MINUTES OF THE RULES CHANGE PANEL
110TH MEETING
HELD ON TUESDAY, 16 JULY 2019 AT 10.30AM
AT ENERGY MARKET CO. PTE LTD
4 SHENTON WAY #03-01
SGX CENTRE 2, SINGAPORE 068807

Present
Toh Seong Wah (Chairman)     Soh Yap Choon
Henry Gan                      Tony Tan
Carol Tan                      Sean Chan
Senthil Kumar                  Ho Yin Shan
Dr. Toh Mun Heng              Fong Yeng Keong

Absent with
Marcus Tan                   Matthew Yeo
Apologies:
Tan Chian Khong             Teo Chin Hau

In Attendance:
Poa Tiong Siaw            Wang Jing
(EMC)                      Li Zhenhui
               Qin Weixiao

1. Notice of Meeting

The Chairman called the meeting to order at 10.35am. The Notice and Agenda of the meeting were taken as read.

1.1 Introduction of the New Head of Market Administration

The Chairman introduced Mr. Poa Tiong Siaw as EMC’s new Head of Market Administration. The RCP welcomed Mr. Poa to the 110th RCP Meeting.

2. Confirmation of Minutes of the 109th RCP Meeting

The Minutes of the 109th RCP meeting, held on 7 May 2019, were noted and the RCP approved the Minutes.

3. Matters Arising from the 107th RCP Meeting held on 5 March 2019
   - Rules Change Panel Work Plan 2019/20

At the 107th RCP meeting, the RCP agreed to remove Issue 30 and for PSO to arrange for information sharing sessions to provide more clarity on the criteria on conditions for generation registered facilities to return to service after a forced outage.

Mr. Poa Tiong Siaw updated that PSO had on 23 April 2019 organised a forum with all Generation Licensees to brief them on the new and current outage regime after tripping, which was implemented since Oct 2018. In addition, PSO also shared the root cause, mitigation measures of past tripping as part of knowledge sharing in the meeting.
4. **Monitoring List**

The RCP noted the contents of the Monitoring List.

5. **Summary of Outstanding Rule Changes**

The RCP noted the summary of outstanding rule changes.

6. **Rules Change Work Plan Status Update**

The RCP noted the update on the Rules Change Work Plan.

7. **Review of Credit Support in Alignment with the Lease Time for Transfers During a Retailer of Last Resort Event**

(Paper No. EMC/RCP/110/2019/359)

Ms. Wang Jing recapped the paper, previously presented at the 106th RCP meeting, which reviews the adequacy of the current credit support requirements in view of the lead time for customer transfers during a Retailer of Last Resort (“RoLR”) event.

7.1 Ms. Wang informed the RCP that at the 106th RCP meeting, the RCP by majority vote supported procuring credit support based on maximum coverage for Issue 1: Whether to procure credit support based on the average number of days of exposure (“average coverage”) or the maximum number of days of exposure (“maximum coverage”).

She added that at the 109th RCP meeting, the RCP by majority vote supported Option 2 of increasing credit support requirements to account for the transfer lead time for Issue 2: Insufficient credit support coverage arising from the transfer lead time associated with a RoLR event.

7.2 Ms. Wang then presented a summary of the proposed modifications to the market rules to give effect to the RCP’s decision stated above. The proposed modifications to the market rules were published on 18 June 2019 for consultation and comments were received.

