



CONSULTATION PAPER

PROPOSED MODIFICATION TO EMA'S PROCEDURES FOR CALCULATING THE FUEL COST INDEX FOR THE PURPOSE OF COMPUTING THE QUARTERLY VESTING PRICE

Closing date for submissions of comments and feedback:
31 January 2008

Note: There will be no extension of deadline beyond 31 January 2008, 5 pm

2 JAN 2008

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Disclaimer:

The information in this Consultation Paper is not to be treated by any person as any kind of advice. The Energy Market Authority shall not be liable for any damage or loss suffered as a result of the use of or reliance on the information given in this Consultation Paper.

1 Introduction

- 1.1 Vesting contracts were implemented on 1 January 2004. The vesting contracts commit the generation companies to sell a specified amount of electricity at a specified price (vesting price).
- 1.2 The vesting price is reviewed once every 2 years. Within each 2 year period, the price is recalculated by the Market Support Services Licensee (MSSL) every 3 months by applying the adjustment indices for the fuel oil price (“fuel cost index”), the capital cost of plant and the operating costs. The purpose of the quarterly review is to update the vesting price for changes in fuel oil and other specified costs, and to take into account the impact of inflation.

2 Existing Procedures

- 2.1 Under the existing procedures set out in EMA's document: “EMA's Procedures for Calculating the Components of the Vesting Contract”, the Fuel Cost Index is calculated each quarter using the average 3-month forward fuel oil price. The average 3-month forward fuel oil prices will be determined using the 3-month forward fuel oil prices transacted or quoted at the Intercontinental Exchange (ICE) in the first month of the preceding quarter for the quarter for which vesting price is to be calculated.
- 2.2 For calculating the average 3-month forward fuel oil prices for purpose of vesting price computation, the Authority will use the average of:
 - (i) the daily weighted average of consummated trades for those days where there are consummated trades; and
 - (ii) the daily average ask prices of concurrent bid/ask (with a spread not exceeding US\$2) for those days where there are no trades,for the month defined in paragraph 2.1.
- 2.3 ICE, the provider of fuel oil price information for vesting price computation, will set a minimum 15 seconds validation period for the concurrent bid/ask. EMA will not consider those days where there are no concurrent bid/ask with a spread not exceeding US\$2.

2.4 For the purpose of calculating the daily average prices as described in paragraph 2.2, EMA will use the 3-month forward fuel oil prices transacted or quoted in the relevant days between 10am to 6pm Singapore time (“window timing”).

3 Proposed changes by ICE

3.1 ICE has recently proposed that the window timing be amended from 10am to 6pm Singapore time to 4.30pm to 5.30pm Singapore time. This means that only forward fuel oil prices transacted or quoted in the relevant days between 4.30pm to 5.30pm Singapore time will be used for the purpose of calculating the daily average prices as described in paragraph 2.2.

3.2 According to ICE, the proposed change in the window timing will have the following benefits:

- The proposed new timing for the window comes after Platt's trading window. Platts publishes daily prices for Asian crude oil and refined products, which are used as pricing benchmarks for buying and selling crude, gasoline, diesel, and other fuel oils. These daily prices are derived based on close-of-market trading for a 30-minute trading window each weekday in Singapore from 4pm to 4.30pm. With the proposed new timing for the window, the market will have a clearer indication of where the fair value for the fuel oil is.
- The London market will be open during the proposed new timing for the window, which will allow for better liquidity and hence more reflective prices.
- Reduction of the likelihood of manipulation of the 3-month forward fuel oil prices for vesting price calculation if the window timing is constrained to an hour as market will police itself with traders focusing their trading activities in that 1-hour period.

4 Request for comments and feedback

4.1 EMA invites comments and feedback on the proposed modification as set out in paragraph 3.1.

4.2 Please send your submission by e-mail to:

**teo_nan_shing@ema.gov.sg, and
tan_kheng_whee@ema.gov.sg**

Alternatively, you may send your submission by post/fax to the following address:

Director (Market)
Regulation Division
Energy Market Authority
111 Somerset Road, #15-05
Singapore 238164.
Fax: (65) 6 835 8084

- 4.3 Anonymous submission will not be considered.
- 4.4 Clarification, if any, with regards to the proposed modification should reach EMA by 5 pm on 9 January 2008.
- 4.5 All comments and feedback must reach EMA by 5 pm on 31 January 2008.
- 4.6 EMA will acknowledge receipt of all submissions electronically. Please contact Ms Tan Kheng Whee or Mr Teo Nan Shing if you have not received an acknowledgement of your submission within two business days.
- 4.7 EMA reserves the right to make public all or parts of any written submissions made in response to this Consultation Paper and to disclose the identity of the source. Any part of the submission, which is considered by respondents to be confidential, should be clearly marked and placed as an annex. EMA will take this into account regarding disclosure of the information submitted.

5 Indicative Timeline

5.1 According to Section 3.10 of “EMA’s Procedures for Calculating the Components of the Vesting Contract”, EMA is to consult all vesting contract holders at least 3 month in advance of the change taking effect. In view of that, the indicative timeline is as follows:

2 Jan 08	EMA posts consultation paper on website for public consultation
End Jan 08	Deadline for submission of feedback/comments
Mid Feb 08	EMA notifies vesting contract holders on its decision
Apr 08	Changes in the procedures, if any, will take effect from Apr 08 for computation of Q3 (Jul to Sep) 2008 vesting price.

~ End ~