Notice of Market Rules Modification

Paper No.: EMC/RCP/52/2010/293
Rule Reference: Market Rules/Chapter 2 Section 12.1.1, 12.1.1.1, 12.1.3 to 12.1.6 and 12.1.7
Proposer: Energy Market Authority
Date Received by EMC: 06 January 2010
Category Allocated: 3
Status: Approved By EMA
Effective Date: 9 December 2010

Summary of Proposed Rule Modification:
This rule change proposal is to remove the requirement for the PSO to submit its proposed expenditure and revenue requirements, and schedule of fees to the RCP for review 90 days before the FY. Rather, the proposed expenditure and revenue requirements and schedule of fees will be submitted for information 30 days before the FY.

At the 49th RCP Meeting, the Panel voted to support the proposed rule change to remove the requirement for the Panel to review PSO budget, subject to:

a) the PSO instead publish its proposed expenditure and revenue requirements and schedule of the fees to the Market Participants and the public for comments; and

b) PSO’s schedule of fees taking into account the over/under recovery of the previous year’s expenditure

Date considered by Rules Change Panel: 02 November 2010
Date considered by EMC Board: 16 November 2010
Date considered by Energy Market Authority: 08 December 2010

Proposed rule modification:
See attached paper.

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

This paper assess the rule change proposal to remove the requirement for the PSO to submit its proposed expenditure and revenue requirements, and schedule of fees to the RCP for review 90 days before the FY. Rather, the proposed expenditure and revenue requirements and schedule of fees will be submitted for information 30 days before the FY.

At the 49th RCP Meeting, the Panel voted to support the proposed rule change to remove the requirement for the Panel to review PSO budget, subject to:

a) the PSO instead publish its proposed expenditure and revenue requirements and schedule of the fees to the Market Participants and the public for comments; and

b) PSO’s schedule of fees taking into account the over/under recovery of the previous year’s expenditure

Based on the rule changes drafted by the EMC, the EMA proposed additional refinements for the RCP’s consideration at its 51st meeting. At that meeting, the RCP supported the proposed rule changes in principle. These rule changes incorporating EMA’s refinements were published for comments on 06 September 2010, and no comments were received.

The RCP unanimously recommends that the EMC Board adopt the proposed rule modifications as set out in Annex 1.
1. **INTRODUCTION**

This paper assesses the rule change proposal from the PSO, to remove the requirement for the RCP to review PSO’s annual budget and fees.

2. **BACKGROUND**

Currently, the PSO is wholly funded by imposing PSO fees over the energy injection and withdrawal quantities (IEQ and WEQ) in the wholesale market. Since PSO’s budget is recovered from the industry, rather than funded by the Singapore Government, the market rules provide for a channel of industry review by subjecting the PSO budget to the RCP’s review. Specifically, under Chapter 2, Section 12 of the Market Rules:

- At least 90 days before each fiscal year, the PSO shall submit its proposed expenditure and revenue requirements, and schedule of fees to the RCP for review
- The RCP shall review PSO’s submission using such procedures, in consultation with such persons, and by means of such meetings as it considers appropriate
- At least 60 days before each fiscal year, the RCP shall submit a written report to the PSO and to the Authority indicating the views of the RCP
- The PSO and the Authority shall consider, but shall not be bound by, the RCP’s report in finalising the PSO’s proposed expenditure and revenue requirements, and schedule of fees

EMC received a rule change proposal from PSO to remove the requirement for the PSO to submit its proposed expenditure and revenue requirements, and schedule of fees to the RCP for review 90 days before the FY. Rather, the PSO proposed to “publish its proposed expenditure and revenue requirements for, and a schedule of the fees that it proposed to charge during, the following Authority fiscal year for information of the Rules Change Panel and Market Participants” 30 days before the FY.

3. **ANALYSIS**

**PSO Budget Review**

PSO’s proposal predicates on its rationale that “PSO’s annual budget is part of the EMA’s annual budget that is already subject to the authority’s scrutiny and approval, and Ministry of Trade and Industry’s oversight prior to gazette. Hence, it is unnecessary for the RCP to review PSO’s annual budget and fees”.

