

Notice of Market Rules Modification

Paper No.: EMC/RCP/51/2010/297
Rule Reference: Market Rules/Chapter 7 Section 5.8.2.4
Proposer: Energy Market Company
Date Received by EMC: 20 July 2010
Category Allocated: 2
Status: Approved By EMA
Effective Date: 13 October 2010

Summary of Proposed Rule Modification:

This paper assesses the rule change proposal to remove the requirement, as stated in Section 5.8.2.4 of Chapter 7 of the market rules, for details of the EMC settlement clearing account to be shown on each invoice issued by the EMC to a market participant (MP).

Given the electronic funds transfer process in the SWEM where, in general, EMC will instruct the single clearing bank to perform the necessary electronic funds transfers – MPs usually do not need to initiate any electronic funds transfers to make settlement payments to the EMC settlement clearing account. We therefore agree with the proposer that the requirement for each invoice to show details of the EMC settlement clearing account is unnecessary – since MPs do not require this information to initiate electronic funds transfers.

Thus, we propose to delete Section 5.8.2.4 of Chapter 7 of the market rules. Our proposed modifications to the market rules, including the consequential modification which was needed, are set out in Annex 1 of this paper.

Date considered by Rules Change Panel: 03 September 2010
Date considered by EMC Board: 16 September 2010
Date considered by Energy Market Authority: 06 October 2010

Proposed rule modification:

See attached paper.

Reasons for rejection/referral back to Rules Change Panel (if applicable):

PAPER NO. : **EMC/BD/05/2010/04(a)**

RCP PAPER NO. : **EMC/RCP/51/2010/297**

SUBJECT : **REQUIREMENT FOR MP INVOICE TO SHOW DETAILS OF EMC SETTLEMENT CLEARING ACCOUNT**

FOR : **DECISION**

PREPARED BY : **MOK XINYING
SENIOR ECONOMIST**

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

DATE OF MEETING : **3 SEPTEMBER 2010**

Executive Summary

This paper assesses the rule change proposal to remove the requirement, as stated in Section 5.8.2.4 of Chapter 7 of the market rules, for details of the EMC settlement clearing account to be shown on each invoice issued by the EMC to a market participant (MP).

Given the electronic funds transfer process in the SWEM where, in general, EMC will instruct the single clearing bank to perform the necessary electronic funds transfers – MPs usually do not need to initiate any electronic funds transfers to make settlement payments to the EMC settlement clearing account. We therefore agree with the proposer that the requirement for each invoice to show details of the EMC settlement clearing account is unnecessary – since MPs do not require this information to initiate electronic funds transfers.

Thus, we propose to delete Section 5.8.2.4 of Chapter 7 of the market rules. Our proposed modifications to the market rules, including the consequential modification which was needed, are set out in Annex 1 of this paper.

The RCP recommends that the EMC Board **adopt** this rule modification proposal.

1. Introduction

This paper assesses the rule change proposal to remove the requirement, as stated in Section 5.8.2.4 of Chapter 7 of the market rules, for details of the EMC settlement clearing account to be shown on each invoice issued by the EMC to a market participant (MP).

2. Background

Currently, Section 5.8.2.4 of Chapter 7 of the market rules requires each invoice issued by the EMC to a MP to show details of the EMC settlement clearing account¹ – including the bank name, account number and electronic funds transfer instructions – to which any amounts owed by the MP are to be paid.

This rule change proposal is based on the premise that in the Singapore Wholesale Electricity Market (SWEM), all payments in respect of settlement matters between MPs and EMC are, in general, made via electronic funds transfers instructions issued by the EMC to the single clearing bank where EMC and MPs maintain their bank accounts (including the EMC settlement clearing account and all the MPs' market participant bank accounts²).

In view of the centralized settlement platform, where the EMC will instruct the clearing bank to debit / credit settlement payments from / into the MPs' market participant bank accounts, the proposer felt that the requirement to show details of the EMC settlement clearing account on each MP invoice is redundant. Thus it was proposed that Section 5.8.2.4 of Chapter 7 of the market rules be deleted.

3. Analysis

The market rules (Section 5.10.1 and 5.10.2, Chapter 7) provide that all payments in respect of settlement matters, between MPs and the EMC, shall be made via electronic funds transfer to, respectively, the applicable EMC bank account (i.e. the EMC settlement clearing account) and each MP's market participant bank account.

As the market rules (Section 5.16.2 and 5.16.10, Chapter 7) require that the EMC maintain its bank accounts at a single bank or financial institution in Singapore, which is approved by the EMC Board, and that each MP shall maintain a market participant bank account at this same bank of financial institution – effectively, the EMC settlement clearing account and all the MPs' market participant bank accounts are maintained at a single bank. The EMC is also authorized to direct debit each MP's market participant bank account³. In practice, such a set-up allows the EMC to instruct the single clearing

¹ Section 1.1.89 of Chapter 8 defines the EMC settlement clearing account as “the bank account operated by the EMC for holding settlement payments...made to the EMC” – Section 5.16.6 of Chapter 7 further describes the EMC settlement clearing account as “a single bank account to and from which all settlement payments shall be made”.

² Section 1.1.141 of Chapter 8 defines a market participant bank account as “a bank account designated by (a) market participant as the bank account from and into which settlement payments are made”.

³ Section 9.1.2 of the Market Operations Market Manual – Settlement requires that “each MP shall arrange with the clearing bank to authorize the EMC to direct debit (the MP's market participant) bank account”.

bank to perform the necessary electronic funds transfers (i.e. to debit / credit settlement payments from / into the MPs' market participant bank accounts on the respective payment dates) to facilitate the settlement and clearing of the SWEM⁴.

