

Republic of the Philippines  
**ENERGY REGULATORY COMMISSION**  
San Miguel Avenue, Pasig City



**IN THE MATTER OF THE  
APPLICATION FOR  
APPROVAL OF  
ADDITIONAL  
COMPENSATION FOR  
ENERGY DELIVERED TO  
THE WHOLESALE  
ELECTRICITY SPOT  
MARKET FROM 25 JUNE  
2016 - 25 JUNE 2017**

**ERC CASE NO. 2018-005 MC**

**[PHILIPPINE ELECTRICITY  
MARKET CORPORATION  
(PEMC)]**

**PANAY ENERGY  
DEVELOPMENT  
CORPORATION (PEDC),  
Applicant.**

**D O C K E T B L  
Date: AUG 01 2018  
By: \_\_\_\_\_**

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**NOTICE OF PUBLIC HEARING**

**TO ALL INTERESTED PARTIES:**

Notice is hereby given that on 03 June 2018, the Applicant Panay Energy Development Corporation (PEDC) filed an *Application* dated 19 March 2018, for the approval of additional compensation for the energy delivered to the Wholesale Electricity Spot Market (WESM).

PEDC alleged the following in its *Application*:

Applicant, **PANAY ENERGY DEVELOPMENT CORPORATION (PEDC)**, through the undersigned counsels, respectfully states:

**I. THE APPLICANT**

1. Panay Energy Development Corporation (PEDC) is a domestic corporation duly organized and existing under the laws of the Republic of the Philippines with principal office address at Brgy. Ingore, La Paz, Iloilo City. PEDC owns and operates clean coal-fired power plants located at Brgy. Ingore, La Paz, Iloilo City.
2. Philippine Electricity Market Corporation (PEMC) is a non-stock, non-profit corporation, duly organized and existing in accordance with Philippine Laws, with principal office at the 9<sup>th</sup>/18<sup>th</sup> Floor, Robinsons-Equitable Tower, ADB Ave., corner Poveda St., Ortigas Center, Pasig City.

**Statement of Facts and of the Case**

3. On various dates from June 2016 to June 2017, the National Grid Corporation of the Philippines (NGCP), as the System Operator (SO), identified and instructed PEDC to reduce its generation of energy on particular trading intervals due to: (i) line constraints affecting the Cebu, Negros, and Panay areas, and; (ii) issues on frequency control and real power balancing.
4. Based on those instructions, PEDC was constrained to reduce its generation of energy which resulted in the displacement of a portion of its capacity which were scheduled for dispatch.

4.1 During some trading intervals, the displaced capacity affected the quantity of energy scheduled for dispatch for PEDC's bilateral customers under its Power Supply Agreements. PEDC's obligation to deliver the bilateral contract quantities (BCQ) to its customers prompted PEDC to purchase the displaced capacity from WESM instead of generating the same.

4.1.1 As a result of having to purchase power for its bilateral customers, PEDC incurred additional costs for those trading intervals when the Ex-Post Price was higher than its generating cost totaling **Php 36,671,060.65** for the period June 2016-June 2017.

4.2 Aside from the failure to deliver BCQ, PEDC also suffered losses in sales in the WESM.

4.2.1 Within several intervals, PEDC's real time dispatch (RTD) for the relevant trading intervals were disregarded as PEDC was asked to ramp down due to congestion. In addition, this resulted in unrealized WESM sales amounting to **Php11,333,816.56**.

5. Due to these losses, PEDC sought for remedies to recover the (i) actual losses under its bilateral contracts; and (ii) unrealized profits from WESM sales as a consequence of its compliance to the SO's instructions.