EMC agrees with the PSO’s reasoning that since PSO’s budget is already subject to review by EMA and MTI, a robust system of checks and balance is already in place to ensure that the PSO’s budget is prudent. While the current arrangement does require an additional body, the RCP, to review the PSO’s budget, this additional review does not hinder the approval of PSO’s budget. The RCP’s review is intended to complement the approval process by providing the collective views of the industry; a bottoms-up perspective which EMA could benefit from by drawing upon the intimate industry knowledge of a cross-section of gencos, retailers, service providers and consumer representatives.
Unlike other government bodies, PSO’s budget is paid for wholly from the electricity industry rather than from the Government. Since PSO’s funding comes directly from the industry and to which it has a direct financial impact, it seems only reasonable for the industry (through the RCP) to have a formal channel to voice its opinions on the PSO budget. A PSO budget that is subject to RCP’s review should give consumers (who ultimately bear these PSO fees) greater confidence through greater transparency.

The Ministry of Finance opened up Budget 2010 for open consultation with the public¹, seeking feedback on various issues including the expenditure estimates of various ministries². Removing the requirement for PSO’s budget to be subjected to RCP’s review could be seen to be not consistent with such a development.

It is also unclear what the disadvantages to the PSO are of RCP reviewing PSO’s budget, since EMA/PSO are not ultimately bound by RCP’s comments. Thus, PSO budget’s approval process should benefit and not be made worse off by the RCP’s review. From this angle, it is hard to justify making changes to the existing arrangement.

*Projected Budget vs. Actual Expenditure*

On an associated issue, the schedule of fees charged by PSO for a given FY is based on their projected budget, which is determined at the start of the year. In the event that PSO’s budget falls short of the actual expenditure, there is no current provision in the Market Rules for the additional recovery of this shortfall. As such, the Market Rules could be amended to include a provision for the PSO to recover additional costs in the event that their expenditure exceeds their budget. Conversely, if PSO’s expenditure fell short of their budget, the Market Rules could provide for the return of this surplus to the wholesale market.

4. **INDUSTRY CONSULTATION**

This paper was published for comments, and the following comments were received:

Comments from PowerSeraya

PowerSeraya agrees that there is value in the RCP reviewing PSO’s budget and that the existing arrangement of the RCP reviewing PSO’s budget should be retained.

There is merit in changing from charging of PSO fees based on projected budget without later adjustment for under or over-recovery to providing for later adjustment for under or over-recovery, such that PSO fees are ultimately charged based on actual expenditure. When budgeting, entities need to budget for contingencies. If such contingencies do not actually happen which would generally be a positive outcome, the money catering for the contingency but now to be unspent would contribute to over-recovery. In other words due to the very nature of budgeting, there is a natural tendency towards over-recovery for charging of fees based on projected budget. By incorporating a later adjustment for under or over-recovery, one would expect on average lower PSO fees which would benefit consumers through lower electricity prices than would otherwise be the case.

EMC’s Response

¹ http://app2.mof.gov.sg/budget_2010/post_feedback.asp
EMC notes PowerSeraya's comments.

Comments from Senoko Energy

RCP Review of the PSO Budget

The PSO is an important service provider to the Singapore electricity industry. The market rules currently provide a channel for the industry, in the form of the RCP’s annual review, to provide its views on the PSO’s proposed expenditures, revenues and fees prior to these items being finalised. Such a mechanism is important given that the PSO’s expenditures are funded by the industry and its services are provided on a non-contestable basis.

However, if the RCP is given insufficient information to conduct its review adequately, or if the RCP’s views are unable to be taken into account by the EMA and the Ministry of Trade and Industry when finalising the PSO’s budget, then it is not useful to require the RCP to conduct the review as currently outlined in the market rules.

Projected budget versus actual expenditure

As a service provider funded by industry it is appropriate for the PSO to operate on a regulated cost-recovery basis. Hence, there should be a mechanism to wash-up any material differences between the fees recovered and actual expenses incurred accompanied by a report explaining the reasons for such differences.

