

Republic of the Philippines  
**ENERGY REGULATORY COMMISSION**  
San Miguel Avenue, Pasig City



IN THE MATTER OF THE  
APPLICATION FOR THE  
APPROVAL OF PRICING  
AMENDMENTS TO THE  
ADMINISTERED PRICE  
DETERMINATION  
METHODOLOGY FOR THE  
PHILIPPINE WHOLESALE  
ELECTRICITY SPOT MARKET  
(WESM)

ERC CASE NO. 2015-163 RC

PHILIPPINE ELECTRICITY  
MARKET CORPORATION,

Applicant.

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DOCKETED  
Date: OCT 22 2015  
By: *[Signature]*

### NOTICE OF PUBLIC HEARING

TO ALL INTERESTED PARTIES:

Notice is hereby given that on September 9, 2015, the Philippine Electricity Market Corporation (PEMC) filed an application for the approval of pricing amendments to the Administered Price Determination Methodology (APDM) for the Philippine Wholesale Electricity Spot Market (WESM).

In the said application, PEMC alleged, among others, the following:

1. PEMC is a non-stock, non-profit corporation duly organized and existing in accordance with Philippine laws, with principal office at the 9<sup>th</sup>/18<sup>th</sup> Floor, Robinsons-Equitable Tower, ADB Avenue corner Poveda Street, Ortigas Center, Pasig City. It is represented herein by its

President, Ms. Melinda L. Ocampo, who is duly authorized by PEMC's Board of Directors as evidenced by the Secretary's Certificate attached to the Application as Annex "A" and made integral part of this application;

2. This Application is filed pursuant to Section 30 of Republic Act No. 9136, otherwise known as the "Electric Power Industry Reform Act of 2001" (EPIRA) which reads in part:

*xxx Jointly with the electric power industry participants, the DOE shall formulate the detailed rules for the wholesale electricity spot market. Said rules shall provide the mechanism for determining the price of electricity not covered by bilateral contracts between sellers and purchasers of electricity users. The price determination methodology contained in said rules shall be subject to the approval of the ERC. xxx*

3. This Application is filed pursuant to the approval of the PEM Board during its board meeting held last 28 April 2015 incorporated in the Secretary's Certificate attached to the Application as Annex "A". Pursuant to Department Circular No. 2006-01-0002, which authority has not been revoked, PEMC maintains its authority to file on behalf of the Department of Energy (DOE) this Application. A copy of the Circular is attached to the Application as Annex "B". Moreover, the DOE Secretary is Chairman of the PEM Board, which approval has caused the filing of this Application;

***I. Background: Administered Price Determination Methodology***

4. The market may be suspended by the Commission in cases of natural calamities or following an official declaration of a national or international security emergency by the President of the Republic of the Philippines.<sup>1</sup> Meanwhile, intervention is warranted when the grid is in extreme state condition established in the Grid Code arising from an emergency, a threat to system

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<sup>1</sup>WESM Rules 6.8.1

security, or an event of force majeure.<sup>2</sup> During market suspension or market intervention, the Administered Price (AP) duly approved by the Commission in its Decision dated 22 June 2006 in ERC Case No. 2005-056 RC shall be applied<sup>3</sup>;

5. As approved, APs are computed for each generator equal to the weighted average of the ex-post energy price of the four (4) most recent same-day, same-hour trading intervals that have not been administered ("AP<sub>GENi</sub>"). The total generation payments are allocated among customers based on their metered quantities;
  
6. Considering the commercial operations of WESM in the Visayas region and its integration with the Luzon region, PEMC filed on 23 November 2010 a "Motion for Approval" where it sought the Commission's approval of the revisions in the APDM. Among the matters sought for approval was the regional application of the APDM and, with the regionalization, approval of the following principles:
  - (a) Price adjustment mechanism is applied only in the region where the cause of the adjustment occurs;
  - (b) Prices of the non-administered region (normal market prices) are preserved;
  - (c) Users pay for quantities imported; and,
  - (d) The usual WESM settlement process is followed, when applicable;
  
7. Publication of the "Motion for Approval" was made in view of the Commission's Order dated 6 December 2010 treating the said Motion as a petition for approval of proposed refinements to the pricing mechanism. On 14 February 2011, the Commission, among others,

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<sup>2</sup> WESM Rules 6.2.1.2

<sup>3</sup> WESM Rules 6.2.3

provisionally approved the regional application of AP and the principles thereof as it viewed these changes as “*measures that will result to a more reasonable and fair electricity rates based on the principle of true cost of service*”<sup>4</sup>;

8. Subsequently, PEMC filed on 17 March 2015 a “Manifestation”<sup>5</sup> relevant to the changes in the WESM Market Manual Administered Price Determination Methodology (APDM Manual) which provides for market intervention in the event of grid islanding and, as such, the application of APs for generators of the island grid and the allocation of resulting generator trading amounts to the customers of the island grid;

