

Republic of the Philippines
ENERGY REGULATORY COMMISSION
San Miguel Avenue, Pasig City



**IN THE MATTER OF THE
APPLICATION FOR
APPROVAL OF ADDITIONAL
COMPENSATION FOR
ENERGY DELIVERED TO THE
WHOLESALE ELECTRICITY
SPOT MARKET FROM 26
FEBRUARY 2016 - 25
OCTOBER 2016**

ERC CASE NO. 2018-006 MC

**CEBU ENERGY
DEVELOPMENT
CORPORATION (CEDC),**

Applicant.

X-----X

D O C K E T E D
Date: JUL 31 2018
By: W

ORDER

On 05 April 2018, Cebu Energy Development Corporation (CEDC) filed an *Application* for the approval of the additional compensation for energy delivered to the Wholesale Electricity Spot Market (WESM) from 26 February 2016 to 25 October 2016.

CEDC alleged the following in its *Application*:

Parties to the Case

1. Cebu Energy Development Corporation (CEDC) is a domestic corporation duly organized and existing under the laws of the Republic of the Philippines with principal office address at Brgy. Daanlungsod, Toledo City, Cebu. CEDC owns and operates clean coal-fired power plants located at Brgy. Daanlungsod, Toledo City, Cebu.
2. Philippine Electricity Market Corporation (PEMC) is a non-stock, non-profit corporation, duly organized and existing in accordance with Philippine Laws, with principal office at the 9th/18th Floor, Robinsons-Equitable Tower, ADB Ave., corner Poveda St., Ortigas Center, Pasig City.

9th/18th Floor, Robinsons-Equitable Tower, ADB Ave., corner Poveda St., Ortigas Center, Pasig City.

Statement of Facts and of the Case

3. On various dates from February 2016 to October 2016, the National Grid Corporation of the Philippines (NGCP), as the System Operator (SO), identified and instructed CEDC to reduce its generation of energy on particular trading intervals due to: (i) congestion affecting the Colon-Quioit and Toledo-Naga lines and; (ii) issues on frequency control and real power balancing.
4. Based on those instructions, CEDC was constrained to reduce its generation of energy which resulted in the displacement of a portion of its capacity which were scheduled for dispatch.
 - 4.1 During some trading intervals, the displaced capacity affected the quantity of energy scheduled for dispatch for CEDC's bilateral customers under its Power Supply Agreements. CEDC's obligation to deliver the bilateral contract quantities (BCQ) to its customers prompted CEDC to purchase the displaced capacity from WESM instead of generating the same.
 - 4.1.1 As a result of having to purchase power for its bilateral customers, CEDC incurred additional costs for those trading intervals when the Ex-Post Price was higher than its generating cost totaling **Php51,012,457.66** for the period February 2016 – October 2016.
 - 4.2 Aside from the failure to deliver BCQ, CEDC also suffered losses in sales in the WESM.
 - 4.2.1 Within several intervals, CEDC's real time dispatch (RTD) for the relevant trading intervals were disregarded as CEDC was asked to ramp down due to congestion. In addition, this resulted in unrealized WESM sales amounting to **PHP20,090,833.62**.
 5. Due to these losses, CEDC sought for remedies to recover the (i) actual losses under its bilateral contracts; and (ii) unrealized profits from WESM sales as a consequence of its compliance to the SO's instructions.
 6. CEDC submitted claims¹ with supporting documents to the Philippine Electricity Market Corporation (PEMC) as the Market Operator (MO), for the payment of additional compensation, summarized as follows:

¹ CEDC's Letter-requests to PEMC dated 16 August 2016, 27 September 2016, 24 October, and 25 November 2016 are hereto attached as Annex "A" and series.

ERC CASE NO. 2018-006 MC
NOTICE OF PUBLIC HEARING/ 20 JULY 2018
PAGE 3 OF 6

Date of Request	Basis of Claim	Billing Period	Amount for Recovery
16-Aug-16	MSU Compensation	Feb 26-Mar 25, 2016	7,636,353.92
16-Aug-16	MSU Compensation	Mar 26 – Apr 25, 2016	8,117,108.12
16-Aug-16	MSU Compensation	Apr 26 – May 25, 2016	6,721,052.74
27-Sep-16	MSU Compensation	May 26 – Jun 25, 2016	17,567,574.20
27-Sep-16	MSU Compensation	Jun 26 – Jul 25, 2016	15,057,929.95
24-Oct-16	MSU Compensation	Jul 26 – Aug 25, 2016	16,002,000.26
25-Nov-16	MSU Compensation	Sep 26 – Oct 25, 2016	1,272.09
Total			P71,103,291.28

