BT Explains

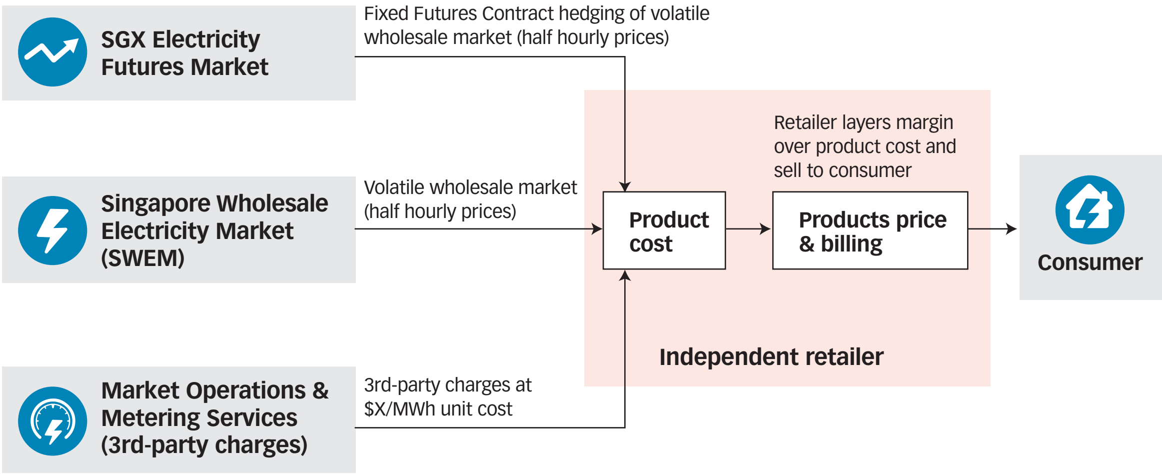
Pass the buck

The flow chart explains a typical process of how independent electricity retailers (IRs or those without generation assets) price energy plans for consumers.

This eco-system now appears broken; skyrocketing spot prices since July has dried up liquidity in Singapore's once-vibrant futures market and have forced at least five retailers (for households and businesses) out of business. ***BY ANITA GABRIEL***

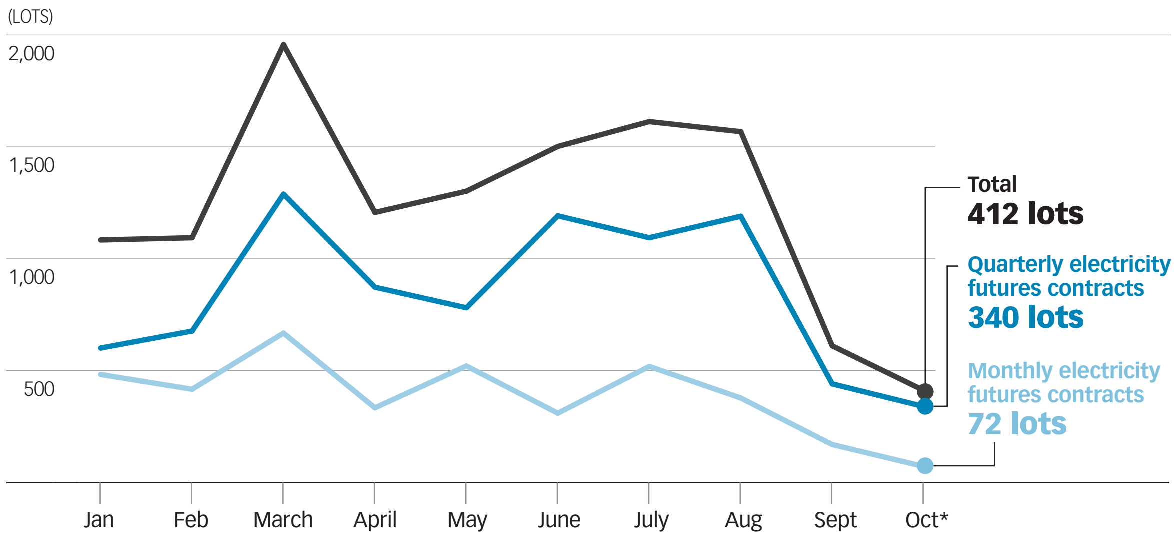
IN A NUTSHELL

- Electricity consumed by households is purchased by all retailers from the Singapore Wholesale Electricity Market (SWEM).
- SWEM prices fluctuate half-hourly based on demand-supply market dynamics. So, IRs purchase futures (up to 8 quarters ahead) from the Singapore Exchange's electricity futures market (EFM) to mitigate risks of wholesale price volatility and to secure electricity cost.
- This secured electricity cost plus other third-party charges determine the product cost and eventual pricing to consumers – after also including the retailer's margin.



SIGN OF THE TIMES

- IRs are generally not fully hedged. This is because each electricity future lot is based on a 24/7 consumption profile whereas a consumer's actual consumption is more skewed towards peak hours.
- Retailers have been caught in a bind amid extraordinary spikes in wholesale prices even during non-peak hours and the inability to hedge to cap losses.
- Consumers to bear the additional cost.



*To date: Oct 14, 2021

Source: Industry source