7.3 Mr. Senthil Kumar noted that the additional 8 days of credit support is almost equivalent to a 25% increase in the credit support which is quite high. The Chairman said that at the last RCP meeting, the RCP had discussed this issue and agreed that this is necessary to secure the market. The RCP collectively as a group had explored ways to reduce the number of days of credit support, including talking to SP to explore whether it is possible to reduce 5 days that SP requires to transfer the load from the defaulting retailer to SP. He recognised that the additional 8 days of credit support is high but it is needed to protect the market and the rest of the market participants from the credit risk of a defaulting retailer.
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<td><strong>7.3.1</strong> Mr. Senthil Kumar sought confirmation that there is a mechanism under the Market Rules to recover the default amount from the market in the event a Market Participant defaults. Mr. Poa Tiong Siaw replied yes although there will be no need to recover the default amount from the market if there is adequate credit support to cover the outstanding amount.</td>
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<td><strong>7.3.2</strong> Mr Senthil Kumar suggested that EMC can explore the option of credit insurance rather than passing the full burden on to the market participants. Mr. Poa Tiong Siaw replied that EMC will be exploring this when it performs a holistic review of the current prudential requirements as planned in the Rules Change Panel Work Plan 2019/20.</td>
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<td><strong>7.4</strong> Mr. Senthil Kumar asked if the risk exposure threshold for margin call is lowered at the same time the credit support requirement is increased. Ms. Wang Jing replied yes because a defaulting MP’s exposure could be as high as 38 days when it is suspended from trading. At the time the market participant’s risk exposure is assessed, the MP would have accumulated 20 days of debt (current exposure). If this current exposure has exceeded 55% of its credit support, then the credit support may not be sufficient to cover the whole 38 days. She added that a margin call will be issued when risk exposure reaches 55% and the market participant is required to bring its risk exposure down to 35% within 2 BDs.</td>
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<td><strong>7.5</strong> Mr Senthil Kumar commented that the burden is passed to the market participants without looking at an optimal solution. He added that the increase in the number of days of credit support will increase the burden especially on independent retailers who have corresponding futures position as well. He noted that markets in other jurisdictions allow for pooling of collaterals to offset inter-market positions rather than solely relying on individual top up for each market. The Chairman said that EMC understands the burden on independent retailers who do not have bilateral contracts to offset the exposures and assured Mr. Kumar that EMC will be conducting a holistic review of the current prudential requirements. He added that the work will require a lot of quantitative risk analysis to ensure that any change to requirements will not compromise the financial integrity of the market.</td>
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<td><strong>7.6</strong> In response to Mr Senthil Kumar’s question on the effective date of the rule change, Ms Wang Jing replied that, subject to the RCP’s approval at this meeting, EMC has recommended that the proposed rule modifications comes into force 16 weeks after the date on which the approval of EMA is published by EMC.</td>
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<td><strong>7.6.1</strong> The Chairman said that he understands that when the new rule becomes effective, market participants’ credit exposure could change overnight. If a market participant is worried about having sufficient cash to pledge, it can work with EMC Market Operations to understand the exposure in advance and prepare the necessary credit support needed.</td>
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7.6.2 Mr Henry Gan added that to ensure smooth transition when the rule change comes into effect, EMC Market Operations will work out a plan such as updating the formula in the credit support calculator, so that market participants can prepare in advance to avoid margin call. Mr Poa added that there are also things that a market participant can do to avoid a margin call such as making pre-payment for trades.

7.7 The RCP by majority supported the proposed modifications to the market rules and recommended that the EMC Board adopt the proposed modifications and for the proposed rule modifications to come into force 16 weeks after the date on which the approval of EMA is published by EMC.

7.7.1 The following members by majority vote supported:

- Mr. Henry Gan (Representative of EMC)
- Mr. Soh Yap Choon (Representative of PSO)
- Mr. Tony Tan (Representative of Generation Licensee)
- Ms. Carol Tan (Representative of Transmission Licensee)
- Mr. Sean Chan (Representative of Retail Electricity Licensee)
- Ms. Ho Yin Shan (Representative of the Market Support Services Licensee)
- Dr. Toh Mun Heng (Representative of Consumers of Electricity in Singapore)
- Mr. YK Fong (Representative of Consumers of Electricity in Singapore)

The following members did not support:

- Mr. Senthil Kumar (Representative of Retail Electricity Licensee)

8. Any other business
- Technical Working Group (“TWG”)

Mr. Poa Tiong Siaw informed the RCP that TWG members Mr. Desmond Sim and Mr. Calvin Quek have changed companies but still remain in the industry. A representation model does not apply to the TWG. Under the TWG’s terms of reference, a person will be eligible for membership on the TWG if he is nominated by a market participant. EMC is of the view that there is no need to call for re-nomination for TWG since Mr. Sim and Mr. Quek are still persons within the industry. EMC recommends that the RCP keeps both Mr. Desmond Sim and Mr. Calvin Quek as members of the TWG.

8.1 Mr. Henry Gan asked if any of the current TWG members come from the same organisation. Mr. Poa replied there is not and EMC will ensure that this does not happen.

8.2 Mr. Sean Chan asked if this is a one-off approval. Mr. Poa said that EMC will bring such matters to the RCP on a case-by-case basis.
8.3 The RCP unanimously supported EMC’s recommendation to keep both Mr. Desmond Sim and Mr. Calvin Quek on the TWG.

There being no other matters, the meeting ended at 11.15am.

Toh Seong Wah
Chairman

Minutes taken by:
Angeline Tan
Executive, Legal and Corporate Secretariat