

**ERC UPDATE**  
on the  
**WHOLESALE ELECTRICITY SPOT MARKET (WESM)**  
( as of 04 January 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 last quarter of 2007:

**Initiated by the Market Operator:**

Due to workflow stoppage in the Market Management System:

01 November 2007: 2200H-2300H  
13 November 2007: 2000H

Due to data collection errors:

05 November 2007: 1900H

Due to technical problems in the SCADA system:

20 November 2007: 1300H

**Initiated by the System Operator:**

Due to outage in the transmission network:

05 November 2007: 0300H-0500H

Due to SCADA failure:

30 November 2007: 2200H

Due to erroneous dispatch schedule:

13 December 2007: 1100H

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

On January 8, 2007, 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. Issuance of an Order from the Commission may be expected within January 2008.

## **1.3 MARKET FEES**

The judicial processes for the new level of Market Transaction Fees for the year 2007 application, filed by PEMC on 08 June 2007, have already been concluded. Its evaluation has been completed and consequently presented to the Commission on 10 December 2007. The corresponding Decision of the Commission is targeted to be completed within January 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.

Must-run units 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 March 16, 2007, PEMC submitted its Compliance on the procedures for redistribution of net settlement surplus and WESM Manual on the Management of Must Run Units.

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 corresponding Decision will be out soon.

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 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 redistribution of Net Settlement Surplus (NSS) shall soon be evaluated and presented to the Commission.

#### **1.5 INVESTIGATION OF THE ALLEGED MARKET POWER ABUSE OF PSALM**

The ERC, in its Order dated June 6, 2007, approved the recommendation of its Investigatory Unit (IU) to terminate the investigation on PSALM since the IU found no prima facie case against PSALM for anti-competitive behaviour or market power abuse in its participation in the commercial operation of the WESM during the third billing month.

A new set of IU members has been formed for the next case(s) to be referred to the ERC.

#### **1.6 TRANSITION SUPPLY CONTRACT (TSC) BETWEEN MERALCO AND NPC**

The decision for the final approval of the TSC between the Manila Electric Company (MERALCO) and the National Power Corporation (NPC) was held in abeyance due to some amendments / modifications in the TSC filed jointly by MERALCO and NPC. The MERALCO and NPC TSC Case will still undergo a series of public hearings.

## **1.7 LICENSED WHOLESALE AGGREGATORS**

The Commission has already approved and issued eight (8) 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.

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.

## **1.8 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.

## **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 Philippine Electricity Market Corporation (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;

- No decision has been made on this.

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.

- No decision has been made on this.