MINUTES OF THE RULES CHANGE PANEL
65th MEETING
HELD ON TUESDAY, 8 JANUARY 2013 AT 9.35AM
AT ENERGY MARKET CO. PTE LTD
238A THOMSON ROAD #11-01
NOVENA SQUARE, SINGAPORE 307684

Present: Dave Carlson
Michael Wong
Luke Peacocke
Dallon Kay
Kng Meng Hwee
Daniel Lee

Toh Seong Wah
Dr. Toh Mun Heng
Sean Chan
Phillip Tan
Pak-Juan Koe
Loh Chin Seng

Absent with apologies: Chan Hung Kwan
Low Cheong Kee
Lawrence Lee

In Attendance: Paul Poh
Lucia Loh
Wang Jing

Tan Liang Ching
Serena Ho
Nerine Teo

1.0 Notice of Meeting
The Chairman called the meeting to order at 9.35am. The Notice and Agenda of the meeting were taken as read.

2.0 Confirmation of Minutes of the 64th Rules Change Panel Meeting
The Minutes of the 64th Rules Change Panel meeting held on 6 November 2012 were tabled.

As there were no amendments to the Minutes, the Rules Change Panel approved the Minutes.

2.1 Matters Arising
The Panel noted that there are no follow-up actions for any matters arising.
3.0 Monitoring List

The Panel noted the contents of the paper.

3.1 Mr. Dallon Kay asked if it is possible to have an alternate attend Panel meetings on behalf of the RCP Representatives. The Chairman replied that the Market Rules currently do not allow for alternates in the RCP meetings. He will have a discussion with those panel members who are unable to attend meetings regularly.

4.0 Summary of Outstanding Rule Changes

The Panel noted the summary of outstanding rules change proposals.

5.0 Rules Change Workplan Status Update

Mr. Paul Poh informed that all items in the work plan are in progress except for Items 11 and 12. The MA team will publish the concept papers for these two items in mid January 2013.

5.1 Mr. Luke Peacocke noted that a letter was sent to the EMA to summarise the Panel's views on the issue on “Transparency of Transmission Constraint and Compensation for Must-Run Units”. He asked if the EMA has given their response.

5.1.1 Mr. Poh replied that the letter was not crafted to solicit EMA’s response. Rather, it was to bring the Panel’s views to the EMA’s attention, and it will be up to the individual gencos to raise the issue with the EMA if they have must-run obligations.

6.0 EMC’s Proposed Budget for FY2013/14

Mr. Dave Carlson, Chairman of the RCP informed the Panel that he and Mr. Toh Seong Wah of EMC declared conflict of interests in the discussion on EMC’s Proposed Budget and Schedule of Fees and would not take part directly in the discussion except to answer any questions directed at them. Mr. Kng Meng Hwee of the PSO also declared conflict of interests in the discussion.

Ms. Coco Choo presented the Budget and Proposed Fees for FY2013/2014.

The Panel was informed that under the Market Rules and EMC’s Market Licence, EMC was obliged to consult the Rules Change Panel on its Proposed Budget and Fees for the financial year 1 April 2013 to 31 March 2014, prior to submitting to the EMC Board for consideration and subsequently to the EMA for approval.
6.1 Revenue Regime

The Panel was informed that the current year FY2013/14 is the last year of the existing revenue regulatory regime period. The new revenue regulatory framework for the next 5 years is yet to be determined by the EMA and is expected to be determined by March 2013. The budgeted revenue is assumed to be based on the existing revenue framework.

6.1.1 The Panel commented that should there be any material changes to the new regulated revenue regime that necessitates a review of EMC’s business plans and budget, the revised budget should be sent to the Panel for further review and comments in accordance with the Market Rules. Ms. Choo responded that EMC will revert to the Panel if there are any material changes to the revenue framework that would necessitate such review.

