1. 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. EMC’s Budget for NEMS for FY2017/18
(Paper No. EMC/RCP/93/2017/01)

Mr. Paul Poh, Chairman of the RCP and Mr. Henry Gan declared conflict of interests in the discussion on EMC’s Budget and thus would not take part directly in the discussion except to answer any questions directed to them.

The Panel was informed that under the Market Rules and EMC’s Market Licence, EMC is obliged to consult the Panel on its Budget prior to submitting the same to the EMC Board and EMA for approval.

Ms Anne Goh, EMC’s Vice President of Finance, presented the Budget for FY2017/18.
Minutes of 93rd RCP Meeting – 4 April 2017

2.1 Key assumptions for the Budget

1. Price cap is based on the Price Cap Revenue Regime for FY2013/14 to FY2017/18.
2. Admin Fee is calculated based on 1.2% volume growth over FY2016/17 forecast.
3. Budgeted expenses are supported by specific functions, initiatives and projects. Industry consultations have been used as input in setting company priorities.
4. Payroll budget includes overall 4% salary increase (3% salary increment, promotion and salary adjustments from salary benchmark exercise) and performance bonus of $1.4M. Headcount remains unchanged at 64.
5. Depreciation is based on EMC’s depreciation policies.
6. IT Capex is based on Market Operations and Information Technology’s (“MOIT”) work plan for F2017/18
7. EMA market licence fees increased by 8% with effect from April 2017. The increase in licence fees will be treated as exogenous and recovered from the market.
8. No dividend payment to shareholders.

2.2 Price Cap for FY2016/17 to FY2017/18

Ms Tan informed that as the last three months of FY2017/18 falls outside the current Revenue Regime, the price cap has been computed using the March 2018 exit price plus exogenous /depreciation adjustments and a 2.5% CPI adjustment for budget purposes. The actual rate will be based on the price cap to be agreed with EMA for FY2018/19 as part of the revenue regime for FY2019 to FY2023.

2.3 FY2017/18 NEMS Budget

Mr Luke Peacocke asked about the role that EMC is playing in the implementation of Full Retail Contestability (“FRC”) in 2018. The CEO replied that EMC is keeping a watching brief to assess if there will be any implication on EMC. He informed that EMC has not identified any implications at this point in time but has not ruled out that it may require action on EMC’s part in the future.

2.4 Revenue

2.4.1 Mr Daniel Lee noted that EMC has used a 2.5% CPI adjustment for projecting the price cap for the period 1 April 2018 to 30 June 2018 that is outside the current 5 year regime while the March 2017 MAS Survey of Professional Forecasters showed a median CPI inflation forecast of 1.0% for Calendar Year 2017 and 1.3% for Calendar Year 2018. Ms Goh explained that this is based on the average CPI in the last 5 years. EMC has also taken into consideration the Government’s 2017 Budget announcements of the increase in water prices and the introduction of carbon tax which will lead to higher electricity prices, coupled with an expectation of rising interest rates globally, all of which will contribute to a potentially higher inflation environment. She added that the price cap for this period is merely indicative pending discussions with EMA.
2.4.2 Mr Daniel Lee asked about EMC’s basis for using the lower end of EMA’s latest forecast of 1.3%-1.8% volume growth in deriving EMC’s projected volumes. The CFO replied that the lower end was used based on EMC’s experience in previous years, where actual growth was below forecast.

2.5 Expenses

2.5.1 Mr Philip Tan noted there is an increase in the Panel fees and expenses for FY2017/18 from the FY2016/17 forecast. Ms Goh explained that the Panel fees are budgeted based on the maximum number of hours the Market Surveillance and Compliance Panel (“MSCP”) may incur for meetings while the numbers in the forecast have been adjusted to reflect the actual number of hours incurred.

2.5.2 In reply to Mr Luke Peacocke’s query on the recovery of costs for MSCP, Ms Goh replied that the recovery of costs has been factored in.

2.5.3 Mr Philip Tan asked why was there an increase of 86% in the expenses for Communications & PR. Ms Goh explained that this is mainly due the Singapore Electricity Roundtable event, which is held every 2 years.

2.6 Capital Expenditure

2.6.1 Ms Goh informed the Panel that the FY2017/18 budget included the Server Hardware and Application Refresh Project (“SHaRP”) which is estimated to cost about $4.4 million. This refresh is required as the NEMS server platform is approaching its 5 year useful hardware lifespan while the middleware and database software are also nearing their end-of-support timeline.

2.6.2 Mr Daniel Lee requested for more background on the substantial increase in the capital expenditure (“CAPEX”) budget for MOIT for FY2017/18 compared to previous financial years. The CFO explained that the server refresh cycle is every 5 years and usually implemented over a 2 year period. There is an increase in CAPEX in this cycle versus the previous round of server refresh because of the Demand Response, Compensation and Penalty Project (“DRCAP”) that has been implemented and an associated increase in the complexity of market systems as well as a growing number of market participants to support. In addition, MOIT is building a replica backup system where both the Demand Response (“DR”) and live site have identical setups. The CEO added that EMC is also taking the opportunity to improve the resilience and reliability of the backup system as it foresees an increasing need to operate the market from the backup site for longer periods of time while rolling out new features in the production environment.
2.6.3 Mr Luke Peacocke noted that MOIT will be carrying out settlement systems enhancements in their work plan for FY2017/18 and asked if EMC has reached out to system users to discuss and include their needs in the system enhancements. Mr Henry Gan replied that EMC will reach out to market participants through forums such as the Market Information Sharing Forum (“MISF”) and Market System User Group Meeting (“MSUG”) to seek their feedback and suggestions, as usual.

2.9 IT Service Costs

2.9.1 Mr Philip Tan asked about the decrease in costs for Telco Lease Lines – Subscription and Maintenance and NEMS MCE Support and Maintenance in FY2017/18. The CEO said that EMC is anticipating to renew the contracts with the Telcos at a lower cost and was also taking the opportunity to look into consolidating requirements.

2.9.2 Ms Goh explained that the decrease in the NEMS MCE Support and Maintenance was because EMC will be relying on its own headcount from FY2017/18 as the contract with the external consultant will be ending on 31 December 2017. Mr Sean Chan asked if the in-house team is competent in taking over the job from the external consultant. The CEO informed that the work is currently carried out by the in-house team even though the external consultant is still on site. When the contract with the external consultant ends on 31 December 2017, the in-house team will take over officially.

2.10 Manpower Costs

Mr Luke Peacock asked if there is an opportunity to redeploy the 3 headcounts that are currently supporting DR given that there is no DR facility registered at the moment. The CEO responded that there are obligations placed on EMC by the market rules which must be met. While EMC will look into optimising resources, the system has been installed and the IT service staff will have to support the system.

2.11 NEMS Application Systems

Mr Soh Yap Choon noted that EMC has provided a breakdown for both external and internal costs for manpower and asked if there is double counting for manpower costs as it has already been factored into the Proposed Budget. Ms Goh replied that internal costs refer to the capitalisation of internal manpower costs, which are charged out to non-NEMS.

2.12 EMC stated that it would circulate the RCP Report on EMC’s Budget for FY2017/18 to the Panel for confirmation before issuing to the EMC Board and EMA.
3. Date of Next Meeting

The 94th RCP Meeting will be held on Tuesday, 9 May 2017.

There being no other matters, the meeting ended at 10.35 a.m.

Paul Poh
Chairman

Minutes taken by:
Angeline Tan
Corporate Secretarial Executive