

PIPPA Proposals

Consultative Forum on EPIRA Review
18 February 2014



Outline

I. Changes in Financing Environment

II. Changes in the WESM Rules and Manuals

- Modification of Must Offer Rule
- Switching to "day ahead" delivery market
- Establishment of a forward market for power
- Turn on demand bidding in WESM
- Further enhancement of Administrative Pricing mechanism
- Publish and explain methodology for setting the WESM price ceiling

III. Changes in Regulation (ERC)

- Requiring utilities to contract 100% of their projected peak demand
- Publishing of annual planned outages by the System Operator
- Treatment of concessions to host communities

IV. Changes in Permitting

- DOE Endorsements
- SAPA and Writ of Kalikasan

V. Taxes



Changes in Financing Environment

Effect of discussions on “Changes to EPIRA”

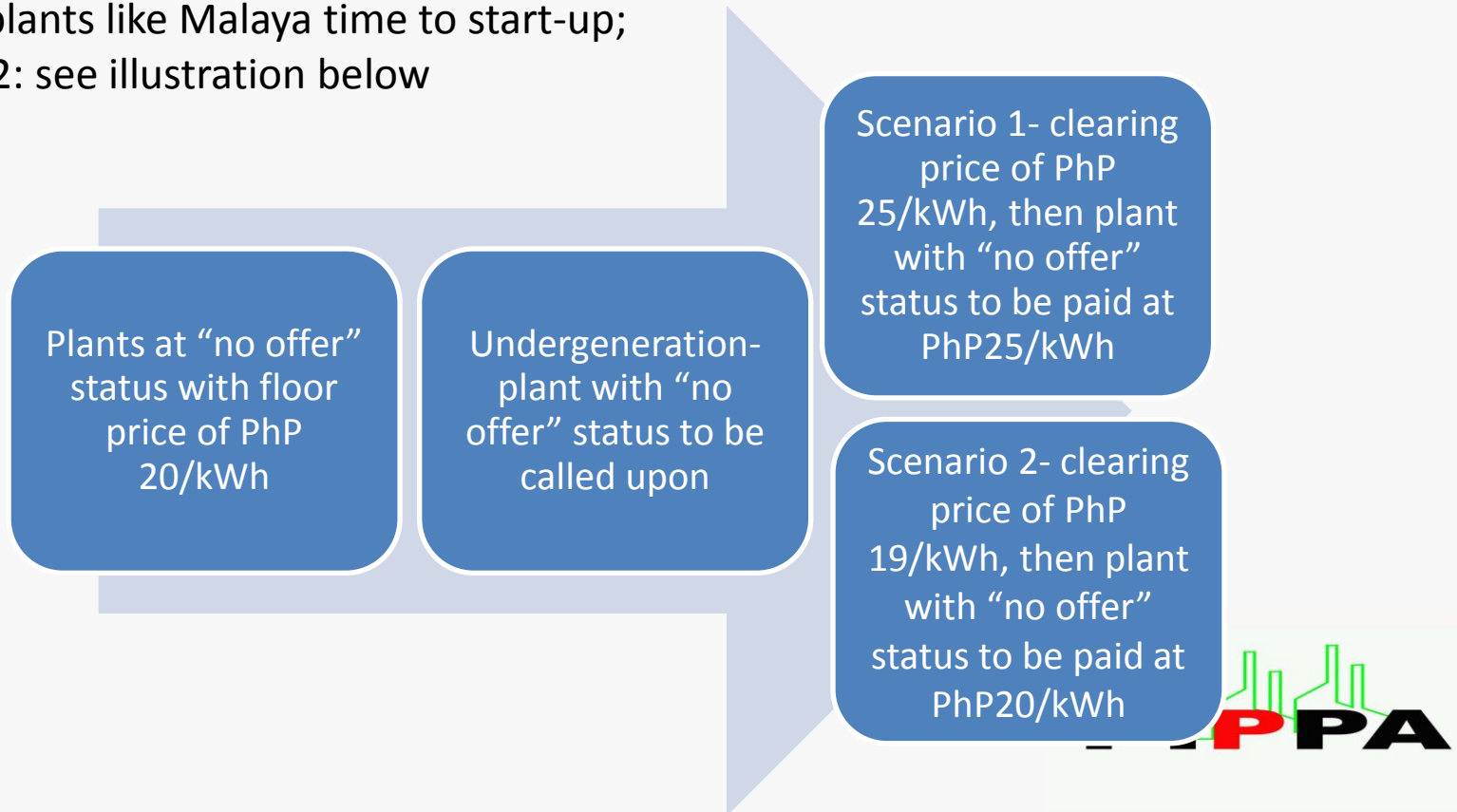
- Talks of a change in EPIRA law has resulted in all banks freezing financing discussions for new power plants
- The banks are likely to wait until
 - The new law and IRR are passed and they can review these to see if it has an effect on the projects that they want to finance or
 - The public discussion on changing the law dies down



