

Responses to AMRECO Proposals

AMRECO Proposal	Response
<p>1. As a general position, the association strongly opposed the proposal of PEMC to manage electricity spot market in Mindanao.</p>	<p>The DOE respects the views of AMRECO. For clarification, however, to manage the electricity spot market in Mindanao is not PEMC's proposal but it is in line with the DOE policy to ensure economic approach in implementing the WESM Mindanao. As such, PEMC as the Market Operator for Luzon and Visayas already possesses the experience and expertise in managing and operating the WESM. Notwithstanding, it already the necessary systems in place and need not procure a new system to implement WESM in Mindanao, hence a more cost effective approach.</p>
<p>2. As a recommendation and counter proposal, AMRECO sought for a separate market operation in Mindanao, separate and distinct from PEMC under the following concept/features:</p>	<p>While Mindanao is not yet interconnected with Luzon-Visayas, it will be a separate market where a separate dispatch schedule will be generated. In terms of governance and rules however, the Mindanao WESM will be governed by the policies and rules. But to ensure that the concerns of Mindanao WESM Participants will be accorded due process, participation to the governing body is considered including the creation of a WESM Transition Committee that may provide recommendations to the PEM Board concerning various aspects of governance and operations of WESM in Mindanao.</p>
<p>a. Composition of its Board of Directors are limited only to the electric power industry players in Mindanao.</p>	<p>Establish a Mindanao WESM Governance Committee to be attached as one of the committees under the PEM Board, and representations from the Mindanao stakeholders in the PEM Board and other WESM governance committees.</p>
<p>b. In order to maintain a minimal market fees, each market participant will contribute at least one (1) staff that will manage the operation of the market, salaries of which will be shouldered by their respective employer.</p>	<p>The recommendation is highly appreciated. However, this may not be a sustainable approach considering the dynamic nature of the market. As mentioned in 1, above, having PEMC as the Market Operator will be a cost-effective way of managing the WESM in Mindanao.</p>
<p>c. Embedded generation of distribution utilities must not be mandatory participant to sell their capacity in</p>	<p>Policy on embedded generation is being studied at the moment, which shall consider key issues such as its role in augmenting the supply in a grid or the impact on the grid should such embedded generation is not available thereby affecting the</p>

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<p>the market or their participation should be voluntary in nature regardless on whether or not it is owned by the DU/EC.</p>	<p>power supply and demand situation in the grid. With a number of embedded generators in the Mindanao grid, the DOE recommends AMRECO to further study the potential benefits when the same are capable of trading in the electricity market vis-à-vis the costs associated in maintaining the same for the exclusive use of the franchisee/owner, and therefore how it impacts the electricity end-users.</p>
<p>d. DU's or EC's with excess capacities on their bilateral contracts at certain hour of the day shall be allowed to sell the same in the market to fully maximise and optimize plant capacities.</p>	<p>The WESM is designed as a gross pool wherein both contracted and spot quantities are scheduled through the market already facilitates the selling in the market of the excess capacity which is captured in the contract declaration to be done by the generator counterparty the following day. The settlement for the sold capacity in the market is already captured in the current WESM market processes while the repayment of the capacity fee will be done outside the market. This practice may also be adopted in Mindanao to achieve an economic dispatch in the schedule that will address the existing demand in the grid and at the same time optimize the plant capacities. However, this does not equate to encouraging DUs to overcontract just to be able to sell in the market. It should be noted that intentional excess nomination at any interval may not result to market gains but rather loss to the DUs in the event that the market clearing price is less than the bilateral contract price. Thus, DUs have to observe prudence in contracting to achieve the least-cost supply for its consumers, consistent with EPIRA.</p>
<p>e. Market operator should not automatically transact in the market in behalf of the DU to any available capacity or GENCO without the approval and consent of same or participation in the market should be voluntarily instead of mandatory on the part of the DU.</p>	<p>The current WESM is an option for a DU to source its supply, mainly imbalances or uncontracted capacities, to address energy variations vis-à-vis the DUs' forecasted demand, in real-time. The PEMC's role in this regard, is to accurately reflect in the dispatch schedule and settlement, what is being provided to it by the market participants. On the part of the DU, its' hourly nomination will be considered so that when the DU opt to use 100% of its bilateral contract, no quantity will be declared as WESM quantity. The use of bilateral and WESM quantities will be entirely to the discretion of the DU, in coordination with its contracted generator. Hence, this concern is already addressed when the current WESM practice is adopted in Mindanao.</p>
<p>f. It should be a</p>	<p>No objection. This is the principle adopted in the</p>

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<p>business decision of the EC/DU whether to buy power from the market or to make additional capacity nomination from its bilateral power supplier</p>	<p>current in the WESM wherein the EC/DU has the option to declare how much of its energy withdrawn or metered are due for bilateral and spot transactions.</p>
<p>g. Price cap should be equal to the ERC approved generation cost of the power plant selling in the market and being nominated by the market operator to supply a certain DU/EC in any given time of the day.</p>	<p>The price cap being imposed in the WESM is based on the marginal cost of operating the most expensive plant available in the market which is diesel-fired power plant. For clarification also, the Market Operator does not nominate a power plant but its primary responsibility is to determine dispatch schedule based on offers (price and quantity) of generators, system demand and transmission facilities' status for each trading interval.</p>
<p>h. Clearing price should be the price bidded by the supplier at the time of nomination but not to exceed the price cap above cited.</p>	<p>If the proposal is to adopt a "Pay-as-Bid" pricing mechanism, we would like to offer the following clarification:</p> <p>The WESM uses the market clearing price or the uniform pricing. It is referred as the Locational Marginal Pricing (LMP) which is an economic dispatch concept wherein energy and transmission congestion prices are calculated in specific areas based on the marginal cost to generate power to serve those areas. The goal of the LMP is to achieve optimal (least cost) generator dispatch by minimizing locational energy and congestion prices.</p> <p>The LMP was chosen considering its advantages over the pay-as-bid pricing as follows:</p> <ul style="list-style-type: none"> a. The LMP is more likely to result in a dispatch stack that truly reflects the market supply curve and grid conditions. Conversely, pay-as-bid auctions may not result in a least-cost dispatch stack and are more likely to result in an inefficient plant dispatch. b. For generators, it is less complicated to select the energy price they should offer

