MINUTES OF THE RULES CHANGE PANEL
119TH MEETING
HELD ON TUESDAY, 10 NOVEMBER 2020 AT 10.00AM
VIA VIDEO-CONFERENCING

Present
Toh Seong Wah (Chairman) Henry Gan
Soh Yap Choon Marcus Tan
Teo Chin Hau Tony Tan
Carol Tan Sean Chan
Ho Yin Shan Tan Chian Khong

Absent with
Senthil Kumar Sim Meng Khuan
Apologies: Dr. Toh Mun Heng Fong Yeng Keong

In Attendance: Poa Tiong Siaw Wang Jing
(EMC) Li Zhenhui Qin Weixiao
Joash Seng Clarissa Ooi

1. Notice of Meeting
The Chairman called the meeting to order at 10.00am. The Notice and Agenda of the meeting were taken as read.

2. Confirmation of Minutes of the 118th RCP Meeting
The Minutes of the 118th RCP meeting, held on 8 September 2020, were noted and the RCP approved the Minutes.

3. Monitoring List
The RCP noted the content of the Monitoring List.

4. Summary of Outstanding Rule Changes
The RCP noted the summary of outstanding rule changes.

5. Rules Change Work Plan Status Update
The RCP noted the update on the Rules Change Work Plan.

5.1 Mr. Teo Chin Hau asked for the status of the paper for the proposed review of constraint violation penalty structure. Mr. Poa Tiong Siaw updated that EMC is preparing the analysis and targets to issue the concept paper for discussion in the first quarter of 2021.
6. **Enhancements to Bilateral Contract Arrangement**
   (Paper No. EMC/RCP/119/2020/CP83)

Ms. Qin Weixiao presented the paper which reviews the current bilateral contract arrangements. She briefed the RCP on the identified issues with the current arrangement and EMC’s analysis on the following six proposals to enhance the current bilateral contract arrangements:

1. for the buyer to be notified by the EMC of the seller-submitted bilateral contract data;

2. for the EMC to validate the seller’s actual generation or credit support level, or both, against the bilateral contract submission and settlement; specifically,
   a. for the seller’s bilateral contract submission to be validated and accepted only if its contract position can be sufficiently covered by its actual generation or credit support level, or both; and
   b. for the seller to be required to make prepayment of its negative preliminary settlement statement (“PSS”) amount within 2 business days if such exposure is not covered by its credit support held with the EMC.

3. to introduce Wholesale Electricity Price settlement and strike price settlement as new settlement mechanisms for bilateral contracts;

4. to allow bilateral contracts to be used for ex-post trade reallocation in the event of a buyer’s margin call;

5. to allow any bilateral settlement amount to be subtracted from the initial credit support requirement calculation of new market participants (“MPs”); and

6. for the timeline for submission of bilateral contract data to be updated to T-15 calendar days to accommodate the Retail of Last Resort timeline.

(Ms. Ho Yin Shan and Ms. Carol Tan joined the meeting.)

6.1 **Proposal 2: Validate seller’s generation and credit support level against its contract**

Mr. Marcus Tan asked if the motivation of this proposal is to encourage more bilateral settlements. He said that based on current arrangement, when a physical generator goes on outage and does not have a spare unit, they have a bilateral Contract for Difference (“CfD”) arrangement with another genco. As such, there is no requirement for the proposed credit support arrangement. He opined that the proposal will add on to the burden of the genco business as current margins are thin. Ms. Qin Weixiao clarified that the aim of this paper is to review how bilateral contracts can be enhanced to make it a better tool for the market players to use. EMC is concerned about the potential credit risk associated with the existing bilateral contract arrangement and is unable to assess the market risk, if bilateral contracts between gencos are not submitted to EMC for
settlement. EMC recognised that gencos have a lower risk of default compared to retailers, but due to bilateral contract settlement, gencos may go into a debit position without credit support coverage. Hence, EMC felt that it is necessary to introduce measures to manage this credit risk. Mr. Poa Tiong Siaw also clarified that proposal 2 is to cover the remote risk of genco running into a negative preliminary settlement statement on certain days.

