

Proposed Amendments to the (1) Retail Rules and (2) WESM Rules to Reduce Barriers to Entry and Participation in Retail Competition

Philippine Electricity Market Corporation

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I. SUMMARY OF THE PROPOSED RULES CHANGE

The amendments to the Retail Rules and WESM Rules are proposed to reduce barriers to entry and participation in retail electricity competition. This is proposed to be achieved by (1) making registration of contestable customers in the WESM voluntary, (2) requiring submission by distribution utilities of accurate customer and metering information of all eligible contestable customers to the Central Registration Body, and (3) reducing the processing time of switch requests to 5 working days from 30 calendar days. The affected documents are:

- Retail Rules
- WESM Rules

II. BACKGROUND

Retail competition for electricity was introduced to the Philippines in 2013 with the contestability of end users with an average peak demand of 1 MW and above for the past one (1) year. End users with an average peak demand between 750 kW and 999 kW for the past year were then made contestable three years after in 2016. In December 2017, the Department of Energy (DOE) announced the voluntary contestability of end users with an average peak demand of 500 kW to 749 kW for the past year by 26 June 2018. Under the same circular, the DOE declared that full implementation of retail competition up to the household demand level is subject to the annual review and issuances of the DOE and the Energy Regulatory Commission (ERC).

With the continuous reduction in the contestability threshold of end users, PEMC was tasked under Section 6 of DOE Circular No. DC2017-12-0013 to recommend appropriate changes to existing systems, processes and guidelines with the goal of ensuring the entry of contestable end users to retail competition. In line with this, a review of the current implementation of retail competition was performed to identify possible changes to reduce barriers to entry for eligible contestable customers to participate in retail competition and foster more competition in the retail market. As the eventual aim is to facilitate the transition of the Philippines towards household-level retail competition, changes in existing systems that would be identified should also better facilitate the continuous reduction of the contestability threshold towards household level.

For reference in the review of the current implementation of retail competition, arrangements of other jurisdictions already allowing households to choose a competitive retailer were sought. Jurisdictions reviewed in relation to this proposal were: Australia, Great Britain, New York, New Zealand, Nordic countries (Denmark, Finland, Norway, Sweden), Ontario in Canada, Singapore and Texas. The table below provides a summary of the arrangements in the aforementioned jurisdictions.

Jurisdiction	Wholesale Market Registration	Switch Process	Switch Timeline¹
Philippines	Mandatory	Centralized ²	At least thirty (30) calendar days
Australia	Optional	Centralized	At least one (1) business day ³
Great Britain	Optional	Decentralized	At least one (1) day ⁴
New York	Optional for 1 MW and above	Decentralized ⁵	At least five (5) business days
New Zealand	Not Allowed	Centralized	At least three (3) days
Nordic countries	Optional	Decentralized	Approximately two (2) weeks
Ontario, Canada	Optional for 250,000 kWh per year and above	Decentralized	At least four (4) weeks
Singapore ⁶	Optional	Centralized	At least five (5) business days
Texas	Not Allowed	Centralized	Within seven (7) business days

Comparing the current implementation in the Philippines and the arrangements in other jurisdictions, the following items may be observed:

a) Registration in the wholesale electricity market

In other jurisdictions, registration of contestable end users to the wholesale electricity market is optional, with or without threshold, or not allowed; on the other hand, it is mandatory in the Philippines. Under the current implementation, contestable customers register as Indirect Participants⁷ with their respective suppliers acting as their Direct Participant counterparty. In effect, transactions of contestable customers in the Philippines are managed by their respective suppliers similar to other jurisdictions. Contestable customers in the Philippines, however, are subject to all WESM requirements and responsibilities as WESM Members even though they are practically not transacting with the Market Operator. As a result, contestable customers are required to provide information that are essentially not necessary for exercising their right to choose a supplier. In other jurisdictions, information necessary to participate in retail competition is minimized to operational requirements since contestable customers are not required to register in their wholesale electricity markets. By having a separate registry for the retail market, other jurisdictions are able to impose different requirements for contestable end users.

