

ERC Promulgates the Rules for the Distribution of Net Settlement Surplus (NSS)

Prompted by inquiries on how the distribution utilities like the Manila Electric Company (MERALCO) would distribute the NSS to their respective customers, the Commission initiated the drafting of and public consultation on the "Rules for the Distribution of Net Settlement Surplus".

Among others, the main essence of the NSS Rules approved by the Commission on 23 February 2009 are: (a) outright deduction of the NSS from the bills served by the Philippine Electricity Market corporation (PEMC) to the Wholesale Electricity Spot Market (WESM) participants on the period incurred; (b) computation of the NSS and interests on the amounts retained by PEMC to be distributed to the recipients pro-rata, based on each recipient's payment for line rental and congestion charges.

These were drawn up for a fair and equitable manner of re-distributing the NSS to those who paid for it without causing detriment to PEMC

which also uses the NSS to cover settlement adjustments.

(continued on page 2 ...NSS Rules)

A New Methodology and Rate for PEMC's 2009 Market Fees

The Performance Based Ratemaking (PBR) may, after all, be adopted not just for transmission and distribution wheeling rates, but also for PEMC's market fees.

LECG, a consultant hired by PEMC has recommended an output-based methodology for determining PEMC's market fee rates for the years 2009 to 2011 wherein PEMC presents its annual budgetary requirements in relation to the outputs or services it aims to provide in operating and governing the market.

The Commission is positively considering the proposed change, however, it cannot be implemented yet for 2009 as the appurtenant policies and procedures need to be studied further and developed into the necessary detailed rules.

In the mean time, the Commission decided on 16 March 2009 to provide

an interim single fixed rate for PEMC for 2009.

(more on page 2 Market Fees)

A Modified Price Substitution Methodology to be Implemented Starting July 11 2008

The Commission approved the Price Substitution Methodology (PSM) proposed and applied for by PEMC subject to some modifications.

The said mechanism shall provide the relief to mitigate the detrimental effect of high WESM customer prices and price separations arising from network congestion.

PEMC's PSM Application was prompted by significant congestion experienced in the Luzon Grid due to major outages and contingencies in the transmission network, particularly, the San Jose Transformer 2 of the National Transmission Corporation (TRANSCO).

The PSM is a mechanism that will be applied to substitute prices for the trading intervals where the market results were affected by network congestion.

The methodology shall be applied by the PEMC on WESM transactions

starting on 11 July 2009 when the previously mentioned network congestion problem first occurred.

Policies to Govern Transition Supply Contracts Which Have Been Assigned and Transferred to NPC Successor Generating Companies

Transition Supply Contracts or TSCs are contracts of electricity filed with the ERC by the National Power Corporation (NPC). These contracts shall not extend beyond one (1) year beyond open access and shall be based on the projected demand of utilities less any of their currently committed quantities under eligible IPP contracts.

As a result of the privatization process envisioned under Sec.47 of the EPIRA, several NPC generation assets have been successfully privatized and as a consequence of which, several TSCs were assigned and transferred to NPC Successor Generating Companies. Thus, on 24 December 2008, a Resolution Adopting Policies to Govern TSCs Which Have Been Assigned to NPC Successor Generating Companies was promulgated and became effective on 31 January 2009.

(more on page 2 ...TSCs Assigned)

... NSS Rules

“What is NSS?”, if one asks.

The WESM adopts locational marginal pricing in that the trading amounts of the market participants are determined at their respective market trading nodes. This pricing methodology accounts for congestion and losses in the transmission system. It is, thus, expected that there will be price differences between generator nodes and customer nodes as a result partly of these losses and congestion. These price differences result in a residual amount for each trading hour. This residual amount, which may be in the form of surplus or a deficit resulting from the aggregate WESM settlement transactions, is the NSS.

In simplest terms, the NSS is the difference between the collectibles from WESM customers and payables to the generators.

... Market Fees

The Commission deems that the appropriate market fee rate for 2009 should be taken to denote the reasonable rate which the end-users can afford. This reasonable rate is

the result of giving PEMC an increase in its 2008 market fee rate equal to the increase in its previous year's rate. Thus, applying the 1.19 increase in 2008, the 2009 market fee rate was computed to be PhP0.0144/kWH. This translates to a 2009 budget amount of approximately PhP622.8M, a 113% change from 2008 to 2009.

Should PEMC need more budget amounts for its important CAPEX projects, it will be allowed to secure loans to finance the projects. This has the advantage of spreading the costs shouldered by the end-users in longer terms (depending on the life of the asset) instead of charging the whole cost of the CAPEX project to just one year.

PEMC shall also be allowed to apply for a supplemental budget for urgent and important requirements which cannot be accommodated from their approved market fees and which cannot be reasonably and timely financed through loans.

The said mechanism will give PEMC the flexibility to manage their budget. However, for the initial years of implementation and to ensure that rules are appropriate and are being

followed, PEMC shall be required to submit a quarterly report to the Commission on how their budget was used; reporting shall be at the level of the items submitted in previous years.

... TSCs Assigned

However, on 22 January 2009, the Masinloc Power Partners Co., Ltd (MPPCL) filed a Petition to Initiate Rule-making on the said Resolution particularly on the provision of the Mandated Rate Reduction (MRR). Thus, on 24 February 2009, a public consultation/hearing was conducted to address such issue.

This is due to be resolved by the Commission within May 2009.

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

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|---------------------------|--------------------------|
| <i>Bebe Layugan</i> | <i>Cecil de la Silva</i> |
| <i>Patrick Fontanilla</i> | <i>Medy Francisco</i> |
| <i>Grace Enriquez</i> | <i>Laiza Lagman</i> |
| <i>Egay Ricablanca</i> | |

Favorite Quotes:

The vision must be followed by the ventures. It is not enough to stare up the stairs. We must step up the stairs!

You may have your eyes on the big picture; but remember, success is in the small wins!

*If not you, then who?
If not now, then when?*

We need more everyday heroes. Heroes are ordinary people who take a stand for what is right.

Trivia

Have you read from the internet that Jon Santos, a famous Filipino comedian, sealed his love in civil rites with Samuel West Stewart, President of Hacienda BioEnergy Corporation?

