

Republic of the Philippines
DEPARTMENT OF ENERGY

DEPARTMENT CIRCULAR No.: 2004-07-008

WHEREAS, Republic Act No. 9136, otherwise known as the "Electric Power Industry Privatization Act of 2001" (the "Act"), which became effective on 26 June 2001, provides for the framework for the restructuring of the electric power industry to bring about a free and fair competition on the pricing of electricity;

WHEREAS, the Act mandates the establishment of a wholesale electricity spot market (the "WESM") where the trading of electricity can be made;

WHEREAS, the Act enjoined the Department of Energy (the "DOE") to establish the WESM and to jointly formulate with the electric power industry participants the detailed rules thereof, within one (1) year from the effectivity thereof, provided, that the price determination methodology shall be subject to the approval of the Energy Regulatory Commission (the "ERC");

WHEREAS, in accordance with and in compliance with the Act, the DOE promulgated the WESM Rules under Department Circular No. 2002-06-003 dated 28 June 2002;

WHEREAS, in compliance with the Act, the pertinent application for approval of the Price Determination Methodology (the "PDM") for the WESM was submitted to the ERC for approval;

WHEREAS, the ERC, through its Order dated 15 March 2004 in ERC Case No. 2003-356 required compliance with certain directives before the said price determination methodology may be approved, which directives requires, in turn, the amendment of the WESM Rules;

WHEREAS, in compliance with the ERC directives, the DOE jointly with the electric industry participants through the Philippine Electricity Market Corporation and its technical working group and sub-committees, and in accordance with the provisions of the WESM Rules on Rules Change, formulated the pertinent amendments to the WESM Rules;

NOW THEREFORE, pursuant to its mandate under the Act and in accordance with the WESM Rules, the DOE, hereby issues, adopts and promulgates the following amendments to the WESM Rules:

A. Amendments to the WESM Rules

1. Rule 3.2.2 is amended to insert Rule 3.2.2.3(A) before Rule 3.2.2.4

"Nodal Prices at Market Trading Nodes shall be used for the settlement of energy for both generators and customers."
2. Rule 3.2.3.1 is amended to read as follows -

"Customer nodes may be grouped into customer pricing zones in accordance with the procedures to be developed by the Market Operator and subject to the approval of the PEM Board. The Market Operator shall maintain and publish the customer pricing zones to be used for the settlement of energy for customers."
3. Rule 3.2.3.2 is amended to read as follows -

"All customers within a customer pricing zone shall face the same price for electricity consumed."
4. Rule 3.5.4.1 is amended to read:

"Each Customer may submit a forecast in respect of each trading interval for each of its registered load facilities for each trading day of week in accordance with the timetable. The forecast submitted by the Customer shall be used by the Market Operator in the preparation of Net Load Forecast.

If the Customer fails to submit a forecast of his load facilities in accordance with the timetable, the forecast prepared by the Market Operator at the node where the customer is located shall be used."
5. Rule 3.13.1.1 (b) is amended to read -

"(b) Identify the counter party to the bilateral contract and the party that will pay the line rental trading amount associated with the bilateral contract quantity submitted; and"
6. Rule 3.13.15 is hereby deleted.
7. Rule 3.13.16.2 is amended to read -

"The net settlement surplus:

 - (a) May be retained by the Market Operator to fund deficit as a result of transactions required in clauses 3.13.14, or may be flowed back to the Market Participants in accordance with the procedures to be developed under clause 3.13.16.3, or, may be used by the Market Operator to establish and support the market for Financial

Transmission Rights subject to the approval of the PEM Board;
and,

- (b) Shall be clearly accounted for and taken into account when setting the allowable charges under any regulatory instruments applying to the Market Operator."

8. Rule 3.13.16.3 is amended to read -

"The Market Operator shall:

- (a) publish regular summary reports on the amount of any net settlement surplus being generated;
- (b) within one year from spot market commencement date, and every year thereafter, publish a review of the underlying factors giving rise to any net settlement surplus, and attempt to identify any binding constraints which may have caused or contributed to such net settlement surplus;
- (c) determine, in consultation with Trading Participants and Network Service Providers, and subject to approval by the PEM Board, whether the net settlement surplus generated by any particular set of constraints is of such magnitude as to justify development of a regime similar to that implemented in the WESM Rules with respect to transmission line rentals and transmission rights;
- (d) develop procedures on the possible uses of net settlement surplus subject to approval by the PEM Board; and,
- (e) continuously review the procedures on possible uses of net settlement surplus to the extent the Market Operator considers it to be reasonably necessary to promote WESM objectives. Any changes made on the procedures shall have approval from the PEM Board."

9. Rule 3.13.17 shall be added and shall read as follows -

"Rule 3.13.17 Settlement Amounts for Trading Participants with Bilateral Contracts

3.13.17.1 For each billing period, the Market Operator shall determine the settlement amount for each trading participant with bilateral contract as the sum of the aggregate trading amounts for the trading intervals in that billing period, determined in accordance with clause 3.13.17.2.

- (a) Any amount payable by the Market Operator to that Trading Participant in respect of that billing period and not accounted for in

clause 3.13.17.2, including payment for any ancillary services purchased on behalf of the System Operator, less the sum of

- (b) Any market fees which that Trading Participant is required to pay in respect of that billing period as determined in accordance with clause 2.10; plus
- (c) Any other amounts payable by that Trading Participant to the Market Operator in respect of that billing period, including any ancillary services recovery charges.

3.13.17.2 The aggregate trading amount for a Trading Participant for a trading interval equals the sum of:

- (a) The ex-ante energy trading amounts for each market trading node for which the Trading Participant is responsible calculated in accordance with clauses 3.13.7 and 3.13.8 (which will typically be positive for a Generation Company and negative for a Customer); plus
- (b) The ex-post energy trading amounts for each market trading node for which the Trading Participant is responsible calculated in accordance with clauses 3.13.7 and 3.13.9 (which will typically be positive or negative for any Trading Participant); plus
- (c) The line rental trading amount corresponding to the quantity of bilateral contract of that Trading Participant calculated in accordance with clause 3.13.12; plus
- (d) The reserve trading amounts for each reserve region into which that Trading Participant contributes reserve calculated in accordance with clause 3.13.10 (which will always be positive for both Generation Companies mid Customers); plus
- (e) The transmission right trading amounts for each transmission right held by the WESM Participant calculated in accordance with clause 3.13.13 (which will always be positive for both Generation Companies and Customers); Plus
- (f) The reserve cost recovery charge determined for that Trading Participant with respect to any reserve cost recovery zone within which it has any facility connected calculated in accordance with the procedures developed under clause 3.3.4 (which will be positive for any Trading Participant); and

- (g) Any other ancillary service cost recovery charges determined for that trading Participant in accordance with the procedures developed under clause 3.3.4."
10. Rule 3.15.2.2 (c) is hereby deleted.
11. Rule 10.4.6.1 is amended to read as follows -
- "When Customer Pricing Zones are adopted and prior to spot market commencement date, the Market Operator shall:"
12. The definition of *Settlement Surplus* found in Chapter 11 - Glossary is amended to read as follows -
- Settlement Surplus** - The settlement surplus remaining after all market transactions have been accounted for and is assumed to be attributable to economic rentals arising from other binding constraints.

B. Effectivity

These amendments shall be effective on the fifteenth (15th) day following its publication in the Official Gazette.

(Sgd.)
VINCENT S. PÉREZ, JR.
Secretary

Manila, Philippines, 7 July 2004.