



**WHOLESALE ELECTRICITY SPOT MARKET
RULES CHANGE COMMITTEE**

RESOLUTION NO. 2013-09

**Proposed Amendments to the WESM Rules and the Billing and Settlement
Manual Relative to Prudential Requirements**

WHEREAS, on 08 April 2013, the Rules Change Committee (RCC) received a directive from the Philippine Electricity Market (PEM) Board relative to the proposed amendments to the WESM Rules and the Billing and Settlement Manual on Prudential Requirements;

WHEREAS, the Board Directive revised the level of Prudential Requirement, reducing its number from sixty-three (63) days to thirty-five (35) days, which is deemed sufficient to cover the thirty (30) day settlement amount that will be due plus five (5) days contingency;

WHEREAS, the Board Directive likewise changed the basis of assessment of the Maximum Exposure (ME) and Actual Exposure (AE), which shall be: a) for the AE, the last preliminary statement or available settlement data, and b) for the ME, the average settlement amount in the last six (6) billing periods, taking into consideration the price spikes and changes in the BCQ;

WHEREAS, the RCC met four times on 05 June, 03 July, 07 August and 04 September 2013 to discuss and deliberate on the matter on Prudential Requirements taking into consideration the Directives of the PEM Board;

WHEREAS, the RCC, during its meeting 05 June 2013, approved the proposed amendments to the WESM Rules and the Billing and Settlement Manual (BSM) as crafted by the RCC Sub-Committee created for this purpose, consistent with the Directives of the PEM Board, but with additional request for review of the same by the PEMC-Finance;

WHEREAS in the same meeting, the RCC approved the posting in the WESM public information website of the proposal relative to Prudential Requirements, in order to solicit comments from market participants and other interested parties;

WHEREAS, the proposal was posted in the public information website on 21 June 2013 and the notification-email requesting comments from interested parties was issued on the same day;

WHEREAS, on 03 July 2013, the RCC once again deliberated on the matter based on the presentation made by PEMC-Finance of its comments on the proposed changes to the WESM Rules and the Billing and Settlement Manual relative to Prudential Requirements, together with its corresponding proposed amendments, on the same;

WHEREAS in the same meeting, the RCC agreed on certain modifications on the proposed amendments presented by the PEMC-Finance;

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WHEREAS, in the same meeting the RCC agreed that the proposal requiring generators to post security deposit did not satisfy all of the criteria for rules changes, in particular, the aspect of "legal, technical, and commercial feasibility," with due consideration to the government generators which are not allowed by the Commission on Audit (COA) to make pre-payment as the proposed amendment requires, and for the basic reason that Generators are in the WESM to sell and not to buy, which implies that posting a security deposit is no longer necessary to be imposed upon Generators;

WHEREAS, while the Board approved the "previous six months" relative to the computation of the Maximum Exposure (ME), the RCC agreed that it would be more appropriate to adopt the "26th March to 25th September" in order to account for the price spikes in certain months of the year (i.e. rainy months where price and demand is lower);

WHEREAS, the RCC during its 03 July 2013 meeting agreed on the second posting of the proposal in the WESM public information website and for which purpose, instructed the revision of the proposed wordings for the WESM Rules and the Billing and Settlement Manual based on material changes made to the original proposal previously approved by the RCC;

WHEREAS, the proposal was posted in the public information website on 15 July 2013 and the notification-email requesting comments from interested parties was issued on the following day;

WHEREAS, the RCC during its 77th meeting held on 07 August 2013, once again deliberated on the matter with the comments received from Aboitiz Power Corporation (APC), SMC Global Power Holdings Corp. (SMC Global), and Masinloc Power Partners Co., Ltd. (MPPCL);

WHEREAS, the RCC gave due course to the comments submitted by APC, SMC Global, and MPPCL on the proposal during the 77th RCC meeting held on 07 August 2013;

WHEREAS, in the same meeting the RCC passed its Resolution adopting the proposed amendments relative to Prudential Requirements and its submission of the same to the PEM Board, subject to further comments which may be received on or before the deadline of submission of comments set on 15 August 2013;

WHEREAS, the RCC received on 14 August comments from SN Aboitiz Power (SNAP) and on 22 August, comments from MERALCO;

WHEREAS, the RCC gave due course to the comments submitted by SNAP and MERALCO, which were deliberated upon during the 78th RCC meeting held on 04 September 2013;

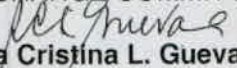
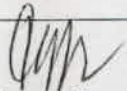
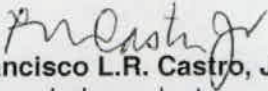
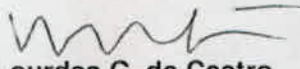
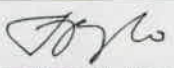
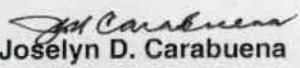
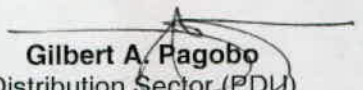
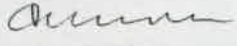
WHEREAS, in the same meeting, the RCC, after its due deliberation on the matter, passed its Resolution adopting the proposed amendments to the WESM Rules and the Billing and Settlement Manual relative to Prudential Requirements, with minor revisions as discussed and agreed upon by the RCC;

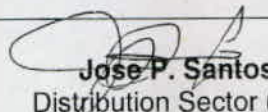

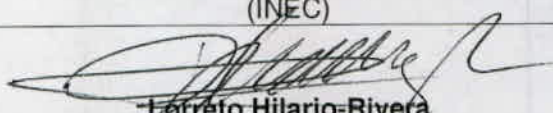

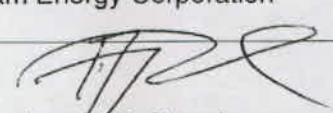
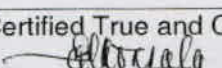
NOW THEREFORE, we, the undersigned and in behalf of the sector we represent, hereby resolve as follows:

RESOLVED, that the proposed amendments to the WESM Rules and the Billing and Settlement Manual (attached as Annex "A" and Annex "B"), are hereby adopted and approved;

RESOLVED FURTHER, that the above proposed amendment to the WESM Rules and the Billing and Settlement Manual be endorsed to the PEM Board for approval.

2013 *gmr*
 Done this 04 September, Pasig City.