6.2 Ms. Choo informed that the Key Budget Parameters are:

1. EMC has assumed the future regulatory regime based on the same Revenue Cap model as existing regulatory regime.
2. Budgeted expenses supported by specific functions, initiatives and projects.
3. 80% of its Opex (excluding depreciation and license fees) is made up of 3 key items:
   a. Payroll & related – 50%
   b. IT System costs – 20%
   c. Lease rental costs – 10%
4. Payroll is projected based on Salary increment rate of 5% pa
5. IT system costs are driven by maintenance contracts. Though an expected increase in next year budget FY13/14 due mainly to the Managed Security Services, decrease is expected by FY16/17 as the MCE outsource is reduced.
6. Lease rental for the next 2 years is driven by contracted tenancy agreement for the Novena Square office (increment of 9.3%) and indicative quotes given by the Landlord for the 2 offsite offices (increment of 20%). Rental is assumed to increase by a further 17% thereafter in FY15/16 and hold till FY17/18 for Novena Square office.

6.2.1 Mr. Phillip Tan noted that the office maintenance/rental & utilities have increased by 6.5%. Ms. Choo confirmed that it was correct and explained that this was due to the expected completion of the new server replacement project by 31 March 2013. In addition, EMC has recognised the stamp duties in the current year arising from early renewal of the office rental.
6.3 The table below summarised EMC’s Budget for FY2012/13:

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<tr>
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<th>FY 13/14</th>
<th>FY 12/13</th>
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<tr>
<td></td>
<td>Budget</td>
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<td>$’000</td>
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<tr>
<td><strong>NEMS Revenue</strong></td>
<td></td>
<td></td>
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<tr>
<td>Admin Fees</td>
<td>26,517</td>
<td>29,222</td>
</tr>
<tr>
<td>Revenue adjustment/PIMS bonus</td>
<td>389</td>
<td>(2,060)</td>
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<tr>
<td><strong>Total NEMS Revenue</strong></td>
<td>26,906</td>
<td>27,162</td>
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<tr>
<td><strong>NEMS Operating Expenses</strong></td>
<td></td>
<td></td>
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<tr>
<td>Manpower</td>
<td>9,156</td>
<td>8,593</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>14,526</td>
<td>14,165</td>
</tr>
<tr>
<td><strong>Total NEMS Operating Expenses</strong></td>
<td>23,683</td>
<td>22,758</td>
</tr>
<tr>
<td><strong>NEMS Operating Profit (before interest and tax)</strong></td>
<td>3,224</td>
<td>4,404</td>
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6.4 Detailed Expenses

6.4.1 Depreciation - The amount of depreciation is lower this year largely attributed to the Server Replatform Project (SRP) which was installed 5 years ago and its depreciation had been completed in FY 2011/12. The new Server Replatform is still in implementation and it is expected to go live in April 2013 and depreciation will only commence then.

6.4.2 Mr. Luke Peacocke commented that the variance in depreciation was $750K. This would correspond to Section 3.2.6 where it was stated that the SRP project of $4m would go live in April 2013 as servers are depreciated over 5 years.
6.4.3 Mr. Phillip Tan asked Management whether it has provided for risk management costs. Ms. Choo replied that the project risks are addressed and covered through the tenders. In other words, it was provided within the project costs.

6.4.4 On the WACC percentage, Mr. Dallon Kay asked if there any adjustments from previous years. Mr. Carlson said that the WACC was based on industry norms and on benchmarks as determined by the EMA.

6.4.5 Mr. Tan noted that the insurance cost was high in particular on the crime policy. He queried if EMC used an insurance broker to obtain quotations. Ms. Choo responded that EMC used a broker to obtain the quotations and had recently conducted a tender or Request For Proposal (RFP) exercise on the selection of brokers.

6.4.6 Mr. Tan also noted that the Audit Fees was expected to decrease by 8.3% over the current year. Ms. Choo explained that the variation in audit fees from year to year was in tandem with the internal audit program which is approved by the Company’s Audit Committee.