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6. PEDC submitted claims<sup>1</sup> with supporting documents to the Philippine Electricity Market Corporation (PEMC) as the Market Operator (MO), for the payment of additional compensation, summarized as follows:

<b>Date of Request</b>	<b>Basis of Claim</b>	<b>Billing Period</b>	<b>Amount for Recovery</b>
15-Nov-16	MSU Compensation	June 26-July 25, 2016	1,191,334.12
15-Nov-16	PSM Compensation-capacity displacement**	July 26-Aug 25, 2016	22,986,517.50
15-Nov-16	MSU Compensation	July 26- Aug 25, 2016	6,506,676.00
15-Nov-16	MSU Compensation	Aug 26 – Sep 25, 2016	6,369,315.00
22-Nov-16	MSU Compensation	Sep 26 – Oct 25, 2016	1,623,019.00
23-Dec-16	MSU Compensation	Oct 26 – Nov 25, 2016	546,071.14
19-Jan-17	MSU Compensation	Nov 26 – Dec 25, 2016	742,775.58
02-May-17	MSU Compensation	Dec 26 – Jan 25, 2017	14,447.67
02-May-17	MSU Compensation/ 8PEDC_U01&2	Jan 26 – Feb 25, 2017	1,783,928.11
02-May-17	MSU Compensation/ 8PEDC_U03	Jan 26 – Feb 25, 2017	953,295.99
25-May-17	MSU Compensation/ 8PEDC_U01&2	Feb 26 – Mar 25, 2017	1,020,124.85
25-May-17	MSU Compensation/ 8PEDC_U03	Feb 26 – Mar 25, 2017	1,246,503.60
27-Jul-17	MSU Compensation/ 8PEDC_U01&2	Mar 26 – Apr 25, 2017	1,774,373.35
27-Jul-17	MSU Compensation/ 8PEDC_U03	Mar 26 – Apr 25, 2017	328,274.35
20-Jun-17	MSU Compensation	Apr 26 – May 25, 2017	162,921.27
20 Jun-17	MSU Compensation	Apr 26 – May 25, 2017	104,380.64
27-Jul-17	MSU Compensation/ 8PEDC_U01&2	May 26 – June 25, 2017	354,178.44
27-Jul-17	MSU Compensation/ 8PEDC_U03	May 26 – June 25, 2017	296,740.44.
<b>Total</b>			<b>P48,004,877.05</b>

\*\* As instructed by the Market Operator

7. For the above claims, PEDC attached detailed computations for the relevant trading hours, attached hereto as Annex “B” and series.
8. PEMC, in its Letter-reply to PEDC dated 18 August 2017<sup>2</sup>, deferred the resolution of the request for payment of additional compensation pending the approval of this Commission of the proposed methodology for compensation of Must Stop and Displaced Generators in the WESM Manual.
9. Notably, the WESM Manual on the Management of Must-Run and Must-Stop Units (Issue 7.0), particularly Sec 10.0 on Settlement of Displaced Generators, only describes settlement of

<sup>1</sup> PEDC’s Letter-requests to PEMC filed on 15 and 22 November 2016, 23 December 2016, 19 January 2017, 02 May 2017, 25 May 2017, 20 June 2017, and 27 July 2017 are hereto attached as Annex “A” and series

<sup>2</sup> Copy of PEMC Letter is hereto attached as Annex “C”.

displaced generators due to a failure of another generator to follow its RTD.

10. In PEDC's case, however, it received real time ramp down instructions from the SO due to frequency control and line limitations. In this scenario, although PEDC was constrained to ramp down and as a consequence incurred capacity displacement, there is no erring generator to speak of. Thus, while PEDC would appear to be the "displaced Generator", there is no generator to compensate PEDC.
11. Neither does the WESM Manual on Price Determination Methodology contemplate a situation in which a scheduled generating unit is instructed by the SO to lower its energy output to address congestion or frequency control issues nor does it provide for compensation for the displaced generator. Hence, PEDC appears before this Honorable Commission to seek redress. The lack of applicable provisions in the WESM Rules and Manuals should not deprive PEDC from recovering its reasonable costs in view of its compliance with the SO's instructions.
12. To compute for the proposed recovery for the losses under its bilateral contracts, PEDC considered the total cost of purchased power less the variable costs that were charged to the bilateral customers.
13. In computing the loss of revenue from WESM Sales, PEDC multiplied the total kilowatt hours it was prevented from selling to the market with the Ex Post Price. A breakdown of the computation is attached as Annex "D" to this Application.
14. In those trading intervals where PEDC is claiming for additional compensation, PEDC was constrained to purchase from WESM the shortfall in generation even if it could have generated the same amount of energy from its own capacity without incurring additional cost.
15. It should be emphasized that when PEDC was instructed by the SO to ramp down its capacity, it was left without a choice but to purchase the shortfall in energy from WESM regardless of the market-clearing price.
16. As such, PEDC's right to recover the amount it expended during those trading intervals where the resulting Ex-Post Price is higher than the variable cost is warranted.
17. The opportunity loss on trading, on the other hand, represents the amount PEDC could have earned from the displaced capacity if traded in WESM were it not for the SO's ramp down instructions.
18. The displaced capacity multiplied by the applicable market clearing price became a foregone gain for PEDC when it followed the instructions of the SO to reduce its load.