6.1.1 Mr. Teo Chin Hau noted that the low probability of genco running into a negative preliminary settlement statement and asked if it is worth it to amend the structure and process to cater for the remote risk. Ms. Qin Weixiao replied that the ideal situation is for gencos to revise their bilateral contracts if they are unable to deliver in real time. However, the current design of the market has other consideration in terms of risks and does not allow such revisions. Hence, EMC is proposing Option 2: Prepayment of Uncovered Debit Position in Proposal 2b, for gencos to make payment for any negative PSS a few days in advance to manage the potential default risk. EMC hopes that Option 2 will strike a good balance in terms of risk management versus cost to gencos.

6.1.2 In respect to Option 2 of Proposal 2b, Mr. Henry Gan asked if it constitutes an event of default by a MP if prepayment is not made within 2 business days. Ms. Qin Weixiao replied that it will be treated like a margin call where EMC can request for the Market Surveillance and Compliance Panel (MSCP) to issue a suspension order. However, EMC recognised that the suspension process for gencos is different. She added that in the event of a default by a genco, EMC can request for the MSCP to direct EMC to withhold any future payment to be made to the genco.

6.1.3 Mr. Marcus Tan asked for the basis of 2 business days for a seller to make prepayment of uncovered debit position. Ms. Qin Weixiao replied that the 2 business days align with the existing margin call timeline where a retailer whose risk exposure has exceeded the threshold is required to top up its credit support or make prepayment within 2 business days.

6.2 Proposal 4: Allow ex-post trade reallocation in the event of a buyer’s margin call

Refering to section 3.4 of the concept paper where it mentioned that “in an event of a margin call, the timeline for MPs to respond is tight”, Mr. Henry Gan shared that there is mechanism in place where MPs are given early warning of their credit exposure before hitting a margin call. He said that typically before a margin call is issued, a notification will be given when a MP hits 45% of its risk exposure. This allows the MP time to re-assess its credit support level and make the necessary top up before being issued a margin call.
6.2.1 Mr. Henry Gan expressed his concern about a scenario in which EMC has to issue a Notice of Default under the existing Market Rules because a seller did not submit bilateral contract data on time or if the amount submitted is insufficient to cover the margin call of the buyer, and the buyer refuses to acknowledge the Notice of Default or take any action. He asked how such a scenario will be addressed. Ms. Qin Weixiao suggested that it can be made clear in the rules that it is the responsibility of the buyer to ensure that the seller submits the bilateral contract data accurately and on time. Mr. Henry Gan opined that putting the onus on the buyer may seem unfair as the buyer has no control over the bilateral contract submission process and may give rise to disputes.

6.2.2 Mr. Henry Gan noted that Proposal 4 is to remedy margin calls and asked if further studies should be done to assess how the financial integrity of the market will be affected with the introduction of Proposal 4. He is concerned that a MP may use this option as a short-term measure to avoid margin calls instead of topping up its credit support even though its risk exposure has increased. Ms. Qin Weixiao replied that trade re-allocation can be considered as equivalent to the amount of cash that a MP can fork out or the amount of banker’s guarantee that it is able to obtain from the bank. As for the impact on the financial integrity of the market, she said that EMC should also ensure that the seller does not end up in a margin call situation with trade re-allocation.

6.2.3 Mr. Marcus Tan noted that in Proposal 2, gencos are required to provide additional credit support for the few days where their unit is on forced outage. He asked if trade re-allocation can be applied to those few days instead of having to provide additional credit support or make pre-payment. Mr. Teo Chin Hau added that this can be achieved with Proposal 4 if Gencos can be allowed to use trade re-allocation in place of making prepayment for negative PSS. Ms. Qin Weixiao noted the suggestion to expand the scope of Proposal 4 to allow the proposed timeline exemption to apply to both margin calls and the genco’s prepayment notice under Proposal 2, so that gencos can leverage on Proposal 4 if they receive a prepayment notice from EMC under Proposal 2.

6.3 Mr. Soh Yap Choon asked if EMC performs the settlement for CfD between gencos and if EMC is handling many such bilateral contracts settlement. Ms. Qin Weixiao replied that it is optional and up to the gencos to decide if they would like to settle such contract through EMC. Currently, EMC mostly handles bilateral contracts between gencos and their affiliated retail arms.

6.4 Mr. Soh Yap Choon asked if the proposals aim to value-add or serve as risk management mitigation measures that gencos can consider. Ms. Qin Weixiao replied that bilateral contract settlement is a service that EMC provides to MPs. Hence, the objective of this paper is to explore enhancements to this service and also how EMC can manage the associated credit risks.
6.5 Ms. Qin Weixiao informed the RCP that the concept paper was published on 3 August 2020 for consultation. EMC has responded to comments received from ExxonMobil, YTL PowerSeraya, Senoko, I Switch, PacificLight Power and Keppel.

