



Republic of the Philippines
DEPARTMENT OF ENERGY

REQUEST FOR COMMENTS

DRAFT DEPARTMENT CIRCULAR TERMINATING THE DEFAULT WHOLESALE SUPPLIER ARRANGEMENT FOR THE PHILIPPINE WHOLESALE ELECTRICITY SPOT MARKET (WESM) AND DECLARING A DISCONNECTION POLICY FOR NON-WESM MEMBERS

The Department of Energy through the Electric Power Industry Management Bureau is requesting for views, comments, suggestions and recommendations on the draft Department Circular entitled *“Terminating the Default Wholesale Supplier Arrangement for the Philippine Wholesale Electricity Spot Market (WESM) and declaring a disconnection policy for non-WESM members.”*

All interested parties may submit their comments to email address rcperez_doe@yahoo.com and edoe_wesmph@yahoo.com on or before March 25, 2010.

The draft department circular can be downloaded from the DOE website at www.doe.gov.ph.

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Director

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DEPARTMENT CIRCULAR NO. _____

**TERMINATING THE DEFAULT WHOLESALE SUPPLIER ARRANGEMENT FOR THE
PHILIPPINE WHOLESALE ELECTRICITY SPOT MARKET (WESM) AND DECLARING A
DISCONNECTION POLICY FOR NON-WESM MEMBERS**

WHEREAS, the Department of Energy (the "DOE") is mandated under Section 30 of the Republic Act No. 9136, otherwise known as the "Electric Power Industry Reform Act of 2001" or "EPIRA" to establish the Wholesale Electricity Spot Market (WESM) that would facilitate a transparent, competitive and reliable electricity market in the country;

WHEREAS, on 21 June 2006, the DOE issued Department Circular No. 2006-06-008, declaring the launching of the WESM in the Luzon Grid and the terms and conditions for the commencement of the full commercial operations of the WESM;

WHEREAS, at the start of the commercial operation of WESM, not all electric industry participants particularly the Distribution Utilities (DUs) were able to meet the technical and commercial requirements to directly trade in the WESM;

WHEREAS, the on 22 June 2006, the DOE issued Department Circular No. 2006-06-0009, designating the National Power Corporation (NPC) and Power Sector Assets and Liabilities Management Corporation (PSALM) as the Default Wholesale Suppliers (DWS) to supply the electric power supply imbalances of customers in the WESM;

WHEREAS, Section 3 of the Department Circular No. 2006-06-0009 states that the DWS Arrangement shall be implemented for a period not longer than one (1) year from the start of commercial operations of the WESM in Luzon;

WHEREAS, Section 4 of Department Circular No. 2006-06-0009 states that the designation of NPC and PSALM as the DWS is an interim measure to ensure the smooth transition from the current supply arrangements to the implementation of the WESM;

WHEREAS, commercial operations of the WESM commenced on 26 June 2006;

WHEREAS, as of 31 December 2009, PSALM has successfully bid out a total of twenty nine (29) power assets to-date, broken down as follows: twenty four (24) operating/generating power facilities, and five (5) decommissioned plants. Of this number, eighteen (18) operating/generating plants, with an aggregate rated capacity of 3,072.23 MW, account for the 81.3% of the 3,778.23 MW total rated capacity of PSALM/NPC owned generating assets in the Luzon and Visayas grids. Also, PSALM has bid out 43.75%, or 2,145.75 MW of the 4,904.55 MW total capacity, of National Power-IPP contracts in the Luzon and Visayas grids;

WHEREAS, the privatization of the significant portion of NPC generating plants and other power assets of PSALM, since the effectivity of the DWS, has significantly affected the ability of PSALM and NPC to supply the energy requirements of its customers;

WHEREAS, NPC and PSALM can no longer economically and effectively perform its duties as the default wholesale supplier;

WHEREAS, for the three (3) years of WESM commercial operation, not all electric power industry participants are registered members of the WESM;

WHEREAS, Section 2.2.4.2 of the WESM Rules requires that no person or entity shall be allowed to inject or withdraw electricity from the grid unless that entity or person is a registered member of the WESM;

WHEREAS, the OATS Rules provides that the Transmission Provider/System Operator shall act as a reasonable and prudent operator in relation to the performance of its obligations under the Grid Code, the OATS Rules and the WESM Rules;

WHEREAS, the OATS Rules provides that the Transmission Provider shall not be held liable for a failure to deliver the services described in Module B, C and D of the OATS Rules in case the Transmission Customer fails to comply with its obligations under the OATS Rules, the Grid Code and the WESM Rules;

NOW THEREFORE, premises considered the DOE hereby declares the following:

Section 1. Termination of the DWS Arrangement. The DWS arrangement provided in DOE Circular No. 2006-06-009 is hereby terminated. Accordingly, NPC and PSALM are thereby relieved from their designation as the DWS. All other rules, resolutions, or circulars issued in relation to the DWS are hereby declared repealed.

Section 2. Disconnection of Non-WESM Members. Pursuant to Section 2.2.4.2 of the WESM Rules, all persons or entities who fail to register with the WESM within sixty (60) days from the effectivity of this Circular shall be disconnected from the grid.

Section 3. Transition Period. A period of thirty (30) days from effectivity of this Circular is hereby provided for DUs, including Electric Cooperatives, as well as the Generation Companies, and other entities connected to the grid, to register with the WESM.

All electric power industry participants with outstanding obligations with PSALM and NPC shall be required to settle their obligation or enter into a restructuring agreement before they are allowed to register with the WESM.

Section 4: Responsibilities of Entities:

4.1 Pursuant to the mandate of the DOE to formulate rules and regulations as may be necessary to implement the objectives of the EPIRA and the WESM Rules, the DOE, in coordination with NGCP, TransCo, NPC, PSALM, NEA and PEMC shall provide the guidelines for the disconnection of persons or entities who are not WESM members. It shall, together with PEMC, provide the necessary support, including the liaison with financial institutions, to assist DUs in need in complying with the requirements for registration with the WESM.

4.2 Pursuant with the EPIRA and the OATS Rules, NGCP is hereby given the authority to disconnect from the grid, persons or entities who failed to comply with its obligations under the OATS Rules, the Grid Code and the WESM Rules. Specifically, NGCP shall disconnect from the grid, in accordance with the guidelines provided by the DOE,

persons or entities who are not member of the WESM and who failed to comply with its financial obligations with the generation company, transmission provider and the WESM.

4.3 The PEMC shall continuously monitor and submit its regular report to the DOE on the status of the registration in the WESM.

4.4 The PSALM and NPC shall provide the DOE all information on DWS arrangement and assist the DOE in the implementation of the termination of the DWS arrangement. PSALM and NPC are likewise required to submit to the DOE a regular monthly report on the restructuring of the outstanding obligations of its customers.

4.5 The NEA is directed to provide assistance to all Electric Cooperatives for their registration in the WESM within the thirty- (30) day period, including compliance with the requirement to settle or restructure their outstanding obligations with NPC and PSALM. It shall, together with DOE, undertake an information and education campaign for the termination of the DWS arrangement and the disconnection policy.

4.6 All Generation Companies are hereby required to disclose to DOE all power supply contracts they have, including any amendments thereto, with their customers as well as other technical and operational data as deemed necessary by the DOE and PEMC.

4.7 All electric power industry participants are directed to register in the WESM pursuant to WESM Rules 2.2.4.2.

Section 5. Effectivity and Publication. This Circular shall be effective fifteen (15) days from its publication in a newspaper of general circulation.

This Circular shall remain in effect until otherwise revoked.

Taguig City, Philippines, _____, 2010.

ANGELO T. REYES
Secretary