19. Equity and fairness dictate that PEDC should be allowed to recover these losses considering that it conducts its activities in faithful compliance of the rules and instructions in the electricity market.
20. Similar to the rule under 9.3.2 (Additional Compensation) of the WESM Manual on Management of Must-Run and Must Stop Units (Issue 7.0) that a Trading Participant in the WESM which has complied with dispatch instructions as Must Run Unit should be entitled to additional compensation to recover reasonable costs, so must a Trading Participant, which has complied with the dispatch instructions to ramp down be allowed to recover losses from doing so.
21. Based on the foregoing, PEDC respectfully seeks the Honorable Commission's approval to recognize and allow its request for additional compensation set forth in the attached Letters to PEMC for the billing periods 25 June 2016 to 25 June 2017 when PEDC was instructed by the SO to reduce its provision of energy due to frequency control and line limitation issues.

**PRAYER**

**WHEREFORE**, in view of the foregoing, it is respectfully prayed that the Honorable Commission grant the instant Application and direct PEMC to allow PEDC to recover additional compensation for the periods 25 June 2016 – 25 June 2017 amounting to a total **P48,004,877.05** by reason of PEDC's compliance with the System Operator's instructions to ramp down its capacity.

Other reliefs just and equitable under the premises are likewise prayed for.

The Commission has set the *Application* for determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference, and presentation of evidence on, **30 August 2018 (Thursday) at two o'clock in the afternoon (2:00 P.M.), at the ERC Hearing Room, 15<sup>th</sup> Floor, Pacific Center Building, San Miguel Avenue, Pasig City.**

All persons who have an interest in the subject matter of the instant case may become a party by filing with the Commission a verified Petition to Intervene at least five (5) days prior to the initial hearing and subject to the requirements under Rule 9 of the 2006 ERC Rules of Practice and Procedure, indicating therein the docket number and title of the case and stating the following:

- 1) The petitioner's name and address;

- 2) The nature of petitioner's interest in the subject matter of the proceeding and the way and manner in which such interest is affected by the issues involved in the proceeding; and
- 3) A statement of the relief desired.

All other persons who may want their views known to the Commission with respect to the subject matter of the case may file their Opposition or Comment thereon at any stage of the proceeding before Applicant rest its case, subject to the requirements under Rule 9 of the 2006 ERC Rules of Practice and Procedure. No particular form of Opposition or Comment is required, but the document, letter, or writing should contain the following:

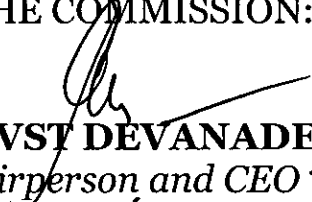
- 1) The name and address of such person;
- 2) A concise statement of the Opposition or Comment; and
- 3) The grounds relied upon.

All such persons who wish to have a copy of the *Application* may request from Applicant that they be furnished with the same, prior to the date of the initial hearing. Applicant is hereby directed to furnish all those making such request with copies of the *Joint Application* and its attachments, subject to the reimbursement of reasonable photocopying costs. Any such person may likewise examine the *Application* and other pertinent records filed with the Commission during the standard office hours.

**SO ORDERED.**

Pasig City, 23 July 2018.

FOR AND BY AUTHORITY  
OF THE COMMISSION:

  
**AGNES VST DEVANADERA**  
Chairperson and CEO  $\gamma$

LS: JMS/LSH/APV 



\*AVSTD-2018-8-510-0002\*