MINUTES OF THE RULES CHANGE PANEL
3rd PANEL MEETING
HELD ON TUESDAY, 11 MARCH 2003 AT 11.10AM
AT ENERGY MARKET CO. PTE LTD
9 RAFFLES PLACE #22-01
REPUBLIC PLAZA, SINGAPORE 048619

Present: Allan Dawson (Chairman) Lee Sin Chong
Yip Pak Ling Kok Shook Kwong
Tan Boon Leng Eu Pui Sun
Francis J. Gomez Daniel Cheng
Ben Lau

Absent with Seow Kang Seng Robin Langdale
Apologies

In Attendance: Eunice Koh (Panel Coordinator) Chiao Yen Shong, EMC
Paul Poh, EMC Christopher Ng, EMC
Shashank Swan, EMC Poa Tiong Siaw, EMC

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 2nd Rules Change Panel Meeting

The Minutes of the 2nd Rules Change Panel Meeting held on Thursday, 20 February 2003 was tabled and having been previously 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 2nd RCP Meeting

Item 7.0 To appoint an additional member to the Rules Change Panel from potential market participants.

Mr. Paul Poh informed the meeting that EMC would provide an update on this issue at the next RCP meeting.

4.0 Paper No.: EMC/RCP/03/2003/128 – Clarify Rules on Derogation

The Rules Change Panel met on 14 January 2003 and made a recommendation to the EMC Board that a proposed rules change submitted by NRG Asia-Pacific (Chapter 1 Section 14.3.1.1) i.e. the EMC Board should grant derogations on terms and conditions that it considers reasonably appropriate does not warrant consideration.
2nd Rules Change Panel Meeting

On 30 January 2003, the EMC Board had requested the RCP to reconsider the proposed rule modification as the Board felt that there are merits in evaluating whether the EMC Board should be ‘reasonable’ in setting the terms and conditions of derogation.

The Panel was informed that Condition 14.1 of the Electricity Licence granted to EMC provides EMC should be reasonable in exercising any discretion given to it under the market rules or any market manual having regard to the nature of the discretion being exercised and any restrictions, conditions or parameters set forth. As such, EMC felt that the word ‘reasonably’ need not to be repeated in Chapter 1, Section 14.3.1.1 of the market rules.

The Panel supports EMC’s recommendation not to support the NRG Asia-Pacific’s rule change proposal.

5.0 Paper No.: EMC/RCP/03/2003/161 – Clarifying Preliminary Settlement Statement

EMC presented a paper on the proposed rules change submitted by EMC, Market Operations (Chapter 7 Section 5.4.2) to clarify that vesting contract information is to be provided to market participant’s settlement account level rather than generation facility level which is in line with the design of the way allocation of vesting contract is made.

This rule change also removes details such as the basis of determining various charges eg. MEUC, EMC fees, which are determined monthly and hence it is not necessary to be repeated in a daily statement. Such information would be more efficiently provided to market participants via other means such as publication on EMC’s website.

Contracted Ancillary Service

The Panel was informed that the cost of contracted ancillary service is recovered from loads in the month in which it is incurred using a recovery rate determined based on estimated cost and estimated load. After the end of the month Ancillary service providers would submit a monthly bill to EMC. There would be a variance between what is collected and what is paid because the estimated cost was different from the actual cost and/or because the estimated load is different from the actual load. This variance i.e. the over and under recovery would be washed-up the following month. The Panel was concerned that the variances could be high.

EMC recommended that the Panel consider and support the amended proposed rules change.

The Panel supports EMC’s recommendation and to make the necessary recommendation to the EMC Board for endorsement.

As retailers will have to settle MEUC based on the half-hourly charges, EMC agreed to provide details on the determination of the half-hourly MEUC, taking into consideration of the over-recovery and/or under-recovery of the MEUC.
2nd Rules Change Panel Meeting

6.0 Paper No.: EMC/RCP/03/2003/199 – Urgent Rules Change Proposal to check high MNN prices for isolated CCPs

EMC presented a paper on the proposed rules change submitted by EMC Market Operations (Chapter 6 Sections D.6.5.2 and D.8.8 of Appendix 6D) to propose a solution to check high MNN prices for CCPs which offered zero MW be based on the local system marginal price.

The Panel was informed that this proposed rule modification had been approved as an Urgent Rules Modification and was implemented on 5 February 2003. In accordance with the market rules, the urgent rule modification is to be submitted to the RCP for review. As this rule change involved the formulation of the MCE the Technical Working Group met on 21 February 2003 to review the rules modification proposal.

The Technical Working Group noted that under the market rules, the load associated with CCPs which offer zero quantity cannot be met by other generation registered facilities, which resulted in MNN prices for the CCPs being set by constraint violation penalty. The proposed solution, by changing the way the artificial lines within CCPs are represented, enables load associated with CCPs which offer zero quantity be met by other generation registered facilities.

The Panel was also informed that EMC conducted exhaustive investigations that covered all types of multi-unit generators and single unit generator. The TWG assessed the completeness and robustness of the test regarding the modifications to the MCE to implement the rule change and was satisfied with the test results.

The Technical Working Group unanimously agreed to recommend that the Panel consider and support the amended proposed rules change.

The Panel supports the TWG’s recommendation and to make the necessary recommendation to the EMC Board for endorsement.

7.0 Paper No. EMC/RCP/03/2003/118 – Cross Referencing Issue

EMC presented a proposed rules change submitted by NRG Asia-Pacific (Chapter 5 Section 12.6.4) to rectify the erroneous cross-referencing as this is purely a typographical error.

The Panel supports EMC’s recommendation and to make the necessary recommendation to the EMC Board for endorsement.

