



DECISION PAPER

EXEMPTION OF EMBEDDED GENERATING UNITS IN OPERATION PRIOR TO 1 JANUARY 2003 FROM THE LICENSING REQUIREMENT UNDER THE ELECTRICITY ACT

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Background

EMA had in Dec 2002 exempted seven companies from the requirement to hold a Generation Licence under the Electricity Act.¹

2 The exemption from the licensing requirement was granted on the consideration that these companies had made their decisions to invest in their generating units before the new licensing requirements under the Electricity Act came into effect on 1 Jan 03. The exemption was made conditional that the companies are not allowed to increase their respective generation capacity beyond that as at 1 Jan 03.²

Request of some “exempt” companies

3 Some of the “exempt” companies have informed EMA that they are considering expanding their business in Singapore. As part of their business model, they intend to install new embedded generating units. They have requested that they be allowed to install the new generating units, which will be licensed under the Electricity Act. They have requested that their generating units installed before 1 Jan 2003 continue to be exempted from licensing requirements.

4 EMA’s initial assessment was to accede to the above request and allow the exempted companies to retain their exemption status for their existing generating units in operation before 1 Jan 2003 and to install new generating units. The new generating units will not be exempted from licensing requirements. EMA’s considerations are that:

- (a) The exemption given to these companies was on consideration that the companies had made their decisions to invest in their existing generating units without the intent to participate in the market and before the new licensing requirements under the Electricity Act came into effect on 1 Jan 2003. This is not changed by the companies wanting to install new generating sets.
- (b) However, the companies in making their decisions whether to invest in new generating units would be fully aware of the licensing requirements under the Electricity Act. The new units should therefore not be exempted from the licensing requirements.

¹ The 7 companies are Shell Eastern Petroleum (Pte) Ltd; Petrochemical Corporation of Singapore (Private) Ltd; Singapore Refining Company Private Limited; Anhydride Manufacturing Pte Ltd; Singapore Syngas Pte Ltd; Ellba Eastern (Pte) Ltd and ExxonMobil Asia Pacific Pte Ltd.

² The Exemption Order, which took effect on 1 Jan 2003, is available at:

http://www.ema.gov.sg/doc/electricity_gen_and_retail_lic_exemption_order_2002.pdf

Public Consultation

5 EMA has sought the public's views on this.³

6 Six exempted companies and five generation companies ("gencos") who responded to the Consultation gave diametrically opposite views. On the one hand, the exempted companies commented that all their existing and new embedded generating units should be exempted from licensing requirements. On the other hand, the gencos commented that the current exemption must be withdrawn upon the company installing new generating units.

7 In view of the diametrically opposite feedbacks, EMA had engaged a consultant, Frontier Economics Pty Ltd ("Frontier"), to provide expert opinion on the appropriate treatment of the exempted companies' existing and new embedded generating units. Frontier's final report, after taking into consideration the comments and feedback from the industry on its initial report, is attached at the Appendix.

Frontier's Recommendations

8 Frontier has recommended that all exempted companies be allowed to install new generating units without losing the exemption status of their existing generating units. Frontier explained that to do otherwise, i.e. to tie the end of exemption status to any investment by the exempted company in additional generating units, would be to create a barrier to new investment in generating units by the company. This would result in an economically inefficient outcome, as it can potentially distort the company's decision whether to invest in new generating units to generate electricity for their own use or to buy electricity from the wholesale market.

9 Frontier also recommended that the exempted companies' new generating units be subject to the same licensing requirements as other generation licensees. This would then place the exempted companies new generating units on a "level playing field" with the new generating units of other companies.

10 Frontier has also recommended that the exemption status of the existing generating units be removed when the generating units are replaced or retired to place the exempted companies on a "level playing field" with other companies in terms of the costs of new generation investment. Frontier's assessment is that, when the existing generating units are replaced or retired, extending exemption status to their replacement generating units would make investment in the replacement units by the exempted companies *more attractive* than new investment by any other company. This is likely to promote inefficient replacement embedded investment by the exempted companies.

11 Frontier's response to the gencos' and the exempted companies' comments on its recommendations is given in Section 4 of its report attached at the Appendix.

³ EMA's Consultation Paper is available at:

http://www.ema.gov.sg/doc/consult_paper_exemption_order_26apr05.pdf

12 EMA notes that while the incumbent generation companies (PowerSeraya, Senoko Power and Tuas Power)⁴ and the exempted companies continue to express diametrically opposite views, two of the gencos (viz. Keppel and IPC) agree with Frontier's recommendations.

EMA's Assessment and Decision

13 EMA has evaluated Frontier's recommendations as well as its response to the gencos' and the exempted companies' comments on those recommendations. EMA's assessment is that Frontier's recommendations are on sound basis.

14 In the light of the above, EMA hereby makes the following decision to allow each exempted company to:

- (a) Install new generating units. The new generating units will be subject to the licensing requirements under the Electricity Act;
- (b) Retain its exemption status for all its existing generating units in operation before 1 Jan 03, subject to the following conditions:
 - (i) the company shall not inject electricity generated from the said generating units into the transmission system;
 - (ii) the company shall not register the said generating units under the market rules for the purpose of trading in the wholesale electricity market; and
 - (iii) the company shall comply with any code of practice and direction issued, approved or given by the Authority under sections 16 and 17 of the Act, respectively.

For the avoidance of doubt, the exemption status for each of the company's existing generating units in operation before 1 Jan 03 will cease (i.e. no longer apply) upon the retirement of the generating unit. Any new generating units of the company will be subject to the licensing requirement under the Electricity Act.

~ End ~

⁴ SembCorp Cogen did not comment on Frontier's recommendations.