Changes in the WESM Rules and Manuals

Modification of Must Offer Rule

- Allow the plants that do not want to offer any capacity to be called only on a last resort without setting the market price;
- Option 1: Use a "day ahead" price discovery and allow plants that are not running to submit offers ;
- Allows plants like Malaya time to start-up;
- Option 2: see illustration below



Changes in the WESM Rules and Manuals

Switching to "day-ahead" delivery market

- Does not require any change of software, only a change in the rules;
- Most other markets operate this way;
- More resistant to hourly price volatility.



Changes in the WESM Rules and Manuals

Establishment of a forward market for power

- Based on Contract For Differences or "CFDs", which the WESM is originally designed to have;
- Encourage utilities to trade in this market to cover any future exposure they may have;
- Most markets have an active forward and CFD market;
- Makes contracts quicker to negotiate; only three values to agree on.



Changes in the WESM Rules and Manuals

Turn on demand bidding in WESM

- Utilities and industries have the option to curtail themselves when the price of power becomes too high;
- Most other markets have active demand bidding;
- Provides utilities with an optional tool to limit customer price volatility;
- Allows customers to have an indirect method of taming/controlling the prices offered by generators.



Changes in the WESM Rules and Manuals

Further enhancement of Administrative Pricing mechanism

- Revise the (recently introduced) trigger for the Administrative Pricing to include (in addition to the 4% supply shortfall):
 - The exhaustion of all possible Must Run generators; and
 - A trigger related to Price- the market can be short on reserves but prices might still remain low.



Changes in the WESM Rules and Manuals

Publish and explain methodology for setting the WESM price ceiling

- Explanation/basis on how WESM offer cap or price cap was determined.



Changes in Regulation (ERC)

Requiring utilities to contract 100% of their projected peak demand

- We propose 100% contracting of their peak demand for the next 3 years;
- Chile does this;
- However, ECs/DUs should not be penalized if their actual load is less than what they contracted because their projections were not met.



Changes in Regulation (ERC)

Publishing of annual planned outages by the System Operator

- All distribution utilities will see when are the critical weeks and find cover during these periods;
- Currently, it is treated as confidential information.



Changes in Regulation (ERC)

Treatment of Concessions to Host Communities

- Current regulation does not consider discounts for the supply of power to the local host community as a cost that can be included in the power rates of the generator;
- This discourages local communities from hosting new power plants.



Changes in Permitting

DOE endorsement

- New power plants require four DOE endorsements, one for each of GIS, DENR, SEC, and BOI. These sequentially, before each application;
- We suggest that the DOE issue only one endorsement that is applicable for all four applications. This will save a substantial amount of time in the development of a power plant.



Changes in Permitting

SAPA and Writ of Kalikasan

- There are two power plants that are delayed because of:
 - Difficulty in obtaining a SAPA permit; and
 - Invalidation (by the court of appeals) of the ECC and lease agreement;
- The second, if upheld by the Supreme Court, can have a negative effect on all ECCs issued and all projects built in economic zones for both existing and future projects.



Comparison of Electricity Charges in 2004 versus 2013

Meralco Charges	2004	2013	CAGR*
Generation Charges	3.52	5.56	5.2%
Transmission Charges	0.89	0.86	-0.4%
Distribution Charges	0.57	1.21	8.7%
Supply	0.53	0.7	3.1%
Metering	0.27	0.43	5.3%
System Loss	0.57	0.6	0.6%
Temporary Adj	-0.79	0	-100.0%
Universal Charge	0.04	0.28	24.1%
Subsidy	0.08	0.13	5.5%
VAT & Other Taxes	0.03	1.02	48.0%
Total	5.71	10.79	7.3%
Total excluding Temporay Adj, VAT & Other Taxes	6.47	9.77	4.7%
Inflation Index	100	166	5.8%

Generation charge grew less than inflation

Taxes and Universal charges had the highest increase

Source: USAID report, Challenges in pricing electricity power services in selected ASEAN countries/MERALCO/ERC;
 Note: Electricity Tariff for Meralco residential customers with 200kWh monthly consumption
 *CAGR – Compounded Annual Growth Rate = $[(\text{ending value}/\text{beginning value})^{1/9 \text{ years}}] - 1$



THE END

