HEDGING NON-CONTESTABLE LOAD FOR SETTING REGULATED ELECTRICITY TARIFF

CONSULTATION PAPER

Closing date for submission of comments and feedback: 31 May 2021

3 MAY 2021

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1. INTRODUCTION

1.1 With the introduction of the Open Electricity Market ("OEM"), all household consumers can switch to become a contestable consumer and buy electricity from a retail electricity licensee. Those who remain as non-contestable consumers ("NCCs") continue to buy electricity from SP Group at the regulated tariff. As of end-Feb 2021, about 51% of consumer accounts remain as NCCs. Most of the NCC accounts (89%) are household consumers while the remaining (11%) are business consumers.

1.2 The Energy Market Authority ("EMA") put in place the liquefied natural gas ("LNG") vesting contracts to mitigate the risk of the commercial power generation companies ("gencos") procuring LNG for power generation to support the start-up of the LNG terminal in 2013. The vesting contracts are structured as bilateral hedging contracts (referred to as Contracts-for-Difference or "CfDs") between each genco and SP Services ("SPS") which is the Market Support Services Licensee ("MSSL"). They have fixed hedging quantities and a strike price that is administratively set by EMA at the long run marginal cost ("LRMC") of a combined cycle gas turbine ("CCGT") generating unit. The CfDs effectively hedge the wholesale purchase of electricity by SPS from the Singapore Wholesale Electricity Market ("SWEM") for supply to NCCs at the LRMC. This in turn allows EMA to set a relatively stable regulated electricity tariff offered by SPS to NCCs, with the energy cost component being the LRMC to reflect the full cost of producing electricity.

1.3 The LNG vesting contracts are set to expire on 30 June 2023. EMA intends to implement a new voluntary scheme for SPS to continue offering a stable regulated tariff to NCCs after the expiry of the LNG vesting contracts. We would like to seek comments to the high-level design of the scheme set out in this paper before finalising it for implementation.

2. NEW HEDGING SCHEME FOR NCC LOAD POST-JUNE 2023

2.1 Moving forward, the Singapore energy landscape is expected to evolve considerably as we harness the fours switches (*viz.* natural gas, solar energy, regional power grids and emerging low-carbon alternatives) towards a cleaner, more reliable and affordable energy future. At the same time, EMA is reviewing the introduction of a Forward Capacity Market ("FCM") to enhance the SWEM to ensure reliable and sustainable electricity supply as we transform and diversify our energy supply to meet future demand.

2.2 In view of the potentially significant changes to the power sector, EMA will avoid introducing more changes by continuing to offer the regulated tariff for NCCs. EMA therefore intends to continue to hedge SPS' bulk purchase of electricity from SWEM for supply to NCCs following the expiry of the LNG vesting contracts on 30 Jun 2023 by putting in place new CfDs with the following key features:

(a) **Eligibility**: Gencos with CCGT capacity, on a ***voluntary*** basis.

(b) **Hedge Quantities**:

(i) Total CfD quantities will be ***determined ex-post to match actual NCC load***.

(ii) Total CfD quantities will be allocated to participating gencos in proportion to their respective ***licensed CCGT capacity***.

(c) **Hedge Period**: CfD duration of **5 years, from 1 Jul 2023 to 30 Jun 2028**.

(d) **Hedge Price**: CfD strike set at the ***LRMC of CCGTs***. EMA reserves the right to adapt Section 2 of the Vesting Contract Procedures[1] to establish the methodology for calculating LRMC of CCGTs for the purpose of the new scheme, including but not limited to the frequency of updating the fuel and non-fuel cost components of the LRMC.

(e) **Financial Settlement**:

(i) SPS as the MSSL will be the counterparty to the CfDs with each participating genco ("CfD Holder").

[1] Accessible via https://www.ema.gov.sg/cmsmedia/Licensees/Version%202%208%20-%20Vesting%20Contract%20Procedures.pdf

(ii) The CfDs will be settled as bilateral contracts between SPS and each CfD-Holder ***in the SWEM*** in accordance with Section 2.3 of Chapter 7 of the Market Rules.

(iii) For a given half-hour period, the ***CfD credit or debit amount (in $)*** is calculated as the ***actual NCC load (in MWh)*** for the period, multiplied by:

(1) the CfD strike price (in $ per MWh), <u>minus</u>

(2) the sum of the Uniform Singapore Energy Price ("USEP") and any FCM capacity charge (in $ per MWh) payable by SPS in respect of NCC load for the period.

Positive amount denotes ***CfD credit amount payable by SPS*** to each CfD-Holder; ***negative amount*** denotes ***CfD debit amount payable by each CfD-Holder*** to SPS.

(iv) For a given month, the **net CfD credit/debit amount** (i.e. the sum of the half-hourly CfD credit and debit amount over the month) can be settled between SPS and each CfD-Holder ***no later than 30 calendar days after the end of the month*** as the validated consumption data of NCCs should be available by then.

2.3 Currently, all households and smaller businesses consuming on average 4 MWh or less monthly can switch between buying electricity from SPS at the regulated tariff, or from a retailer under a price plan of their choice. Large business consumers (i.e. consuming on average more than 4 MWh monthly) can access the regulated tariff only at the opening of their new electricity account with SPS. They are not allowed to revert to the regulated tariff after switching to buy electricity from a retailer thereafter.

2.4 NCC business consumers constitute a small proportion of total load and they are also better able to negotiate retail contracts with electricity retailers. EMA would like to seek comments and feedback on whether to remove all business consumers' access to the regulated tariff.

3. COMMENTS AND FEEDBACK

3.1 EMA invites comments and feedback on the above. Please submit any written feedback via attachments at https://go.gov.sg/consult-hedging-ncc-load (or scan the QR code below) by 5pm on 31 May 2021. The format for submission of comments is shown in ***Appendix 1***. Please include a soft-copy of your comments in both **PDF and Microsoft Word** format in your submission.

3.2 Please note that anonymous submissions will not be considered. EMA reserves the right to make public all or parts of any written submission made in response to this Consultation Paper and to disclose the identity of the respondent. 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.

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Appendix 1

FORMAT FOR SUBMISSION OF COMMENTS

HEDGING NON-CONTESTABLE LOAD FOR SETTING REGULATED ELECTRICITY TARIFF

S/No.	Please indicate in each cell in this column, the section/paragraph in the Consultation Paper to which your comment refers	Comment
1		
2		
3		
4		

Comments submitted by

Name :

Designation :

Company :

Email :

Contact No. :