## **II. Application**

### **Matters for Approval by the Commission**

#### ***(i) Provision for Computation of Generator Prices Where Generating Plant has no Metered Quantity for the Previous Four (4) Weeks***

9. The methodology approved by the Commission used as administered generator prices the weighted average of the ex-post nodal energy prices and metered quantity of the four (4) most recent same day same trading interval that have not been administered. In formula, this will be:

$$AP_{Gen-i} = \frac{\sum_{D=1}^4 EPP_{Gen-i,D} * MQ_{Gen-i,D}}{\sum_{D=1}^4 MQ_{Gen-i,D}}$$

10. However, there are instances where a generator does not have any metered quantity (ex. has not generated

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<sup>4</sup> Par. 3, Page 2

<sup>5</sup> ERC Case No. 2005-056RC

electricity) corresponding to the previous month. As such, additional provisions were incorporated in the APDM Manual Issue No. 5.0 where: (1) a generator has no metered quantity for the previous month but within a one (1) year period has generated electricity; and (2) a generator has no metered quantity in a year (ex. new generating plant);

11. Section 4.2.1.4 of the APDM Manual provides:

*If no administered price can be determined for a generator trading node because the generating plant associated with that trading node had no actual generation, i.e. no metered quantity or MQ, the administered price shall be determined, as follows:*

*4.2.1.4.1 The Ex-post Price of the immediately preceding same day, same hour, non-administered price, with actual generation, within one (1) year prior (sic) to the trading day and hour being considered shall be used in calculating the administered price.*

*4.2.1.4.2 In case Section 4.2.1.4.1 failed to determine a valid value for administered price, it shall then be computed by obtaining the simple average of the ex-post nodal energy prices of four immediately preceding same-day, same-hour trading intervals that have not been administered. This is as set out in the following formula:*

$$AP_{Gen-i} = \frac{\sum_{D=1}^4 EPP_{Gen-i, D}}{4}$$

Where:

EPP = Ex-Post Price

AP = Administered Price

D = number of historical trading days to be considered

i = Generator resources

MQ = Meter Quantity (*sic*)

A copy of the APDM Manual is attached to the Application as Annex "C";

12. Under Section 4.2.1.4.1, the excluded same day trading intervals are replaced by the nearest same day same hour ex-post nodal prices with MQ for the generator resource. If no substitute prices are generated within one (1) year from the most recent same day same interval either due to rehabilitation of plant or with a new power plant, then, the simple average of ex-post nodal energy prices of the previous four (4) similar day and same trading hour for the generator resource node shall be used;

***(ii) Prices of the Exporting Region shall be Adopted Instead of Preservation of Normal Prices***

13. The implementation of regional application of APDM brought about the need to determine the prices to be used for settlement for the generation quantity exported from one region to another. In its Order dated 14 February 2011, the Commission approved PEMC's petition under the following principles, quoted as follows:

*"15.2 Prices of the non-administered region ("normal market prices") are preserved.*

*Normal market prices will continue to be applied in the non-administered region, even when such region imports from the non-administered region. Moreover, quantities exported from one region to another are priced using the reference MTN at the non-administered region. Normal or nodal prices*

*thus prevail over administered prices even when the exporting region is administered.*

*15.3 If quantities are imported, the customers in the importing region pay for the imported quantity. The imported quantity is however always priced at the pre-determined reference MTN of the non-administered region, regardless of whether the exporting region is administered, consistent with the principle that the normal market prices should be preserved.”*

14. However, it will be more in keeping with the dictum of the Honorable Commission that the true cost of electricity be reflected if the generator prices from the exporting region shall be utilized. This means that instead of preservation of normal prices where prices of non-administered region shall always prevail, regardless of the flow in the High Voltage Direct Current (HVDC) interconnection between Luzon and Visayas, the price of the exporting region shall be used for settlement of export trading amount. The users' pay principle shall continue to be applied;
15. With this proposed revision, the APDM Manual provides for the following relevant amendments:

*4.2.5.2 Where generation quantity is exported from the administered region to the non-administered region, the following shall apply*

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*a) The generator trading amount corresponding to exported quantity (“export trading amount”) shall be deducted from the generator total trading amounts that will be allocated and collected from the customers of the administered (i.e., exporting) region. The export trading amount will be collected from the customers of the non-administered (i.e., importing) region.*

**b) The export trading amount shall be determined by multiplying the export**

*metered quantities by the metered quantity-weighted average price of the administered generators.*

*c) The settlement amount calculated by multiplying the export metered quantities by the difference of the nodal price at an assigned reference market trading node in the non-administered region and the metered quantity-weighted average price of the administered generators shall be allocated to all loads in the non-administered region based on their metered quantities. The appropriate reference market trading nodes shall be determined by the Market Operator and shall be published at the market information website.<sup>6</sup>;*

