

ERC UPDATE
on the
WHOLESALE ELECTRICITY SPOT MARKET (WESM)
(*as of 18 April 2008*)

1. RECENT SIGNIFICANT EVENTS:

1.1 MARKET RELATED ACTIVITIES:

The Market Operator (MO) or the System Operator (SO) can intervene in the WESM, if necessary, to address system security issues. The following is a summary of Market Interventions in the WESM during the first quarter of 2008:

Initiated by the Market Operator:

Due to workflow stoppage in the Market Management System:

10 January 2008: 1600H

13 January 2008: 0200H-0300H

14 January 2008: 1600H-1700H

07 February 2008: 1700H

08 February 2008: 1700H and 2300H

11 February 2008: 1900H

01 March 2008: 2000H

28 March 2008: 2000H

Initiated by the System Operator:

Due to tripping of several transmission lines:

03 January 2008: 0700H-1000H

Due to tripping of the Sta. Rita Complex:

29 January 2008: 0300H-0600H

Due to inaccuracy of the EMS data received from the SO and used in the generation of the dispatch schedule:

04 March 2008: 1500H

31 March 2008: 0600H and 0700H

Due to possible adverse effect of Earth Hour on the system frequency:

29 March 2008: 2000H

Due to tripping of the Sucat-Araneta Line

11 April 2007: 1000H

1.2 PRICING AND COST RECOVERY MECHANISM FOR RESERVES IN THE PHILIPPINE WHOLESALE ELECTRICITY SPOT MARKET

On 8 January 2007, the Philippine Electricity Market Corporation (PEMC) filed its application for approval of the Price Determination Methodology for Reserves. Conduct of public hearings has been completed and terminated as of 02 May 2007. A Formal Offer of Evidence was subsequently submitted by the Applicant on 24 May 2007. Evaluation of said application has been prepared and consequently presented by the Market Operations Service (MOS) to the Commission on 12 September 2007. Decision/Order on the matter is set to be issued.

1.3 MARKET FEES

A Decision approving the Market Transaction Fees which represent the budget requirements of PEMC for CY 2008 has been issued by the Commission on 30 January 2008. Subsequently, a Motion for Reconsideration (MR) has been filed by PEMC on 07 March 2008 wherein it requested that a hearing be set on 14 March 2008. The Commission is still in the process of evaluating the said MR. The hearing has been scheduled on 30 April 2008.

1.4 MUST RUN UNITS AND NET SETTLEMENT SURPLUS

The Commission approved the Price Determination Methodology (PDM) for the WESM, subject among other things, to the compliance by the PEMC with the revision of the WESM Manual on Must Run Units (MRU) and the re-distribution of the Net Settlement Surplus.

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; while the net settlement surplus is the surplus amount of money after all market transactions have been accounted for and is assumed to be attributable to economic rentals arising from other bidding constraints.

On 16 March 2007, PEMC submitted its Compliance on the procedures for redistribution of net settlement surplus and WESM Manual on the Management of MRUs.

As indicated in the Manual on the Management of MRUs, PEMC proposed a new compensation scheme for MRUs. Subjected to a hearing process, the proposal has been evaluated and presented to the Commission on 05 December 2007. The Decision has been issued by the Commission last 06 February 2008.

The redistribution of Net Settlement Surplus is due for evaluation. In a Subpoena Ad Testificandum and Duces Tecum issued by the Commission on 31 October 2007, NPC was directed to appear in the hearing set on 16 November 2007 re: 1) amount remitted by PEMC to the National Power Corporation (NPC) as a result of Net Settlement Surplus (NSS); and 2) the proposed method or scheme that NPC intends to adopt in order to refund the same to its end-consumers.

During the hearing on 16 November 2007, the Commission directed intervenor MERALCO to submit its issues with the Applicant PEMC pertaining to the NSS remitted to it by the latter. MERALCO submitted its Compliance to the said directive on 04 December 2007. The evaluation of the Net Settlement Surplus has already been approved by the Commission. The Decision is now being drafted.

1.5 TRANSITION SUPPLY CONTRACT (TSC) BETWEEN MERALCO AND NPC

The issuance of the decision was held in abeyance due to some amendments / modifications in the TSC filed jointly by MERALCO and NPC on 01 August 2007. The Commission then issued an ORDER last 24 August 2007 stating that the addendum substantially amends the TSC. MERALCO and NPC were directed to comply with the requirements of section 4 (e), Rule 3 of the IRR of EPIRA, as amended.

The public hearing for the amendment in the TSC has already been completed. NPC and MERALCO were directed by the Commission to submit additional documents to facilitate the evaluation of the said contract. NPC and MERALCO have submitted said documents on 2 April 2008. Said case will now be reviewed and evaluated by the MOS and Legal Service.