6.4.7 The Panel noted that the Legal and Professional fees are expected to decrease by $177K over the current year. Ms. Choo explained that this was primarily due to a reclassification of $145K in professional fees for the managed security services project to NEMS IT cost.

6.4.8 The Panel noted that the Panel fees and expenses are expected to increase by 61.5% over the current year. It was explained that the Panel fees and expenses are exogenous and the increase is due to budgeted increase in the hourly MSCP fees, full-day DRC workshop budgeted for instead of half-day and recovery of the rule breach investigation and hearing costs from a Market Participant in the current year. The Panel asked EMC to be mindful of the value derived from increase in the DRC workshop and queried on how the panel fees are determined. Ms. Choo informed that the MSCP and DRC fees are reviewed and approved by the EMC Board.

6.4.9 Mr. Sean Chan queried on the necessity of the seasonal parking fees at Novena for the directors and recommended EMC to consider reimbursing the directors based on the actual parking fees incurred or to provide parking coupons if available. Mr. Carlson responded that Management will raise this with its directors.

6.4.10 Mr. Kay said that EMC should look at internal capability for the MCE Support and Maintenance services given that EMC had outsourced this capability for the past 10 years. Mr. Carlson responded that it has recently recruited more internal resources to work on the MCE support, and are up-skilling the internal resources so as to reduce the support from the contractor in the later years. Under the contract, the contractor is required to provide training to EMC’s staff.
6.4.11 Mr. Peacocke noted that the NEMS Managed Services Support showed an increase from $231k to $520K and this could not be fully explained by the reclassification of a sum of $145k in professional fees. Ms Choo cited there are other reasons as given in the last paragraph of Section 3.2.7 e.g. consolidation of the Managed Security Services project. Mr. Toh Seong Wah further explained that these services are to be tendered and from the initial indicative cost, the increase will primarily be due to equipment refresh as well as professional services.

6.4.12 Mr. Daniel Lee noted that the capital expenditure of the Furniture and Fittings/Renovation (Section 4) was high at $318K in FY2017/18 as compared to the prior years. Ms. Choo explained that this was to cater for refurbishment of the current premise after 10 years of occupation with the assumption that there is no relocation of the office.

6.4.13 With reference to Section 4 on the capital expenditure of the Provision for the RCP requests:

a) Mr. Lee noted that the $1.905m budget for FY2013/14 is for 3 identified projects and queried whether there was provision for other projects. EMC responded that although there was no other named RCP or EMA directed projects. Should there be need for other projects, approval may be sought from EMA for EMC to claim from the market as these are exogenous items.

b) Mr. Lee also queried how the projections for FY2016/17 and FY2017/18 were derived. Mr. Toh responded that the projection was based on the assumption of specific possible RCP requirements and EMC will budget accordingly in the coming years.

c) The Panel noted that the Demand Response Project budget was $1.2m in FY2013/14, said to be a quarter of the total estimated project cost of $4.8m which appeared to be high. Mr. Toh responded that the project was driven by the EMA whereby the design will be approved by the EMA, and the project is currently in its early stage. Based on the initial design, EMC assessed that the project will require extensive enhancements of the NEMS system. EMC will be able to more accurately ascertain the costs when the full details of the design are known.

d) Mr. Lee noted that the estimated cost for the Automatic Penalty System was high at $1.05m over 2 years and queried what the sum covers. Mr. Toh explained that it covers the enhancement of the Settlement system and the development of a Dispute Management system.
e) Dr. Toh Mun Heng noted that there was an increase in capital expenditure to $3.043m in FY2014/15 from $1.905m. Ms. Choo explained that this was for the same 3 identified RCP/EMA projects in FY2013/14 and these projects will span across the few years.

6.4.14 Mr. Michael Wong queried about the capital expenditure for the futures market. Mr. Carlson responded that it is assumed that this will be outside of the NEMS market and costs will be recovered from those market participants in the futures market.

