



RCP PAPER NO : **EMC/RCP/22/2005/245**

SUBJECT : **CONSUMER REPRESENTATION ON RCP**

FOR : **DECISION**

PREPARED BY : **RAMON STAHELI
SENIOR ECONOMIST**

VETTED BY : **PAUL POH LEE KONG
SVP, MARKET ADMINISTRATION**

DATE OF MEETING : **5 SEPTEMBER 2005**

Executive Summary

The work plan approved by the RCP in March 2005 included a workstream to review the structure of the RCP which was to be addressed within 16 to 24 months. In March 2005, the Energy System Review Committee (ESRC) published its report into the 29 June 2004 incident, recommending that consideration be given to provide for consumer involvement in the rules change process. This paper considers the benefits and costs of expanding the membership of the RCP to include consumer representation and concludes that it would be beneficial. Key benefits include:

- Direct participation in the rule making process would allow consumers to provide a new perspective to the RCP and to actively support the development of a competitive market; and
- Consumer representatives could educate consumers such that they do not equate liberalisation with lower prices.

Given these advantages, EMC recommends that the RCP agree in principle that it would be desirable to expand the membership of the RCP to include two consumer representatives. EMC would then discuss the issue of consumer representation with large consumers, the Consumers Association of Singapore and other relevant organisations, and report back to the RCP with recommendations for implementation.

1. Introduction

The work plan approved by the RCP in March 2005 included a workstream to review the structure of the RCP. This issue was to be addressed within 16 to 24 months. However, in March 2005, the Energy System Review Committee (ESRC) published its report into the 29 June 2004 incident. In its report, the ESRC recommended that consideration be given to provide for consumer involvement in the rules change process.

In light of the ESRC's recommendation, it is now opportune to consider whether the composition of the RCP should be changed to include consumer representatives. This report addresses this issue.

2. Background

The RCP is the key decision-making body for rule changes, with the EMC Board and the EMA providing oversight. The structure of the RCP is designed to fairly represent the often competing interests of stakeholders without a single group being able to dominate the voting process.

Currently, the RCP consists of:

- The Chief Executive of the EMC as Chair
- One employee of the EMC not being the Chief Executive
- One representative of the PSO
- Three generation licensee representatives
- One transmission licensee representative
- Three retail licensee representatives
- One MSSL representative
- One representative of traders other than generators or retailers; and
- One representative of the financial community in Singapore.

The RCP is required to have a level of technical or commercial knowledge and expertise in the operation of power systems and electricity markets that is acceptable to the EMC Board.

While the RCP includes representatives from a relatively wide range of stakeholders, it does not currently include representatives of consumers. This issue was highlighted by the ESRC in its report.

3. Consumer Representation on the RCP

3.1 Reasons for and Benefits of Adding Consumer Representatives to the RCP

The ESRC considered the nature of the rule making process in its report. While acknowledging that any interested party can participate in the rule making process by submitting rule modification proposals, the ESRC noted that there is currently no consumer representation on the RCP. From this perspective, the inclusion of consumer representatives on the RCP would enhance the position of consumers who ultimately pay for the cost of electricity and ultimately experience the outcomes of the electricity market.

Consumers have a strong interest in the efficiency of the wholesale electricity market. Wholesale energy costs account for approximately 65% of the regulated tariff of 18.26c/kWh currently charged to non-contestable consumers.

The ability of consumers to actively and fully participate in the rule making process could be enhanced if the membership of the RCP were expanded to include consumer representatives. Consumer representatives would provide a new perspective to the RCP, with consumers having a direct interest in ensuring that effective competition takes place in the wholesale electricity market.

Including consumer representatives in the RCP would be beneficial because they would be able to educate consumers such that they do not equate liberalisation with lower prices. This is particularly important considering the complexity of the price determination process. Having educated consumers would allow the market to work more effectively and would also help to diffuse political pressure when prices are high.

3.2 Counter Arguments

Consumer representation already occurs indirectly through the EMA's ability to reject a modification of the rules if it is inconsistent with the functions and duties of the EMA. Under the Electricity Act, one of the key functions and duties of the EMA is to protect the interests of consumers. The EMA can also put forward proposals for modification of the rules. It could be argued that the interests of consumers are already well protected and that adding consumer representatives to the RCP is unnecessary.

However, the EMA has multiple objectives and its involvement occurs at the end of the rule making process. This makes the EMA's involvement a relatively passive one. Through this mechanism alone, it would not be possible to achieve the active and direct participation of consumers that could be achieved with direct consumer representation on the RCP.

Another potential disadvantage is that consumer representatives may promote and support measures that aim to lower energy prices at the expense of market efficiency. However, consumer representatives are no more likely to put their vested interests above overall market efficiency than other stakeholder representatives.

