MINUTES OF THE RULES CHANGE PANEL
22nd PANEL MEETING
HELD ON MONDAY 12 SEPTEMBER 2005 AT 10.10AM
AT ENERGY MARKET CO. PTE LTD
9 RAFFLES PLACE #22-01
REPUBLIC PLAZA, SINGAPORE 048619

Present: Allan Dawson (Chairman) Eu Pui Sun
Low Boon Tong Robin Langdale
T P Manohar Kok Shook Kwong
Tan Boon Leng Dr. Daniel Cheng

Absent with apologies Ben Lau Yip Pak Ling
Francis Gomez

In Attendance: Paul Poh Poa Tiong Siaw
(EMC) Ramon Staheli Teo Wee Guan
Janice Leow

1.0 Notice of Meeting

The Chairman called the meeting to order at 10.10am. The Notice and Agenda of the meeting were taken as read.

2.0 Confirmation of Minutes of the 21st Rules Change Panel Meeting

The Minutes of the 21st Rules Change Panel meeting held on Monday, 5 July 2005 was tabled and taken as read.

There being no amendments to the Minutes, the Rules Change Panel unanimously accepted and approved the Minutes.

3.0 Matters Arising from the 21st Rules Change Panel Meeting held on 5 July 2005

The Panel noted that the matters arising as outlined had been completed, except for:

Point 2.0 – Allocation of Reserve Cost (Paper No. EMC/RCP/19/2005/CP09)

The Panel was informed that Mr. Eu Pui Sun would be invited to the next TWG meeting to assist and articulate his concerns on the price of reserve relative to energy.

Point 3.0 – Imposition of Default Levy (Paper No. EMC/RCP/21/2005/CP08)

At the last RCP Meeting, the RCP proposed that EMC publish the concept paper on default levy. After the publication of the concept paper, Senoko submitted its comments on the imposition of default levy for EMC’s consideration.
A draft letter responding to Senoko was tabled for the Panel’s discussion. The three main points raised by Senoko are:

1. It is EMC’s responsibility to ensure that there is adequate prudential requirement and that the prudential requirement regime works effectively.

   It was clarified in the response letter that the presence of a default levy arrangement is in recognition that no prudential requirement regime can eliminate the risk of default completely. It is a necessary “insurance policy” against insufficient credit support. The debate should be on whether the default levy arrangement best promotes competition. The proposed arrangement best promotes competition for the electricity industry.

2. It is Retailers’ responsibility to manage their business risks and no potential retailer should enter the market if they cannot manage those risks.

   The draft letter acknowledged and agreed with Senoko’s comments. However, it pointed out that the relevant principle to apply in analyzing the default levy arrangement was that equal treatment should be accorded to all MPs in the same MP class. Since MPs compete within the same class more than without, intra-class equity was preferred to inter-class equity.

3. Generators may not always be “net creditors”.

   It was clarified in the response letter that if there are negative prices for a particular trading day such that generators become “net debtors”. Then, any default levy would be allocated to the retailers, who would have become “net creditors”, and not generators.

   Mr. Eu Pui Sun was not convinced that a default levy would not be imposed on generators when there are negative prices.

   EMC further clarified that each default levy is trading-day specific and there is no cumulative effect across trading days. It would be clear on a daily basis who is a net creditor or net debtor. Any resulting default levy for a trading day would be allocated to the net creditors on that trading day. Hence, the situation of a generator with a net debt (due to negative prices) for a trading day and being allocated a default levy for the same trading day would not happen.
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The Panel supported the draft response to Senoko.

The Panel requested that EMC bring to the panel the following:
(1) How charging default levy to all MPs result in Intra-class inequity.
How the market rules is intended to be amended to implement charging default levy only to “net creditors” and whether that will result in any issues when there are negative prices.

4.0 Monitoring List

The Panel noted the contents of the paper.