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| Approved by: RULES CHANGE COMMITTEE  Rowena Cristina L. Guevara Chairperson University of the Philippines (UP) | |
| Members: | |
|  Concepcion I. Tanglao Independent |  Francisco L.R. Castro, Jr. Independent Tensaiken Consulting |
|  Maila Lourdes G. de Castro Independent |  Jose Ferlino P. Raymundo Generation Sector San Miguel Energy Corporation (SMEC) |
| Theo Cruz Sunico Generation Sector 1590 Energy Corporation (1590 EC) |  Joselyn D. Carabuena Generation Sector Power Sector Assets and Liabilities Management Corporation (PSALM) |
|  Gilbert A. Pagobo Distribution Sector (PDU) Mactan Electric Company (MECO) |  Ciprinilo C. Meneses Distribution Sector (PDU) Manila Electric Company (MERALCO) |

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|  Jose P. Santos Distribution Sector (EC) Ilocos Norte Electric Cooperative, Inc. (INEC) |  Sulpicio C. Lagarde Jr. Distribution Sector (EC) Central Negros Electric Cooperative, Inc. (CENECO) |
|  Lofredo Hilario-Rivera Supply Sector Team Energy Corporation |  Isidro E. Cacho, Jr. Market Operator Philippine Electricity Market Corporation (PEMC). |
|  Ambrocio R. Rosales Transmission Sector National Grid Corporation of the Philippines (NGCP) | |
| | Certified True and Correct:  Elaine D. Gonzales RCC Secretary PEMC |

Matrix of Proposed Amendments to the WESM Rules on Prudential Requirements
As directed by the PEM Board
RCC/WESM-WR/WM-13/09

| Original Provision | RCC-Approved Amendments 07 August 2013 | RCC Remarks |
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| 3.15 Prudential Requirements | | |
| <p>3.15.1 Purpose.</p> <p>The purpose of the <i>prudential requirements</i> is to ensure the effective operation of the <i>spot market</i> by providing a level of comfort that <i>WESM members</i> will meet their obligations to make payments as required under the <i>WESM Rules</i>.</p> | | Retain original provision. |
| 3.15.2. Provision of Security | 3.15.2. Provision of Security | |
| <p>3.15.2.1</p> <p>Subject to clause 3.15.2.2, a <i>Trading Participant</i> wishing to participate in <i>market transactions</i> shall provide and maintain a security complying with the requirements of this clause 3.15.2.</p> | <p>3.15.2.1</p> <p>Subject to clause 3.15.2.2, a <i>WESM member Trading Participant</i> wishing to participate in <i>market transactions</i> shall provide and maintain a security complying with the requirements of <i>this</i> clause 3.15.2.</p> | |
| <p>3.15.2.2</p> <p>The <i>Market Operator</i> may exempt <i>WESM members</i> from the requirement to provide a security under clause 3.15.2.1, if:</p> <p>a) the <i>Market Operator</i> believes it is likely that the amount payable by the <i>Market Operator</i> to that <i>WESM member</i> under the <i>WESM Rules</i> will</p> | | Retain original provision |

| Original Provision | RCC-Approved Amendments 07 August 2013 | RCC Remarks |
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| <p>consistently exceed the amount payable to the <i>Market Operator</i> by that <i>WESM member</i> under the <i>WESM Rules</i> in respect of that period; or</p> <p>b) the <i>Market Operator</i> believes it is unlikely that the <i>WESM member</i> will be required to pay any amounts to the <i>Market Operator</i>; or</p> <p>c) Deleted (As per DOE DC No. 2004-07-008 dated 7 July 2004)</p> | | |
| <p>3.15.2.3</p> <p>If, under clause 3.15.2.2, the <i>Market Operator</i> has exempted a <i>WESM member</i> from the requirement to provide a security under clause 3.15.2.1, then the <i>Market Operator</i> may vary or cancel the exemption at any time by giving written notice of the variation or cancellation of the exemption to the <i>WESM member</i>.</p> | <p>3.15.2.3</p> <p>If, under clause 3.15.2.2, t The <i>Market Operator</i> has exempted a <i>WESM member</i> from the requirement to provide a security under clause 3.15.2.1, then the <i>Market Operator</i> may vary or cancel the exemption given pursuant to clause 3.15.2.2 above in reference to clause 3.15.2.1, at any time, by giving written notice of the variation or cancellation of the exemption to the <i>WESM member</i>.</p> | |
| <p>3.15.3 Form of Security</p> <p>The security provided by a <i>WESM member</i> under this clause 3.15 shall be either:</p> <p>a) A bank <i>guarantee</i> in a form and from a bank acceptable to the <i>Market Operator</i>; or</p> <p>b) Another immediate, irrevocable and unconditional commitment in a form and from a bank or other institution acceptable to the <i>Market Operator</i>; or</p> <p>c) Surety Bond issued by a surety or insurance company duly accredited by the Office of the Insurance Commissioner of the Philippines.</p> | <p>3.15.3 Form of Security</p> <p>The security provided by the <i>WESM member</i> under this clause 3.15 shall be <u>either in accordance with the following hierarchy of preferred forms of security:</u></p> <p><u>a) Cash A bank guarantee in a form and from a bank acceptable to the <i>Market Operator</i>; or,</u></p> <p>b) Another immediate, irrevocable, and unconditional commitment in a form and from a bank or other institution acceptable to the <i>Market Operator</i>; or,</p> <p>c) Surety <u>B</u>bond issued by a surety or insurance</p> | |

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| Original Provision | RCC-Approved Amendments 07 August 2013 | RCC Remarks |
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| <p>d) Such other forms of security or guarantee acceptable to the <i>Market Operator</i>. (Added as per DOE DC No.2006-07-0010 dated 20 July 2006)</p> | <p>company duly accredited by the Office of the Insurance Commissioner of the Philippines; d) Such other forms of security or guarantee <u>as may be acceptable and allowed by</u> to the <i>Market Operator</i> (Added as per DOE DC No.2006-07-0010 dated 20 July 2006);</p> <p><u>Provided however that in all cases where the security deposit provided is other than in the form of Cash, the following conditions shall apply in determining whether or not the <i>Market Operator</i> will allow such alternative form of security:</u></p> <p><u>a) A security deposit other than Cash may be allowed by the <i>Market Operator</i> only in the event it is determined that the amount of default can be immediately drawn on due date from such form of security; and,</u></p> <p><u>b) Said <i>WESM member</i> proposing to post a security deposit in a form other than Cash has no record of default in payment or non-compliance with the PR for the immediately preceding six (6) billing periods.</u></p> | |
| <p>3.15.4 Amount of Security</p> | <p>3.15.4 Amount of Security</p> <p><u>Using available historical data, the <i>Market Operator</i> shall determine the initial prudential requirement of a new <i>WESM member</i> corresponding to the portion of its demand that is not covered by bilateral contracts, or ten percent (10%) of its total demand if fully covered by bilateral contracts, multiplied by</u></p> | <p>New. Insertion of description of the provision.</p> |

