

FREQUENTLY ASKED QUESTIONS:

DOE Circular No. 2010-08-0010 Prescribing the Implementing Rules and Procedures for Department Circular No. DC2010-05-0006, entitled "Terminating the Default Wholesale Supplier Arrangement for the Philippine Wholesale Electricity Spot Market (WESM) and Declaring a Disconnection Policy."

I. What is the effectivity date of the termination of the Default Wholesale Supplier (DWS)?

The effectivity date of the termination of the Default Wholesale Supplier is 12 September 2010.

II. Who is/are the DWS?

The National Power Corporation (NPC) and Power Sector Assets and Liabilities Management (PSALM) Corporation were designated by the DOE as the DWS on 22 June 2006 through DOE Circular No. DC2006-0009.

III. What is DWS and Why were NPC/PSALM **designated as** the DWS?

The DWS arrangement was an interim measure to ensure supply of electricity during the transition to full commercial operation of WESM in Luzon. During that time, the **NPC/PSALM** owns the total aggregate capacity of 3,778.23 MW generating assets in Luzon and Visayas grid and a total 4,904.55 MW capacity of NPC-IPP contracts in Luzon and Visayas.

IV. What is the rationale for the termination of the DWS?

After four (4) years of the commercial operations of WESM and significant capacities of PSALM and NPC have been privatized either through GenCo privatization or IPP Administrators, PSALM and NPC have practically lost their capabilities in ensuring continued supply to the DWS customers. The termination will likewise mitigate the continuing losses of the Government. As of April 28, 2010, PSALM has successfully bid out an aggregate capacity of 3,318.23 MW or 87.82% of the total government-owned power generating assets in the Luzon and Visayas grids. Likewise, 3,345.75 MW capacity or 68.22% of the NPC-IPP contracts in the Luzon and Visayas grids were also privatized.

V. What measures should be taken by an electric power industry participant to prevent the consequences of the DOE Department Circular on DWS Termination and Disconnection Policy?

A. All Electric Power Customers (Distribution Utilities/Large Customers) must make sure that their energy requirements are adequately covered through

bilateral contracts with the Electric Power Suppliers (Generation Companies/Suppliers).

- B. All Electric Power Customers (Distribution Utilities/Large Customers) must register with the Wholesale Electricity Spot Market (WESM) pursuant to the EPIRA, EPIRA-IRRs and WESM Rules. All WESM-registered Customers may source the imbalances of their supply contracts in the WESM subject to the conditions and requirements set by the spot market.
- C. Electric Power Suppliers (Generation Companies/Suppliers) with Indirect WESM Member Customers must supply the contracted energy requirements of such Indirect Customer and must assume all the attendant obligations of such Indirect Customer in the WESM.
- D. In case a Notice of Disconnection is served on the Electric Power Customers (Distribution Utilities/Large Customers), the obligations of the Electric Power Suppliers (Generation Companies/Suppliers) in the WESM shall be **until the actual disconnection** of such Electric Power Customers (Distribution Utilities/Large Customers) from the grid. In turn, the disconnected Customer shall have the obligation to pay the Supplier **until the actual disconnection from the grid.**

VI. What is the effectivity date of the Disconnection Policy?

The effectivity date of the implementing rules and procedures for the Disconnection Policy is 12 September 2010, which is simultaneous with the termination of DWS.

VII. Who are covered by the Disconnection Policy Rules and Procedures under DOE Circular No. DC2010-08-0010?

- A. Electric Power Customers, (EPC) namely: 1) Electric Cooperatives (ECs) directly connected to the grid; 2) Private Investor-Owned Utilities (PIOUs) directly connected to the grid; 3) Large and other Customers directly connected to the grid; 4) Wholesale Aggregators (WAs); and Economic Zones (EZs).
- B. Electric Power Suppliers (EPS) namely: 1) Generation Companies; 2) PSALM/NPC; 3) IPPAs; and 4) WAs.
- C. Electric Power Service Providers (EPSPs) and Market Operator (MO), namely:
 - 1. The MO, currently PEMC as the Autonomous Group Market Operator (AGMO) and Independent Market Operator (IMO) upon its appointment by the DOE;
 - 2. NGCP as the System Operator (SO) and Metering Service Provider

(MSP);

3. Network Service Provider other than NGCP;
4. Other MSPs; and
5. Other electric power industry stakeholders given special arrangement by the NSP other than NGCP.