5.0 Re-Write of Section 5 Chapter 3
(Paper No. EMC/RCP/22/2005/242)

EMC proposed to adopt a re-draft of Section 5 of Chapter 3 of the Market Rules. The first version of the proposed re-write was supported by the RCP on 3 May 2005 and submitted to the EMC Board for adoption. The EMC Board requested that the draft rules be reviewed by a local drafting professional for quality assurance. The professional endorsed the quality of the drafting and suggested some minor changes.

The Panel noted the contents of the paper.

The Panel supported EMC’s recommendation to re-write Section 5 of Chapter 3 of the Market Rules and the associated rule changes and would make the necessary recommendation to the EMC Board for adoption.

6.0 Allocation of Reserve Cost
(Paper No. EMC/RCP/22/2005/244)

At the 21\textsuperscript{st} RCP meeting on 5 July 2005, the RCP endorsed EMC’s proposal to allocate reserve cost amongst generators based on their scheduled energy (from the real-time dispatch schedule).

Allocating reserve cost using injection energy quantity (IEQ) was seen as inequitable because generators that contribute to system security by providing more generation may be penalized with a larger share of reserve cost. The proposed rule change would result in a more efficient and equitable allocation of reserve cost as there is a closer match and generators pay for the reserve they create the need for. It would also provide generators an incentive to revise offers following a forced outage.
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The Panel informed that the estimated time required to implement the required changes to the settlement system would be two months and the estimated cost would be S$69,000.

The Panel supported EMC’s recommendation and would make the necessary recommendation to the EMC Board for adoption.

7.0 Consumer Representation on the Rules Change Panel
(Paper No. EMC/RCP/22/2005/245)

In March 2005, the Energy System Review Committee (ESRC) recommended that consideration be given to provide consumer involvement in the rules change process. A review of the RCP is also included in the RCP’s workplan.

The key potential benefits of including consumer representation are:

- Enhance ability of consumers to directly participate in rule making process
- Provide new perspective to RCP
- Consumer representatives can educate consumers so they do not confuse liberalisation with lower prices
- May help diffuse political pressure when prices are high

The counter arguments are:

- Protection of consumer interests already occurs through EMA
  - However, this occurs late in the rule change process
  - EMA has multiple objectives
- Consumers may promote lower prices at expense of market efficiency
  - Consumers no more likely to put vested interests above market efficiency than other stakeholders
- Departure from current model of reserving decision-making rights for direct stakeholders

Other representatives were not considered to be added to the RCP because by adding two consumer representatives, the RCP would include representatives of all relevant stakeholder groups.

If consumer representatives were to be added to the RCP, the process for nominating representatives will need to be considered in developing its recommendation, EMC would discuss the issue of consumer representation with:

- A number of large consumers;
- The Consumers’ Association of Singapore (CASE);
- Other organizations that may have an interest such as the Chambers of Commerce or manufacturers’ associations.
EMC recommended that the RCP agree in principle to expand the membership of the RCP to include two consumer representatives.

The Panel was informed that Senoko Power had submitted its comments to EMC (copy of letter dated 10 September 2005 was circulated to the Panel).

Mr. Tan Boon Leng informed the Panel that, under the market rules, consumers are able to submit requests for rules change and consumers can also be direct market participants and be represented in RCP. As the RCP is looking after the wholesale electricity market, consumer representation on the RCP may not be appropriate. He suggested that consumers could be better represented in another forum. However, if RCP is of the opinion that having consumer representatives is beneficial, then the nomination of qualified candidates to join the RCP could come from such a consumers’ forum.

Mr. Eu Pui Sun felt that it would be difficult to get consumer representatives that could represent the interest of various types of customers.

Mr. Robin Langdale suggested that EMC approach the Singapore International Chamber of Commerce (SICC) and Association of Small and Medium Enterprise (ASME) to assist in this process.

The Panel agreed in principle to expand the membership of the RCP to include two consumer representatives.

The Panel requested EMC to consider the entire structure of the Rules Change Panel and to report back to the Panel with recommendations.