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| | <u>the average actual market price of the previous twelve (12) billing periods.</u> | |
| <p>3.15.4.1</p> <p>Subject to clause 3.15.2.2, prior to the end of each <i>financial year</i> the <i>Market Operator</i> shall determine and provide written confirmation to each <i>WESM member</i> of its maximum exposure to the <i>Market Operator</i> in respect of a billing period in the following <i>financial year</i>.</p> | <p>3.15.4.1</p> <p>Subject to clause 3.15.2.2, prior to the end of each <i>financial year</i>, the <i>Market Operator</i> shall determine and provide written confirmation to each <i>WESM member</i> of its mMaximum eExposure (ME) to the <i>Market Operator</i> in respect of a billing period in the following financial year.</p> <p><u>The ME of a WESM member shall be computed as the Average Monthly Settlement Amount (AmSA) of the billing periods covering 26 March through 25 September prior to the end of the financial year multiplied by the factor (35/30). The amount of security to be provided by each WESM member pursuant to clauses 3.15.2.1 and 3.15.2.2 shall be equivalent to the ME.</u></p> <p><u>If there is a disputed bill during the months covered in the computation of the ME, a WESM member may request a replacement month, within the 26th March to 25th September billing periods, having the same number of calendar days.</u></p> <p><u>If there is a change in the bilateral contract of a WESM member, the ME shall be computed based on the settlement amounts estimated by the Market Operator using the average actual market price based on the billing period of 26th March to 25th September. In no case shall the ME be less than</u></p> | |

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| | <p><u>ten percent (10%) of the total demand. Average actual market price shall refer to the ratio of the total spot market payment of a WESM member, which may include spot market energy and reserve transactions and line rental amount for contracted quantities, to the total metered quantities net of bilateral contract quantities for each billing month.</u></p> <p><u>If the MO determines that the security provided by a WESM member is below the assessed ME, the MO shall require a WESM member to increase its security deposit up to the level of its ME within 3 working days after the receipt of the written notification of the annual assessment. If the WESM member fails to comply within the prescribed date or any later date agreed to in writing with the MO, then the MO shall issue a default notice under section 3.14.11.1.c.</u></p> | |
| <p>3.15.4.2</p> <p>The Market Operator may review its determination of a WESM member's maximum exposure at any time, provided that any change to a WESM member's maximum exposure will apply no earlier than thirty days following notification by the Market Operator to that WESM member of that change or such earlier period agreed by the PEM Board.</p> | <p>3.15.4.2</p> <p>The Market Operator may review its <u>method of determination of a WESM member's maximum exposure ME</u> at any time, provided that any change to a WESM member's <u>maximum exposure ME</u> will apply no earlier than thirty <u>(30)</u> days following <u>receipt of written notification by from the Market Operator to that by a</u> WESM member of that change, or such earlier period agreed <u>to in writing</u> by the PEM Board.</p> | |
| <p>3.15.4.3</p> <p>Each WESM member shall ensure that at all times the</p> | <p>3.15.4.3</p> <p>Each WESM member shall ensure that at all times the</p> | |

| Original Provision | RCC-Approved Amendments 07 August 2013 | RCC Remarks |
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| aggregate undrawn and unclaimed amounts of current and valid security held by the Market Operator in respect of that WESM member is not less than that WESM member's maximum exposure. | aggregate undrawn and unclaimed amounts of current and valid security held by the <i>Market Operator</i> in respect of that <i>WESM member</i> is not less than that <i>WESM member's</i> <u>maximum exposure ME</u> . | |
| <p>3.15.4.4</p> <p>To diminish the possibility of incurring a <i>margin call</i> under clause 3.15.10, a <i>WESM member</i> may in its absolute discretion provide to the <i>Market Operator</i> a security or securities in accordance with clause 3.15.3 for an aggregate amount, which exceeds its maximum exposure.</p> | <p>3.15.4.4</p> <p>To diminish the possibility of incurring a margin call under clause 3.15.10, a <i>WESM member</i> may in its absolute discretion provide to the Market Operator a security or securities in accordance with clause 3.15.3 for an aggregate amount that exceeds its <u>maximum exposure ME</u>.</p> <p><u>If said additional security or securities is not in the form of Cash, the WESM member shall secure the prior written determination and approval of the Market Operator.</u></p> | |
| <p>3.15.5 Replacement Security</p> <p>3.15.5.1</p> <p>If:</p> <p>a) An existing security provided by a <i>WESM member</i> under this clause 3.15 is due to expire or terminate; and</p> <p>b) After that security expires or terminates, the maximum amount which the <i>Market Operator</i> will be entitled to be paid in aggregate under any remaining security or securities provided by the <i>WESM member</i> under this clause 3.15 will be less</p> | <p>3.15.5 Replacement Security</p> <p>3.15.5.1</p> <p>If:</p> <p>a) An existing security provided by a <i>WESM member</i> under this clause 3.15 is due to expire or terminate; and,</p> <p>b) After that security expires or terminates, the maximum amount which the <i>Market Operator</i> will be entitled to be paid in aggregate under any remaining security or securities provided by the <i>WESM member</i> under this clause 3.15 will be less</p> | |

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| <p>than <i>WESM member's</i> maximum exposure,</p> <p>c) Then the <i>WESM member</i> shall deliver to the <i>Market Operator</i>, at least ten <i>business days</i> prior to the time at which that existing security is due to expire or terminate, a replacement security which:</p> <p>(1) Is of sufficient value to enable the <i>WESM member</i> to comply with clause 3.15.4.3;</p> <p>(2) Complies with the requirements of this clause 3.15; and</p> <p>(3) Will take effect no later than the date on which the existing security is due to expire or terminate.</p> | <p>than <i>WESM member's</i> <u>maximum exposure ME</u>,</p> <p>tThen the <i>WESM member</i> shall deliver to the <i>Market Operator</i>, at least ten <u>(10) business-working days</u> prior to the time at which that existing security is due to expire or terminate, a replacement security which:</p> <p>(1) Is of sufficient value to enable the <i>WESM member</i> to comply with clause 3.15.4.3;</p> <p>(2) Complies with the requirements of this clause 3.15; and,</p> <p>(3) <u>Will Shall</u> take effect no later than the date on which the existing security is due to expire or terminate.</p> | |
| <p>3.15.5.2</p> <p>If:</p> <p>a) A <i>WESM member</i> fails to comply with clause 3.15.5.1; and</p> <p>b) That <i>WESM member</i> does not remedy that failure within 24 hours after being notified by the <i>Market Operator</i> of the failure, then the <i>Market Operator</i> shall give the <i>WESM member</i> a suspension notice in accordance with clause 3.15.7.</p> | <p>3.15.5.2</p> <p>If:</p> <p>a) A <i>WESM member</i> fails to comply with clause 3.15.5.1; and,</p> <p>b) That <i>WESM member</i> does not remedy that failure within <u>three (3) working 24 hours</u> days after being notified by the <i>Market Operator</i> of the failure,</p> <p>tThen the <u>WESM Member is deemed to be in default and the</u> <i>Market Operator</i> shall give the <i>WESM member</i> a Suspension Notice in accordance with clause 3.15.7.</p> | |
| <p>3.15.6 Drawdown of Security</p> | <p>3.15.6 Drawdown of Security</p> | |
| <p>3.15.6.1</p> | <p>3.15.6.1</p> | |

