



Republic of the Philippines
DEPARTMENT OF ENERGY

DEPARTMENT CIRCULAR NO. DC 2012-06-0007

DIRECTING THE NATIONAL ELECTRIFICATION ADMINISTRATION TO DEVELOP A MECHANISM FOR ENSURING THE ADEQUACY OF AND COMPLIANCE BY THE ELECTRIC COOPERATIVES WITH THE PRESCRIBED PRUDENTIAL REQUIREMENTS IN THE WHOLESALE ELECTRICITY SPOT MARKET AND SPEARHEAD THE COLLECTIVE PETITION THEREOF FOR THE APPROVAL OF THE ENERGY REGULATORY COMMISSION

WHEREAS, it is the policy of the state to ensure transparent and reasonable prices of electricity in a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency and enhance the competitiveness of Philippine products in the global market;

WHEREAS, Section 37 of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), provides that the Department of Energy (DOE) is mandated to supervise the restructuring of the electric power industry, formulate rules and regulations as may be necessary to implement the objectives of the EPIRA, and exercise such other powers as may be necessary or incidental to attain the objectives of the EPIRA;

WHEREAS, pursuant to Section 30 of the EPIRA, the DOE, jointly with the electric power industry participants, established the Wholesale Electricity Spot Market (WESM) and formulated the detailed WESM Rules;

WHEREAS, under Clause 3.15 of the WESM Rules, members are required to comply with the minimum Prudential Requirements (PR)¹ to ensure the credibility and viability of the WESM operation by providing a level of comfort that WESM Trading Participants have adequate cover to meet their obligations in the WESM, shall result to suspension and de-registration;

WHEREAS, Department Circular No. 2010-08-0010 provides that suspension and de-registration of the WESM member is a ground for disconnection from the grid;

¹ Prudential Requirement (PR) refers to the amount required on the Trading Participant in the WESM to maintain to ensure that it will meet its obligation to make payments as required under the WESM Rules.

WHEREAS, the DOE notes the increasing number and frequency of Electric Cooperatives (ECs) that are receiving Margin Calls² from the Philippine Electricity Market Corporation (PEMC) due to their below the minimum level PRs;

WHEREAS, based on consultations with PEMC, it is evident that most ECs are encountering financial difficulties in maintaining the amount that complies with their respective PR in the WESM thereby exposing the ECs particularly the electricity end-users on a possible disconnection of electricity services;

WHEREAS, to cover the required PRs, the DOE deems it necessary for ECs to be afforded the opportunity to obtain adequate funds that is not currently recognized in the current tariff structure of the ECs, subject to the review and approval of the Energy Regulatory Commission (ERC);

WHEREAS, under Section 58 of the EPIRA the National Electrification Administration (NEA) is expressly mandated among others, to undertake the following:

- a. Develop and implement programs to prepare ECs in operating and competing under the deregulated electricity market, specifically in an environment of open access and retail wheeling;
- b. Strengthen the technical and financial capability of the ECs; and
- c. Review and upgrade the regulatory policies with the view to enhancing the viability of the ECs as electric utilities.

NOW, THEREFORE, for and in consideration of the foregoing premises, the DOE consistent with its supervisory functions in the implementation of the EPIRA hereby promulgates the following:

Section 1. Scope. This Circular shall only apply to ECs located in Luzon and Visayas where WESM operates. However, NEA may include proposed regulatory changes to ECs in Mindanao to strengthen their technical and financial capability.

Section 2. Mandate of National Electrification Administration (NEA). Consistent with its mandate under the EPIRA, NEA is hereby directed to immediately develop a roll out plan that will assist the ECs in meeting their respective PR in the WESM. Specifically, NEA is hereby directed to:

- a. Review the current regulatory policies applied to the ECs and recommend within ninety (90) days from the issuance of this Circular the proposed mechanism to ensure that the ECs shall be able to

² Margin Calls refer to notices issued by the Market Operator when its exposure to a WESM member exceeds the WESM Member's trading limit.

generate funds to adequately cover the WESM-prescribed minimum PR; and

- b. Provide guidance to ECs in the preparation of the appropriate consolidated filing or petition for the approval of the ERC, the proposed amendment in the current rate methodology for the ECs, taking into consideration the objective of providing the ECs to obtain adequate cover to post the required PRs in the WESM.

Section 3. Responsibilities of Electric Cooperatives. All ECs are hereby directed to:

- a. Fully cooperate with the NEA by providing timely data and information necessary in the conduct of the study;
- b. Expedite completion of all documentary requirements in the filing of the petition to ERC;
- c. Fully comply with the WESM Rules particularly in maintaining the required PRs;
- d. Conduct extensive public consultation and consumer education campaign on the latest developments in the EC operations; and
- e. Perform other tasks that maybe required in pursuance of this Circular.

Section 4. Responsibilities of the Philippine Electricity Market Corporation (PEMC). In pursuit of its role of ensuring the credibility of the WESM, PEMC is hereby directed to undertake the following:

- a. Review the WESM Rules and recommend amendments where necessary to support the directives issued to NEA;
- b. Submit a monthly report to the DOE on the compliance with PR and issuances of Margin Call notices to WESM Trading Participants; and
- c. Identify and implement necessary improvements in the billing and settlement systems to ensure timely provision of information to WESM members, DOE and ERC.

Section 5. Regulatory Support. The ERC shall ensure the provision of support in the regulatory requirements consistent with the policies set forth under this Circular and in accordance with existing laws and procedures.

Section 6. Repealing Clause. Except insofar as may be manifestly inconsistent herewith, nothing in this Circular shall be construed as to repeal any of the

mechanisms already existing or responsibilities already provided for under existing rules.

Section 7. Separability Clause. If for any reason, any section or provisions of this Circular is declared unconstitutional or invalid, such parts not affected shall remain in full force and effect.

Section 8. Effectivity. This Circular shall take into effect immediately following its publication in at least two (2) newspapers of general circulation and shall remain in effect until otherwise revoked.

Issued on JUN 28 2012 in Fort Bonifacio, Taguig City, Metro Manila.



JOSE RENE D. ALMENDRAS

Secretary



DEPARTMENT OF ENERGY
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