8.0 Paper No. EMC/RCP/03/2003/121 – Drafting Issue

EMC presented a proposed rules change submitted by NRG Asia-Pacific (Chapter 5 Section 2.2.1) to clarify the conditions of a high risk operating state and emergency operating state by using the more appropriate term “emergency operating state” instead of “emergency”.

The Panel supports EMC’s recommendation and to make the necessary recommendation to the EMC Board for endorsement.
### 2nd Rules Change Panel Meeting

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<tr>
<th>9.0 Paper No. EMC/RCP/03/2003/156 – Net Financial Transmission Right Settlement Credit Formula Error</th>
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<tr>
<td>EMC presented a proposed rules change submitted by EMC, Market Operations (Chapter 7 Section 3.4.1) to correct the mathematical formulation for NTSC.</td>
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<td>The Panel supports EMC’s recommendation and to make the necessary recommendation to the EMC Board for endorsement</td>
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<th>10. Paper No.: EMC/RCP/02/2003/160 – Compliance with Settlement System</th>
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<td>EMC presented a proposed rules change submitted by EMC Market Operations (Chapter 7 Section 5.3.3) to modify the net settlement amount payable to/receivable from a market participant which does not tally with that developed in the settlement system.</td>
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<td>The Panel supports EMC’s recommendation and to make the necessary recommendation to the EMC Board for endorsement.</td>
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<th>11.0 EMC’S PERFORMANCE INCENTIVE MANAGEMENT SYSTEM: PROPOSED MEASURES AND FINANCIAL INCENTIVES TO APPLY FROM 1 APRIL 2003</th>
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<td>The Panel members noted the conflict of interests from Messrs. Allan Dawson and Yip Pak Ling in relation to discussions regarding EMC’s PIMS and they both abstained from the discussions. Mr. Allan Dawson stepped down as Chairman of this meeting at this point.</td>
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<td>Mr. Ben Lau proposed that Mr. Lee Sin Chong be the Chairman at this point of the meeting.</td>
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<td>Mr. Lee Sin Chong took the Chair of the meeting.</td>
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<td>The Panel invited Mr. Tan Zing Yuen of EMC and Mr. Douglas Birnie of LECG to the meeting.</td>
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<td>Mr. Birnie presented the paper on EMC’s PIMS for the full financial year commencing 1 April 2003 and informed the Panel that EMC is required to develop a performance measurement system under its market licence.</td>
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<td>Following consultation with market participants, EMC is seeking the RCP’s views on the proposals and EMC will then seek the EMA’s approval.</td>
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<td>An independent third party chosen by the Rules Change Panel will then review EMC’s performance against the targets for each of the services at the end of the year. Based on the results, it will then make a recommendation for a financial bonus according to PIMS methodology.</td>
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<td>The Rules Change Panel will then either accept or reject this recommendation and make the final decision.</td>
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2nd Rules Change Panel Meeting  

EMC’s proposed measures are in the following key services:

- Systems
- Pricing
- Settlement
- Customer Responsiveness
- Market Assessment
- Rule Changes

The Panel was informed that EMC had used the performance indicators adopted by the Independent Electricity Market Operator in Ontario, Canada and NEMMCO, the market operator in the eastern States of Australia. In almost all cases, EMC’s proposed targets are equal to or higher than the equivalent standards used by the IMO in Ontario but lower than NEMMCO.

EMC’s proposed PIMS contains the following three elements:

(i) A proposed list of services, performance measures and performance targets that the EMC would report on to the EMA following the end of each financial year;
(ii) A proposed bonus system linked to EMC’s achievement of certain specified performance targets
(iii) A proposed cost sharing system for EMC’s achievement of any cost savings or cost increases

Market Participants expressed concern around EMC’s regulated rate of return and Shareholders’ Agreement, expressed support for the intent of the PIMS system, and provided more detailed views on some of the measures, targets and weightings proposed.

Given this initial feedback, EMC modified the service performance financial incentives to equalise the weighting given to the Systems, Pricing and Settlement targets and reduced the maximum size of the performance bonus to $600,000.

Panel’s Comments

The Panel made the following comments:

- The cost saving incentive placed greater emphasis on the need to ensure that the process to review and approve EMC’s initial budget and fees is robust and benchmarked against other international markets;
- The RCP had reviewed the EMC’s budget for the new financial year and had asked the EMC to develop further the benchmarking against other markets overseas to assist in the review of EMC’s budget next year;
- It was worthwhile to proceed with the implementation of the PIMS now so that experience could be gained;
- The proposed system and measures appear reasonable;
2nd Rules Change Panel Meeting

- Some of the targets may be a little too low although the RCP noted the commitment from EMC that it would be proposing higher targets next year, given its commitment to improve. Again, to ensure that the process to review and approve these targets is robust, benchmarking and analysis of costs and benefits of setting or revision of performance targets would be needed.
- The issue of whether EMC should also face the risk of financial penalties was tied up with its Shareholders’ Agreement but the RCP noted that the latter was potentially about to be reviewed.

On this basis, the RCP was happy for EMC to present its PIMS to the EMA for its approval.

A Panel member requested EMC to look into the methodology on the percentage of number of dispatches sent to the PSO in accordance with the market rules (i.e. dispatches not missed) out of total dispatches required under the rules for the clearing system for the half hourly, day ahead and week ahead dispatches. Mr. Birnie noted this request.

The Panel also requested EMC to provide data for the first three-months’ market performance and expenditure.

12.0 Date of Next Panel Meeting

The next Panel meeting is scheduled to be held on 8th April 2003 at 10.00am at the EMC Board Room.

There being no other matters, the meeting ended at 12.10pm with a vote of thanks to the Chair.