| Original Provision | RCC-Approved Amendments 07 August 2013 | RCC Remarks |
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| <p>If the <i>Market Operator</i> exercises its rights in accordance with this clause 3.15 under a security provided by a <i>WESM member</i> under this clause 3.15, then the <i>Market Operator</i> shall notify the <i>WESM member</i>.</p> | <p><u>The <i>Market Operator</i> shall notify a <i>WESM member</i>, in writing, once the <i>Market Operator</i> exercises its rights in accordance with clause 3.15 under a security provided by said <i>WESM member</i>. If the <i>Market Operator</i> exercises its rights in accordance with this clause 3.15 under a security provided by a <i>WESM member</i> under this clause 3.15, then the <i>Market Operator</i> shall notify the <i>WESM member</i>.</u></p> | |
| <p>3.15.6.2</p> <p>If, as a result of the <i>Market Operator</i> exercising its rights under a security provided by a <i>WESM member</i> under this clause 3.15, the maximum amount which the <i>Market Operator</i> is entitled to be paid under the security or securities provided by the <i>WESM member</i> under this clause 3.15 is less than the <i>WESM member's</i> maximum exposure, then, within 24 hours of receiving a notice under clause 3.15.6.1, the <i>WESM member</i> shall provide an additional security to ensure that at all times, it complies with the requirements of this clause 3.15.</p> | <p>3.15.6.2</p> <p>If, as a result of the <i>Market Operator</i> exercising its rights under a security provided by a <i>WESM member</i> under this clause 3.15, the maximum amount which the <i>Market Operator</i> is entitled to be paid under the security or securities provided by the <i>WESM member</i> under this clause 3.15 is less than the <i>WESM member's</i> <u>maximum exposure ME</u>, then, within <u>24 hours of receiving a three (3) working days</u> from <u>receipt of the written</u> notice under clause 3.15.6.1, the <i>WESM member</i> shall provide an additional security to ensure that, at all times, it complies with the requirements of this clause 3.15.</p> | |
| <p>3.15.6.3</p> <p>If a <i>WESM member</i> fails to comply with clause 3.15.6.2 within the time period referred to in that clause, then the <i>Market Operator</i> shall give the <i>WESM member</i> a suspension notice in accordance with clause 3.15.7.</p> | | Retain original provision |
| <p>3.15.7 Suspension of a WESM member</p> | | |

| Original Provision | RCC-Approved Amendments 07 August 2013 | RCC Remarks |
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| <p>3.15.7.1</p> <p>As soon as practicable after a suspension notice is issued by the <i>Market Operator</i> under the <i>WESM Rules</i>, the <i>Market Operator</i> shall:</p> <p>a) <i>Publish the suspension notice</i>; and <u>(As amended by DOE DC No.2005-11-010 dated 11 November 2005)</u></p> <p>b) Place a notice in a newspaper of general circulation that the <i>WESM member</i> has been suspended.</p> | | Retain original provision |
| <p>3.15.7.2</p> <p>The <i>Market Operator</i> shall revoke a suspension notice if:</p> <p>a) In the case of a default event, the default event is remedied; or</p> <p>b) In the case of a failure to maintain compliance with prudential requirements under this clause 3.15, that failure has been remedied; and</p> <p>c) There are no other circumstances in existence, which would entitle the <i>Market Operator</i> to issue a suspension notice, except that the <i>Market Operator</i> shall not revoke a suspension notice more than one month after it was issued.</p> | <p>3.15.7.2</p> <p>The <i>Market Operator</i> shall revoke a suspension notice if:</p> <p>a) In the case of a default event, the default event is remedied; or,</p> <p>b) In the case of a failure to maintain compliance with <i>prudential requirements</i> under this clause 3.15, that failure has been remedied; and,</p> <p>c) There are no other circumstances in existence, which would entitle the <i>Market Operator</i> to issue a suspension notice,</p> <p><u>except that</u> The <i>Market Operator</i> shall not revoke a suspension notice more than one (1) month after it was issued.</p> | |
| 3.15.7.3 | | Retain original provision |

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| If a suspension notice is revoked, the Market Operator shall publicize that fact in the same manner in which the suspension notice was publicized in accordance with clause 3.15.7.1. | | |
| 3.15.7.4 From the time that the Market Operator issues a suspension notice to a WESM member under the WESM Rules, the WESM member is ineligible to participate in the <i>spot market</i> , until such time as the <i>Market Operator</i> notifies the <i>WESM member</i> and all other relevant <i>Trading Participants</i> that the suspension notice has been revoked. | 3.15.7.4 From the time that the <i>Market Operator</i> issues a <u>written</u> suspension notice to a <i>WESM member</i> under the WESM Rules, the <i>WESM member</i> is ineligible to participate in the spot market, until such time as the <i>Market Operator</i> notifies the <i>WESM member</i> and all other relevant <u><i>WESM members</i></u> Trading Participants , <u>in writing</u> , that the suspension notice has been revoked. | |
| 3.15.7.5 A <i>WESM member</i> shall comply with a suspension notice issued to it under the <i>WESM Rules</i> . | | Retain original provision |
| 3.15.7.6 If: a) The Market Operator has issued a suspension notice to a WESM member due to a default event and in the Market Operator's reasonable opinion the WESM member is incapable of rectifying the default event for any reason; or b) The Market Operator has issued a suspension | 3.15.7.6 If: a) The <i>Market Operator</i> has issued a suspension notice to a <i>WESM member</i> due to a default event and in the <i>Market Operator's</i> reasonable <u>opinion determination</u> , the <i>WESM member</i> is incapable of rectifying the default event for any reason; or, b) The <i>Market Operator</i> has issued a suspension | |