6.4.15 Mr. Kay commented that the EMA is in the process of implementing its own surveillance capability and queried if there could be cost savings arising from the synergy of the surveillance capabilities between EMC and EMA rather than duplication. Mr. Carlson explained that the surveillance provided by EMC is required under the Market Rules. It is different from that of EMA whereby the surveillance is for potential anti-competitive behaviour and breaching of the Electricity Act. EMC cooperated with EMA on EMC’s surveillance capabilities and will work with EMA as much as it can.

6.4.16 Mr. Peacocke queried if EMC will be submitting the PIMS targets for the Panel’s review and comment. Ms. Choo explained that the budget was based on the assumption that the PIMS will remain but the EMA is proposing to dispense with it. If the PIMS is approved to continue, EMC will consult the Panel on any change in the PIMS targets as practised in the past.

6.5 The Panel acknowledged EMC’s efforts in providing transparency in the business plan for the Panel’s review. This enabled an enriching discussion and dialogue amongst the Panel members and EMC.

6.6 The Rules Change Panel supported EMC’s Budget and Fees for FY2013/14 and will present its views to the EMC Board for consideration in finalising the Budget and Fees.

6.7 EMC stated that it would circulate the RCP Report on EMC’s Budget and Schedule of Fees for FY2012/13 to the Panel for confirmation before issuing to the EMC Board and the EMA.

6.8 The Panel thanked Ms. Choo and Ms. Koh for their attendance and they both left the meeting.
7.0 Proposed Provision for Price Revision when generating units fail to revise their offers in good faith (Paper No. EMC/RCP/65/2012/CP44)

Ms. Serena Ho informed the Panel that the concept paper was earlier presented at the 64th RCP Meeting on 6 November 2012. During the meeting the RCP asked EMC to seek out the MSCP and DRC’s views on the alternative options explored in the paper, in particular:

1. For the MSCP to recover the relevant compensation amounts from the offending party, and direct the distribution of these amounts to the affected parties (those who suffered out-of-pocket losses or foregone profits); and
2. For the DRC to facilitate compensation claims by the affected parties directly against the offending party.

7.1 The MSCP responded to EMC stating that it is not within their scope to adjudicate compensation claims between Market Participants (“MPs”); there is no provision in the current market rules for compensation claims between MPs for rule breaches. The MSCP was of the view that the RCP will have to first discuss issues around establishing a basis for such compensation claims, and then have the market agree on the principles around the calculation and payment of such compensation. It is difficult for the MSCP to play a role in compensation if these issues are not agreed upon.

7.2 The DRC responded that if the respective parties wished to proceed for mediation, the DRC can facilitate by arranging for mediation from the DRCP or refer them to the Singapore Mediation Centre. In this case, all costs incurred will have to be borne by the parties themselves.

7.2.1 The DRC suggested that to widen the scope to incorporate such cases in the Market Rules, EMC can include the section “any dispute between market participants arising out of or in connection with their operations or dealings in the National Electricity Market of Singapore where the parties agree to apply the dispute resolution process in section 3.”

7.2.2 To EMC’s query if it would be difficult for the claimant party to establish a case against the offending MP, the DRC replied that it will be up to EMC to make the necessary rule changes to bolster the affected MP’s case for claims.
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7.2.3 EMC also asked if mediation/arbitration can be effective if the affected MP seeks mediation/arbitration unilaterally (by the affected MP) and not mutually (by both MPs). The DRC stated that if a dispute falls within the Market Rules, both parties have to follow the process. If both parties are unable to resolve the matter, it will then escalate to arbitration for determination.

7.3 Mr. Kng Meng Hwee commented that both the MSCP and DRC are amenable to taking up their respective mandates subject to the necessary rule changes, and they are a better approach than price revision. He added that the DRC appears to be in a better position to decide on compensation, though the MSCP could still plausibly allocate the imposed fines to affected parties. These are preferred to revising prices and letting the settlement process handle it in an automated manner given that the NEMS is an ex-ante market.

