

TECHNICAL ASSISTANCE COMPLETION REPORT¹

Division : SEEW

TA No., Country and Name:		Amount Approved: US\$800,000	
TA 4073-PHI: Transition to Competitive Electricity Market		Revised Amount: N/A	
Executing Agency: Department of Energy	Source of Funding: TASF	Amount Undisbursed: US\$74,934.02	Amount Utilized: US\$725,065.98
TA Approval Date: 19 Dec 2002	TA Signing Date: 17 Feb 2003	Fielding of First Consultants: 24 Feb 2003	TA Completion Date Original: 31 Dec 2004 Actual: 30 Nov 2008 Account Closing Date Original: 31 Dec 2004 Actual: 24 Mar 2009
<p>Description</p> <p>To address the problems facing the Philippine power sector, the Government decided to restructure and privatize the electric power industry in 2001. The principal objective was to create competitive electricity markets by unbundling generation and transmission and providing open and equal access to transmission and distribution. In December 2002, ADB approved Electricity Market and Transmission Development Project (Loan 1984-PHI) to develop the necessary system and infrastructure, i.e. a wholesale electricity spot market (WESM) so that the electricity generation is dispatched through competitive bidding to meet the power demand. This advisory TA, piggy-backed to Loan 1984-PHI, was designed to help the Department of Energy (DOE), the Executing Agency (EA), to facilitate the transition from the regulated market to a competitive electricity market.</p> <p>Expected Impact, Outcome, and Outputs</p> <p>The TA, in conjunction with the Project loan, was to support the Government's objective to improve the accessibility, quality, affordability, and sustainability of the national electricity supply. The TA has two parts: Part A was to prepare the bid documents for the procurement of market management system (MMS) and assist the EA with bid evaluation; while Part B was to provide independent advice to the Government during the initial implementation of the WESM and develop a transition plan for the selection of an independent market operator (IMO) for WESM. The TA formulation was based on extensive stakeholder consultation and its design was relevant as part of the power sector restructuring program.</p> <p>Delivery of Inputs and Conduct of Activities</p> <p>Overall, the productivity and the quality of the consultant inputs are considered satisfactory by the EA and ADB.</p> <p>For Part A of the TA, a panel of experts, consisting of three individual international consultants, was engaged from February 2003 to October 2004. The consultants provided their services in accordance with the terms of reference. Specifically, the consultants prepared the technical specifications of the MMS for the WESM and assisted the EA in the bidding and evaluation of the MMS. The performance of these international consultants is rated satisfactory.</p> <p>For Part B of the TA, a consultancy firm, Union Fenosa Soluziona, was engaged from May 2005 to November 2006. The consultant provided advice on the setting up and operations of WESM. In particular, the consultant prepared a transition plan for the appointment of the IMO through international competitive process. However, the Government decided to defer the transition to the IMO, and created an autonomous Philippines Electricity Market Corporation (PEMC) to operate WESM. The performance of Union Fenosa Soluziona is considered satisfactory.</p> <p>Minor change in implementation arrangements and reallocation of funds were approved in February 2004 and May 2008 respectively to allow engagement of the additional national consultants. Two national consultants undertook legal analyses of some proposed measures to improve the operations of WESM. The performance of these national consultants is rated satisfactory.</p>			

¹ In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

The TA completion date was extended seven times due to delay in the setting up of WESM and minor change in scope, which resulted in extension of TA closing date by 51 months. The undisbursed amount of \$74,934 is part of unutilized contingencies.

The EA actively participated in the implementation of the TA, its performance is considered satisfactory. Throughout the implementation of the TA, there was no change in the ADB's project team which regularly consulted the Government and reviewed progress of the consultant's work. ADB's performance is considered satisfactory.

Evaluation of Outputs and Achievement of Outcome

The Consultants submitted the required reports on a timely basis as specified in their contract and effectively transferred key expertise and knowledge to the EA within the contract cost. The EA confirmed that the quality of the reports submitted was satisfactory.

The TA contributed to the smooth implementation of Loan 1984-PHI Electricity Market and Transmission Development Project. Under this project, the hardware and software for WESM were procured and installed, and WESM started its commercial operations in June 2006. During the initial stage of WESM operations, the market clearing prices occasionally showed some abnormalities. This was due to the fact that the market players were still on a learning curve, and there were also some deficiencies in the software configuration and market surveillance procedures. The rectification of these market dysfunctions requires continuing and coordinated effort by DOE, PEMC in consultation with the Energy Regulatory Commission. Overall, the operations of the WESM have been generally successful and contributed to the substantial progress of the Government's power sector restructuring and privatization program.

One of the expected TA outputs, i.e. appointment of an IMO, was not achieved in the form envisaged in the TA design. The consultant submitted the implementation plan for the selection of an IMO. The Government decided to defer the appointment of IMO and, instead, established PEMC to operate WESM. This is considered to be a necessary transitional arrangement to ensure all market dysfunctions experienced during initial years of WESM operations are fully mitigated before handing over the administration of WESM to an independent operator. As part of DOE preparatory work for the transition to IMO, a full audit of WESM operations is being conducted in 2009.

Overall Assessment and Rating

The TA was relevant at the time of its design and efficacious in achieving its objective. Overall, the TA is rated as successful.

Major Lessons

The TA envisaged the appointment of an independent market operator within one year of WESM's operations. Although the consultant prepared a transition plan as per the requirement of TOR, it became clear that it was necessary to first mitigate market dysfunctions which are inevitable during initial operations of WESM. For such a complex market system which is the first of its type in DMCs, the TA should have allowed more time for the selection of an independent market operator.

Recommendations and Follow-Up Actions

As the lead financing agency in the power sector in the Philippines, ADB should continue to review the power sector restructuring process and conduct regular policy dialogues with the Government. In particular, ADB should closely monitor the operations of WESM and its transition to an independent market operator to ensure the long term credibility of the competitive market.