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| <p>notice to a WESM member due to a failure by the WESM member to continue to satisfy the prudential requirements and in the Market Operator's reasonable opinion the WESM member is incapable of rectifying that failure for any reason, the <i>Market Operator's</i> shall deregister that <i>WESM member</i> as soon as practicable and promptly <i>publish</i> a notice of that fact.</p> <p><u>(As amended by DOE DC No.2005-11-010 dated 11 November 2005)</u></p> | <p>notice to a <i>WESM member</i> due to a failure by the <i>WESM member</i> to continue to satisfy the prudential requirements and in the <i>Market Operator's</i> reasonable <u>opinion determination</u>, the <i>WESM member</i> is incapable of rectifying that failure for any reason,</p> <p><u>The <i>Market Operator</i>, in either case, shall deregister that <i>WESM member</i> as soon as practicable and promptly <i>publish</i> a notice of that fact.</u></p> <p><u>(As amended by DOE DC No.2005-11-010 dated 11 November 2005)</u></p> | |
| 3.15.8 Trading Limits | | |
| <p>3.15.8.1</p> <p>Subject to clause 3.15.8.2, the Market Operator shall set a trading limit for each WESM member who participates in market transactions.</p> | | Retain original provision |
| <p>3.15.8.2</p> <p>If, under clause 3.15.2.2, the Market Operator has exempted a Trading Participant from the requirement to provide a security under clause 3.15.2.1 for a period, then the Market Operator shall not set a trading limit for that WESM Member for the period during which that exemption applies.</p> | | Retain original provision |
| 3.15.8.3 | 3.15.8.3 | |

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| The trading limit for a WESM Member at any time shall not be greater than 95% of the total value of the security provided by the WESM Member to the Market Operator under clauses 3.15.3 (a), (b) and (c). <u>(As amended by DOE DC No.2006-07-0010 dated 20 July 2006)</u> | The trading limit for a <i>WESM member</i> , at any time, shall not be greater than 95% be equal to of the total value of the security, <u>including interest rate, if any,</u> provided by the <i>WESM Member</i> to the <i>Market Operator</i> under clauses 3.15.3 (a) to (c), (As amended by DOE DC No. 2006-07-0010 dated 20 July 2006). | |
| 3.15.9 Monitoring | 3.15.9 Monitoring | |
| 3.15.9.1 Each day, the Market Operator shall review its actual exposure to each WESM Member in respect of previous billing periods under the WESM Rules. | 3.15.9.1 Each day, t The <i>Market Operator</i> shall review, <u>on a monthly basis,</u> its actual exposure to each <i>WESM member</i> in respect of previous billing periods <u>under the in accordance with the</u> WESM Rules. | |
| 3.15.9.2 In calculating the Market Operator's actual exposure to a WESM Member under clause 3.15.9.1, the period between the start of the billing period in which the review occurs and the start of the trading day immediately following the day on which the review occurs is to be treated as a previous billing period. | 3.15.9.2 In calculating the Market Operator's actual exposure to a WESM Member under clause 3.15.9.1, the period between the start of the billing period in which the review occurs and the start of the trading day immediately following the day on which the review occurs is to be treated as a previous billing period. | |
| 3.15.9.3 In calculating the Market Operator's actual exposure to a WESM Member under clause 3.15.9.1, the Market Operator shall take into account: | 3.15.9.3 2 In calculating the Market Operator's actual exposure to a WESM Member under clause 3.15.9.1, the Market Operator shall take into account: | |

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| <p>a) Outstanding settlement amounts for the WESM Member in respect of previous billing periods; and</p> <p>b) Settlement amounts for the WESM Member for trading intervals from the start of the billing period in which the review occurs to the end of the trading day on which the review occurs based on:</p> <p>(1) Actual market prices or, if actual market prices are not available for all or part of a trading day, the market prices forecast for the relevant trading day as specified in the relevant day ahead projection; and</p> <p>(2) Actual metered quantities for the WESM Member or, if actual metered quantities are not available for a trading interval, then a trading imbalance for that trading interval determined by the Market Operator as the average of the trading imbalances of that WESM Member for the corresponding trading interval on the corresponding trading days of the four previous weeks.</p> | <p>a) Outstanding settlement amounts for the WESM Member in respect of previous billing periods; and</p> <p>b) Settlement amounts for the WESM Member for trading intervals from the start of the billing period in which the review occurs to the end of the trading day on which the review occurs based on:</p> <p>(1) Actual market prices or, if actual market prices are not available for all or part of a trading day, the market prices forecast for the relevant trading day as specified in the relevant day ahead projection; and</p> <p>(2) Actual metered quantities for the WESM Member or, if actual metered quantities are not available for a trading interval, then a trading imbalance for that trading interval determined by the Market Operator as the average of the trading imbalances of that WESM Member for the corresponding trading interval on the corresponding trading days of the four previous weeks.</p> <p>b) <u>Settlement amounts for the WESM Member for the billing period that will be due on the period in which the review occurs based on the available settlement statement.</u></p> | |
| <p>3.15.9.4</p> <p>If the Market Operator calculates that its actual exposure to a WESM Member exceeds the WESM Member's trading limit, then the Market Operator shall</p> | <p>3.15.9.43</p> <p>If the <i>Market Operator</i> calculates that its actual exposure to a <i>WESM Member</i> exceeds the <i>WESM Member's</i> trading limit, then the <i>Market Operator</i> shall</p> | |

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| notify the WESM Member accordingly. | notify the WESM Member <u>in writing accordingly</u> . | |
| 3.15.10 Margin Calls | 3.15.10 Margin Calls | |
| 3.15.10.1 If the <i>Market Operator</i> calculates that its exposure to a WESM member exceeds the WESM member's trading limit, then the <i>Market Operator</i> shall make a margin call on that WESM member by notice to the WESM member. | 3.15.10.1 If the <i>Market Operator</i> calculates that its exposure to a WESM member exceeds the WESM member's trading limit, then the <i>Market Operator</i> shall make a margin call on that WESM member by notice to the WESM member <u>in writing (Margin Call Notice)</u> . | |
| 3.15.10.2 If the <i>Market Operator</i> makes a margin call on a WESM member under clause 3.15.10.1, then the WESM member must satisfy the margin call within the period determined in accordance with clause 3.15.10.3 by either: a) Providing to the <i>Market Operator</i> an additional security or securities complying with the requirements of this clause 3.15 which enables the <i>Market Operator</i> to increase the WESM member's trading limit to a level which exceeds the <i>Market Operator's</i> actual exposure to the WESM member, or b) Prepaying a portion of the amount payable or which will become payable in respect of previous billing periods sufficient to reduce the <i>Market Operator's</i> actual exposure to the WESM member to below the WESM member's trading limit. | 3.15.10.2 If the <i>Market Operator</i> makes a margin call on a WESM member under clause 3.15.10.1, then the WESM member must satisfy the margin call <u>by providing the amount of shortfall</u> within the period determined in accordance with clause 3.15.10.3 by either: a) Providing to the <i>Market Operator</i> an additional security or securities complying with the requirements of this clause 3.15 <u>which enables the <i>Market Operator</i> to increase the WESM member's trading limit to a level which exceeds the <i>Market Operator's</i> actual exposure to the WESM member, or</u> b) Prepaying a portion of the amount payable or which will become payable. <u>in respect of previous billing periods sufficient to reduce the <i>Market Operator's</i> actual exposure to the</u> | |

