



**ADDENDUM TO FRONTIER ECONOMICS' DRAFT REPORT ON
REVIEW OF VESTING CONTRACTS REGIME**

25 MAY 2016	ENERGY MARKET AUTHORITY 991G Alexandra Road #01-29 Singapore 238164 www.ema.gov.sg
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ADDENDUM TO FRONTIER ECONOMICS' DRAFT REPORT ON REVIEW OF VESTING CONTRACTS REGIME

1 EMA has appointed Frontier Economics ("FE") to undertake a review of the vesting contract regime ("Review") including:

- a. Reviewing the vesting contract level (VCL) for 2017 and 2018;
- b. Reviewing the existing mechanisms used to mitigate market power in the Singapore Wholesale Electricity Market ("SWEM");
- c. Reviewing the international experience in market power mitigation; and
- d. Developing possible new mechanisms to mitigate market power in the SWEM.

FE's analysis and recommendations are set out in its draft report which EMA has circulated for consultation on 16 May 2016 ("Draft Report").

2 In the Draft Report, FE projected the long run marginal cost ("LRMC") of a new entrant combined cycle gas turbine plant (for setting the vesting contract price) for 2017 and 2018 at \$167/MWh and \$168/MWh respectively. This projection is based on the fuel cost component of the vesting price indicated in EMA's *Final Determination Paper on Review of Vesting Contract Price Parameters for the Period 1 Jan 2015 to 31 Dec 2016*, escalated by the LNG price index published in the World Bank's Commodities Price Forecast released on 20 Jan 2016. FE has subsequently informed EMA that it has updated its projection based on the average of the fuel cost component in the quarterly vesting prices for 2015, escalated by the same forecast LNG price index provided by the World Bank. Accordingly, the FE's updated LRMC projection is \$129/MWh and \$130/MWh for 2017 and 2018 respectively. FE has also clarified that this update has no bearing on its analysis and recommendations set out in the Draft Report.

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