8.0 Redraft of Proposed Rule Modifications for Section 3, Chapter 3 (Paper No. EMC/RCP/22/2005/247)

The RCP had, at its 19th meeting in May 2005, supported the proposed rule modifications for the dispute resolution and compensation process (Section 3, Chapter 3 of the Market Rules). When these modifications were tabled to the EMC Board for adoption, the EMC Board referred them back to the RCP, requesting the modifications to be redrafted in plain English.

This rule change paper assessed the plain English redraft of the proposed rule modifications. It also assessed six additional rule modifications proposed by the Dispute Resolution Counsellor (DRC) arising from his review of the plain language redraft.
These additional rule modifications, along with the DRC’s reasons and RCP’s decisions are given below.

8.1 Proposal 1: To include a new provision for DRC’s decision made under Section 3 to be binding and not subject to appeal.

DRC reasons: To provide finality and avoid extensive litigation which can give rise to costs to the parties and also delays in resolving substantive issues.

RCP’s decision: The Panel agreed with the DRC’s view. However, the Panel felt that the DRC should first consult the relevant parties when making a decision under section 3, since the DRC’s decision will be final and binding. The Panel requested that the provision be modified to reflect this.

Subject to such modification, the RCP unanimously supported this proposed change.

8.2 Proposal 2: To remove the need for a member of the DRCP to hold a current certificate to practice law in Singapore

DRC reasons: Lawyers practicing law in a law firm are required to have current practicing certificates. However, a practicing certificate is not needed for acting as a mediator or arbitrator. Retaining this requirement would be an unnecessary restriction to appoint experienced mediators and arbitrators such as retired judges and academics.

RCP’s decision: The Panel agreed with the DRC’s reasons and unanimously supported this proposed change.

8.3 Proposal 3: To amend the initial term of appointment of a DRCP member to ‘up to 2 years’ (instead of a fixed term of 2 years).

DRC reasons: For consistency where re-appointment term of a DRCP member can be for further terms up to 2 years each.

RCP’s decision: The Panel agreed with the DRC’s reasons and unanimously supported this proposed change.

8.4 Proposal 4: Require the DRC to determine if a dispute relating to a request for compensation is raised within the time limit stated in the market rules before allowing arbitration under the MR

DRC reasons: DRC needs to do a time-limit check as one of the criteria before a dispute may proceed to arbitration under the market rules.
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The rules currently only provide for time-limit check for general disputes (e.g. disputes arising under MR, MM and SOM) and disputes over final settlement statement.

The time-limit check for disputes over request for compensation has been omitted in the Market Rules. This proposed change is to correct the omission.

**RCP’s decision:** The Panel agreed with the DRC’s reasons and unanimously supported this proposed change.

**8.5 Proposal 5:** Require all summary of dispute (and outcomes) for disputes under market rules, market manuals and systems operations manual to be published

**DRC reasons:** Currently, rules require summary of dispute, and the outcome, to be published if (a) dispute involves EMC/PSO, or (b) dispute involves MP-MP or MP-MSSL but affects a third party.

Proposed change is to require the summary of dispute (and outcome) to be published if dispute arises under market rules, market manuals or systems operations manual (regardless of the parties involved in it).

Reason is that other market players have interest to know how these governance documents are interpreted as the interpretations will govern their further behaviour.

**RCP’s decision:** The Panel agreed with the DRC’s reasons and unanimously supported this proposed change.

**8.6 Proposal 6:** Change the time when the EMC Board shall conduct a review of the dispute resolution and compensation process in the market rules from 5 years to 6 years.

**DRC reasons:** In view of the current extensive review and delay in the new rules taking effect, there is a need to ensure an appropriate lapse time before another full review of the dispute resolution rules have to be done.

The RCP agreed with the DRC’s reasons and unanimously supported this proposed change.

**Overall conclusion by RCP**

Subject to the necessary amendments for proposal 1, the Panel supported all the above six additional modifications proposed by the DRC and recommended that the EMC Board adopt them.
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In addition, the RCP also supported the plain language redraft of the proposed rule modifications which were passed at the 19th RCP meeting and recommend that the EMC Board adopt the plain language redraft.