16. Revisions in the formula arising from these proposed changes are provided for in *Appendix "A"* including any incremental/reduction of settlement amount from price difference between Non-Administered Region (NAR) region and AP region accounted for;

### **III. Manifestation Re: Refinements to the APDM Manual**

#### ***(i) Clarify Computation of Customer Settlement Amount to Incorporate the Netting of Bilateral Contract Quantities***

17. Prior to the amendment to the APDM Manual, the formula set out in Section 4.2.2.1 did not clearly provide for netting off of bilateral contract quantities. The exclusion of bilateral contract quantities for energy transactions under the APDM is provided for under Section 4.2.4 which specifies that APs shall apply only to transactions above the declared bilateral quantities. To clarify, the APDM was revised to reflect the netting off of bilateral contracts by a load customer where the generator counterparty shall,

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<sup>6</sup> Initially, the reference market trading nodes that will be used are the market trading nodes located at Naga, Camarines Sur (Luzon) and Ormoc, Leyte (Visayas)



depending on whether it is administered or normal prices, bear accordingly, the  $AP_{Gen_i}$  or Ex-Ante Price. The formula thus appears:

$$SA_{Load-j} = \frac{\sum_{i=1}^n AP_{Gen-i} \times MQ_{Gen-i}}{\sum_{j=1}^m MQ_{Load-i}} \times MQ_{Load-j} - \sum_{i=1}^k BCQ_{Gen-i, Load-j} \times P_{Gen-i}$$

- AP = Administered Price
- SA = Settlement Amount
- n = number of generator resources with positive meter quantity
- m = number of load resources with negative meter quantity
- i = Generator resources
- BCQ = Bilateral Contract Quantity
- P = Price of the generator counterparty of Load j wherein P is the Ex-Ante Price if the generator is from the non-administered region and P is the administered price if the generator is from the administered region

**(ii) Clarify that No Line Rental is Imputed in the Application of APDM. However, Pricing Mechanism Differential Shall Occur Between Regions**

18. Line rental under the WESM Rules is defined as the “economic rental arising from the use of a transmission line, calculated as the difference in value between flows out of the receiving node of that line and flows of the sending node.” However, under the APDM, the pricing signals forming part of “economic rent” in locational marginal prices are no longer applicable since historical

load generation prices and load allocation are used. As such, to avoid confusion, Clause 4.2.6 is amended to pertain to “*amounts associated with pricing mechanism differential*” from previously captioned “*computation of line rental*”;

**(a) Clause 4.2.6.1 is re-drafted to adopt the change in title and more clearly provide: (1) the entity the amount associated with the pricing mechanism differential shall be imputed upon, and, (2) the formula for calculating the amount associated with the pricing mechanism differential**

19. With the change in the captioned clause, Clause 4.2.6.1 is now revised to more clearly reflect that the reference to line rental is only made to indicate to which entity the amount associated with the pricing mechanism differential shall be charged – the party identified to be that responsible for paying the line rental.<sup>7</sup> Moreover, the formula for calculating the amount associated with the

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<sup>7</sup>Clause 3.13.1.1 of the WESM Rules provide:

*Trading Participants* who sell electricity pursuant to *bilateral contracts* and wish those *bilateral contracts* to be accounted for in settlements shall, after each *trading day*, in accordance with the billing and settlements timetable: **(As amended by DOE DC No. 2005-11-010 dated 11 November 2005)**

(a) Submit a schedule to the *Market Operator* specifying the MWH *bilateral sell quantities* at each *relevant market trading node*, in each *trading interval* of that *trading day*;

(b) Identify the counterparty to the bilateral contract and the party that will pay the line rental trading amount associated with the bilateral contract quantity submitted; provided, however, that in case only one of the bilateral counter parties is registered as a *Direct WESM Member*, that *WESM Member* shall be the party that will pay the line rental to the *Market Operator*, and**(As amended by DOE DC No. 2004-07-008 dated 7 July 2004 and further amended by DOE DC No. 2006-11-0013 dated 09 November 2006)**

(c) Provide evidence that the counterparty to the *bilateral contract* agrees with the submission made under this clause 3.13.1.1. Such evidence shall be attached to the submission of schedule in 3.13.1.1(a). **(As amended by DOE DC No. 2010-03-0004 dated 21 March 2010)**

pricing mechanism differential is specified to be equal to the BCQ multiplied by the difference between the ex-ante price of the customer and the AP of the generator. The Clause, thus, reads:

*“Where market suspension or intervention is declared in one region only, and the generator in that region has a bilateral contract quantity with the customer in the normal region, the trading participant that pays for the line rental shall be charged an amount calculated by multiplying the bilateral contract quantity to the difference of the ex-ante price of the customer and administered price of the generator.”;*

