at the time of application.

Given the infrequent and small sums involved in both the registration and derogation fees, this paper reviews the need for them.

3. Economic Analysis

3.1 Rationale for EMC's Fee Methodology

About 90%² of EMC's costs are fixed costs. Economics prescribe that fixed costs should be recovered through a fixed charge to minimize distortion. However, in the case of SWEM, it was recognized that charging each MP large fixed fees regardless of its trade volume would discourage entry and discriminate between MPs on their size. This would be detrimental to long term economic efficiency. Hence, the EMC fee is computed as a per MWh charge.

3.2 EMC Fee coverage

EMC fees are charged on the following categories of services:

1. **Market Operations and IT**
 - a. Pricing and information
 - b. Settlement
 - c. Systems
 - d. Ancillary services management
2. **Market Administration**
 - a. Market participation
 - b. Market assessment
 - c. Rule changes
 - d. Panel administrative support

Registration and derogation services come under Type 2a.

¹ This fee is charged to applicants who either seek to be register as a MP or authorization as a MSSL.

² Estimated in EMC Fee Methodology Paper (Sep 2002) by LECG.

3.3 Treatment of Registration Fee

The current requirement is for a registration applicant to pay a flat registration fee of \$5000 up front on application.

3.3.1 User-pay Principle

Current collection of registration fee was intended to reflect the user-pay principle. However, we note that the existing practice does not adequately reflect it on the following two counts:

- A flat fee of \$5000 is not consistent with the variable nature of providing registration services. Registration service provided to each applicant will vary with the nature of the application and the state of preparedness of the applicant etc.
- Registration fee is only charged for market participation. For MPs with facilities, subsequent registrations of these facilities are not charged any further fee. In reality, additional registration services are provided for facility registration.

3.3.2 Total registration application fees collected since market start

FY	Registration Fees Collected	EMC Fees	% of EMC Fees
2002/03	\$60,000	\$14.7m	0.40%
2003/04	nil	\$25.7m	-
2004/05	\$5,000	\$28.0m	0.02%
2005/06	nil	\$27.2m	-
2006/07	\$10,000	\$27.5m	0.03%

We can observe from the table that registration fees are an insignificant portion of EMC fees.

3.3.3 Deterrence to Frivolous Applications

Deterrence to frivolous MP application could be a motivation behind the upfront registration fee. However, this is largely unnecessary due to the following:

1. EMC will proceed with processing a registration application only when a duly completed application form is submitted. A duly completed application form for market participation includes requirements such as an Electricity License, relevant PSO/MP or TL/MP agreements and a company directors' resolution to participate in the wholesale market. These requirements are fairly onerous on the applicant.

2. The resources required to determine if a submission is complete is insignificant. Thus, EMC need not incur much cost until it proceeds to assess a duly completed application.

3.3.4 Cost of Entry

Recent interest in renewable energy has grown substantially. The economic and social benefits of adopting technologies to harness solar power and energy from other renewable bio-fuels have been widely acknowledged. From the perspective of the SWEM, having energy generated from renewable fuel sources participate in the wholesale market directly enhances competition. Energy security can also be improved with added diversity in fuel sources.

The SWEM is a gross pool where registration as a MP is mandatory for participation. Incidentally, producers using such renewable fuel sources are typically small producers (<10MW). It has been raised as an issue that the flat charge of \$5,000 for participation can constitute high entry cost for these small producers, thus discouraging them from participating in SWEM.

3.3.5 Can the Registration Fee be waived?

The registration fee can be waived because:

1. it is seen by some small producer as a high cost to participate in SWEM;
2. it has negligible impact on portion of EMC fees collected on a per MWh basis; and
3. waiver is unlikely to result in undesirable behavior such as frivolous applications

3.4 Can the Derogation Fee be waived?

The current requirement is to have a derogation applicant pay an upfront fixed fee of \$5,500.

3.4.1 Cost of Entry

Derogation is not mandatory for participation. Hence, there is no implication on entry cost.