VIII. What is the coverage of the Disconnection Policy under DOE Circular No. DC2010-08-0010?

The Disconnection Policy covers the Luzon, Visayas and Mindanao grids. However, the mandatory requirement to register in the WESM will be initially applicable in Luzon only and ultimately in Visayas and Mindanao upon the commercial operation of the WESM on those regions. In addition to WESM registration, any Electric Power Supplier may issue a Notice of Disconnection and request NGCP to effect such disconnection when its Customer fails to settle or comply with its technical and financial obligations under their contracts.

IX. What are the grounds and conditions for Disconnection?

A. Concerning the WESM:

1. Failure of EPC, EPS or EPSP to register in the WESM after the 12 September 2010 effectivity date of the DOE Circular No. DC2010-08-0010;
2. Suspension and deregistration as a WESM member; and
3. In the case of WA, suspension and deregistration from WESM may result in the disconnection of its EPC.

B. Concerning NGCP and NSPs other than NCGP:

1. Failure of EPS or EPC to comply with the required financial or technical obligations in accordance with their existing contracts such as, among others, the TSA, CA, MSA, and the OATS Rules, Grid Code and Distribution Code; and
2. In the case of NSPs other than NGCP, failure of EPS or EPC to satisfy or settle their obligation under their existing contract with the NSP.

C. Concerning Generation Companies, IPPA or the WA:

1. Failure of the EPS or EPC to comply with the required financial and technical obligations; and
2. Failure of EPS or EPC to secure a new supply contract upon

termination/expiration of the existing contract.

D. Concerning PSALM and NPC:

1. Failure of the EPC to secure and enter into a Restructuring Agreement within the required period;
2. Failure of the EPC to comply with its financial obligations (including non-remittal of Universal Charge) with PSALM and NPC; and
3. Failure of the EPC to secure a Restructuring Agreement and/or fully settle its financial obligations with PSALM and NPC even if such EPC's power supply is already turned over to an NPC successor generation companies or even if it has expired contracts with PSALM and NPC but still continues to draw power from the grid and are still being billed by PSALM and NPC.

X. When will the Notice for Disconnection be served to the defaulting Customers?

The **issuance of the Notice of Disconnection** by the requesting party **shall be the last resort option**. Thus, it is encouraged that both the requesting party and the subject person or entity for disconnection **have exhausted all remedies available to settle the defaults or non-compliances** required under their contracts and/or the applicable rules and regulations.

XI. Who shall execute the disconnection?

For customer connected to the transmission system, the National Grid Corporation of the Philippines (NGCP) shall execute the disconnection. For customer connected to the network other than transmission system, the Network Service Provider shall execute the disconnection.

XII. Will the customers with multiple suppliers be disconnected from the grid when its default is with only one of its suppliers?

Yes. When any one of the Suppliers issues a Notice of Disconnection after due consultation and coordination with other Suppliers of such Customers. The Electric Power Customer will be disconnected from the grid when any of the grounds and conditions for disconnection is present.

XIII. Are their remedies to defer the disconnection?

Yes. In order to defer or avoid the disconnection, the party subject for disconnection should remedy the cause of the disconnection – either payment of the outstanding obligation or any other mode by which the generation company or supplier will agree, within five (5) days prior to the disconnection.

XIV. When will a disconnected Distribution Utility/Large Customer be

reconnected?

All disconnected Electric Power Customers (Distribution Utilities/Large Customers) will only be reconnected when they are able to remedy the cause of the disconnection as confirmed by the requesting party.

In the case of the disconnected entity which disconnection was issued by multiple requesting parties, the reconnection will only be executed when all the requesting parties have issued a letter-request and Notice of Reconnection to the NGCP/NSP.