6.6 EMC recommends that the RCP support the following 6 proposals and task EMC to draft the relevant rules modifications:

1. for the buyer to be notified by the EMC of the seller-submitted bilateral contract data;
2. for the EMC to validate the seller’s actual generation or credit support level, or both, against the bilateral contract submission and settlement; specifically,
   a. for the seller’s bilateral contract submission to be validated and accepted only if its contract position can be sufficiently covered by its actual generation or credit support level, or both; and
   b. for the seller to be required to make prepayment of its negative PSS amount within 2 BDs if such exposure is not covered by its credit support amount.
3. to introduce WEP settlement and strike price settlement as new settlement mechanisms for bilateral contracts;
4. to allow bilateral contracts to be used for ex-post trade reallocation in the event of a buyer’s margin call or a genco’s prepayment notice pertaining to Proposal 2b;
5. to allow any bilateral settlement amount to be subtracted from the initial credit support requirement calculation of new MPs; and
6. for the timeline for submission of bilateral contract data to be updated to T-15 calendar days to accommodate the RoLR timeline.

6.6.1 The Chairman called for a vote on Proposal 1.

The RCP **unanimously supported** Proposal 1.

6.6.2 The Chairman went on to called for a vote on Proposal 2.

The following RCP members **supported** Proposal 2:

- Mr. Henry Gan (Representative of EMC)
- Mr. Soh Yap Choon (Representative of the PSO)
- 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)
- Mr. Tan Chian Khong (Person experienced in financial matters in Singapore)

The following RCP members **did not support** Proposal 2:

- Mr. Marcus Tan (Representative of Generation Licensee)
- Mr. Teo Chin Hau (Representative of Generation Licensee)
- Mr. Tony Tan (Representative of Generation Licensee)

Therefore, the RCP **by majority vote supported** Proposal 2.
6.6.3 The Chairman then called for a vote on Proposal 3.

The following RCP members supported Proposal 3:

- Mr. Henry Gan (Representative of EMC)
- Mr. Soh Yap Choon (Representative of the PSO)
- Ms. Carol Tan (Representative of Transmission Licensee)
- Ms. Ho Yin Shan (Representative of the market support services licensee)
- Mr. Tan Chian Khong (Person experienced in financial matters in Singapore)

The following RCP members did not support Proposal 3:

- Mr. Teo Chin Hau (Representative of Generation Licensee)
- Mr. Tony Tan (Representative of Generation Licensee)
- Mr. Sean Chan (Representative of Retail Electricity Licensee)

The following RCP members abstained from voting:

- Mr. Marcus Tan (Representative of Generation Licensee)

Therefore, the RCP by majority vote supported Proposal 3.

6.6.4 The Chairman next called for a vote on Proposal 4.

The following RCP members supported Proposal 4:

- Mr. Soh Yap Choon (Representative of the PSO)
- Mr. Marcus Tan (Representative of Generation Licensee)
- Mr. Teo Chin Hau (Representative of Generation Licensee)
- Mr. Tony Tan (Representative of Generation Licensee)
- Ms. Carol Tan (Representative of Transmission Licensee)
- Ms. Ho Yin Shan (Representative of the market support services licensee)
- Mr. Tan Chian Khong (Person experienced in financial matters in Singapore)

The following RCP members did not support Proposal 4:

- Mr. Sean Chan (Representative of Retail Electricity Licensee)

The following RCP members abstained from voting:

- Mr. Henry Gan (Representative of EMC)

Therefore, the RCP by majority vote supported Proposal 4.
6.6.5 The Chairman went on to call for a vote on Proposal 5.

The following RCP members supported Proposal 5:

- Mr. Soh Yap Choon (Representative of the PSO)
- Mr. Teo Chin Hau (Representative of Generation Licensee)
- 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)
- Mr. Tan Chian Khong (Person experienced in financial matters in Singapore)

The following RCP members abstained from voting:

- Mr. Henry Gan (Representative of EMC)
- Mr. Marcus Tan (Representative of Generation Licensee)

Therefore, the RCP by majority vote supported Proposal 5.

6.6.6 The Chairman next called for a vote on Proposal 6.

The RCP unanimously supported Proposal 6.

There being no other matters, the meeting ended at 12.25pm.

Toh Seong Wah
Chairman

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