3.4.2 Deterrence to Frivolous Applications

Derogation fee serves a useful purpose in deterring frivolous applications for the following reasons:

1. It is in the interest of an MP to seek derogation from any market rule obligation
2. It is fairly easy to submit a complete derogation application.
3. Substantial EMC resources (manpower) will be committed to comprehensively analyze the merits and implications of each complete application

4. Conclusion

Over 99% of EMC services are charged to MPs on a per MWh basis. This was designed to avoid large fixed fees that deter market entry and promote long term economic efficiency. With this as the backdrop, we conclude and recommend the following:

4.1 Registration fee

The registration fee:

1. is seen by some small producers as a high cost to participate in SWEM;
2. has negligible impact on portion of EMC fees collected on a per MWh basis; and
3. if removed, is unlikely to result in undesirable behavior such as frivolous applications

Hence, we recommend that the registration fee be waived.

4.2 Derogation fee

We recommend no change because it is not a compulsory fee and it serves a practical need to deter irresponsible submissions for derogation from obligations in the Market Rules.

5. Consultation

We have published the rule modification proposal on the EMC website for comments. No comment was received.

6. Legal sign off

Text of the rule modification has been vetted by EMC's external legal counsel whose opinion is that the modification reflects the intent of the rule modification proposal as expressed in the analysis section of this paper.

7. Vote by the Rules Change Panel

Of the 11 voting RCP members in attendance, 10 voted to support the proposal and 1 voted not to support the proposal. The voting result is as follows:

No.	RCP Member	Vote
1	Mr Tay Swee Lee	Supported
2	Mr Koh Kah Aik	Supported
3	Mr Philip Tan	Supported
4	Mr Low Boon Tong	Supported
5	Dr Daniel Cheng	Supported
6	Mr Dallon Kay	Not Supported
7	Mr Robin Langdale	Supported
8	Dr Goh Bee Hua	Supported
9	Mr Kng Meng Hwee	Supported
10	Mr Henry Gan	Supported
11	Mr Lim Ah Kuan	Supported

8. Recommendations

By a majority vote, the RCP recommends that the EMC Board:

- a. **adopt** the rule modification proposal to amend Section 3 of Chapter 2 and Market Administration Market Manual (Part 1 of 3) as set out in **Annex 1**;
- b. **seek** the Authority's approval for the rule modification proposal; and
- c. **recommend** that the rule modification proposal come into force **one business day** after the date on which the approval of the Authority is published by the EMC.

ANNEX 1

Existing Market Rules & Market Manuals (Release 1 Jan 2007)	Proposed Rules & Market Manuals (Deletions represented by strikethrough text and addition double underlined)	Reason for Modification
<p><u>Section 3 of Chapter 2</u></p> <p>3.1.1 If a person wishes to be registered by the <i>EMC</i> as a <i>market participant</i>, he shall file a completed <i>participant registration application</i> with the <i>EMC</i> and, at the same time, pay a non-refundable application fee to the <i>EMC</i> to defray the costs of processing that application. Such <i>participant registration application</i> shall be in the form set out in the applicable <i>market manual</i>. Such application fee shall be as established from time to time by the <i>EMC</i> according to sections 10 and 11.</p>	<p><u>Section 3 of Chapter 2</u></p> <p>3.1.1 If a person wishes to be registered by the <i>EMC</i> as a <i>market participant</i>, he shall file a completed <i>participant registration application</i> with the <i>EMC</i> and, at the same time, pay a non-refundable application fee to the <i>EMC</i> to defray the costs of processing that application. Such <i>participant registration application</i> shall be in the form set out in the applicable <i>market manual</i>. Such application fee shall be as established from time to time by the <i>EMC</i> according to sections 10 and 11.</p>	<p>Remove participant registration application fee.</p>
<p><u>Market Administration Market Manual (Part 1 of 4) – 1 January 2007</u></p> <p><u>Application form for Market Participant Registration</u></p> <p>When will I know the outcome of my application?</p> <p>...</p> <p>How much is the application fee?</p>	<p><u>Market Administration Market Manual (Part 1 of 4) – 1 January 2007</u></p> <p><u>Application form for Market Participant Registration</u></p> <p>When will I know the outcome of my application?</p> <p>...</p> <p>How much is the application fee?</p>	<p>Remove participant registration application fee.</p>

