



Philippine Electricity Market Corporation

WHOLESALE ELECTRICITY SPOT MARKET RULES CHANGE COMMITTEE

RESOLUTION NO. 2014-10

Proposed Amendments for the Inclusion of the Offer Price Cap in the WESM Rules and the Adoption of a New Manual for the Implementation of the Proposal on Offer Price Cap and Customer Price Dampener

WHEREAS, on 29 April 2014, Aboitiz Power Corporation (APC) submitted its proposal for urgent amendments to the WESM Rules and a New Market Manual on Offer Price Cap and Customer Price Dampener (ANNEX A);

WHEREAS, the Proposed WESM Rules Changes seek to incorporate the "Offer Price Cap" in the WESM Rules;

WHEREAS, the Proposal further recommends a Customer Price Dampener to lessen the burden of high WESM prices to consumers particularly during peak intervals;

WHEREAS, on 05 May 2014, PEMC through its letter to the RCC Secretariat, advised that it could not certify the proposal as urgent as the proponent, although it had invoked that the urgent proposal was made in view of DOE's instructions on the matter, did not submit any document, despite being requested, to show the DOE's instructions or policy in this effect;

WHEREAS, on 07 May 2014, the Proponent made a presentation to the RCC regarding the proposal;

WHEREAS, during the same day, the RCC approved the publication of the Proposed Amendments to the WESM Rules and the proposed new Market Manual on Offer Price Cap and Customer Price Dampener ;

WHEREAS, on 08 May 2014, the Proposed Amendments were published in the WESM website to solicit comments of Participants and interested parties, with notification email sent on the following day;

WHEREAS, the RCC received comments, summarized as follows, within the deadline set for submission of the comments:

1) Department of Energy (DOE)--

The DOE stated in its comments submitted that it "interposes no objection on the proposal to incorporate and define the Offer Price Cap on the WESM Rules" but "the price cap shall be incorporated in the WESM's Price Determination Methodology (PDM) and shall be subject to the approval of the ERC."

"As regard the proposed Trigger for the New Offer Price Cap which only considers prices during peak periods" it was recommended that "the RCC further study the effect to WESM prices. The exclusion of the off-peak intervals may still expose these periods to extremely high prices particularly when there are

unexpected shutdown/outage of large generators..." It was further proposed that "the inclusion in the WESM Rules of the Secondary Price Cap be studied further to fully prevent the occurrence of extreme price spikes in the WESM.

2) Philippine Electricity Market Corporation--

In summary, the PEMC suggested in its comments that since APC's proposal addresses the same concern as that of ERC Resolution No. 8, it should be harmonized with the said ERC Resolution. For concerns on the reasonability of the caps, the APC should elevate it to the ERC.

2.1) While PEMC agreed that consumers should be shielded from high WESM prices during tight supply, it deemed that since the ERC--as the regulatory body for the WESM--already issued a Secondary Price Cap mechanism similarly addressing the same concern, any proposal for a mitigating measure with the intent of preventing high WESM prices should be harmonized with the ERC's resolution for a Secondary Price Cap.

2.2) The implementation of the Offer Price Cap is within the authority of the ERC while the WESM Rules provides only the operational and governance matters over the market. In relation to this, there has to be delineation between operational and procedural concerns that could be forwarded as proposed amendments to the WESM Rules/Market Manuals versus mitigating measures that are more appropriately left for the ERC to address. Since the proposal can be characterized both ways, it should go through the usual ERC process and should, thus, be submitted to the ERC for its consideration and issuance.

2.3) Since the principle of the New Offer Price Cap and Customer Price Dampener espoused by the Proposal is parallel with the objectives of the ERC's Resolution No. 08 regarding the Secondary Price Cap, and mirrors the mechanism as issued by the ERC except for higher levels of proposed offer cap, it is suggested that the proposal be forwarded to the ERC as a counter-proposal to the subject ERC issuance.

2.4) The mechanism provided in the Customer Price Dampener which provides for the imposition of a new Offer Price Cap that will automatically activate upon reaching the Trigger cannot be supported by the MMS. In contrast, the ERC Resolution No. 08 which has a Secondary Price Cap was operationally easier to implement as changes were effected in the settlement and does not affect the MMS.

3) CEBECO II--

It is alright for the Offer Price Cap to be incorporated in the WESM Rules, provided there is thorough evaluation and computation in arriving at the said cap. The Php62,000/MWh is very high enough.

4) MSC Member Dr. Peter Lee U

The proposed dampener by APC will result in higher prices than the ERC's, though if the APC's simulation has been computed correctly, it claims to result in lower simulated prices for November to December 2013 than the actual historical

prices. Too low a cap could discourage further investment in capacity while too high a cap would result in higher prices for consumers.

