MINUTES OF THE RULES CHANGE PANEL
14TH PANEL MEETING
HELD ON TUESDAY, 06 JULY 2004 AT 10.05AM
AT ENERGY MARKET CO. PTE LTD
9 RAFFLES PLACE #22-01
REPUBLIC PLAZA, SINGAPORE 048619

Present: Allan Dawson (Chairman) Eu Pui Sun
Yip Pak Ling Ben Lau
T P Manohar Dr. Daniel Cheng
Kok Shook Kwong Lee Sin Chong
Robin Langdale Tan Boon Leng

Absent with apologies Francis J. Gomez

In Attendance: Paul Poh, EMC Teo Wee Guan, EMC
Shashank Swan, EMC Poa Tiong Siaw, EMC
Ramon Staheli, EMC

1.0 Notice of Meeting
The Chairman called the meeting to order at 10.05am. The Notice and Agenda of the meeting were taken as read.

2.0 Confirmation of Minutes of the 13th Rules Change Panel Meeting
The Minutes of the 13th Rules Change Panel Meeting held on Tuesday, 11 May 2004 was tabled and having previously been circulated was 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 13th Rules Change Panel Meeting
Point 1.0 Publishing Outage Reports Submitted to the MSCP
(Paper No. EMC/RCP/12/2004/076)

The Panel was informed that EMC has written to the EMA for a referral to the appropriate body that can perform specialist assessment on security matters. EMC is still waiting for EMA’s response.
14th Rules Change Panel Meeting – 6 July 2004

Point 4.0 Wholesale Settlement Re-run
(Paper No. EMC/RCP/14/2004/231)

This proposal is for enhancement to be made to EMC’s settlement system to perform wholesale settlement re-runs.

In the 13th RCP Meeting held on 11 May 04, EMC was tasked to provide an analysis comparing the modified Option A and Option C for the Wholesale Settlement Re-run. An analysis (see Appendix A) was circulated to RCP members on 26 May 04 where EMC recommended the Panel to support the adoption of Modified Option A.

Mr Paul Poh briefed the Panel on the result of its vote on the proposal:

In favour of Modified Option A (6 votes):
1. Mr Kok Shook Kwong
2. Mr Ben Lau
3. Mr Robin Langdale
4. Mr Lee Sin Chong
5. Mr T P Manohar
6. Mr Yip Pak Ling

In favour of Option C/further study (3 votes):
1. Mr Eu Pui Sun
2. Mr Tan Boon Leng
3. Mr Francis Gomez

Abstained (1 vote):
1. Dr Daniel Cheng

With a majority vote for Option A, Mr Poh informed the Panel that the updated proposal would be submitted to the EMC Board for adoption.

Mr. Paul Poh also informed the Panel that a minor formula amendment had to be made to section B.4.2 of Appendix 7B of the proposed rules. This amendment is to provide for the separate accounting for Goods and Services Tax (GST) for the 2 components of the metering error adjustment for a generator:
1. The energy component
2. The EMC/PSO fee component

For 1, a GST input tax is applicable. For 2, a GST output tax is applicable.

The Panel supported EMC’s recommendation and to make the necessary recommendation to the EMC Board for adoption.
4.0 Publishing Standing Probability of Failure (Paper No. EMC/RCP/14/2004/77)

This rule change proposal by NRG calls for EMC to publish the standing probability of failure (SPF) associated with each generation registered facility (GRF). Section A.7.1 of Appendix 7A states that this probability value is determined using a methodology agreed between the PSO and EMC. The higher the SPF value, the higher reserve cost the GRF will be allocated.

The RCP’s earlier recommendation at its 8th Meeting was not to publish SPF of each generation registered facility. Subsequently, the EMC Board deliberated on the above rule change proposal on 10 November 2003 and requested the RCP to reconsider its recommendation.

The EMC Board felt that the RCP should reconsider publishing the information on SPF of each generation registered facility for the following reasons:

1. The collective nature of reserve cost allocation
2. Market transparency is substantially enhanced, benefiting potential investors who have an interest in the reserve cost liability of generation units.

EMC has analyzed the proposal again, taking into account the EMC Board’s views. Also, the test framework from the adopted information policy document was applied and a more robust cost-benefit analysis was conducted.

Through further analysis and consultation, EMC concluded that publishing the SPF of individual GRFs achieve the following benefits:

1. GRFs can compare their probabilities of failure with one another. This could incentivize generators to compete in making their equipment more reliable in order to reduce reserve cost.

However, potential misinterpretation of SPFs by non-industry members may result in:

1. Potentially adverse financial impact on generators.
2. Potential legal conflicts between a generator and its supplier.

Hence, the availability of information on SPF is useful to generators to encourage competition. The benefit to the market is greater efficiency brought about by generators being incentivized to make their machines more reliable. On the cost side, there are valid concerns regarding misinterpretation by parties outside the industry. However, the risk of misinterpretation can be avoided by making SPFs available only to market participants, who understand the statistic.

In conclusion, EMC recommended that the Panel support the revised proposal of providing SPF information of all GRFs to all market participants.
The Panel supported EMC’s recommendation and to make the necessary recommendation to the EMC Board for adoption.

