

FAQ on Retail Competition and Open Access

A. What are the changes to be brought by retail competition and open access?

The introduction of retail competition and open access brings changes in the way energy is traded. The physical flow of electricity, however, remains the same: power plants produce electricity, which is transported through the high-voltage transmission wires, then delivered to factories, buildings and homes through the distribution wires. What changes is the merchant function of the distribution utilities (DUs), i.e. the buying and selling of electricity to the Contestable Market .

Currently, the DU exclusively procures energy on behalf of all its customers, and delivers the energy through its distribution wires. With retail competition and open access, competing Retail Electricity Suppliers (RES) will do the buying and selling of electricity, and have the DU deliver the energy for them through the DU's existing distribution wires. The customer will have the power to choose its energy source, thereby getting the best deal in terms of price and value for money. In effect, the merchant function of the DU is transferred to the RES.

While it is the RES who sources energy from generating companies or the wholesale electricity spot market, quality and reliability of electricity supply (e.g. voltage stability) remains a responsibility of the DU, who has control over the operation of the distribution system.

B. What will now be the end-users' relationship with the DU?

As an end-user will now be purchasing its electricity from a RES, it shall be dealing with the DU only as far as their connection agreement is concerned. With regard to the DU's Distribution Wheeling Service (DWS), the RES may procure this service on behalf of the customer, or the latter may opt to transact with the DU and RES separately. With the latter set-up, the customer receives two (2) bills – one for DWS and the other for RES' supply service.

C. When is the start of retail competition and open access?

Republic Act 9136, or the "Electric Power Industry Reform Act of 2001" prescribes five (5) conditions that are precedent to retail competition and open access. These are: (a) establishment of the Wholesale Electricity Spot Market (WESM); (b) unbundling of transmission and distribution charges; (c) initial implementation of the cross-subsidy removal scheme; (d) privatization of at least 70% of the total capacity of NPC's generating assets in Luzon and Visayas; (e) transfer of NPC-IPP contracts to IPP Administrators.

The WESM has been established by the Department of Energy (DOE) and is now operational in Luzon. The unbundling of rates and initial implementation of the removal of cross-subsidies have been fulfilled by the ERC. The privatization of NPC generating assets and the transfer of NPC-IPP contracts to IPP administrators are being carried out by the Power Sector Assets and Liabilities Management Corporation (PSALM). Target completion of privatization is by the end of 2007, or at the latest, by end of 2008.

All these conditions are essential in establishing a robust competitive retail market. For that reason, open access and retail competition will commence upon completion of conditions (d) and (e).

D. How shall retail competition be governed?

While retail supply service is not regulated by ERC in terms of the rates being charged to customers, the RES' are regulated in terms of their marketing practices, competitive behavior, and compliance with rules and procedures, among others.

The ERC shall enforce rules and procedures to promote competition and ensure a level playing field, and conduct information dissemination to empower consumers and encourage them to actively participate in the market. The ERC shall also monitor customer switching between RES' or Local RES and evaluate the performance of retail market participants.

E. What is the difference between the RES and Local RES?

A Retail Electricity Supplier (RES) is an entity that sells, brokers, markets or aggregates electricity to end-users. The ERC will issue a license to qualified RES applicants. The license is a prerequisite for a RES to operate, and is effective anywhere in the country where retail competition is in force.

The RES may be any of the following: (a) a generation company or its affiliate; (b) a DU serving the Contestable Market outside its franchise area; (c) an affiliate of the DU; (d) an IPP Administrator; (e) any other person authorized by ERC to provide retail supply services.

The Local RES, on the other hand, is the non-regulated business segment of the DU that serves only the Contestable Market within its franchise area. As such, it does not need a RES license for its operations.

F. What happens if customer does not choose a RES?

It is the responsibility of the Commission to promote competition, encourage market development and ensure customer choice. End-users are encouraged to actively participate and choose their RES to maximize the benefits of the retail market.

To meet this objective, at least thirty (30) days prior to the commencement of retail competition, customers in the Contestable Market are enjoined to enter into a contract with a RES of their choice. Otherwise, the customer will be given the option to either contract with the SOLR, or it will be physically disconnected, which will leave the customer without electricity until it contracts with a RES or the SOLR.

The same rule shall apply to the customer if its contract with a RES expires and it does not renew or contract with a new RES.

G. How will a customer determine the RES of its choice?

A Licensed RES may now market its services to customers. However, customers are encouraged to consider more than one offer to maximize their opportunity in getting the best deal. Once the customer has decided to contract with a particular RES, the two parties shall enter into a Retail Supply Contract.

H. Who shall be responsible for black-outs?

Black-outs may be caused by equipment failure anywhere in the power system. The generating plant might shut down, a transmission line might trip, a distribution line might be hit by a tree during a storm. In these situations, the generating plant operators, transmission company and distribution utility are responsible for restoring normal operations within their domain.

While it is the RES who buys energy from generating companies or the wholesale market and sells it to end-users, the generating plant operators, transmission company and distribution utility are the ones who have control over the operation of the power system. Therefore, it is their responsibility to ensure safe and efficient operation of their respective areas in the power system.