

[RESOLUTION NO. 01, S. 2018, March 01, 2018]

**A RESOLUTION ADOPTING THE AMENDMENTS TO THE RULES
FOR THE DISTRIBUTION OF NET SETTLEMENT SURPLUS (NSS)**

Adopted: 20 February 2018

Date Filed: 01 March 2018

WHEREAS, Section 30 of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), provides for the establishment of the Philippine Wholesale Electricity Spot Market (WESM);

WHEREAS, the Philippine Electricity Market Corporation (PEMC) was incorporated on 18 November 2003 as a non-stock, non-profit corporation and designated as the Autonomous Group Market Operator (AGMO) of the WESM;

WHEREAS, the Department of Energy (DOE), on 21 June 2006, issued Department Circular (DC) No. 2006-06-0008 declaring the start of commercial operations of the WESM in the Luzon Grid on 26 June 2006;

WHEREAS, the DOE, on 26 November 2010, issued DC No. 2010-11-0012 declaring the start of commercial operations of the WESM in the Visayas the Grid and its integration with the Luzon Grid;

WHEREAS, there is a surplus or deficit resulting from the aggregate settlement transactions in the WESM termed as the Net Settlement Surplus or Deficit;

WHEREAS, the ERC on 23 February 2009 promulgated the set of Rules for the Distribution of Net Settlement Surplus ("NSS Rules") which incorporated the comments of the industry stakeholders;

WHEREAS, the NSS Rules establishes, among others, the (i) definition and allocation of Net Settlement Surplus; (ii) distribution period of Net Settlement Surplus; (iii) flow back computation of Net Settlement Surplus; (iv) treatment of interests incurred from the Net Settlement Surplus; and (v) reportorial requirements;

WHEREAS, the DOE on 20 April 2017, issued DC No. 2017-04-0005 adopting the WESM Market Manual Issue No. 3 on the Management of Net Settlement Surplus and its further amendments;

WHEREAS, in order to be consistent with the principle for the immediate equitable flow back to the party who paid for the line loss and congestion charges enunciated in the NSS Rules, the ERC deems it necessary to amend the existing NSS allocation formula;

NOW THEREFORE, after thorough and careful deliberation, the ERC consistent with its mandate under the EPIRA, hereby RESOLVES, as it is hereby RESOLVED, to APPROVE and ADOPT the "Amended Rules for the Distribution of Net Settlement Surplus", herein attached as Annex "A" and made an integral part of this Resolution.

All previous Decisions, Issuances and Directives by the ERC contrary to the instant Resolution are deemed superseded.

This Resolution shall take effect immediately in the next billing month following its publication in the Official Gazette or in a newspaper of general circulation in the Philippines.

Let copies of this Resolution be furnished the University of the Philippines Law Center-Office of the National Administrative Register (UPLC-ONAR).

Pasig City, 20 February 2018.

(SGD) AGNES VST DEVANADERA
Chairperson and CEO

(SGD) GLORIA VICTORIA C.
YAP-TARUC
Commissioner

(SGD) ALFREDO J. NON
Commissioner

(SGD) JOSEFINA PATRICIA
A. MAGPALE-ASIRIT
Commissioner

(SGD) GERONIMO D. STA.
ANA
Commissioner

Annex "A"

Amended Rules for the Distribution of Net Settlement Surplus (NSS)

Pursuant to Section 2 (c), (f) and (j) of Republic Act No. 9136, the Price Determination Methodology (PDM) for the Wholesale Electricity Spot Market (WESM) and the WESM Rules, the Energy Regulatory Commission (ERC) hereby adopts and promulgates these Rules to establish a suitable process for the immediate and equitable flow-back of the Net Settlement Surplus (NSS) by the Philippine Electricity market Corporation (PEMC) to the party who paid for the same.

ARTICLE I GENERAL PROVISIONS

Section 1. Objectives

- 1.1 To ensure transparent and reasonable prices of electricity and enhance the competitive operation of the electricity market;
- 1.2 To protect the public interest as it is affected by the rates and services of electric utilities and other providers of electric power;

- 1.3 To provide a mechanism for the just and equitable distribution of the Net Settlement Surplus; and
- 1.4 To flow back the Net Settlement Surplus to End-users in the most immediate and equitable manner.

Section 2. Scope

These Rules shall apply to:

- 2.1 Generation Companies;
- 2.2 Distribution Utilities (DUs);
- 2.3 End-users of electricity;
- 2.4 Retail Electricity Suppliers (RES), including the Local RES and the Supplier of Last Resort (SoLR), and other suppliers of electricity;
- 2.5 Philippine Electricity Market Corporation (PEMC); and
- 2.6 Relevant industry participants, as applicable.