The Panel invited Mr. Tan Zing Yuen, Chief Financial Officer, EMC to the meeting.

9.0 Refund of EMC Fees for the Financial Year 1 April 2004 to 31 March 2005 (Paper No. EMC/RCP/22/2005/06(R))

Mr. Tan gave an update on EMC’s efficiency gains and Performance Incentive Management System (“PIMS”) bonus that EMA had approved for the financial year 1 April 2004 to 31 March 2005.

The Economic Regulation Framework for EMC provides incentives for EMC to make cost efficiencies while maintaining service quality. The regime comprises two key components:

- A revenue cap that puts a limit on the amount EMC can recover from the market.
- A performance based regulation regime, known as Performance Incentive Management System (“PIMS”) that rewards EMC with a bonus if it exceeds performance standards agreed with the industry.

Under the revenue cap regime, EMC is able to retain savings (i.e. as a result of expenditure below the revenue cap level) if they are the result of efficiency gains. Savings that were not the result of efficiency gains will be refunded to the market participants.

Under the current PIMS methodology, the PIMS bonus will be recovered from the market via an adjustment of its fees for the remainder of the subsequent financial year following its determination.

Additional Margin allowed under the Economic Regulation Regime for EMC

The additional margin of $136,000 arose from the change in the basis in computing EMC’s margin as approved by EMA on 15 February 2005. The EMA also approved the adjustment to the revenue cap for FY 2004/2005 by this amount.
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Financial Performance

The efficiency gains and the PIMS bonus of the Company for the twelve months from 1 April 2004 to 31 March 2005 as approved by EMA are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2004/2005 budgeted expenditure</td>
<td>27,144</td>
</tr>
<tr>
<td>FY 2004/2005 actual expenditure</td>
<td>23,854</td>
</tr>
<tr>
<td>Difference</td>
<td>3,290</td>
</tr>
<tr>
<td>As originally presented to RCP:</td>
<td></td>
</tr>
<tr>
<td>claim for efficiency gains</td>
<td>1,931</td>
</tr>
<tr>
<td>variance not due to efficiency gains</td>
<td>1,324</td>
</tr>
<tr>
<td>Exogenous item (to be refunded to the market)</td>
<td>35</td>
</tr>
<tr>
<td>Total</td>
<td>3,290</td>
</tr>
<tr>
<td>PIMS bonus</td>
<td>486</td>
</tr>
<tr>
<td>Exogenous item (to be recovered from the market)</td>
<td>30</td>
</tr>
</tbody>
</table>

As approved by EMA:

To be retained by the Company:

<table>
<thead>
<tr>
<th>Description</th>
<th>$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficiency gains</td>
<td>1,554</td>
</tr>
</tbody>
</table>

To be recovered from / (refunded to) the market participants:

<table>
<thead>
<tr>
<th>Description</th>
<th>$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non efficiency gains</td>
<td>(1,701)</td>
</tr>
<tr>
<td>Exogenous item (to be recovered from the market)</td>
<td>30</td>
</tr>
<tr>
<td>Exogenous item (to be refunded to the market)</td>
<td>(35)</td>
</tr>
<tr>
<td>PIMS bonus</td>
<td>479</td>
</tr>
</tbody>
</table>

Additional margin allowed under the Economic Regulation Regime for EMC.

<table>
<thead>
<tr>
<th>Description</th>
<th>$’000</th>
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<tbody>
<tr>
<td>Net amount to be refunded to the market</td>
<td>(1,091)</td>
</tr>
</tbody>
</table>
Refund of fees

EMC proposed that the net amount be refunded to the market participants in the current financial year through a reduction in the fees over the six-month period 1 October 2005 to 31 March 2006.