<p>The application fee is S\$5,000 per application and is non-refundable. Please make a crossed cheque payable to “Energy Market Company Pte Limited” and attach it to your <i>participant registration application</i> form.</p> <p>Summary of the registration requirements</p> <p>...</p> <p style="text-align: center;">G. SUPPORTING DOCUMENTS REQUIRED</p> <p>You must provide certified true copies of the following documents with your application form before they can be processed:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Registry of Companies and Businesses record of the Company <input type="checkbox"/> Your Company’s directors’ resolution to participate in the <i>wholesale electricity market</i> and authorization of person to sign application on behalf of Company. <input type="checkbox"/> Relevant <i>electricity licence</i> from the EMA 	<p>The application fee is S\$5,000 per application and is non-refundable. Please make a crossed cheque payable to “Energy Market Company Pte Limited” and attach it to your <i>participant registration application</i> form.</p> <p><u>Is there an application fee for market participant registration?</u></p> <p><u>There is no application fee for market participant registration.</u></p> <p>Summary of the registration requirements</p> <p style="text-align: center;">G. SUPPORTING DOCUMENTS REQUIRED</p> <p>You must provide certified true copies of the following documents with your application form before they can be processed:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Registry of Companies and Businesses record of the Company <u>Business profile report of the Company issued by the Accounting and Corporate Regulatory Authority of Singapore.</u> <input type="checkbox"/> Your Company’s directors’ resolution to participate in the <i>wholesale electricity market</i> and authorization of person to sign application on behalf of Company. 	<p>Registry of Companies and Business has been merged into the Accounting and Corporate Regulatory Authority of Singapore.</p>
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<ul style="list-style-type: none"> <input type="checkbox"/> <i>PSO / MP agreement</i> <input type="checkbox"/> Relevant agreement with <i>transmission licensee</i> <input type="checkbox"/> Registration fee of S\$5,000 <input type="checkbox"/> Audited financial statements for the last 3 years <input type="checkbox"/> Computation of initial credit support requirement <p>The following need not be submitted together with this application but must be provided before you can be registered.</p> <ul style="list-style-type: none"> <input type="checkbox"/> Banker's Guarantee or Letter of Guarantee from a bank listed in 'Acceptable Banks' in Appendix 1 <input type="checkbox"/> Singapore Government Treasury bills 	<ul style="list-style-type: none"> <input type="checkbox"/> Relevant <i>electricity licence</i> from the EMA <input type="checkbox"/> <i>PSO / MP agreement</i> <input type="checkbox"/> Relevant agreement with <i>transmission licensee</i> <input checked="" type="checkbox"/> Registration fee of S\$5,000 <input type="checkbox"/> Audited financial statements for the last 3 years <input type="checkbox"/> Computation of initial credit support requirement <p>The following need not be submitted together with this application but must be provided before you can be registered.</p> <ul style="list-style-type: none"> <input type="checkbox"/> Banker's Guarantee or Letter of Guarantee from a bank listed in 'Acceptable Banks' in Appendix 1 <input type="checkbox"/> Singapore Government Treasury bills 	<p>Remove participant registration application fee.</p>
<p><u>Market Administration Market Manual (Part 1 of 4) – 1 January 2007</u></p> <p><u>Application form for Authorisation of Market Support Services Licensee (MSSL)</u></p>	<p><u>Market Administration Market Manual (Part 1 of 4) – 1 January 2007</u></p> <p><u>Application form for Authorisation of Market Support Services Licensee (MSSL)</u></p>	

<p>When will I know the outcome of my application?</p> <p>...</p> <p>How much is the application fee?</p> <p>The application fee is S\$5,000 per application and is non-refundable. Please make a crossed cheque payable to “Energy Market Company Pte Limited” and attach it to your <i>MSSL authorisation application</i> form.</p> <p>Summary of the authorisation procedure</p> <p>...</p> <p style="text-align: center;">G. SUPPORTING DOCUMENTS REQUIRED</p> <p>You must provide certified true copies of the following documents with your application form before they can be processed:</p>	<p>When will I know the outcome of my application?</p> <p>...</p> <p>How much is the application fee?</p> <p>The application fee is S\$5,000 per application and is non-refundable. Please make a crossed cheque payable to “Energy Market Company Pte Limited” and attach it to your <i>MSSL authorisation application</i> form.</p> <p><u>Is there an application fee for market participant registration?</u></p> <p><u>There is no application fee for MSSL authorisation applications.</u></p> <p>Summary of the authorisation procedure</p> <p>...</p> <p style="text-align: center;">G. SUPPORTING DOCUMENTS REQUIRED</p> <p>You must provide certified true copies of the following documents with your application form before they can be processed:</p>	<p>Remove application fee for MSSL applications for authorisations.</p>
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