5.0 Defining Rules for handling MCE failure to produce real time schedule (Paper No. EMC/RCP/14/2004/187)

This is a rule change proposal by EMC to amend the rules to specify the actions to be taken by the EMC if the market clearing engine (MCE) fails to produce a real time schedule (RTS) for any dispatch period.

While EMC takes every possible care to ensure the reliable and continuous operation of the MCE, there is a remote possibility that the MCE may fail to produce a RTS. When this happens, the PSO will generally use the last available short term schedule (STS) as the basis for issuing dispatch instructions. If required, the PSO’s dispatch instructions may deviate from the information contained in the STS to ensure that system reliability and security requirements are satisfied. However, the current market rules are silent on actions the EMC must take in respect of its obligation to determine settlement prices and quantities when a RTS is not produced.

With this rule change proposal, after issuing a price revision notice, EMC would be able to re-run the MCE at a later stage and attempt to re-create the real time pricing and dispatch schedules for settlement purposes for the affected dispatch period(s).

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

6.0 Reserve and Regulation Payments to Non-Complying Units (Concept Paper No. EMC/RCP/14/2004/01)

This concept paper discusses whether the wholesale market should re-claim reserve and regulation payments made to generation units that cannot comply with reserve/regulation dispatch in real-time.

A generation unit is paid for reserve/regulation based on scheduled quantity in the RTDS. In real-time, however, there are three scenarios where it is unable or failed to provide the scheduled reserve/regulation:

1. The generation unit trips before the period it was scheduled for reserve/regulation and remains unavailable for the period.
2. The generation unit trips during the period.
3. The generation unit (running) is called on to supply reserve/regulation energy but could not provide the scheduled quantity (in MW).

In scenario 1, it is clear that no service has been rendered at the scheduled time and therefore no payment should be made. For scenarios 2 and 3, it could be argued that service has been partially rendered, hence justifying that the generating unit should be paid on a pro-rated basis.
However, reserve and regulation are both procured for system security purposes. But providing only partial availability is in itself a threat to system security. Hence, no service can be considered to have been rendered and no payment should be made.

In 2003, actual payments made to non-complying generators amounted to 0.13% and 0.08% of the reserve and regulation markets respectively. Considering the small amount of such payments in relation to the market, it does not appear to be cost-effective to implement a solution.

The Panel was informed that to correct this practice, costs would have to be incurred to implement a settlement solution at the wholesale level. Market participants would also have to deal with regular adjustment to their invoices.

EMC recommended that:

1. based on information from PSO, EMC monitor the extent of reserve/regulation payments made to non-complying units on a rolling 12-month basis and submit a quarterly report to the RCP; the RCP monitors the extent of such payments and consider a solution if the problem becomes material in the future.
2. the MSCP, in their decision on actions to be taken on non-compliance, consider the fact that non-complying units are still paid for reserve/regulation that they did not or could not provide in real time.

Mr. Ben Lau asked how, by involving the MSCP, the desired outcome can be achieved. If the MSCP imposes a penalty on a MP for failing to provide reserve/regulation, this penalty flows back to the entire market instead of to the complying units that paid for the scheduled reserve that was not served. Hence, the matching principle does not apply. EMC agreed that there would be an equity issue. Nevertheless, the penalty still has a deterrent effect on non-compliance.

Mr. Robin Langdale commented that the cost-benefit analysis should also take into account the benefit of incentivising generators to operate more reliably.

The Panel has requested EMC to further study the following:

1. study how other jurisdictions treat such non-compliance
2. estimate the costs of changing the settlement system
3. consider the potential motivation for market participants to comply with dispatch
4. reconsider the approach to the MSCP

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The Panel also requested EMC that if writing to the MSCP is advisable, it should be in the form of an informative advice rather than a guide to the MSCP on determining non-compliance penalties. The draft letter should be reviewed and cleared by the Panel.

EMC
14th Rules Change Panel Meeting – 6 July 2004

Mr. Kok remarked that the root cause of this issue is that the Market Rules is silent on whether a scheduled generator who cannot comply in real-time should be paid for reserve/regulation. Hence the settlement system was designed to pay based on the schedule. The costs to modify the IT system would be necessary for the Panel to consider whether it is cost efficient to modify the market rule instead. It may not be advisable to pass this problem to the MSCP.

7.0 Re-run of MCE to determine reserve and regulation quantities for settlement (Concept Paper No. EMC/RCP/14/2004/02)

There is a flaw in the market rules that creates payment discrepancies when re-run quantities of reserve and regulation are used for settlement. This paper assesses the impact of such payment discrepancies, which arise from using re-run quantities for settlement instead of the PSO’s dispatch quantities.

The financial impact of this problem on the market participants has been found to be insignificant. EMC believes that the cost of investigating changes needed in the IT systems to rectify this problem would be much higher than its financial impact.

Therefore, EMC does not recommend any modification to the market rules and the IT systems in the short-run.

The Panel supported EMC’s recommendation.

8.0 Date of Next Meeting

The next Panel meeting is scheduled to be held on Tuesday, 31 August 2004 at 10.00am at EMC’s Board Room.

There being no other matters, the meeting ended at 11.05pm with a vote of thanks to the Chair.

ALLAN H. DAWSON
Chairman

Minutes taken by:
Eunice Koh
Market Panel Administrator
EMC