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	<p>under LMP auctions. Conversely, pay-as-bid pricing likely leads to more opportunities to game the system.</p> <p>c. Because pay-as-bid auctions put greater emphasis on market price forecasting, all generators would face increased costs to ramp up energy price forecasting programs. These costs would ultimately find their way down to the rate payers.</p> <p>d. Because pay-as-bid auctions put greater emphasis on market price forecasting, smaller suppliers are put at a disadvantage. The costs associated with operating a robust energy price forecasting program would be proportionately more burdensome on suppliers with small generator fleets. Larger generators will be able to afford higher quality forecasts to maintain a competitive advantage in the market.</p> <p>e. The LMP provides accurate price signals to market participants for generation and demand-side resources.</p> <p>f. Studies show that market prices are higher overall in the pay-as-bid markets compared to uniform pricing markets.</p>
<p>i. That the generated capacity of NAPOCOR-MinGen particularly from Agus and Pulangui HEPP should not be considered part of the market resources or should not be traded in the market, instead it should be fully contracted out by the DU's/EC's.</p>	<p>Consistent with our response in Item 3 hereof, the energy produced from PSALM's portfolio of power generating plants will be declared as bilateral contracts for all customers of PSALM based on their respective contract allocation on an hourly basis. These are reflected to the market as energy offers. Please note that energy transactions including bilateral contracts are scheduled on an hourly basis through the market near real-time to encourage efficiency and achieve least cost in the energy to be dispatched. On the next day, the generators declare the ex-post contract quantities to their counterparties which will be the basis of the settlement to reflect actual dispatch and consumption.</p> <p>In a gist, the bilateral contracted quantities between the generators and distribution utilities or directly-connected customers are nominated or declared in the WESM for purposes of balancing supply and</p>

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	demand. However, their settlement remains outside the WESM and only between the contracting parties.
<p>j. There should be no line rental regardless of the location of the plant being nominated by the DU/EC to supply its power requirement whether in the market or bilateral contract considering that the cost of TX facilities has already been paid by consumers in a form of ancillary charges as part of the CAPEX of the transmission operator.</p>	<p>The Line Rental exists when there is congestion in the transmission System. In this regard, this is not the same as the cost of transmission facilities being paid for by the consumers. In formula, the line rental amount is computed by getting the difference in trading amount (Price x Quantity) between a delivery and buying point (injection/off-take node).</p>
<p>a. As a way forward we hereby respectfully recommend also the following:</p> <p>a. DOE to provide the working draft of both the transitory settlement protocol as well as of the proposed market rules.</p>	<p>The DOE has provided and published copies of the proposed rules covering transition guidelines.</p> <p>Dedicated discussions were also held involving both generators and distribution utilities on the interim dispatch protocol to be able to improve scheduling and dispatch of power plants and minimize as possible the occurrence of load dropping by enabling a generator to generator arrangement to provide replacement power when the contracted generator is unavailable.¹</p>
<p>b. DOE to initiate the conduct of a forum with all power industry players prior to the public consultations for comments on the draft rules. (Purpose is to ask the participant's/player's insights on the draft rules)</p>	<p>Already done by the DOE.</p>
<p>c. Create a Technical Working Group</p>	<p>As mentioned, the DOE conducted various fora just to be able to capture and address concerns relating</p>

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<p>composed of DOE as lead convenor and representatives of all industry participants with consultants from DOE that will review/study/evaluate some of the proposals and comments from the forum as a preliminary round of discussion on the draft rules, to iron out substantial and contentious issues prior to public consultation with other stakeholders like business sector and consumers group, and study also the appropriate and relevant structure of the Mindanao market in consideration of its unique situation to be able to adopt the appropriate electricity trading platform for Mindanao.</p>	<p>to the implementation of WESM in Mindanao. In this regard, we deem that the creation of a TWG will no longer be necessary considering that extensive consultation were conducted by the DOE. We note that a focus group discussion was held specifically for Electric Cooperatives where AMRECO was also invited just to be able to discuss their concerns and consider them in the continuing improvement of the circular for the adoption of WESM in Mindanao.</p>
<p>d. DOE to conduct public consultation on the final draft to be participated by all stakeholders in Mindanao.</p>	<p>Several public consultations and focus group discussions were held by the DOE (see attached list)</p>
<p>e. DOE and industry participants to file jointly to ERC the proposed rules for its approval.</p>	<p>The DOE appreciates the recommendation, however, we would like to clarify that the promulgation of the WESM Rules is within the authority and mandate of the DOE pursuant to Sections 30 and 37 of the EPIRA. What is being approved by the ERC is formula or the pricing methodology being adopted in the WESM.</p>