

## **MERALCO ASSURES CSP COMPLIANCE, CLARIFIES CONCERNS ON ITS PSAs**

Manila Electric Company (Meralco) supports the Department of Energy's (DOE) call for a competitive selection process (CSP) that aligns with Meralco's DOE-approved Power Supply Procurement Plan (PSPP). However, the points raised by DOE Assistant Secretary Mario Marasigan during a press conference held on 14 April 2025 against Meralco's Power Supply Agreement (PSA) with Excellent Energy Resources Inc. (EERI) for 1,200 MW baseload supply, one of the winners in Meralco's 1,800 MW CSP last year, are utterly untrue. It is lamentable that a high-ranking DOE official speaks out of turn and makes statements that are false and misleading.

First, Asec. Marasigan's statements that Meralco's PSA with EERI is higher (or more expensive) power, or that the delayed implementation of Meralco's PSA with EERI is causing the prices in the Wholesale Electricity Spot Market (WESM) to be high, are completely misleading and false. The high WESM prices cited by Asec. Marasigan are due largely to the simultaneous outages of several power plants, rather than the delayed implementation of Meralco's PSA with EERI. Moreover, under the said PSA, in case there is unexcused delay in implementation of the PSA because the Commercial Operation Date has not occurred as scheduled, Meralco made sure that its customers are still completely protected by providing that Meralco will only have to pay the lower of the actual cost of the replacement power and the PSA rate approved by the Energy Regulatory Commission (ERC).

Second, Meralco's CSP, particularly the 1,800 MW CSP conducted last year that was cited by Asec. Marasigan, and the PSA/s resulting therefrom, complied with all government policies for the procurement of power for its captive customers. Meralco's PSPP was approved by the DOE and, except for instances where exigent circumstances are present, Meralco only sources power for its captive customers through CSP based on its DOE-approved PSPP.

In addition, all bids submitted during the CSP go through strict technical, financial, and legal evaluation to ensure faithful compliance with relevant DOE and ERC rules and regulations. As the DOE officials are fully aware, just like in the case of the DOE's conduct of auctions for capacities under its Green Energy Auction Program (GEAP), there are instances where newly built plants are unable to start operations on the indicated scheduled commercial operations date due to either fault of the generation company, technical problems, regulatory delay, or force majeure. This is why the PSAs of Meralco address these uncertainties and provide for consequences and remedies to Meralco, which are all reviewed and approved by ERC.

To emphasize, all PSAs of Meralco resulting from its CSP require prior ERC approval before they are implemented. The terms of these PSAs include the tariff and provision for replacement power (beyond an ERC-approved outage allowance), as well as imposition of fines and penalties, as may be applicable. The tariff, once approved by the ERC, is understood and deemed to be the least cost option procured by Meralco.

Third, the obvious and main cause for high WESM prices is the lack of supply or lack of new capacity in the grid – and this cannot be resolved solely by baselessly blaming Meralco's PSA with EERI for not being implemented on time. Whether the EERI power plant is delayed or not in its commissioning timeline, the issues in EERI's testing and commissioning would not have much significant effect on the grid's reliability had there been other new baseload power plants that were already built and online. It is noteworthy to point out that most of the new capacities in the grid are solar technologies which become unavailable during evening thereby further driving up the WESM spot prices. Many power plants today are 20 years

old and plagued with unscheduled or forced outages, and the only other large-scale greenfield baseload power plant that Meralco is aware of – the GNPDP power plant – is also one of winners of Meralco's 1,800 MW CSP last year. Apart from EERI and GNPDP, the Luzon grid has not had any large new or greenfield baseload plant since 2002. Obviously, it is regrettable that Asec. Marasigan has failed to grasp the magnitude of the problem caused by the lack of new power plants and the impact this is having on energy security and affordable power rates.

As Meralco and many other energy experts have repeatedly pointed out in the past, we need to encourage the entry of greenfield or new power plants to address supply deficiency instead of pointing fingers on power plants that are unable to timely deliver due to circumstances outside of their control such as technical problems, regulatory delay, or force majeure. Meralco is doing its part in encouraging entry of greenfield or new power plants through CSPs conducted for such purpose.

Fourth, during last year's 1,800 MW CSP, EERI emerged as one of the winning bidders. While for the 1,200MW CSP (which was also conducted simultaneously last year and meant for existing power plants since the supply requirement was supposedly to start January 2024), South Premiere Power Corp. (SPPC) won the bidding. Both EERI and SPPC submitted tariffs that were lower than other bidders. Another bidder that offered to supply power using a mix of Indigenous Natural Gas and LNG was found non-compliant for submitting a bid that is PhP1.40/kwh higher than the reserve price set or lowest bid submitted. This is the best testament that the PSA resulting from this CSP was the least cost.

Fifth, EERI and SPPC, with a combined capacity of 2,475 MW (net) of which 2,400 MW is contracted to Meralco, will surely provide much needed supply to Meralco's captive customers during the 15-year term of the PSAs, and help alleviate supply deficiency in the grid. However, Meralco cannot be expected, and has no legal obligation, to over-contract or source excess capacity (or more than what is needed by its captive customers) simply to ensure supply adequacy in the grid. Doing so would expose Meralco customers to higher generation cost resulting from stranded capacity. This would be contrary to the fundamental principle of least cost being followed by Meralco. Indeed, Meralco customers should not bear the brunt of supply deficiency in the grid as the mandate to ensure supply adequacy rests on the State, through the DOE, pursuant to EPIRA.

Finally, even if Meralco timely conducts its CSPs and in accordance with the DOE-approved PSPP, delays in ERC approvals of the resulting PSA/s significantly contribute to supply deficiency and increase in generation cost, especially WESM prices.

For the 1,800 MW CSP, it is a rebidding of an earlier 1,800MW CSP conducted from October 2020 to February 2021. Unfortunately, after the lapse of 2 years without the ERC resolving/approving the PSAs, the affected generating companies were constrained to terminate their PSAs with Meralco in 2023. Because of this, Meralco, in coordination with the DOE, had to quickly conduct a new round of bidding for the 1,800MW requirement so that the resulting PSAs could be submitted to ERC and be approved in time to meet Meralco's supply needs this 2025. Despite this regulatory delay, it was a significant achievement for EERI to even attain the testing and commissioning stage by the scheduled commercial operations date of November 26, 2024 – even if the ERC released the PSA approval only after, or on December 18, 2024. Nevertheless, at the testing and commissioning stage, EERI is required to provide commissioning energy at lower rate than the PSA price which benefits Meralco customers. Of the more recent CSPs of Meralco last year, several PSAs have not yet been implemented for lack of formal approval from ERC. Among these are (i) Renewable Energy (RE) PSAs with San Roque Hydropower, Inc. (SRHI) and Gigasol3, which were supposed to start delivering a total of 350 MW of RE mid-merit supply last February 26, 2025; and (ii)

Mariveles Power Generation Corp (MPGC), one of the winning bidders of the 1,800 MW CSP, which is scheduled to commence delivery of 300MW baseload supply on April 26, 2025. The 350 MW RE PSAs, apart from being for Meralco's Renewable Portfolio Standard (RPS) compliance through Guaranteed Renewable Energy Certificates (GRECs), are also desperately needed by Meralco's customers as these are expected to help alleviate exposure to volatile WESM prices during the coming summer months. Meralco already filed several motions with the ERC requesting for immediate release of formal orders/resolutions but the ERC has yet to act on them.

Notwithstanding, Meralco wishes to reiterate its commitment to provide continuous and reliable service to all its customers especially during the summer months of this year when it is expected that demand in electricity will increase.