7. For the above claims, CEDC attached detailed computations for the relevant trading hours, attached hereto as Annex “B” and series.
8. PEMC, in its Letter-reply to CEDC dated 18 August 2017², deferred the resolution of the request for payment of additional compensation pending the approval of this Commission of the proposed methodology for compensation of Must Stop and Displaced Generators in the WESM Manual.
9. Notably, the WESM Manual on the Management of Must-Run and Must-Stop Units (Issue 7.0), particularly Sec 10.0 on Settlement of Displaced Generators, only describes settlement of displaced generators due to a failure of another generator to follow its RTD.
10. In CEDC’s case, however, it received real time ramp down instructions from the SO due to frequency control and line limitations. In this scenario, although CEDC was constrained to ramp down and as a consequence incurred capacity displacement, there is no erring generator to speak of. Thus, while CEDC would appear to be the “displaced Generator”, there is no generator to compensate CEDC.
11. Neither does the WESM Manual on Price Determination Methodology contemplate a situation in which a scheduled generating unit is instructed by the SO to lower its energy output to address congestion or frequency control issues nor does it provide for compensation for the displaced generator. Hence, CEDC appears before this Honorable Commission to seek redress. The lack of applicable provisions in the WESM Rules and Manuals should not deprive CEDC from recovering its reasonable costs in view of its compliance with the SO’s instructions.
12. To compute for the proposed recovery for the losses under its bilateral contracts, CEDC considered the total cost of purchased power less the variable costs that were charged to the bilateral customers.
13. In computing the loss of revenue from WESM Sales, CEDC multiplied the total kilowatt hours it was prevented from selling to the market with the Ex Post Price. A breakdown of the computation is attached as Annex “D” to this Application.

² Copy of PEMC Letter is hereto attached as Annex “C”.

ERC CASE NO. 2018-006 MC
NOTICE OF PUBLIC HEARING/ 20 JULY 2018
PAGE 4 OF 6

14. In those trading intervals where CEDC is claiming for additional compensation, CEDC was constrained to purchase from WESM the shortfall in generation even if it could have generated the same amount of energy from its own capacity without incurring additional cost.
15. It should be emphasized that when CEDC was instructed by the SO to ramp down its capacity, it was left without a choice but to purchase the shortfall in energy from WESM regardless of the market-clearing price.
16. As such, CEDC's right to recover the amount it expended during those trading intervals where the resulting Ex-Post Price is higher than the variable cost is warranted.
17. The opportunity loss on trading, on the other hand, represents the amount CEDC could have earned from the displaced capacity if traded in WESM were it not for the SO's ramp down instructions.
18. The displaced capacity multiplied by the applicable market clearing price became a foregone gain for CEDC when it followed the instructions of the SO to reduce its load.
19. Equity and fairness dictate that CEDC should be allowed to recover these losses considering that it conducts its activities in faithful compliance of the rules and instructions in the electricity market.
20. Similar to the rule under 9.3.2 (Additional Compensation) of the WESM Manual on Management of Must-Run and Must Stop Units (Issue 7.0) that a Trading Participant in the WESM which has complied with dispatch instructions as Must Run Unit should be entitled to additional compensation to recover reasonable costs, so must a Trading Participant, which has complied with the dispatch instructions to ramp down be allowed to recover losses from doing so.
21. Based on the foregoing, CEDC respectfully seeks the Honorable Commission's approval to recognize and allow its request for additional compensation set forth in the attached Letters to PEMC for the billing periods 25 February 2016 to 25 October 2016 when CEDC was instructed by the SO to reduce its provision of energy due to frequency control and line limitation issues.

PRAYER

WHEREFORE, in view of the foregoing, it is respectfully prayed that the Honorable Commission grant the instant Application and direct PEMC to allow CEDC to recover additional compensation for the periods 25 February 2016 to 25 October 2016 amounting to a total **P71,103,291.28** by reason of CEDC's compliance with the System Operator's instructions to ramp down its capacity.

ERC CASE NO. 2018-006 MC
NOTICE OF PUBLIC HEARING/ 20 JULY 2018
PAGE 5 OF 6

Other reliefs just and equitable under the premises are likewise prayed for.

The Commission has set the *Application* for determination of compliance with the jurisdictional requirements, expository presentation, Pre-trial Conference, and presentation of evidence on **31 August 2018 at ten o'clock in the morning (10:00 A.M.) at the ERC Hearing Room, 15th Floor, Pacific Center Building, San Miguel Avenue, Pasig City.**

All persons who have an interest in the subject matter of the instant case may become a party by filing with the Commission a verified Petition to Intervene at least five (5) days prior to the initial hearing and subject to the requirements under Rule 9 of the 2006 ERC Rules of Practice and Procedure, indicating therein the docket number and title of the case and stating the following:

- 1) The petitioner's name and address;
- 2) The nature of petitioner's interest in the subject matter of the proceeding and the way and manner in which such interest is affected by the issues involved in the proceeding; and
- 3) A statement of the relief desired.

All other persons who may want their views known to the Commission with respect to the subject matter of the case may file their Opposition or Comment thereon at any stage of the proceeding before Applicant rests its case, subject to the requirements under Rule 9 of the 2006 ERC Rules of Practice and Procedure. No particular form of Opposition or Comment is required, but the document, letter, or writing should contain the following:

- 1) The name and address of such person;
- 2) A concise statement of the Opposition or Comment; and
- 3) The grounds relied upon.

All such persons who wish to have a copy of the *Application* may request from Applicant that they be furnished with the same, prior to the date of the initial hearing. Applicant is hereby directed to furnish all those making such request with copies of the *Application*

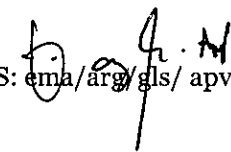
ERC CASE NO. 2018-006 MC
NOTICE OF PUBLIC HEARING/ 20 JULY 2018
PAGE 6 OF 6

and its attachments, subject to the reimbursement of reasonable photocopying costs. Any such person may likewise examine the *Application* and other pertinent records filed with the Commission during the standard office hours.

Pasig City, 20 July 2018.

FOR AND BY AUTHORITY
OF THE COMMISSION:


AGNES VST DEVANADERA
Chairperson & CEO


LS: ema/arg/gls/apv.2018-006 MC CEDC.doc