Adding consumer representatives to the RCP is also a departure from the current practice of reserving decision-making rights to direct stakeholders in the wholesale electricity market.

On balance, the EMC considers that none of the counter arguments significantly undermines the case for consumer representation on the RCP.

3.3 Other Options for Expanding Stakeholder Representation on the RCP

While it would be possible to further expand the range of parties represented on the RCP beyond adding two consumer representatives, such options were not further considered because:

- The RCP is already a large body with thirteen members and expanding membership beyond fifteen members (if two consumer representatives were added) would be likely to reduce the effectiveness of the RCP's operation; and
- By adding consumer representation, the RCP would already include representatives of all relevant stakeholder groups.

4. Approaches in Other Jurisdictions

The principle of including consumer representatives in governing bodies is well established for markets that use a representative governance model. The following examples illustrate how consumer representation is achieved.

BETTA (UK)

The trading rules of BETTA are contained in the Balancing and Settlement Code (BSC). The BSC Panel has the role of considering modification requests and presenting recommendations to the Gas and Electricity Markets Authority. The BSC Panel includes one consumer member.

PJM

In PJM, the Members Committee is the key decision-making body for rule changes. Voting on the Members Committee is by sector, with the five voting sectors being generation owners, other suppliers, transmission owners, electric distributors and end use customers.

In other jurisdictions, consumer representatives are often included on technical advisory groups that advise the key decision-making body. For example, in New Zealand, the Retail Market Advisory Group which advises the Electricity Commission contains representatives of consumer organisations. In Australia, the Reliability Panel which advises the Australian Energy Market Commission has one member which represents the interests of end use customers. In Ontario, the Technical Panel which advises the Board of the IESO has one representative each for residential, commercial and industrial consumers.

5. Number of Representatives

Consumers have diverse concerns and interests, illustrated by the following examples:

- Small consumers are currently subject to regulated tariffs and are not contestable. Large consumers are contestable and are not subject to regulated tariffs.
- Some consumers are subject to time-varying electricity charges whereas others are not.
- Some large consumers' operations are very sensitive to power quality and may suffer significant losses if there are fluctuations in voltage whereas other consumers are less sensitive.
- Electricity costs are likely to form a significant part of the cost structure for some users whereas the significance of electricity costs may be less for other users.

It is unlikely that a single consumer representative would be capable of representing the interests of all consumers. EMC recommends that consideration be given to adding two consumer representatives to the RCP. The process for nominating and appointing the representatives would be structured so that the appointed members are capable of representing the diversity of consumers and their interests.

6. Recommended Process

While the case for adding consumer representation to the RCP is relatively easy to make in theory, it is more difficult to decide upon how such representation would best be achieved in practice.

Accordingly, EMC recommends that the RCP first agree in principle to expand membership of the RCP to include two consumer representatives.

The EMC will then discuss the issue of consumer representation with:

- A number of large consumers in respect of the representative of large consumers;

- The Consumers Association of Singapore (CASE) in respect of the representative of small consumers; and
- Other organisations that may have an interest, such as the Chamber of Commerce or manufacturers' associations.

The EMC would then report the views of the parties to the RCP and recommend how the proposal could be implemented.

7. Consultation

EMC has published the rule modification proposal on the EMC website for comment. The following comments were received:

SP Services Ltd

We support consumer representation so as consumer feedback is also taken on proposed rule changes. However, we do not agree to the stated reasons for amendment as these matters fall under the responsibility of the Regulator, not the consumer.

EMC Response:

EMC agrees that EMA has the explicit role of protecting the interests of the consumer and that some of the benefits stated fall under the responsibility of the regulator. As stated in Section 3 of the paper, EMC considers that direct consumer representation on the RCP would enable a more active and direct participation of consumers.

PowerSeraya

A consumer representative would need to be sufficiently familiar with the market rules. As such, there would need to be some minimum levels of qualifications defined for the consumer representative. Also, some agreed means of their election, plus some definition of tenure (e.g. annual) should also be spelt out in the Market Rules. There is also no clear definition in the rule change request as to what constitutes a large or small consumer.

In conclusion, there is a need to provide more details in the rule change request on the above areas.

EMC Response:

The qualifications and tenure of the consumer representatives would be the same as for other members of the RCP. The details on the means of election and the difference between the two consumer representatives will be developed after discussions with consumers and CASE have been completed, and included in the recommendations provided to the RCP.

8. Recommendations

We recommend that the RCP:

- a. agree in principle that it would be desirable to expand the membership of the RCP to include two consumer representatives
- b. note that EMC will report back with recommendations for implementation after it has completed the discussions under section 6 above.