EMC’s Response

EMC notes Senoko Energy’s comments.

5. DISCUSSION BY THE RCP

At the 49th RCP Meeting, the Panel voted to support the proposed rule change to remove the requirement for the Panel to review PSO budget, subject to:

a) the PSO instead publish its proposed expenditure and revenue requirements and schedule of the fees to the Market Participants and the public for comments; and

b) PSO’s schedule of fees taking into account the over/under recovery of the previous year’s expenditure

At the following 50th RCP Meeting, the Panel asked EMC to table the proposed rule changes per its decision at the upcoming RCP meeting. However, the EMA proposed additional refinements to the proposed rule changes for the RCP’s consideration at its 51st meeting. The rule changes incorporating EMA’s refinements are included in the Annex 1, and a summary of the key changes are given in the table overleaf:
<table>
<thead>
<tr>
<th>Section</th>
<th>Amendment</th>
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</table>
| Chapter 2, Section 12.1.1 (Existing) | • To remove the reference to market commencement  
• The PSO shall publish budget 60 days instead of 90 days before start of FY  
• Budget shall publish proposed expenditure/revenue/schedule of fees once every 5 years (starting this coming FY), rather than once every year  
• Budget shall be published on EMA’s website  
• All interested persons can make written submissions in respect of published expenditure/revenue/schedule of fees |
| Chapter 2, Section 12.1.2 (Existing) | • To remove the reference to market commencement |
| Chapter 2, Section 12.1.3, 12.1.4, 12.1.5 (Existing) | • To remove the requirement for the RCP to review and report on the PSO’s proposed expenditure/revenue/schedule of fees |
| Chapter 2, Section 12.1.6 (Existing) | • To require the EMA/PSO to consider, but not bound by, the written submissions from any interested persons pursuant to Section 12.1.1, instead of the RCP’s report  
• To renumber to 12.1.2 |
| Chapter 2, Section 12.1.7 (Existing) | • After EMA’s approval, PSO to publish finalised 5-year expenditure/revenue/schedule of fees on EMA’s website  
• To renumber to 12.1.3 |
| Chapter 2, Section 12.1.4 (New) | • After end of each FY, PSO shall determine if actual expenditure is more than published expenditure (“under-recovery”) or less than published expenditure (“over-recovery”)  
• Arising from events/circumstances/factors not anticipated by EMA/PSO at publication of PSO’s expenditure/revenue/schedule |
| Chapter 2, Section 12.1.5 (New) | • Over/Under-recovery shall be made good through increase/reduction in PSO fees over remainder of 5-yr fiscal period or longer  
• PSO shall revise and publish revised schedule of fees, which shall supersede previously published schedule of fees  
• Recovery period and revision to schedule of fees subject to EMA’s approval |
| Chapter 7, Section 4.2.3 (Existing) | • Rules on EMC’s recovery of PSO’s administrative costs amended to align with proposed changes to Section 12.1 |

The RCP at its 51st meeting supported in principle the proposed rules changes in Annex 1. The draft rule changes in the Annex 1 were subsequently published for comments on 06 September 2010, and no comments were received.
6. **LEGAL SIGN OFF**

The text of the rule modification has been vetted by EMC’s external legal counsel, whose opinion is that the modification reflects the intended purposes as stated in the third column of the Table in Annex 1, entitled “Reasons for Rule Change”.

7. **DELIBERATION BY THE RCP**

At the 52nd RCP meeting, the RCP considered the proposed rule modifications and unanimously supported the proposed rule modifications.

