

Supplier's Query (1st Pre-Bid):

6. What is the rationale and calculation basis behind the annual price escalation cap of 2.5%, 2.11% and 3.00% for local, foreign and FX, respectively?

NECA's Answer (1st Pre-Bid):

The limitation factors used in the escalation as indicated was based on the historical data.

Supplier's Comment (Additional for 2nd Pre-Bid):

Those levels might be true 5-10 years ago but not necessarily the recent levels. Please consider setting cap based on current levels as supply and its corresponding costs are of current levels.

NECA's Answer (2nd Pre-Bid):

(Assigned to CDTA Baliola last June 5 Meeting at NOCECO)

We appreciate your feedback/comments regarding the annual price escalation cap and your suggestion to consider setting the cap based on current levels of supply and corresponding costs. In response, NECA would like to provide a more extensive explanation to address your concerns.

BSP's Monetary Policy Report as of May 2023:

[Bangko Sentral ng Pilipinas Price Stability \(bsp.gov.ph\)](https://www.bsp.gov.ph)

NECA acknowledges that the price escalation cap is based on historical data, which may not necessarily reflect the current levels of supply and costs. However, it is essential to consider the broader economic context and rely on reliable projections for future inflation. In this regard, the BSP's latest Monetary Policy Report, published in May 2023, provides valuable insights. According to the report, the BSP projects that the average inflation rate for 2024 could settle near the midpoint of the target range of 2.0% to 4.0%. The BSP attributes this projected deceleration in inflation to the likely decline in global oil and non-oil prices. While NECA's projections are derived from historical figures, they have been meticulously prepared in accordance with economic theory and aligned with the BSP's inflation target range.

Furthermore, NECA has taken additional precautions to ensure the accuracy and reliability of the forecasted values. Outliers, such as extreme events that have temporary and non-representative impacts on inflation, have been excluded from the analysis. This approach safeguards against significant deviations or fluctuations in inflation rate calculations that could potentially distort the accuracy and reliability of the projections.

Considering these robust projections and the anticipated deceleration in inflation as indicated by the BSP, NECA maintains its position that the current price escalation cap, although based on historical data, is well within a reasonable range. This cap not only aligns with economic theory but also serves as a prudent measure to protect all parties involved from potential future uncertainties.

Risk Management by Power Generation Companies:

NECA acknowledges the concerns you raised regarding the disparity between the price escalation cap and the current levels of supply and costs. However, it is important to recognize that power generation companies are skilled at managing risks associated with price volatility and inflation fluctuations.

You employ various risk management strategies, including entering into derivative contracts as part of your hedging strategies. By utilizing these instruments, you effectively mitigate the risks stemming from price volatility and fluctuations in inflation rates. It is worth noting that if you were to win the bid, you would likely adopt similar risk management practices to safeguard your operations and investments.

Therefore, while your concerns about the current levels of supply and costs are valid, they should not overshadow the comprehensive analysis and prudent approach undertaken by NECA in setting the price escalation cap. NECA remains confident that the cap, based on historical data and aligned with BSP's projections, is reasonable and appropriate for the bidding process.

In conclusion, NECA acknowledges your feedback and your desire for a price escalation cap based on current levels. However, NECA firmly stands by its decision to maintain the current cap, taking into account the BSP's projections, careful exclusion of outliers, and the risk management practices employed by your company. This approach ensures the cap's reasonability, reliability, and ability to protect all parties involved from potential future uncertainties. NECA appreciates your understanding of the meticulous process undertaken to establish the cap and remains committed to conducting a fair and transparent bidding process.

Source:

[Bangko Sentral ng Pilipinas Price Stability \(bsp.gov.ph\)](http://bsp.gov.ph)