Given the electronic funds transfer process in the SWEM where, in general, EMC will instruct the single clearing bank to perform the necessary electronic funds transfers – we recognize that MPs usually do not need to initiate any electronic funds transfers to make settlement payments (i.e. amounts payable by MPs) to the EMC settlement clearing account. It therefore seems reasonable to agree that the requirement for each invoice to show details of the EMC settlement clearing account is unnecessary – since MPs do not require this information to initiate electronic funds transfers.

However, we note that the market rules do allow for a situation where a MP may initiate settlement payments to the EMC settlement clearing account. As stated in Section 5.9.2 of Chapter 7, a MP may pay at an earlier date than the market participant payment date on condition that it submits a prepayment notification to the EMC specifying the dollar amount to be prepaid. We understand from the EMC settlement team that such prepayments have been in response to margin calls⁵ – details of the EMC settlement clearing account will be included, in either the margin call letter or a subsequent email, so that the MP has the necessary information to initiate an electronic funds transfer to make this prepayment. In addition, Section 9.1.1 of the Market Operations Market Manual – Settlement requires the EMC's bank account information to be made available on the EMC website. As such, an MP will also be able to obtain from the EMC website the necessary information to initiate an electronic funds transfer.

4. Legal sign-off

Text of the rule modification has been vetted by EMC's legal counsel, to reflect the intent of the rule modification proposal.

5. Consultation

EMC published this paper for consultation on 27 July 2010. We received a comment from Senoko Energy – the comment and our response is shown below:

Senoko Energy's comment

We have no objection to the proposed rule change.

EMC's response

We note that Senoko Energy does not object to the proposed rule change.

⁴ The electronic funds transfer process in the SWEM is described in Section 9.2 of the Market Operations Market Manual – Settlement.

⁵ Margin calls are issued by the EMC to MPs, in accordance with section 7.4 of Chapter 2 of the market rules.

6. Conclusion

Given the electronic funds transfer process in the SWEM where all payments in respect of settlement matters between MPs and EMC are, in general, made via electronic funds transfers instructions issued by the EMC to the single clearing bank where EMC and MPs maintain their bank accounts – we recognize that MPs usually do not need to initiate any electronic funds transfers to make settlement payments to the EMC settlement clearing account. It therefore seems reasonable to agree that the requirement for each invoice to show details of the EMC settlement clearing account is unnecessary – since MPs do not require this information to initiate electronic funds transfers.

Thus, we propose to delete Section 5.8.2.4 of Chapter 7 of the market rules. Our proposed modifications to the market rules, including the consequential modification which was needed, are set out in Annex 1 of this paper.

7. Recommendation

The RCP unanimously recommend that the EMC Board:

- a. **support** the rule modification proposal to delete Section 5.8.2.4 and amend Section 5.16.6 of Chapter 7 of the Market Rules as set out in Annex 1; and
- b. **adopt** the rule modification proposal in Annex 1.
- a. **seek** EMA's approval of the modification proposal as set out in Annex 1; and
- c. **recommend** that the modification proposals as set out in Annex 1 come into force one business day after the date on which the approval of the Authority is published by the EMC.

Annex 1: PROPOSED MODIFICATIONS TO THE MARKET RULES

Existing Rules (as of 1 January 2010)	Proposed Rules (Deletions represented by strikethrough text and additions underlined)	Reason for Modification
<p>Section 5.8.2.4, Chapter 7</p> <p>5.8.2 Each <i>invoice</i> issued by the <i>EMC</i> to a <i>market participant</i> shall show:</p> <p>5.8.2.4 details of the <i>EMC settlement clearing account</i>, including the bank name, account number and <i>electronic funds transfer</i> instructions, to which any amounts owed by the <i>market participant</i> are to be paid in accordance with section 5.8.2.2.</p>	<p>Section 5.8.2.4, Chapter 7</p> <p>5.8.2 Each <i>invoice</i> issued by the <i>EMC</i> to a <i>market participant</i> shall show:</p> <p>5.8.2.4 details of the <i>EMC settlement clearing account</i>, including the bank name, account number and <i>electronic funds transfer</i> instructions, to which any amounts owed by the <i>market participant</i> are to be paid in accordance with section 5.8.2.2.</p>	<p>The requirement for each invoice to show details of the EMC settlement clearing account is unnecessary – MPs do not need this info as MPs usually do not need to initiate any electronic funds transfers to make settlement payments to the EMC settlement clearing account.</p>
<p>Section 5.16.6, Chapter 7</p> <p>The <i>EMC</i> shall open and maintain the <i>EMC settlement clearing account</i> as a single <i>bank account</i> to and from which all <i>settlement</i> payments shall be made in accordance with the provisions of this Chapter and the details of which shall appear in the <i>invoices</i> sent by the <i>EMC</i> to <i>market participants</i> as provided in section 5.8.2.4.</p>	<p>Section 5.16.6, Chapter 7</p> <p>The <i>EMC</i> shall open and maintain the <i>EMC settlement clearing account</i> as a single <i>bank account</i> to and from which all <i>settlement</i> payments shall be made in accordance with the provisions of this Chapter and the details of which shall appear in the <i>invoices</i> sent by the <i>EMC</i> to <i>market participants</i> as provided in section 5.8.2.4.</p>	<p>Consequential rule change, in line with the proposed deletion of Section 5.8.2.4 of Chapter 7 of the market rules.</p>