

SGX Electricity Futures – Consumer Seminar



SINGAPORE – The Singapore Exchange (SGX) hosted a panel of energy professionals in July 2015 to discuss the development of the SGX electricity futures market and its potential benefits for the consumer.

Moderated by Oliver Hsieh, head of KPMG Singapore’s Commodity & Energy Risk Management team, the topic sparked a thorough and interactive dialogue between the panel and audience members.

The SGX chartered a new course for the region by launching Asia’s first centralized electricity futures market (excluding Australia and New Zealand). This industry milestone has been a carefully crafted process, with the SGX and Energy Market Authority (EMA) cooperating closely with industry.

Matthias Obert, Head of Power & Gas, Singapore Exchange, emphasised three holistic benefits of the electricity futures market:

1. Hedging tool: Singapore, lacking indigenous natural resources, has for decades been dependent upon imported and relatively expensive natural gas that is often linked to the market price of High Sulfur Fuel Oil (HFSO). The natural gas is primarily used by the generation companies (Gencos) to generate electricity, which is bought and sold via the National Electricity Market of Singapore, a wholesale market.

The Achilles Heel for consumers of the wholesale electricity market is its volatility. As witnessed over the last few months, electricity prices have been subject to acute fluctuation, therefore electricity consumers who buy directly from such a market are vulnerable to these price fluctuations.

The futures market provides an effective price risk management mechanism by enabling generators and consumers to lock in electricity prices over different

forward periods of time. Such flexibility can help companies plan and manage their cost and smooth cash flows, providing a platform for more informed business decisions to be made.

2. Choice & transparent market: Consumers can now access www.sgx.com to analyze the forward curve of electricity prices for the next two years. Such market transparency and price discovery act to catalyse price comparisons, providing a powerful negotiation tool to the electricity consumer, which in turn lowers electricity costs.

Panellist Vijay Sirse, Founder, Chairman & CEO, CPVT Energy Asia, succinctly highlighted the all-round benefits of contractual choice to both the consumer and supplier: “Competition is good: it lowers the cost of electricity supply for the consumer and raises the productive efficacy of the supplier”.

SGX Electricity Futures, Front Quarter



Source: SGX

USEP Price, Daily Average



Source: EMC

3. Clearing house guaranteed: all contracts traded and matched in SGX are guaranteed by the SGX derivatives clearing house. The financial integrity of the clearing house is guaranteed by a common bond system. This structural mechanism acts as a financial safeguard by mitigating counterparty credit risk. The result is trading security, which stimulates both liquidity and efficiency.

Independent retailer participation

Matthew Peloso, Managing Director, Sun Electric, provided insight into how the electricity futures market can benefit independent and renewable energy retailers.

Drawing from his own experience at Sun Electric, Singapore's first solar power company to obtain a retail electricity license, Dr Peloso emphasised that the electricity futures market will give them the capability to

offer a suite of different product packages to the consumer. Crucially, due to the variable nature of solar power, the ability to procure base load power from the futures market will help solar energy retailers provide a more cost-effective and stable supply for their customers.

Overcoming obstacles

The relatively small size of the Singaporean power market, in terms of number of consumers and generation companies, leads to concerns over liquidity. The country's reliance on imported energy - which stirs anxiety over security of electricity supply - has created questions over whether the SGX can achieve its objective of becoming Asia's first fully developed energy market.

Yet, in a short period of time, Singapore's electricity futures market has taken some significant development steps. SGX has already started facilitating the trading of

electricity futures. Moreover, Singapore's power market has grown to approximately 42-43 TWh annually: a size comparable to New Zealand. The fact this is concentrated within a land area of little over 720 square kilometres, rather than over two vast islands, is a significant advantage. Additionally, the development of Singapore's LNG terminal and focus on building up its renewable capacity, has somewhat eased the city state's energy security concerns.

The future

Looking forwards, it should be appreciated that the development of an electricity futures market is not a quick and linear process. However, markets can evolve rapidly. If the EMA and SGX continues to move forward shrewdly, adapting and learning from international best practices and educating energy stakeholders across the value chain, large-scale energy consumers can potentially reap a myriad of benefits from the electricity futures market.

Contact us

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