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| | <u>WESM member to below the WESM member's trading limit.</u> | |
| <p>3.15.10.3</p> <p>The period within which a margin call must be satisfied under clause 3.15.10.2 is:</p> <p>a) If the margin call is made on a business day before 10:00 am, then the period commences at the time the margin call is made and finishes at 3:00 pm on that business day; and</p> <p>b) If clause 3.15.10.3 (a) does not apply, then the period commences when the margin call is made and ends at 10:00 am on the first business day to occur after the margin call is made.</p> | <p>3.15.10.3</p> <p><u>The period within which a margin call must be satisfied under clause 3.15.10.2 is:</u></p> <p><u>a) If the margin call is made on a business day before 10:00 am, then the period commences at the time the margin call is made and finishes at 3:00 pm on that business day; and</u></p> <p><u>b) If clause 3.15.10.3 (a) does not apply, then the period commences when the margin call is made and ends at 10:00 am on the first business day to occur after the margin call is made.</u></p> <p><u>A margin call under clause 3.15.10.2 must be satisfied within three (3) working days from receipt of the Margin Call Notice.</u></p> | |
| <p>3.15.10.4</p> <p>For the purposes of the WESM Rules, a prepayment under clause 3.15.10.2(b) is taken to relate to the earliest billing period in respect of which the relevant WESM member owes the Market Operator an amount of money under the WESM Rules and, if the amount the WESM member owes under the WESM Rules in respect of that billing period is less than the amount of the prepayment, then the excess is taken to relate to the billing periods occurring immediately after the</p> | | Retain provision |

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| earliest billing period in respect of which the relevant <i>WESM member</i> owes the <i>Market Operator</i> an amount of money under the <i>WESM Rules</i> in chronological order until there is no excess. | | |
| 3.15.10.5 If a <i>WESM member</i> fails to satisfy a margin call by providing an additional security or making a prepayment under clause 3.15.10.2 within the time referred to in that clause, then the <i>Market Operator</i> shall give the <i>WESM member</i> a suspension notice. | 3.15.10.5 If a <i>WESM member</i> fails to satisfy a margin call by providing additional security or making a prepayment under clause 3.15.10.2 <u>in relation to clause 3.15.10.3</u> , then the <i>Market Operator</i> shall <u>give issue</u> the <i>WESM member</i> a suspension notice <u>in writing</u> . <u>In the event of suspension, all the settlement statements issued to such <i>WESM member</i> shall become immediately due and demandable.</u> In the event of suspension, all the settlement statements issued to such <i>WESM member</i> , <u>including an estimate of the accrued trading amounts</u> , shall become immediately due and demandable. | |
| Glossary | | |
| Interest Rate. In relation to any period for which an interest rate is to be determined hereunder, a rate per annum equal to the prevailing 91-day Treasury Bill rate published by the Bureau of Treasury. | Interest Rate. In relation to any period for which an interest rate is to be determined hereunder, a rate per annum equal to the <u>prevailing 91-day Treasury Bill rate published by the Bureau of Treasury</u> <u>lending rate published by the Bangko Sentral ng Pilipinas at the time of payment, which shall not be less than 12% per annum</u> | |
| Default Interest Rate. An interest rate of 2% per | Default interest. An interest rate of 2% per annum | |

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| annum above the <i>interest rate</i> . | above the interest rate. <u>An interest rate of three percent (3%) per annum above the interest rate or the approved default interest by the PEM Board, in addition to the interest rate, to be applied to the remaining default amount.</u> | |
| (New Provision) | <u>Maximum Exposure. The maximum exposure of a WESM member shall mean the computed Average Monthly Settlement Amount (AmSA) of the billing periods covering 26 March through 25 September prior to the end of the financial year multiplied by the factor 35/30 and shall set the level of security deposit that a WESM member is required to maintain.</u> | |
| (New Provision) | <u>Actual Exposure. The total amount of obligation that a WESM member is required to pay on due date.</u> | |

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Matrix of Proposed Amendments in the WESM Billing and Settlements Manual on Prudential Requirements
As directed by the PEM Board (RCC/WESM-WR/WM-13/09)

| Section | Original Provision | Proposed Amendments | Relevant Discussions/Rationale |
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| 4. PRUDENTIAL REQUIREMENT | | | |
| 4.1. Purpose | In order to ensure that the market Participants will meet their obligations to pay the settlement amounts, they are required to provide and maintain a security based on Market participant's maximum exposure. This procedure describes the activities to be undertaken by the Market Operator and the Market participant in relation to the provision of Prudential Requirement. It also enumerates the actions to be taken by the Market Operator in case of non-compliance to the Prudential Requirement. | In order to ensure that the market Participants <u>WESM Member</u> will meet their obligations to pay the settlement amounts, they are required to provide and maintain a security based on Market participant's <u>WESM Member's</u> Maximum e <u>Exposure (ME) as defined in the WESM Rules</u> . This procedure describes the activities to be undertaken by the Market Operator and the Market participant <u>WESM Member</u> in relation to the provision of Prudential Requirement. It also enumerates the actions to be taken by the <u>Market Operator</u> in case of non-compliance to the Prudential Requirement. | Change made to refer to Market Participants as WESM Members as defined in the WESM Rules. As there are also other references in the Manual to Market Participants which is not defined, the recommendation is to likewise adopt a global change for all references to market participants, to WESM Members in the BS Manual. |
| 4.2. Responsibility | <p>The Market Operator shall ascertain the placement of Prudential Requirement by all Market Participants to ensure the effective operation of the Spot Market and resolution of all default events by the Market Participants. This process involves the following activities:</p> <ol style="list-style-type: none"> 1. The initial assessment of the prudential requirement for a market participant, based on their estimated maximum exposure to the Market Operator. 2. The regular review of a market participant's trading limit; 3. the daily monitoring of the market participant's actual exposure against their trading limit 4. The market participant is responsible for complying with the requirements of the Market Operator with respect to the following: 5. Placement of prudential support to meet their | <p>The <u>Market Operator</u> shall ascertain the placement of Prudential Requirement by all Market Participants <u>WESM Members</u> to ensure the effective operation of the Spot Market and resolution of all default events by the Market Participants <u>WESM Members</u>. This process involves the following activities:</p> <ol style="list-style-type: none"> 1. The Conducting an initial assessment of the prudential requirement for a market participant <u>WESM Member</u>, based on their estimated maximum exposure <u>ME</u> to the Market Operator; 2. The Conducting a regular review of a market participant's <u>WESM Member's</u> Trading <u>Limit</u>; 3. the Conducting a daily monitoring of the market participant's <u>WESM Member's</u> Actual <u>eExposure</u> against their Trading <u>Limit</u> <u>as the terms are defined in the WESM Rules</u>; 4. <u>Setting of a minimum amount of security</u> | Rewriting for clarity and additional provisions that set a minimum amount of security deposit to be maintained by a WESM Member and allowing refund in case the security deposit exceeds the ME. |