1.6 LICENSED WHOLESALE AGGREGATORS

The Commission has already approved and issued nine (9) certificates of registration to qualified wholesale aggregators, namely:

1. Trans-Asia Oil and Energy Development Corp.
2. First Cabanatuan Ventures Corp.
3. Aboitiz Energy Solutions, Inc.
4. First Gen Energy Solutions, Inc.
5. Angeles Power, Inc.
6. iN2Power, Inc.
7. GN Power Ltd. Co.
8. Team (Philippines) Energy Corp.
9. AES Philippines, Inc.

Entities that have been granted Certificates of Registration can start negotiating and finalizing power supply contracts with Distribution Utilities pursuant to the Rules for the Registration of Wholesale Aggregators promulgated by the Commission under ERC Resolution No. 23, Series of 2006.

1.7 DEFAULT WHOLESALE SUPPLY ARRANGEMENTS (DWS)

On 20 June 2007, the ERC issued a Resolution extending the effectivity of the DWS arrangements within the Luzon Grid and designated NPC and PSALM as the Default Wholesale Suppliers to address supply imbalances in the WESM for another year from June 26, 2007 or until such time that these are superseded by another rule of the Commission, whichever comes earlier. In view of the fact that the extension given is about to expire, the Commission issued a Notice of Public Consultation on 31 March 2008 to solicit proposed amendments on the Rules on Default Wholesale Supply Arrangements (DWS). The proposed amendments may be considered by the Commission in extending and enhancing or terminating the said Rules. The public consultations are scheduled on 14 and 20 May 2008 in ERC Hearing Room in Pasig City and ERC Visayas Field Office, respectively.

1.8 HEAT RATE:

The final recommendation on heat rates has been presented to and approved by the Commission on 20 June 2007. The ERC thru its Legal Service is currently drafting the Commission's Order/Decision on this case.

1.9 PROTOCOL BETWEEN ERC AND PEMC

The Commission and the PEMC signed a Memorandum of Agreement (MOA) on 23 January 2008 adopting a protocol in the exercise of their respective authorities with regard to the WESM. The protocol recognizes the Commission's jurisdiction to enforce the rules and regulations of the electricity spot market and to investigate and penalize any market participant for anti-competitive behavior and market power abuse, on the one hand, and PEMC's mandate to prevent and penalize breach of the WESM Rules and WESM Market Manuals, on the other.

Per the MOA, the ERC and the PEMC shall have regular meetings every third Wednesday of March, June, September and December of each year to discuss the development and adoption of various monitoring indices. Two (2) ERC-MAG coordination meetings were already conducted last 19 December 2007 and 16 January 2008 where discussions focused on organizational set up and definition of responsibilities. The next ERC-MAG meeting will be held in June 2008.

2. REGULAR ERC MONITORING OF THE WESM:

- 2.1 The Commission through its Spot Market Division (SMD) regularly receives on-line data/files from the PEMC and National Transmission Corporation (TRANSCO);
- 2.2 SMD prepares regular reports and immediately calls the attention of the PEMC on any abnormality / price spikes in the data received;
- 2.3 The SMD initiates the issuance of ERC directives in the form of Orders, Resolutions or Notices as necessary;
- 2.4 To keep abreast of the current issues, problems or events happening in the market operations, the ERC regularly sits as an observer to the Rules Change Committee meetings as well as Sub-Committee meetings of the Market Operator and the System Operator.

2.5 Tri-partite Committee

- 2.5.1 The Department of Energy (DOE), PEMC, and ERC duly constitute an interim committee to closely coordinate and put in place certain procedures and measures to address market price contingencies, such as extreme price spikes or prolonged price volatility that may arise during the initial stages of the WESM.
- 2.5.2 The Committee has set an initial level of bid cap in the amount of PhP62, 000.00/Mwh and shall be effective for a period of one year from the launch of the WESM in Luzon.
- 2.5.3 A joint resolution has consequently been issued to extend the term of the Committee for another year. The Committee has considered revisiting some Pre-emptive Mitigating Measures such as:
 - 2.5.3.1 Imposition of zero (PhP 0.00/MWh) floor price as the minimum generation offer price;
 - However, no decision has been made on this yet.
 - 2.5.3.2 Review of the offer price ceiling or bid cap which has been proposed to be based on the Generation Price Index (GPI). The GPI has been proposed to be used for the settlement of must run units.

- The latter has undergone public hearing process and has been evaluated and decided on by the Commission.

2.5.3.3 Requiring market participants with bilateral contracts to declare their quantities to the Market Operator for settlement purposes one day before the relevant trading day.

- Again, no decision has been made on this yet.

DTL/CVDS/OOC/MGCE