

# PIPPA Proposals

Consultative Forum of 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”

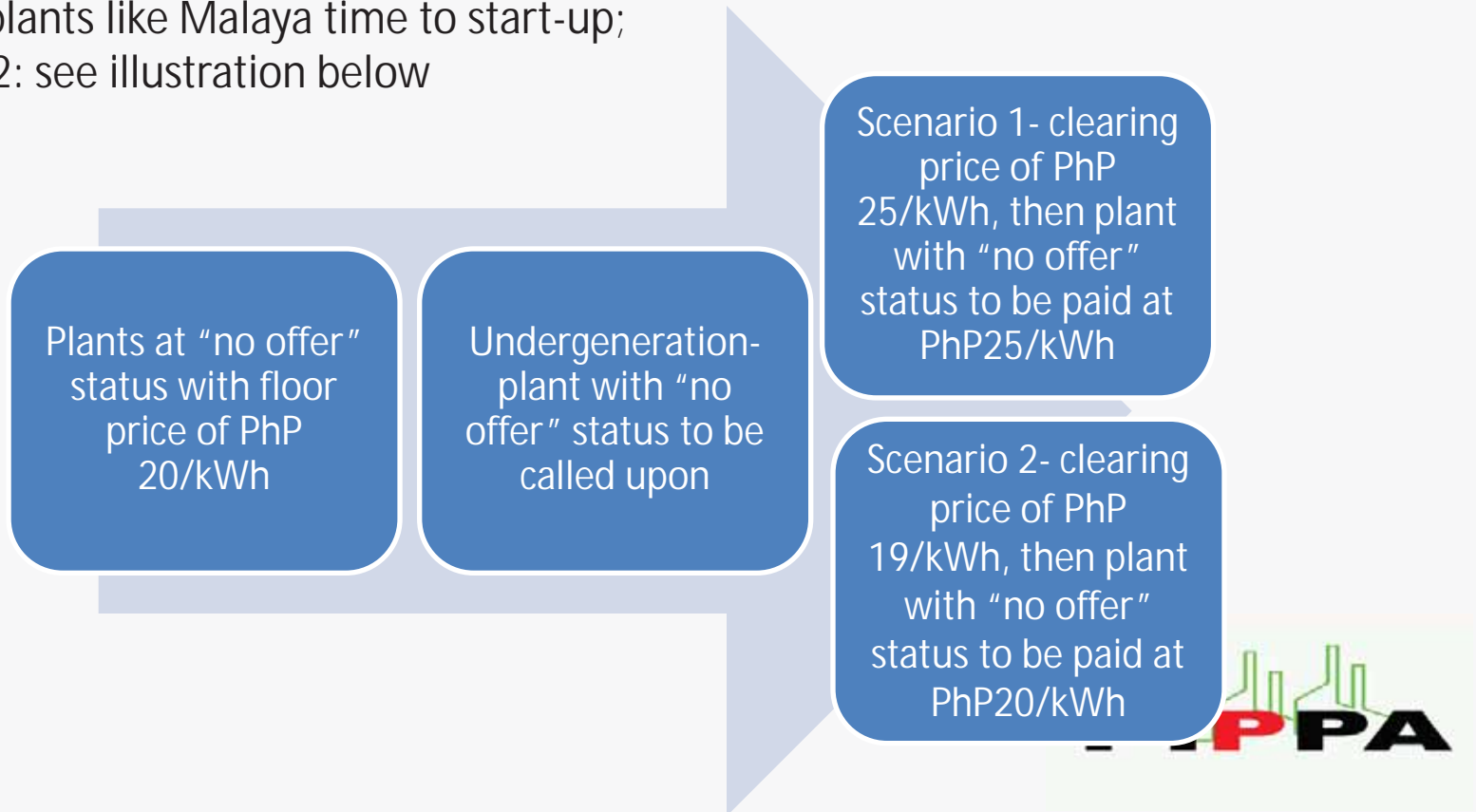
- Talks of a change in EPIRA law has resulted in all banks freezing financing discussions for new power plants
- The banks are likely to wait until
  - The new law and IRR are passed and they can review these to see if it has an effect on the projects that they want to finance or
  - The public discussion 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*
<b>Generation Charges</b>	<b>3.52</b>	<b>5.56</b>	<b>5.2%</b>
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%
<b>Universal Charge</b>	<b>0.04</b>	<b>0.28</b>	<b>24.1%</b>
Subsidy	0.08	0.13	5.5%
<b>VAT &amp; Other Taxes</b>	<b>0.03</b>	<b>1.02</b>	<b>48.0%</b>
Total	5.71	10.79	7.3%
Total excluding Temporay Adj, VAT & Other Taxes	6.47	9.77	4.7%
<b>Inflation Index</b>	<b>100</b>	<b>166</b>	<b>5.8%</b>

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