8. **RECOMMENDATION**

The RCP recommends that the EMC Board:

a. adopt the rule modification proposal as set out in Annex 1;

b. recommend that the rule modification proposal come into force **one business day** after the date on which the approval of the Authority is published by the EMC.
## Proposed Rules to Remove Requirement for the RCP to Review PSO’s Budget

### Current Market Rules (1 January 2010)

<table>
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<th>CHAPTER 2</th>
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<tr>
<td>12.1.1 Subject to section 12.1.2, the PSO shall, no less than 90 days before the beginning of each fiscal year of the Authority that commences following the market commencement date:</td>
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<tr>
<td>12.1.1.1 submit its proposed expenditure and revenue requirements for, and a schedule of the fees that it proposed to charge during, the following Authority fiscal year to the rules change panel for review.</td>
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### Proposed Rule Changes

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<tr>
<td>12.1.1 Subject to section 12.1.2, The PSO shall, no less than 90 days before the beginning of each consecutive period of 5 consecutive fiscal years of the Authority (each such period referred to as “Authority fiscal year” respectively, in this section 12 and in section 4.2.3 of Chapter 7), that commences following the market commencement date: publish on the Authority’s web site:</td>
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<td>12.1.1.1 the PSO’s proposed expenditure and revenue requirements, and a schedule of the fees that the PSO proposes to charge for the recovery of the PSO’s administrative costs, in respect of that 5-fiscal year period, and</td>
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<td>12.1.1.2 an invitation to all interested persons to make written</td>
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### Reasons for Rule Change