Further, ERC Resolution No. 08 is not clear on how it arrived at the secondary cap of Php6,245/MWh and the Trigger Php8,186/MWh. But as with the APC proposal, there needs to be more provision for periodic review of the appropriateness of the cap and trigger levels as costs, especially of fuel, vary over time. This could likewise be said of the Php62,000/MWh offer price cap.

WHEREAS, the comments above were discussed by the RCC during its 89th meeting held on 02 July 2014;

WHEREAS, during the same meeting, the System Operator expressed that the proposal should be disapproved for the reason that the proposed levels are higher than the ERC-issued Secondary Price Cap as indicated in ERC Resolution No. 08, Series of 2014;

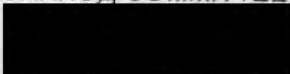
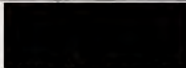
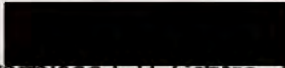
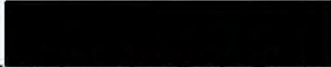
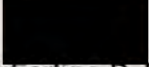
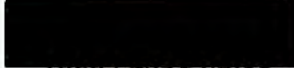
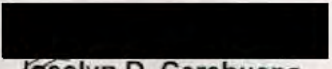
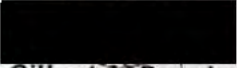
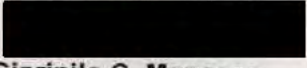
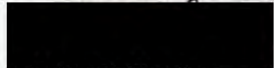
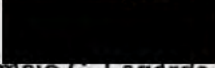
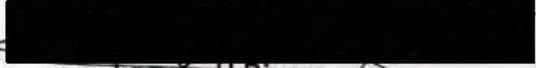
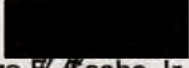
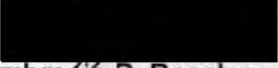
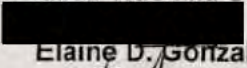
WHEREAS, it was expressed that in view of the on-going efforts of the Tripartite Committee—composed of the ERC, DOE, and PEMC— to seek comments on the ERC Resolution No. 08 and while awaiting the result of the ERC's public consultation on the same and PEMC's on-going study on mitigating measures as directed by ERC, the RCC could either defer or disapprove the proposal;

WHEREAS, the RCC, taking into consideration the comments received and the suggestions of the members, upon motion made and duly seconded, agreed to disapprove the proposal for the reason that the ERC is already undertaking efforts, through the issuance of ERC Resolution No. 08, to mitigate high prices in the Market and given that public consultations will be held on 23 July 2014 regarding ERC Resolution No. 08;

NOW THEREFORE, we, the undersigned and in behalf of the sectors we represent, hereby unanimously resolve as follows:

RESOLVED, that the Proposed Amendments for the Inclusion of the Offer Price Cap in the WESM Rules and the Adoption of a New Manual for the Implementation of the Proposal on Offer Price Cap and Customer Price Dampener are hereby disapproved;

Done this 02 July 2014, Pasig City.

<p>Approved by: RULES CHANGE COMMITTEE  Rowena Christina L. Guevara Chairperson University of the Philippines (UP)</p>	
<p>Members:</p>	
 Concepcion V. Tanglao Independent	 Francisco L.R. Castro, Jr. Independent Tensaiken Consulting
 Maia Lourdes G. de Castro Independent	 Jose Ferlino P. Raymundo Generation Sector SMC Global
 Neo Cruz-Sunico Generation Sector 1590 Energy Corporation (1590 EC)	 Joselyn D. Carabuena Generation Sector Power Sector Assets and Liabilities Management Corporation (PSALM)
 Gilbert A. Pagobo Distribution Sector (PDU) Mactan Electric Company (MECO)	 Ciprinilo C. Meneses Distribution Sector (PDU) Manila Electric Company (MERALCO)
 Jose P. Santos Distribution Sector (EC) Ilocos Norte Electric Cooperative, Inc. (INEC)	 Sulpicio C. Lagarde Jr. Distribution Sector (EC) Central Negros Electric Cooperative, Inc. (CENECO)
 Lorretto H. Rivera Supply Sector TeaM (Philippines) Energy Corporation (TPEC)	 Isidro B. Zacho Jr. Market Operator Philippine Electricity Market Corporation (PEMC)
 Ambrosio R. Rosales Transmission Sector National Grid Corporation of the Philippines (NGCP)	
	<p>Certified True and Correct:</p>  Elaine D. Gonzales RQC Secretary PEMC