



FACTSHEET

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Centralising Gas Procurement for Singapore's Power Sector

The Ministry of Trade and Industry (MTI) and the Energy Market Authority (EMA) will be introducing changes to the gas procurement framework for Singapore's power sector.

2 The Minister for Trade and Industry Gan Kim Yong announced in October 2022 a set of guardrails to strengthen Singapore's energy market structure and ensure that the nation is well-positioned to navigate the energy transition. The guardrails include (i) a centralised process to coordinate the entry and exit of generation capacity; (ii) enhancing regulatory requirements on electricity retailers to strengthen consumer protection; and (iii) a Temporary Price Cap mechanism to guard against extreme price volatility in the wholesale electricity market. These measures have all been implemented in 2023.

Review of Gas Procurement Framework

3 MTI and EMA have also reviewed the current gas procurement framework to ensure that Singapore has sufficient gas from diverse sources for our power generation needs and create a more stable and secure power system. Having secure and reliable supplies of natural gas is existential for Singapore as 95% of Singapore's electricity is currently generated using natural gas. Today, power generation companies (gencos) individually decide on the volume and tenure of gas to procure based on their own commercial considerations.

4 Developments in recent years have shown that the current gas procurement framework does not provide assurance that we will always have enough gas to meet our needs, especially during a crisis when market conditions are volatile.

5 When each genco seeks to optimise for itself, it can inadvertently lead to sub-optimal system-level outcomes. For example, during the 2021/2022 global energy crisis, the gencos reduced the volume of their gas contracts when gas prices were high, which led to large swings in wholesale electricity prices. Gencos have also been

reluctant to enter into long-term gas contracts which typically offer a greater certainty of delivery and price stability. This is because gencos do not want to be exposed to gas market volatility and uncertainties in the long term. In addition, global developments and the energy transition are likely to lead to more volatile oil and gas markets, which may further reduce the risk appetites of generation companies.

6 Given the global gas market conditions and Singapore's relatively small demand, MTI and EMA have therefore assessed that a more deliberate and coordinated approach to gas procurement is needed.

Centralised Gas Procurement Framework

7 Moving forward, MTI and EMA will establish an entity (Gasco) that will centralise the procurement and supply of gas for the power sector by aggregating gas demand from the gencos. Should the overall electricity demand exceeds that indicated by the gencos, the Gasco will procure the additional gas volumes that are needed.

8 When implemented, this centralised procurement approach will apply to all future gas demand from the power sector, including gas contract renewals. Gencos will be allowed to continue with the existing gas supply contracts they have with their respective gas suppliers. Other industrial gas customers can continue to procure gas through licensed gas importers and will not be subject to this central procurement framework.

- 9 The new gas procurement framework will have a number of benefits:
- a. First, as the sole procurer of upstream gas for the power sector, the Gasco will have stronger negotiating lever, and be in a better position to negotiate for more favourable contracting terms and optimise system needs;
 - b. Second, with greater economies of scale, Gasco can procure gas from diversified source countries to reduce concentration risk; and
 - c. Third, Gasco can also enter into longer term gas contracts which can help to provide more stable prices and supply.

Conclusion

10 The centralised gas procurement framework will complement the other guardrails which EMA have introduced and improve the security and resilience of the power sector's natural gas supplies.

11 EMA intends to set up Gasco in 2024 and will consult the industry on the details of the centralised gas procurement framework in the coming months.

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About the Energy Market Authority

The Energy Market Authority (EMA) is a statutory board under the Singapore Ministry of Trade and Industry. Through our work, we seek to build a clean energy future that is resilient, sustainable, and competitive. We aim to ensure a reliable and secure energy supply, promote effective competition in the energy market and develop a dynamic energy sector in Singapore. Visit www.ema.gov.sg for more information.

For media enquiries, please contact:

Ms Vanessa Lim
Manager, Corporate Communications
Energy Market Authority
Tel: (65) 8189 7936
Email: vanessa_lim@ema.gov.sg

Ms Pei Ling Chua
Manager, Corporate Communications
Energy Market Authority
Tel: (65) 9382 3158
Email: chua_pei_ling@ema.gov.sg

Mr Kenneth Low
Senior Assistant Director, Communications & Engagement
Ministry of Trade and Industry
Tel : (65) 6332 7315
Email : kenneth_low@mti.gov.sg