



**RESPONSE TO INDUSTRY'S FEEDBACK ON PA CONSULTING'S DRAFT REPORT
"REVIEW OF THE VESTING CONTRACT LEVEL AND PERIOD WEIGHTING FACTORS FOR
THE PERIOD 1 JANUARY 2011 TO 31 DECEMBER 2012"**

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1. On 13 September 2010, EMA circulated PA Consulting's draft report "Review of the Vesting Contract Level and Period Weighting Factors for the period 1 January 2011 to 31 December 2012". The industry was invited to provide its feedback on PA Consulting's draft report by 24 September 2010. EMA's and PA Consulting's response to the industry feedback is set out in Appendix 1.

APPENDIX 1: EMA'S AND PA CONSULTING'S RESPONSE TO INDUSTRY'S FEEDBACK

NO.	INDUSTRY'S FEEDBACK	EMA'S AND PA CONSULTING'S RESPONSE
INCREASE IN VESTING CONTRACT LEVEL FOR 2011		
1	<p>PowerSeraya</p> <ul style="list-style-type: none"> For ease of planning and greater certainty for Gencos, PowerSeraya prefers that the Vesting Contract level be maintained at 55% for 2011 and 2012 even with the entry into commercial operation of the Tuas Tembusu complex and Senoko Energy's repowering units. 	<ul style="list-style-type: none"> The sole objective of the Vesting Contract regime is to effectively curb the potential exercise by the Gencos of their market power in the wholesale electricity market. To achieve this objective EMA will, in consultation with the industry, review and reset the vesting level every two years based on supply and demand projections at the point of review as clearly stated in Section 3.4.1 of the "EMA's Procedures for Calculating the Components of the Vesting Contracts" ("EMA's Procedures"). There is a need to increase the Vesting Contract level in 2011 in response to the tight market conditions, as there is greater potential for market power to be exercised in such situations. This increase is in line with the objective of the Vesting Contract regime, which is to effectively curb the potential exercise of market power by the Gencos in a highly concentrated generation market. However, taking into consideration feedback from the industry of the need for certainty and stability in the Vesting Contract level, EMA has moderated the stepped change in the Vesting Contract level from PA Consulting's recommendation. In particular, EMA has pared down slightly the recommendation from PA Consulting to set the Vesting Contract level at 60% in 2011. In 2012, market conditions are expected to improve and hence the Vesting Contract level can revert to 55%. EMA's long term plan is still to reduce the Vesting Contract level over time, if

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		<p>there is a dilution of market power and keener competition in the electricity generation market. We expect this to happen with a healthy pipeline of new generation capacity coming on-stream.</p>
CERTAINTY IN VESTING CONTRACT LEVEL FOR 2012		
2	<p>Tuas Power Generation</p> <ul style="list-style-type: none"> The possible change of Vesting Contract level from 60% to 50% in 2012 upon contingent factors introduces significant uncertainties for market participants and potentially some retail customers. This will only cause risk premiums to increase. We propose EMA give clear visibility to the market and use a fixed definitive figure instead. We proposed a definitive figure of 55% for 2012 and 60% for 2011. The figure proposed also have the added benefit of a more gradual change from one level to the next, which will significantly lessen the volatility on market participants' positions. <p>Senoko Energy</p> <ul style="list-style-type: none"> In 2012, it will be important to manage the potential change in vesting levels that may occur as a result of the introduction of new plant capacity in the context of the review of Vesting Contract levels for 2013/14. To ensure that contract positions can be managed in a way that minimises potential disruption to the retail market, Senoko's preference is for at least six months lead time before vesting levels are changed. 	<ul style="list-style-type: none"> EMA has carefully considered the industry's suggestion for greater certainty in the Vesting Contract level for 2012. In particular, we have undertaken a sensitivity analysis on the level of Vesting Contract required in 2012 in response to a delay in the new plants. The analysis shows that without the new plants, the Vesting Contract level for 2012 would have to be set at 55% to meet the expected demand growth. In light of the above considerations, EMA has moderated the stepped change in the Vesting Contract level from PA Consulting's recommendation by setting the Vesting Contract level in 2011 at 60% and subsequently reducing it to 55% in 2012 on a firm basis, regardless of when the new plants commence commercial operation.

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HISTORICAL ANALYSIS		
3	<p>PowerSeraya</p> <ul style="list-style-type: none"> PowerSeraya notes that there has been an increase in market concentration recently but that has been the consequence of an increase in electricity demand and the inability of new economic generation capacity to enter. The prices in the electricity demand reflect the competitive interaction between supply and demand. Market concentration would be expected to be eased in 2013 with the entry of LNG accompanied by the entry of new economic generation capacity in response to price signals in the electricity market reflecting increased electricity demand and a need for new economic generation capacity. <p>Senoko Energy</p> <ul style="list-style-type: none"> PA's Analysis continues to maintain that an increase in vesting levels is supported by the pattern of high market prices in excess of LRMC seen in 2009 and early 2010. Senoko's view is that prices over this period were a valid reflection of demand and supply conditions and were not the result of an exercise of market power. 	<ul style="list-style-type: none"> Noted PowerSeraya's view that there has been an increase in market concentration recently. This would suggest that the Vesting Contract level for 2011 should be higher than the current level of 55% . Vesting Contracts are designed to work on an ex-ante basis to reduce the incumbent Gencos' incentives to exercise their market power. The structural phenomenon of the possession of market power, not the actual exercise of market power, in itself provides sufficient grounds to justify a change in the Vesting Contract level. EMA has a duty to adjust the Vesting Contracts level as and when it is necessary to fulfil the original intent and objective of the Vesting Contract regime. If the potential for the incumbent Gencos to exercise their market power is observed to have increased due to tighter market conditions based on projections at the point of review, EMA will have to raise the Vesting Contract level accordingly.
PERIOD WEIGHTING FACTORS		
4	<p>Senoko Energy</p> <ul style="list-style-type: none"> Senoko supports EMA's proposal to moderate the period weighting factors from the extreme differentiated levels 	<ul style="list-style-type: none"> In view that there is industry consensus on the balanced approach for setting the peak period weighting factors, EMA has decided to set the peak period

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	previously proposed and we would ultimately support flat period weighting factors.	weighting factor at 1.10.