

Spot Market Bulletin

2nd Quarter
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Spot Market Division
Market Operations Service
Energy Regulatory Commission

ERC Amends Resolution No. 16 Series of 2008 entitled A Resolution Adopting Policies to Govern the Transition Supply Contracts Which Have Been Assigned and Transferred to National Power Corporation Successor Generating Companies

On 18 May 2009, Resolution No. 13, Series of 2009 entitled "A Resolution Amending Resolution No. 16, Series of 2008" was promulgated by the Commission through the Market Operations Service (MOS). This is in response by the Commission to the petition filed by the Masinloc Power Partners Ltd. (MPPCL) to institute amendments on the recently promulgated Resolution No. 16, Series of 2008 entitled "A Resolution Adopting Policies to Govern the Transition Supply Contracts of National Power Corporation Successor Generating Companies" particularly on the issue of the Mandated Rate Reduction (MRR). The former issuance by the Commission stated that despite the assignment of the Transition Supply Contracts, the MRR should still be implemented for the benefit of end-users. Said MRR shall be assumed by the National Power Corporation-

Successor Generating Companies (NPC-SGC) provided that a written instrument containing the assumption of the said obligation between the National Power Corporation (NPC) and/or the Power Sectors Assets and Liabilities Management Corporation (PSALM) and the concerned NPC-SGC is present. In the absence of such, said responsibility shall be borne by NPC and PSALM.

The Resolution of 2008 was promulgated to further address concerns on the TSCs vis-a-vis the privatization of NPC assets as envisioned under the Electric Power Industry Republic Act (EPIRA). The formulation of the policies saw the attendance of the industry stakeholders in the public consultations conducted by the Commission. The bone of contention was whether the MRR should be the liability of the NPC-SGCs under Section 72, inasmuch as the EPIRA has provided that the same should apply only on 'NPC rates' or the charges imposed specifically by NPC on its customers. Moreover, it was stressed during the public consultation, which the Commission subsequently adopted, that the NPC is the entity which the EPIRA obliges

to grant the MRR and that the residential end-users shall continue to enjoy the MRR as mandated thereby.

The MRR, according to the EPIRA, is the grant to residential end-users of a thirty centavo per kilowatt-hour (P0.30/kWh) rate reduction from NPC rates.

ERC Approves VSAA Registration

On 22 April 2008, the Commission issued an Order provisionally authorizing the Department of Energy (DOE) through the Philippine Electricity Market Corporation (PEMC) to execute the necessary preparatory steps towards the implementation of its proposed Visayas Supply Augmentation Auction (VSAA) scheme.

The VSAA scheme aims to cut the supply shortage in the Visayas area by having qualified customers willing to be disconnected from the grid at certain times, especially during peak hours of the day when there is electricity shortage, and generation companies, which have available or uncontracted capacity to generate power during these periods.

Under the proposed scheme, the qualified customers willing to be disconnected from the grid, or the interruptible load, and the generation companies which will be asked to run their plants during periods of shortage, and thereby augment the supply of electricity for the system, will be paid for being interrupted or for the power they will generate (for the generation companies). The amount to be paid to them will be determined based on the offers they made to the PEMC, the VSAA administrator. A merit order list will then be prepared by PEMC as to which load or plants will be prioritized in providing the service, based on which offers are cheapest. Payments made to these VSAA participants will be shared as additional generation cost of the participating distribution utilities, which in turn will be passed on to their respective end-users.

The Commission identified certain issues that need to be threshed out in the hearings of the application, which started on 14 April 2009. However, with the urgency of the supply problem in the Visayas and the final decision on whether or not to authorize the full implementation of the VSAA may depend on the level of interest of the targeted participants, the Commission,

in the meantime, allowed the conduct of the preparatory acts for the implementation of the scheme, particularly, the registration of the participants.

ERC Provisionally Approves GPI

On 11 May 2009, the Commission issued an extension on the provisional approval granted on 6 February 2009, on the continued implementation of the modified GPI mechanism until revoked or made permanent. The Commission's Decision stemmed from the request made by the Philippine Electricity Market Corporation (PEMC) that pending the submission of required documents and/or final approval of the compensation for must run units (MRUs), it will continue to implement the modified GPI until further directives by the Commission. The Commission granted the said requested to avoid inconsistencies in the compensation of MRUs.

The previous Order provisionally approved the use of the modified GPI mechanism to PEMC for a period of one (1) year.

Previously, in the Commission's decision dated 20 June 2006 on the

Price Determination Methodology (PDM), PEMC was ruled to revise the WESM Manual particularly on the MRUs to indicate the approved ruling. Thus, on 16 March 2007, PEMC submitted its proposed WESM Manual on the Management of MRUs with pertinent amendments. The said proposal contained new compensation and settlement mechanism which involves the use of the GPI.

MRUs are generating units identified by the System Operator to be on-line on a particular trading interval to address system security requirements and other considerations such as regulatory requirements, commercial operation requirements and local calamities and emergencies.

WESM Update

The Wholesale Electricity Spot Market (WESM) experienced a fluctuation of demand due to the unpredictable weather during the second quarter of the year. Occasional rains and typhoons "Crising", "Emong" and "Dante" brought slightly cooler conditions causing a decrease in the demand of electricity for the first part of the quarter. However, summer season became more evident on the mid-part

of the quarter thereby bringing sunnier and higher temperature which resulted to an increase in demand.

On 14 and 15 April 2009, the System Operator declared a "yellow alert" in the system as the Luzon grid encountered a critical reserve level due to multiple generator trippings. These multiple generator trippings then resulted to artificial under-generation conditions in the market during the said days.

Oil-based plants were dispatched as must run units to address the N-1 contingency particularly at the San Jose substation. Pricing errors were still evident mainly due to the non-binding of HVDC nominations, inconsistent HVDC limits. However, with the implementation of the Price Substitution Methodology (PSM), congestion prices were reduced.

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Inspiring Quotes:

The difference between 'involvement' and 'commitment' is like an egg-and-ham breakfast: the chicken was 'involved' - the pig was 'committed'."

In theory, there is no difference between theory and practice. But in practice, there is." - Yogi Berra

Try to learn something about everything and everything about something." - Thomas Henry Huxley

Change is not merely necessary to life, it is life.-- Alvin Toffler

The old and familiar is nice and comfortable but will not lead to growth.

Ad astra per aspera (To the stars through difficulties)

The following contributed to the evaluation of the herein mentioned cases and the production of the Spot Market Bulletin:

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