- To remove the reference to market commencement date in section 12.1.1.
- To require the PSO to publish on the Authority’s web site (at least 60 days before each consecutive period of 5 consecutive fiscal years of the Authority) (1) the PSO’s proposed expenditure and revenue requirements and a schedule of fees that the PSO proposes to charge, in respect of that period of 5 consecutive fiscal years of the Authority, and (2) an invitation to interested persons to make written submissions in respect of the proposed expenditure and revenue requirements and schedule of fees within a reasonable period specified in the invitation.
| Current Market Rules  
(1 January 2010) | Proposed Rule Changes  
(Deletions represented by strikethrough text and additions represented by double underlined text) | Reasons for Rule Change |
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<td>12.1.1 submit its proposed expenditure and revenue requirements and schedule of fees, within a reasonable period specified in the invitation.</td>
<td>submissions to the PSO in respect of such proposed expenditure and revenue requirements and schedule of fees, within a reasonable period specified in the invitation.</td>
<td>To delete section 12.1.2 now that the market has commenced.</td>
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<td>12.1.2 Section 12.1.1 shall not apply in respect of the first Authority fiscal year that commences after the market commencement date unless the Authority determines that such section should apply.</td>
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| 12.1.3 The rules change panel shall review the PSO’s proposed expenditure and revenue requirements for, and a schedule of the fees that it proposes to charge during, the applicable Authority fiscal year:  
12.1.3.1 using such procedures; | 12.1.3 The rules change panel shall review the PSO’s proposed expenditure and revenue requirements for, and a schedule of the fees that it proposes to charge during, the applicable Authority fiscal year:  
12.1.3.1 using such procedures; | To remove the requirement for the rules change panel to review and report on the PSO’s proposed expenditure and revenue requirements, and schedule of fees, which is set out in the existing sections 12.1.3 and 12.1.4, and to delete the related section 12.1.5. |
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<tr>
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<td>12.1.3.2 in consultation with such persons; and 12.1.3.3 by means of such meetings, as it considers appropriate.</td>
<td>12.1.3.2 in consultation with such persons; and 12.1.3.3 by means of such meetings, as it considers appropriate.</td>
<td>See “Reason for Rule Change” in respect of section 12.1.3 above.</td>
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<td>12.1.4 Following the conclusion of the review referred to in section 12.1.3, the rules change panel shall, within the time referred to in section 12.1.5, submit a written report to the PSO and to the Authority indicating: 12.1.4.1 the views of the rules change panel with respect to the subject matter of the review.</td>
<td>12.1.4 Following the conclusion of the review referred to in section 12.1.3, the rules change panel shall, within the time referred to in section 12.1.5, submit a written report to the PSO and to the Authority indicating: 12.1.4.1 the views of the rules change panel with respect to the subject matter of the review.</td>
<td>See “Reason for Rule Change” in respect of section 12.1.3 above.</td>
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<td>12.1.5 The report referred to in section 12.1.4 shall be submitted to the PSO and to the Authority no later than the date that is 60 days before the beginning of the Authority fiscal year to which the report relates.</td>
<td>12.1.5 The report referred to in section 12.1.4 shall be submitted to the PSO and to the Authority no later than the date that is 60 days before the beginning of the Authority fiscal year to which the report relates.</td>
<td>See “Reason for Rule Change” in respect of section 12.1.3 above.</td>
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<td>12.1.6 The PSO and the Authority shall consider, but shall not be bound by, the contents of the report referred to in section 12.1.4 in finalising the PSO’s proposed expenditure and revenue requirements for, and a schedule of the fees that it proposes to charge during, the Authority fiscal year to which the report relates.</td>
<td>12.1.26 The PSO and the Authority shall consider, but shall not be bound by, the contents of the report referred written submissions made pursuant to section 12.1.4 in finalising the PSO’s proposed expenditure and revenue requirements for, and a schedule of the fees that it proposes to charge during, the Authority fiscal year for any 5-fiscal year period to which the report written submissions relates.</td>
<td>Editorial change – to re-number section 12.1.6 as the new section 12.1.2. To require the Authority and PSO to consider (but not be bound by) the written submissions received through the consultation process pursuant to Section 12.1.1, instead of the report of the rules change panel referred to in the existing section 12.1.4.</td>
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12.1.7 Once the Authority has finalised the PSO’s proposed expenditure and revenue requirements and the PSO’s schedule of fees for a given Authority fiscal year, including a fiscal year to which section 12.1.2 applies, the PSO shall provide the schedule of fees to the EMC. The EMC shall thereafter publish such schedule of fees as soon as reasonably practicable. | 12.1.32 Once the Authority has finalised the PSO’s proposed expenditure and revenue requirements and the PSO’s schedule of fees for a given Authority fiscal year, including a fiscal year to which section 12.1.2 applies, 5-fiscal year period, the PSO shall provide the schedule of fees to the EMC. The EMC shall thereafter publish such schedule of fees as soon as reasonably practicable, prior to the start of that 5-fiscal year period, publish on the Authority’s website the PSO’s expenditure and revenue requirement, and schedule of fees for a given 5-fiscal year period, upon being finalised by the Authority. To require the PSO to provide a copy of such published schedule of fees to the EMC. | Editorial change – to re-number section 12.1.7 as the new section 12.1.3. To require the PSO to publish, on the Authority’s web site, the PSO’s expenditure and revenue requirement, and schedule of fees for a given 5-fiscal year period, upon being finalised by the Authority. To require the PSO to provide a copy of such published schedule of fees to the EMC. |
