

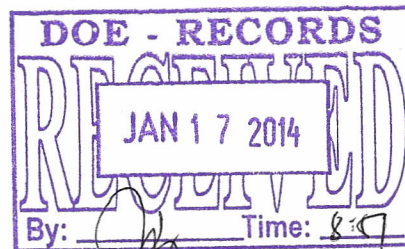
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PHILIPPINE INDEPENDENT POWER PRODUCERS ASSOCIATION, INC.

January 15, 2014

Carlos Jechicho Petilla  
Secretary  
Department of Energy

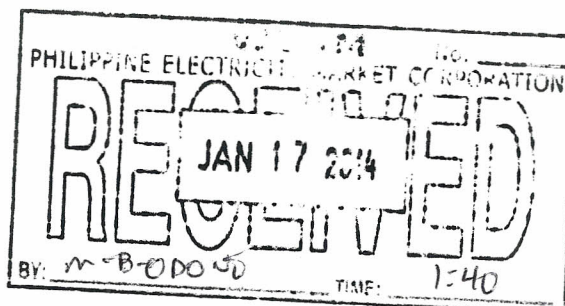
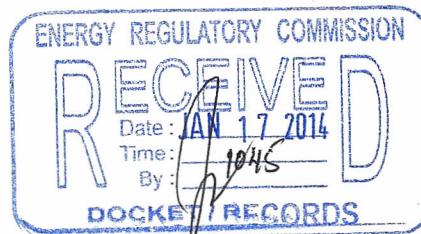
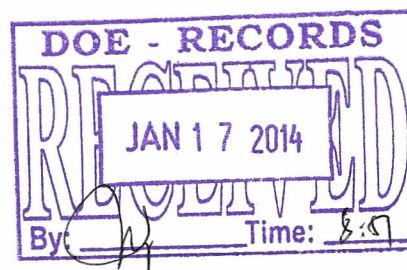


Dear Sir:

Due to the recent electricity controversy many interested individuals have been contacting members of the generation sector asking what can be done to prevent future increases in generation charges like those last November and December. PIPPA has collected various suggestions placed them on one list. The list is not comprehensive, and not all the generators are in agreement over all these suggestions. We hope it can provide ideas that will contribute to the improvement of the industry.

  
Luis Miguel Aboitiz  
President

Copies to :      Melinda Ocampo, PEMC  
                         Mylene Capongcol, DOE  
                         Zenaida Ducut, ERC





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1. Modify the 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. For example, a plant can be on "no offer" status with a floor of P20/kWh. If another plant set the price at P25/kWh and its capacity is insufficient for the system then the "no offer" plant can be called and paid at P25 (the Market Clearing Price set by the other plant). However, if all the offering plants set a price of P19/kWh and the "no offer" plant is called then the new MCP will be P20/kWh, which typically represents the startup and shutdown cost of the "no offer" plant
- Use a "day ahead" price discovery and allow plants that are not running to submit offers (see #2 below) without being synchronized at minimum load

(Please note that most other markets around the world do not have a must offer rule.)

2. Switch to "day ahead" delivery market (instead of the current hour ahead). This does not require any change of software, only a change in the rules. Most other markets operate this way
3. Establish a forward market for power (based on Contract For Differences or "CFDs") and encourage utilities to trade in this market to cover any future exposure they may have. Most markets have an active forward and CFD market.
4. Require utilities to contract 100% of their projected peak demand for the next 3 years. Chile does this. Do not penalize them if their actual load is less than what they contracted because their projections were not met.
5. Publish annual planned outages (and any changes thereto), so that all distribution utilities can see when are the critical weeks and find cover during these periods. Right now it is treated as confidential information.
6. Turn on demand bidding in WESM, so that utilities and industries can curtail themselves when the price of power becomes too high. Most other markets have active demand bidding.
7. The current Administrative Pricing mechanism will only work short term. Long term it is unsustainable for peaking plants. There should be an alternative emergency pricing mechanism if Administrative Pricing is in place for too long. For example, if Administrative Pricing is in place for more than two or three days, the system can switch to "suppressed pricing" where the maximum ceiling price is set to the marginal cost of the most expensive plant in the affected grid plus two pesos. There should also be transparent rules on when Administered Pricing/Market Intervention is to be lifted.
8. 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)
8. Publish and explain the methodology for setting the WESM price ceiling to the public.



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9. Schedule the major maintenance of Malampaya, so that it does not occur in an election year.  
(Scheduling it during an election year causes the planned outage schedule to be bunched up during months before and after the election "no downtime" period)