¹ From submission of request to effectivity of switch

² Switch requests are facilitated by the wholesale electricity market operator (Philippines, Australia, Texas) or a contracted third-party provider (New Zealand)

³ Subject to objections and proposed effective date

⁴ Ongoing implementation; target for completion by 2019

⁵ Switch requests are facilitated by distribution utilities

⁶ Household-level retail competition started in April 2018

⁷ Contestable customers may also register as Direct Participants

b) Facilitation of the switch process

Two modes of implementation were observed for facilitating the switch process of contestable end users from one supplier to another – centralized and decentralized. Centralized implementation of switching employs a single information database of contestable end users and their relevant information (e.g., current supplier, metering information, customer information). The same organization maintaining the information database also facilitates the switching of end users since all information are available with that organization. This may be observed in the Philippines, Australia, Texas, and New Zealand. For the three (3) former jurisdictions, the central information database and switching process is the responsibility of the market operator of their respective wholesale electricity markets (i.e., PEMC, AEMO, ERCOT). On the other hand, the New Zealand electricity regulatory contracted a third-party registry manager (Jade Software Corporation New Zealand Limited) to perform the same function.

Decentralized implementation of switching puts the responsibility of customer information maintenance and switching to the respective distribution utilities of the end users. To switch an end user, the new supplier coordinates with the corresponding distribution utility of the end user.

For both cases in other jurisdictions, the organizations facilitating the switch process have access to customer and metering information of all eligible contestable customers. Under the centralized approach, the procedures in Australia⁸ and New Zealand⁹ require distribution utilities to submit the information to the retail registry manager the aforementioned information. On the other hand, distribution utilities have first-hand information on all contestable customers under its coverage area through its provision of wheeling and metering services; hence, switch facilitators under the decentralized approach also have access to all necessary information. This allows the switch facilitators to process switch requests within days. Switch requests in other jurisdictions include supplier-to-supplier, regulated-to-supplier, or supplier-to-regulated, among others.

c) Timeline for processing switch requests

All of the switching timeframes of other jurisdictions are less than the current provision for the Philippine retail market. Some jurisdictions even implement up to one (1) day switch request processing. Another similarity of other jurisdictions that was observed is that several of the countries are transitioning towards faster switching timeframes such as Great Britain¹⁰ and the Nordic countries¹¹. According to a report by Ofgem¹², a shorter switching timeframe can lower switching costs and increase participation of eligible contestable end users in

⁸ Standing Data for MSATS Section 2.2

⁹ Electricity Industry Participation Code Section 11.7

¹⁰ Ofgem, Moving to reliable and fast switching: Target Operating Model and Delivery Approach v2, 17 November 2015.

¹¹ NordREG, Harmonized supplier switching model, February 2008, Helsinki.

¹² Ofgem, Moving to reliable next-day switching: Decision, 10 February 2015.

retail competition. The increased participation of customers means more competition for suppliers and is expected to result in “greater innovation, better service, and pressure on prices”.

III. THE PROPOSED RULES CHANGE

In order to reduce barriers to entry and encourage participation of eligible contestable customers in retail competition while advancing retail systems and processes to eventual household implementation, it is proposed that:

- registration of contestable customers to the WESM be made voluntary and independent registries for the wholesale and retail markets be maintained allowing for a streamlined and more efficient implementation of both wholesale and retail market processes;
- distribution utilities be required to submit accurate and timely customer and metering information of all eligible contestable customers to the Central Registration Body for their inclusion in the retail market registry consistent with Article I Section 1.1 of ERC Resolution No. 05 Series of 2014 to improve ease of transition to retail competition for eligible contestable customers that have decided to source from suppliers; and
- the minimum switching timeframe of the Central Registration Body be lowered to five (5) working days upon receipt of switch request to increase participation of contestable customers in choosing a supplier that fits their needs.

All other processes affected by the non-mandatory registration in the WESM (e.g., switching, determination of settlement quantities and amounts, metering) are correspondingly proposed to be revised.

IV. BACKGROUND AND DESCRIPTION OF THE PROPONENT

The proponent is the Philippine Electricity Market Corporation. PEMC acts as both the governance arm and market operator of the WESM.

Top Officers:

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V. CONCLUSIONS AND RECOMMENDATIONS

The amendments to the Retail Rules and WESM Rules are proposed to reduce barriers to entry and participation in retail electricity competition by (1) making registration of contestable customers in the WESM voluntary, (2) requiring submission by distribution utilities of accurate customer and metering information of all eligible

contestable customers to the Central Registration Body, and (3) reducing the processing time of switch requests to 5 working days from 30 calendar days. By revising the Retail Rules and WESM Rules, barriers to entry to the competitive retail market are reduced, participation of eligible contestable customers in retail competition is encouraged, and retail systems and processes are developed towards household implementation of retail competition. Thus, it is recommended that the proposed changes be adopted.

VI. REFERENCES

1. Retail Rules
2. WESM Rules