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| Section | Original Provision | Proposed Amendments | Relevant Discussions/Rationale |
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| | <p>current obligation.</p> <p>6. Securing of credit guarantee or protection from a Credit Support Provider</p> <p>7. Satisfying the Margin Call</p> | <p><u>deposit to be maintained by a WESM Member equivalent to the portion of its demand that is not covered by bilateral contracts, but no less than ten percent (10%) of its total demand, multiplied by the average actual market price of the previous twelve (12) billing periods if the settlement amount of a load customer consistently becomes positive over a six (6) months consecutive billing period, where the term "load customer" is understood to mean an entity that consumes energy within a defined period via a node;</u></p> <p>5. <u>Allowing for a refund if the security deposit of a WESM Member consistently exceeds the ME in a six (6) consecutive months billing period, provided that the WESM Member has no record of default and non-compliance with the prudential requirement during the same period;</u></p> <p>6. <u>Disclosing of information in relation to (i) any failure of a WESM Member to meet prudential requirement obligations to the Market Operator, which resulted in the issuance of a margin call notice, and (ii) any prudential security exemptions or waivers given by the Market Operator to a WESM Member.</u></p> <p>4-The market participant <u>WESM Member</u> is responsible for complying with the requirements of the Market Operator with respect to the following:</p> <p>5- <u>1. Deposit and/or Placement</u> of prudential support to meet their current obligation;</p> <p>6- <u>2. Securing of credit guarantee or protection from a Credit Support Provider;</u></p> <p>7- <u>3. Satisfying the Margin Call Notice and doing all acts</u></p> | |

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| Section | Original Provision | Proposed Amendments | Relevant Discussions/Rationale |
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| | | <u>necessary to rectify causes of suspension.</u> | |
| 4.3. Assessment of Prudential Requirements | <p>The MO shall assess the amount of security deposit required from each Trading Participant wishing to participate in the spot market transaction. The assessment shall be based on the information provided by the Market Participant about its expected trading transactions in the spot market. The Market Operator shall set a trading limit for each Trading Participant, which will be the basis for computing the Prudential requirement. The total value of the security provided by the Market Participant to the Market Operator shall be 15% higher than its Trading Limit (i.e. Trading Limit=85% of Prudential Requirement).</p> <p>If the Market Operator has exempted a Market Participant from the requirement to provide a security for a period; then the Market Operator shall not set a trading limit for that Market Participant for that period during which that exemption applies.</p> <p>In accordance with Section 3.15.2.2 of the WESM rules, the Market operator may exempt a Market Participant from the requirement to provide a security, if:</p> <ol style="list-style-type: none"> 1. The Market Operator believes it is likely that the amount payable by the Market Operator to that Market Participant under the WESM Rule will consistently exceed the amount payable to the Market Operator by that Market Participant under the WESM Rules in respect of that period; or 2. The Market Operator believes it is unlikely that the Market Participant will be required to pay any amounts to the Market Operator; or | <p>The MO <u>Market Operator</u> shall assess the amount of security deposit required from each Trading Participant <u>WESM Member</u> wishing to participate in the spot market transactions. The assessment shall be based on the information provided by the Market Participant <u>WESM Member</u> about its expected trading transactions in the spot market. The <u>Market Operator</u> shall set a Trading <u>Trading</u> Limit for each Trading Participant <u>WESM Member</u>, which will be the basis for computing the Prudential requirement. The total value of the security provided by the Market Participant <u>WESM Member</u> to the <u>Market Operator</u> shall be 15% higher than equal to its Trading Limit (i.e. Trading Limit = 85% 100% of Prudential Requirement).</p> <p><u>Using available historical data, the Market Operator shall determine the initial prudential requirement of a new WESM Member corresponding to the portion of its demand that is not covered by bilateral contracts, or ten percent (10%) of its total demand if fully covered by bilateral contracts, multiplied by the average actual market price of the previous twelve (12) billing periods. For this purpose, a WESM Member shall submit the necessary documents that may be required by the Market Operator.</u></p> <p>If the <u>Market Operator</u> has exempted a Market Participant <u>WESM Member</u> from the requirement to provide a security for a period; then the <u>Market Operator</u> shall not set a Trading Limit for that Market Participant <u>WESM Member</u> for that period during which that exemption applies.</p> <p>In accordance with Section 3.15.2.2 of the WESM rules, the <u>Market Operator</u> may exempt a Market Participant</p> | |

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| | <p>As provided in Section 3.15.3 of the WESM rules, the security provided by a market participant shall either be:</p> <ol style="list-style-type: none"> a bank guarantee in a form and from a bank acceptable to the Market Operator; or another immediate, irrevocable and unconditional commitment in a form and from a bank or other institution acceptable to the Market Operator; or Surety Bond issued by a surety or insurance company duly accredited by the Office of the Insurance Commissioner of the Philippines. <p>The Market Operator shall assess the Prudential Requirement of the Market Participant on the following events:</p> <ol style="list-style-type: none"> Application for registration of Market Participant. At anytime that the Market Operator reviews its determination of a Market participant's maximum exposure When an existing security provided by the Market Participants is due to expire or terminate such that the aggregate undrawn and unclaimed amounts of current and valid security held by the market Operator will be less than the MP's maximum exposure <p>Prior to the end of each financial year after the Market Operator has determined its maximum exposure in respect of the billing period for the following financial year.</p> | <p>WESM Member from the requirement to provide a security, if:</p> <ol style="list-style-type: none"> The <u>Market Operator</u> believes it is likely that the amount payable by the <u>Market Operator</u> to that Market Participant <u>WESM Member</u> under the WESM Rule will consistently exceed the amount payable to the c by that <u>Market Participant WESM Member</u> under the WESM Rules in respect of that period; or The <u>Market Operator</u> believes it is unlikely that the Market Participant WESM Member will be required to pay any amounts to the <u>Market Operator</u>; <p>As provided in Section 3.15.3 of the WESM Rules, the security provided by a market participant <u>WESM Member under this clause 3.15</u> shall either be <u>in accordance with the following hierarchy of preferred forms of security</u>:</p> <ol style="list-style-type: none"> Cash a bank guarantee in a form and from a bank acceptable to the Market Operator; or, aAnother immediate, irrevocable, and unconditional commitment in a form and from a bank or other institution acceptable to the <u>Market Operator</u>; or, Surety Bbond issued by a surety or insurance company duly accredited by the Office of the Insurance Commissioner of the Philippines; <u>Such other forms of security guarantee as may be</u> | |