Proposed refund of fees:

<table>
<thead>
<tr>
<th>Net amount to be refunded</th>
<th>($1,091,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct 2005</td>
<td>$181,835</td>
</tr>
<tr>
<td>Nov 2005</td>
<td>$181,833</td>
</tr>
<tr>
<td>Dec 2005</td>
<td>$181,833</td>
</tr>
<tr>
<td>Jan 2006</td>
<td>$181,833</td>
</tr>
<tr>
<td>Feb 2006</td>
<td>$181,833</td>
</tr>
<tr>
<td>Mar 2006</td>
<td>$181,833</td>
</tr>
<tr>
<td>Total</td>
<td>$1,091,000</td>
</tr>
</tbody>
</table>

Estimated $ per Mwh (based on 6.05 \text{ MWh} traded per mth over 6 months) $0.03

The net EMC fee for FY 2004/2005 and the effect of this refund on the fee for the period 1 October 2005 to 31 March 2006 is:

<table>
<thead>
<tr>
<th>Actual FY 2004/2005</th>
<th>Budget FY 2004/2005</th>
<th>Amount to be refunded</th>
</tr>
</thead>
<tbody>
<tr>
<td>EMC fees ($m)</td>
<td>28.5</td>
<td>29.6</td>
</tr>
<tr>
<td>EMC’s fee ($ per MWh)</td>
<td>$0.41$</td>
<td>$0.42</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(over the 6-month period 1 Oct 2005 to 31 Mar 2006)</td>
</tr>
<tr>
<td>Energy traded per month in million MWh</td>
<td>5.76$ \text{ (average for April 2004 to March 2005)}</td>
<td>5.81</td>
</tr>
</tbody>
</table>

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1 Refers to both IEQ and WEQ and based on the average of the period April 2005 to July 2005.
2 Average for the period April 2004 to March 2005.
3 Excludes refund of the previous year’s fees.
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The Panel supported the refund of the net amount to the market through an adjustment in the fee due from the market participants for the six-month period 1 October 2005 to 31 March 2006.

The Panel thanked Mr. Tan Zing Yuen for his presentation.

10.0 Benchmarking Survey 2004

Mr. Teo Wee Guan presented the following to the Panel.

The Panel was informed that EMC initiated an Electricity Market Operations Benchmarking Survey with APEx members in 2004. The purpose was to establish a body of reference information that participants can use to benchmark their market processes and to guide them in their market evolution.

EMC developed the questionnaire taking into account feedback from APEx members. The following nine markets participated in the 2004 survey:

- APX (Netherlands)        - Nord Pool (Nordic Countries)
- PJM (USA)                - Korean Power Exchange
- NEMS                     - ISA (Columbia)
- NZEM                     - EEX (Germany)
- Elexon (UK)

Scope

The Panel was informed that the survey covered the following areas:

- Generation – total generation, no. of companies, fuel type, % of government ownership, reserve provision by load
- Retail – total load, no. of retailers, % load contestable, churn rate, types of load profiling
- Interconnections – trading amount, capacities
- Market forecast – types of schedules; update frequency
- Settlement – frequency, when payment is made, when meter information is available, no. of re-settlement, ratio of collateral to a day’s trade value
- Investigations – No. of cases, type
- Rules Changes – No. of proposals, type, length of time taken to complete/implement a rule change
- IT systems - time to resume operation at disaster recovery site
- Market operator – types of service, cost, staff number; service performance, measurement method, target vs. actual performance
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- Market/Product - types of markets and products traded
- System modelling – DC or AC, pricing model (nodal or otherwise), no. of nodes, loss modelling, price ceiling/ floor, duration of trading period, gate closure
- Ancillary services – Type, method of procurement (whether it is co-optimised with energy), how is quantity determined

The Panel was also informed that a copy of the Benchmarking Survey report has been given to the CEO of each company. Going forward, EMC will contact each company to find out what other areas they consider useful to benchmark. EMC will also identify potential areas where NEMS can make improvement and include them in the RCP work plan, where practicable.

EMC was asked to provide its findings on the benchmarking survey to the Panel.

EMC

There being no other matters, the meeting ended at 12.05pm with a vote of thanks to the Chair.

ALLAN DAWSON
Chairman

Minutes taken by:
Eunice Koh
Market Panel Administrator