Section 3. Definition of Terms

For purposes of these Rules, the following terms shall have the respective meanings:

Act - Republic Act No. 9136 also known as the "Electric Power Industry Reform Act of 2001 (EPIRA)

Bilateral Power Supply Contracts - The contracts for the physical supply of electricity as contemplated under Section 45(c) of R.A. 9136, which do not include a financial derivative contract nor a contract for the sale of electricity from a distribution utility to a person who requires the supply and delivery of that electricity for its own consumption nor power supply contracts entered into by PSALM or its Assignee and End-users who are directly connected to the grid.

Direct WESM Member - A person or an entity who is registered with the Market Operator under Section 2.3 of the WESM Rules.

Distribution Utility (DU) - Any electric cooperative, private corporation, government-owned utility or existing local government unit which has an exclusive franchise to operate a distribution system in accordance with the Act.

End-user - Any person or entity requiring the supply and delivery of electricity for its own use.

Energy Regulatory Commission (ERC) - The independent and quasi-judicial regulatory agency created under Section 38 of the Act.

Generation Company - Any person or entity authorized by the ERC to operate facilities used in the generation of electricity.

Independent Power Producer (IPP) - An existing power generating entity which is not owned by NPC.

Indirect WESM Member - A person or an entity who is allowed to indirectly trade in the WESM through a Direct WESM Member.

IPP Administrator - A qualified independent entity appointed by PSALM Corporation who shall administer, conserve and manage the contracted energy output of NPC IPP contracts.

Local Retail Electricity Supplier (RES) - The non-regulated business segment of the DU catering to the contestable market only in its franchise area. As such, a license for a Local RES is not required.

Market Operator - The administrator of the WESM who is responsible for the day-to-day operations of the WESM as well as the registration of WESM members. The MO operates the WESM in coordination with the System Operator (SO). In simple terms, the MO is responsible for coordinating all the commercial aspects of WESM transactions while the SO takes care of the physical implementation of these market transactions.

National Power Corporation (NPC) - The government corporation created under Republic Act No. 6395, as amended.

Net Settlement Surplus (NSS) or Deficit - The settlement surplus or deficit remaining after all market transactions have been accounted for, including the assignment of transmission line rentals to Network Service Providers. This surplus or deficit is assumed to be attributable to economic rentals arising from other binding constraints, and accounted for in accordance with the WESM Rules provision on the Treatment of Net Settlement Surplus.

Network Service Provider - A person who engages in the activity of owning, controlling, or operating a transmission or distribution system and who is registered with the Market Operator.

Successor Generating Company/Assignee - Otherwise known as the winning bidder, to which PSALM has successfully turned over any NPC-owned power plant privatized in accordance with Section 47 of the Act.

Participant - Generators, Distribution Utilities, Retail Electricity Suppliers, or any other entities that are allowed to register in the WESM as Direct WESM Members for which the total net settlement surplus/ deficit allocation is calculated

Philippine Electricity Market Corporation (PEMC) - The entity responsible for governing and administering the operations of the WESM, also referred to in these Rules as the Market Operator, provided, however, that should the market operations functions of the WESM be transferred to an Independent Market Operator (IMO), all references to PEMC or the Market Operator shall refer to such Independent Market Operator without need of amendment of these Rules.

Power Sector Assets and Liabilities Management (PSALM) Corporation - The corporation created pursuant to Section 49 of the Act.

Resource - Customer or generator for which Line Loss, Congestion Cost and Net Settlement Surplus are computed

Retail Electricity Supplier (RES) - Any person or entity licensed by ERC to sell, broker, market or aggregate electricity to End-users.

Supplier of Last Resort (SoLR) - A regulated entity designated by the ERC to serve End-users in the Contestable Market following a Last Resort Supply Event.

Trading Nodes - Connection points in a network, or junction points within a network model, whether physical or notional.

Wholesale Electricity Spot Market (WESM) - The electricity market established by the Department of Energy (DOE) in accordance with Section 30 of the Act.

Article II

DESCRIPTION OF NET SETTLEMENT SURPLUS

Section 1. The adoption of locational marginal pricing for the WESM under different market trading nodes accounts for congestion and losses in the transmission system. As a result, price differences occur between generator nodes and customer nodes due to these losses and congestion. The surplus resulting from the aggregate WESM settlement transactions is the Net Settlement Surplus. This may also result in a settlement deficit.

Section 2. The Net Settlement Surplus amount shall be calculated based on the total trading amount for every trading interval.

$$\mathbf{NSS_k = Collectibles_k - Payables_k}$$

Where:

NSS_k - Net Settlement Surplus for trading interval k

Collectibles - total amount to be collected by the Market Operator from the trading participants for energy transactions in the market (including loss and congestion charges for both spot and bilateral quantities) for all nodes at trading interval k

Payables - total amount to be paid by the Market Operator to the trading participants for energy transactions in the market (including loss and congestion charges) for all nodes at trading interval k

Section 3. The WESM Rules, as amended defines "Net Settlement Surplus (NSS)" as the settlement surplus remaining after all market transactions have been accounted for, including the assignment of transmission line rentals to Network Service Providers. This remainder is assumed to be attributable to economic rentals arising from other binding constraints, and accounted for in accordance with