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<td>New section</td>
<td>12.1.4 As soon as reasonably practicable after the end of each Authority fiscal year, the PSO shall determine whether, due to events, circumstances or factors not anticipated by the Authority or the PSO at the time that the PSO’s expenditure and revenue requirements and schedule of fees applicable to such Authority fiscal year were published pursuant to section 12.1.3, the PSO’s actual expenditure for such Authority fiscal year is:</td>
<td>To require the PSO to determine, as soon as reasonably practicable after the end of each Authority fiscal year, whether there was any under-recovery (as described in the new section 12.1.4.1) or over-recovery (as described in the new section 12.1.4.2) in such Authority fiscal year, due to events, circumstances or factors which were not anticipated by the Authority or the PSO at the time that the PSO’s expenditure and revenue requirements and schedule of fees, applicable to such previous Authority fiscal year, were published pursuant to section 12.1.3.</td>
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<td>New Section</td>
<td>12.1.5 If there is any under-recovery or over-recovery as described in section 12.1.4, the PSO shall seek recovery of the under-</td>
<td>To require the PSO to seek recovery of any under-recovery (as described in the new 12.1.4.1) through increased PSO’s</td>
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<td>recovery through increased PSO’s fees, or seek to apply the over-recovery towards reduction of PSO’s fees, over the remainder of the current 5-fiscal year period, or such longer period of time as the Authority may approve. If the prevailing schedule of fees for the remainder of the current 5-fiscal year period is required to be revised for this purpose, the PSO shall, as soon as reasonably practicable, with the Authority’s approval, revise and publish on the Authority’s web site, the PSO’s revised expenditure and revenue requirements and schedule of fees. The PSO shall provide a copy of such published revised schedule of fees to the EMC. Each such revised schedule of fees shall, when published by the PSO, take effect with respect to the remainder of the relevant 5-fiscal year period and shall, for the remainder of the relevant 5-fiscal year period, supersede any prior schedule of fees published by the PSO in respect of the remainder of the relevant 5-fiscal year period.</td>
<td>fees, or seek to apply any over-recovery (as described in the new 12.1. 4.2) towards reducing the PSO’s fees, either over the remainder of that 5-fiscal year period in which such under-recovery or over-recovery occurs, or over such longer period of time as the Authority may approve. Where the prevailing schedule of fees for the remainder of the current 5-fiscal year period is required to be revised for this purpose, to require the PSO to revise and publish on the Authority’s web site, the PSO’s revised expenditure and revenue requirements and schedule of fees, with the Authority’s approval. To require the PSO to provide a copy of such published revised schedule of fees to the EMC. To state that the revised schedule of fees takes effect with respect to the remainder of the relevant 5-fiscal year period, when published by the PSO. To state that the revised schedule of fees shall, on publication by the PSO, supersede any prior schedule of fees</td>
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<td><strong>CHAPTER 7</strong></td>
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<td>4.2.3 The <em>EMC</em> shall recover, on behalf of the <em>PSO</em>, the <em>PSO</em>’s administrative costs in any <em>Authority</em> fiscal year by means of the imposition of fees on each applicable <em>market participant, market support services licensee</em> and other person. Such <em>PSO</em> fees shall be levied in such manner, at such times, in such amounts and on such <em>market participants, market support services licensees</em> and other persons as may be specified in the <em>PSO</em>’s schedule of fees published by the <em>EMC</em> pursuant to section 12.1.7 of Chapter 2 for that <em>Authority</em> fiscal year. Where and to the extent the manner, time or amount of any such <em>PSO</em> fees or the persons on which such <em>PSO</em> fees are to be levied is not specified in such <em>PSO</em> schedule of fees, the <em>EMC</em> shall recover such <em>PSO</em> fees in such manner, at such times, in such amounts or on such persons as may be directed by the <em>Authority</em> or, in the absence of any such direction, such <em>PSO</em> fees shall be levied by the <em>EMC</em> published by the <em>EMC</em> pursuant to under section 12.1.7 of Chapter 2 for as may be applicable to that <em>Authority</em> fiscal year. Where and to the extent the manner, time or amount of any such <em>PSO</em> fees or the persons on which such <em>PSO</em> fees are to be levied is not specified in such <em>PSO</em>’s schedule of fees, the <em>EMC</em> shall recover such <em>PSO</em> fees in such manner, at such times, in such amounts or on such persons as may be directed by the <em>Authority</em> or, in the absence of any such direction, such <em>PSO</em> fees shall be levied by the <em>EMC</em> published by the <em>EMC</em> pursuant to under section 12.1.7 of Chapter 2 for as may be applicable to that <em>Authority</em> fiscal year.</td>
<td>To remove reference to the schedule of fees being published by the <em>EMC</em>, and to include a reference to the revised schedule of fees that may be published by the <em>PSO</em>.</td>
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Published by the *PSO* in respect of the remainder of the relevant 5-fiscal year period.
| **Current Market Rules**  
| (1 January 2010) | **Proposed Rule Changes**  
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|---|---|---|
| of such direction, as the *EMC* determines appropriate on the basis and consistent with such *PSO* schedule of fees. | such *PSO* fees in such manner, at such times, in such amounts or on such persons as may be directed by the *Authority* or, in the absence of such direction, as the *EMC* determines appropriate on the basis of and consistent with such *PSO's* schedule of fees. | |