**(b) Clause 4.2.6.2 is Re-drafted to Remove Reference to Line Rental**

20. Clause 4.2.6.2 mirrored the new terminology adopted under this entire provision. The Clause now reads:

*“Where market suspension or intervention is declared in one region only, and the customer in that region has a bilateral contract quantity with the supplier in the normal region, the amount associated with the pricing mechanism differential is already included in the administered settlement amount of the customer.”;*

**(iii) Incorporate the Changes Provided Above in Instances of Grid Islanding**

21. As a logical consequence of the changes provided for in the immediately preceding topic Clause 4.2.7 – Application of Market Intervention during Grid Islanding is revised to read:

*“4.2.7.1 Where market intervention is declared in an island grid (“grid islanding), the*

*administered prices determined according to this Manual shall be applied only to the generators in the island grid where the intervention was declared. The resulting generator trading amounts will be allocated amongst the customers in that island grid.*

*4.2.7.2 Where market intervention is declared in an island grid, and the generator in that island grid has a bilateral contract quantity with the customer in the part of the grid or region without market intervention, the trading participant that pays for the line rental shall be charged an amount calculated by multiplying the bilateral contract quantity to the difference of the ex-ante price of the customer and administered price of the generator.*

*4.2.7.3 Where market intervention is declared in an island grid, and the customer in that island grid has a bilateral contract quantity with the supplier in the part of the grid or region without market intervention, the amount associated with the pricing mechanism differential is already included in the administered settlement amount of the customer.”; and*

## **PRAYER**

22. PEMC prays of the Commission:

a. **APPROVING:**

- i. The inclusion of reference pricing where the administered generator has no metered quantity for the immediately preceding four most recent same day same trading interval; and
- ii. Use of generator price for export trading amounts; and

- b. NOTING the changes in the APDM Manual Issue No. 5 as follows –
- i. Clarification on the computation of customer settlement amount to incorporate the netting of bilateral contract quantities;
  - ii. Clarification that no line rental is imputed in the application of APDM, however, pricing mechanism differential shall occur between regions; and
  - iii. Incorporate the changes in (a) and (b) during grid islanding.

The Commission has set the said application for jurisdictional hearing, pre-trial conference, expository presentation and evidentiary hearing on the following dates and venues:

<b>DATE</b>	<b>TIME</b>	<b>VENUE</b>	<b>PARTICULARS</b>
<b>November 25, 2015 (Wednesday)</b>	<b>Two o' clock in the afternoon (2:00 P.M.)</b>	<b>ERC Hearing Room, 15<sup>th</sup> Floor, Pacific Center Building, San Miguel Avenue, Pasig City</b>	<b>Jurisdictional Hearing and Expository Presentation</b>
<b>January 13, 2016 (Wednesday)</b>	<b>One thirty in the afternoon (1:30 P.M.)</b>	<b>ERC Visayas Field Office, St. Mary's Drive, Banilad, Cebu City</b>	<b>Expository Presentation</b>
<b>February 17, 2016 (Wednesday)</b>	<b>Ten o' clock in the morning (10:00 A.M.)</b>	<b>ERC Hearing Room, 15<sup>th</sup> Floor, Pacific Center Building, San Miguel Avenue, Pasig City</b>	<b>Pre-trial Conference and Evidentiary Hearing</b>

All persons who have an interest in the subject matter of the proceeding may become a party by filing, at least five (5) days prior to the initial hearing and subject to the requirements in the ERC's Rules of Practice and Procedure, a verified petition with the Commission giving the docket number and the title of the proceeding and stating: (1) the petitioner's name and address; (2) the nature of petitioner's interest in the subject matter of the proceeding, and the way and manner in which such interest is affected by the issues involved in the proceeding; and (3) a statement of the relief desired.

All other persons who may want their views known to the Commission with respect to the subject matter of the proceeding may file their opposition to the application or comment thereon at any stage of the proceeding before the applicant concludes the presentation of its evidence. No particular form of opposition or comment is required, but the document, letter or writing should contain the name and address of such person and a concise statement of the opposition or comment and the grounds relied upon.

All such persons who may wish to have a copy of the application may request the applicant, prior to the date of the initial hearing, that they be furnished with a copy of the application. The applicant is hereby directed to furnish all those making such request with copies of the application and its attachments, subject to reimbursement of reasonable photocopying costs. Likewise, any such person may examine the application and other pertinent records filed with the Commission during the usual office hours.

**WITNESS**, the Honorable Chairman, **JOSE VICENTE B. SALAZAR**, and the Honorable Commissioners, **ALFREDO J. NON**, **GLORIA VICTORIA C. YAP-TARUC**, and **GERONIMO D. STA. ANA**, Energy Regulatory Commission, this 12th day of October, 2015 at Pasig City.

  
**ATTY. FRANCIS SATURNINO C. JUAN**  
Executive Director III