7.3.1 Mr. Michael Wong enquired if price certainty is emphasized why are there price re-runs in the last 2 years as shown in the Monitoring List. He suggested that there should be a consistent approach with regards to price revision. Mr. Kng asked if Mr. Wong was suggesting that it was acceptable to be consistently wrong. He further clarified that most of the re-runs are conducted due to inaccurate or missing data e.g. during maintenance of Market system. Mr. Kng reiterated that he is against using price revision for settlement and charge this difference to a party after they have consumed the energy provided.

7.3.2 Mr. Pak-Juan Koe stated that it is unfair to do price re-runs and make consumers pay higher prices.

7.3.4 Mr. Wong added that while the objective is to minimise the number of re-runs in the market since the offers wrongly reflects a generator’s ability a re-run should still be done. The MSCP is to continue to penalize market participants who have caused errors or endangered system security.

7.3.5 Mr. Tan Liang Ching informed the Panel that in 2008, there was a proposal to remove Type 4 price revision, whereby the MCE applied the constraint violation penalty (CVP) for line constraint for a dispatch period and the PSO has subsequently confirmed that there was no load shed in that period. This form of price revision almost always drives prices down. Although the EMC, supported by the RCP and EMC Board, proposed to remove this re-run type, the EMA made a deliberate decision to retain it.

Mr. Wong suggested that the rationale for EMA’s decision then could similarly be used to support the current price revision proposal.

7.3.6 Mr. Kng said that since back then, he had always stated his objection to price revision for settlement whether revised price would be higher or lower and he maintains the same stance now. However, if the price revision is simply to provide price signals to the market with expected inputs, then he has no objection.
Mr. Kay added that another consideration for price revision is the integrity of the price signal. If it is known that the price signal was artificially dampened, then there should be a conscious effort to redress that so that price signals can then be reflective of the market conditions.

The Chairman summarized that there appears to be the possibility of using either the MSCP or DRC avenues to address this issue. Mr. Peacocke suggested that an alternative could be to clearly define what settlement payments should be triggered in the event of a failure to revise offers. The process could be analogous to the Automatic Penalty Scheme. If the rules and process are clear then disputes would only arise over different interpretations of facts.

Mr. Kay enquired if there are other similar compensation cases that could fall through this crack that we have identified. He suggested broadening the context for the DRC to function, as per the wording in the DRC’s suggestion of “any dispute between MPs arising out of or in connection with their operations or dealings in the NEMS”.

Mr. Peacocke said that there has to be a clear framework on how such disputes will be addressed.

Ms. Ho noted that while the rules can be changed, there will be costs to be borne by the parties themselves. Furthermore, the process can be a long one without clarity on the outcome, as it could be hard for the mediator to establish what the actual attributable losses are.

Mr. Kng asked if the expected outcome of the proposal was to facilitate a claim with market rules change or to ensure that the claim is legitimate, fair and balanced. He noted that this is a complex issue and questioned if the RCP is the best party to decide who should be compensated and how much.

The Chairman noted that the Panel needs to make a decision on the appropriate way to deal with the proposal. There are a number of options, including making the DRC process more binding, an automated settlement adjustment, a price re-run or to empower the MSCP to direct the distribution of fines collected.

Mr. Poh commented that EMC will further explore the legal implications of the DRC and MSCP options with EMC’s legal advisor, and revert on their respectively feasibility and expected magnitude of changes to the Market Rules.
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7.4.4 EMC will revert with the pros and cons of the three options.

7.4.5 Mr. Wong requested for the impact on USEP in respect of the re-runs noted in Monitoring List. EMC will revert on this.

8.0 Adjustment of Recovery and Refund of Payments for Partial Provision of Ancillary Services (Paper No. EMC/RCP/65/2013/CP43)

The concept paper reviewed the proposal to pay ancillary service providers, even when they have only partially provided their scheduled ancillary service for the period.

8.1 Mr. Tan Liang Ching informed that there was a rule change implemented on 03 July 2012, whereby non-providers identified before 5 business days will not be paid. Non-provision cases identified after 5 business days may be referred to MSCP whereby any recovered amounts arising from MSCP determinations will be refunded to the market through the MEUC.

There was a recent PSO decision to review the RPG/REF to incentivise Reserve Providers to better reflect their actual performance when responding to contingencies. The PSO had also considered i) penalizing Gencos for Reserve Effectiveness above 1.0, ii) a finer stratification of Reserve Effectiveness below 0.5 and iii) units that fail to retest within a stipulated timeline would be subjected to a Reserve Effectiveness of 0. However, after consulting with the industry and further consideration, these changes were not implemented.

8.2 Mr. Kng questioned the proposer’s suggestion that the proposal will align the reserve market with the energy market, where payment for reserve should be based on what is provided, similar to energy. Mr. Kng noted that reserve and regulation are given capacity payments, rather than activation payments since market start. It is thus the fundamental principle of market design for reserve and regulation payments to be different from that of energy.

8.3 Mr. Wong enquired if it is better for system security if the genco were to partially provide the schedule ancillary service rather than to not provide at all.
In response to Mr. Kay’s suggestion that since there is no partial payment for partial provision, a reserve provider may choose not to provide at all, Mr. Kng noted that it is the provider’s obligation to make the reserve capacity available for the entire period for the full capacity amount, regardless of whether it is activated or not. If a provider knows that it can only partially provide and, in doing so, know that it will not receive any payments, it is still obligated to provide as much of the ancillary service to the best of its ability. Failure to do so or intentional withholding could result in larger financial penalties for breaching the Market Rules. As to Mr. Wong’s earlier question, Mr. Kng responded the answer is obvious.

Mr. Koe asked if it is possible to set a threshold limit and a corresponding threshold payment amount. Thus, if the genco can provide up to the threshold limit (e.g. 50%), it will receive at least the threshold amount (e.g. half payment). Mr. Poh noted that if this were to be done, then it will be necessary to increase reserve procurement.

The following Panel members voted to support EMC’s recommendation not to support the proposal to make payments to ancillary service providers for partial provision:

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<tr>
<th>Name</th>
<th>Position</th>
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<tr>
<td>Mr. Daniel Lee</td>
<td>Representative of Generation Licensee</td>
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<tr>
<td>Mr. Luke Peacocke</td>
<td>Representative of Generation Licensee</td>
</tr>
<tr>
<td>Mr. Phillip Tan</td>
<td>Person experienced in Financial Matters in Singapore</td>
</tr>
<tr>
<td>Mr. Sean Chan</td>
<td>Representative of Retail Electricity Licensee</td>
</tr>
<tr>
<td>Mr. Kng Meng Hwee</td>
<td>Representative of the PSO</td>
</tr>
<tr>
<td>Mr. Loh Chin Seng</td>
<td>Representative of Retail Electricity Licensee</td>
</tr>
<tr>
<td>Mr. Toh Seong Wah</td>
<td>Representative of the EMC</td>
</tr>
<tr>
<td>Dr. Toh Mun Heng</td>
<td>Representative for the interests of consumers of electricity</td>
</tr>
<tr>
<td>Mr. Pak-Juan Koe</td>
<td>Representative of Generation Licensee</td>
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The following Panel member voted not to support EMC’s recommendation not to support the proposal to make payments to ancillary service providers for partial provision:

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<th>Name</th>
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<tr>
<td>Mr. Dallon Kay</td>
<td>Representative of the Wholesale Electricity Market Trader</td>
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The following Panel member Abstained:

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<th>Name</th>
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<tr>
<td>Mr. Michael Wong</td>
<td>Representative of Retail Electricity Licensee</td>
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There being no other matters, the meeting ended at 12.30pm.

Dave Carlson
Chairman

Minutes taken by:
Eunice Koh
Senior Executive – Corp. Secretariat