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| | | <p><u>acceptable and allowed by the Market Operator.</u></p> <p><u>Provided however that in all cases where the security deposit provided is other than in the form of Cash, the following conditions shall apply in determining whether or not the Market Operator will allow such alternative form of security:</u></p> <p><u>a) A security deposit other than Cash maybe allowed by the Market Operator only in the event it is determined that that the amount of default can be immediately drawn on due date from such form of security; and,</u></p> <p><u>b) Said WESM Member proposing to post a security deposit in a form other than Cash has no record of default in payment or non compliance with the PR for the immediately preceding six (6) billing periods.</u></p> <p><u>If the Market Operator determines that a WESM Member is not qualified to provide a security deposit other than Cash, the Market Operator shall inform in writing the WESM Member to change its existing security deposit (i.e., SBLC, surety bond) to Cash at any time or before the expiry date of the existing security.</u></p> <p>The Market Operator shall assess the Prudential Requirement of the Market Participant <u>WESM Member</u> on the following events:</p> <ol style="list-style-type: none"> <u>1. Application for registration of Market Participant WESM Member;</u> <u>2. At anytime that the Market Operator reviews its determination of a Market participant's WESM Member's maximum exposure;</u> | |

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| | | <p>3. When an existing security provided by the Market Participants <u>WESM Member</u> is due to expire or terminate such that the aggregate undrawn and unclaimed amounts of current and valid security held by the mMarket Operator will be less than the MP's <u>WESM Member's</u> maximum exposure;</p> <p>pPrior to the end of each financial year after the <u>Market Operator</u> has determined its maximum exposure in respect of the billing period for the following financial year.</p> | |
| 4.4. Actual Exposure of a Market Participant | <p><u>On a regular basis, the MO</u> shall review its actual exposure to each Market Participant in respect of the previous billing period.</p> <p>In computing for the <u>Market Operator's</u> Actual Exposure to a Market Participant, the Market Operator shall take into account:</p> | <p>On a regular basis <u>The Market Operator</u> shall review <u>on a monthly basis</u>, its actual exposure to each <u>Market Participant WESM Member</u> in respect of the previous billing period <u>in accordance with the WESM Rules</u>.</p> <p>In computing for the <u>Market Operator's</u> Actual Exposure <u>(AE) as defined in the Glossary Section of the WESM Rules</u>, to a <u>Market-Participant WESM Member</u>, the <u>Market Operator</u> shall take into account:</p> | |
| | <ol style="list-style-type: none"> 1. Outstanding Settlement amount for the Market Participant in respect of the previous billing period; 2. Settlement amount for the Market participant for trading intervals from the start of the billing period in which the review occurs to the end of the trading day on which the review occurs based on: <ol style="list-style-type: none"> a. Actual market prices or, if actual market prices are not available for all or part of a trading day, the market prices forecast for the relevant trading day as specified in the relevant day ahead projection; and b. Actual metered quantities for the Market participant or, if actual | <ol style="list-style-type: none"> 1. Outstanding settlement amount for the <u>Market Participant WESM Member</u> in respect of the previous billing period; 2. Settlement amount for the Market-Trading Participant for trading intervals from the start of the billing period in which the review occurs to the end of the trading day on which the review occurs based on: <ol style="list-style-type: none"> a. Actual market prices or, if actual market prices are not available for all or part of a trading day, the market prices forecast for the relevant trading day as specified in the relevant day ahead projection; | |

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| Section | Original Provision | Proposed Amendments | Relevant Discussions/Rationale |
|---------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| | <p>metered quantities are not available for a trading interval, then a trading imbalance for that trading interval determined by the Market operator as the average of the trading imbalances of that Market participant for the corresponding trading interval on the corresponding trading days of the four previous weeks.</p> <p>The MO should verify whether each market participant has sufficient levels of prudential support to cover their financial trading activity in the spot market. The MO shall calculate the market participant's actual exposure (AE) and compare it with the trading limit established for the Market Participant.</p> | <p>and, b. Actual metered quantities for the Market Trading Participant or, if actual metered quantities are not available for a trading interval, then a trading imbalance for that trading interval determined by the Market Operator as the average of the trading imbalances of that Market Trading Participant for the corresponding trading interval on the corresponding trading days of the four previous weeks.</p> <p>2. <u>Settlement amounts for the WESM Member for the billing period that will be due on the period in which the review occurs based on the available settlement statement.</u></p> | |
| | <p>If the actual exposure of a Market Participant exceeds his Trading limit, then the Market Operator shall make a MARGIN CALL on that Market Participant. Upon receiving the Notice of Margin call from the Market Operator, the Market Participant must satisfy the Margin Call within a prescribed period by either:</p> <ol style="list-style-type: none"> 1. Providing an additional security or securities that will enable the Market Operator to increase the Market Participant's trading limit to a level which exceeds the Market Operator's actual exposure to the Market participant; 2. Prepaying a portion of the amount payable or which will become payable in respect of previous billing periods sufficient to reduce the Market Operator's actual exposure to the | <p>The Market Operator should <u>shall</u> verify whether each market participant WESM Member has sufficient levels of prudential support to cover their financial trading activity in the spot market. The MO <u>Market Operator</u> shall calculate the market participant's WESM Member's actual exposure (AE) and compare it with the Trading Limit established for the Market Participant WESM Member.</p> <p>If the actual exposure of a <u>Market Participant WESM Member</u> exceeds its Trading <u>Limit</u>, then the <u>Market Operator</u> shall issue a <u>MARGIN CALL</u> Margin Call Notice on that <u>Market Participant WESM Member</u>. Upon receiving the <u>Notice of Margin call written Margin Call Notice</u> from the <u>Market Operator</u>, the <u>Market Participant WESM Member</u> must satisfy the Margin Call <u>Notice by providing the amount of shortfall within a prescribed period three (3) working days from receipt</u></p> | |

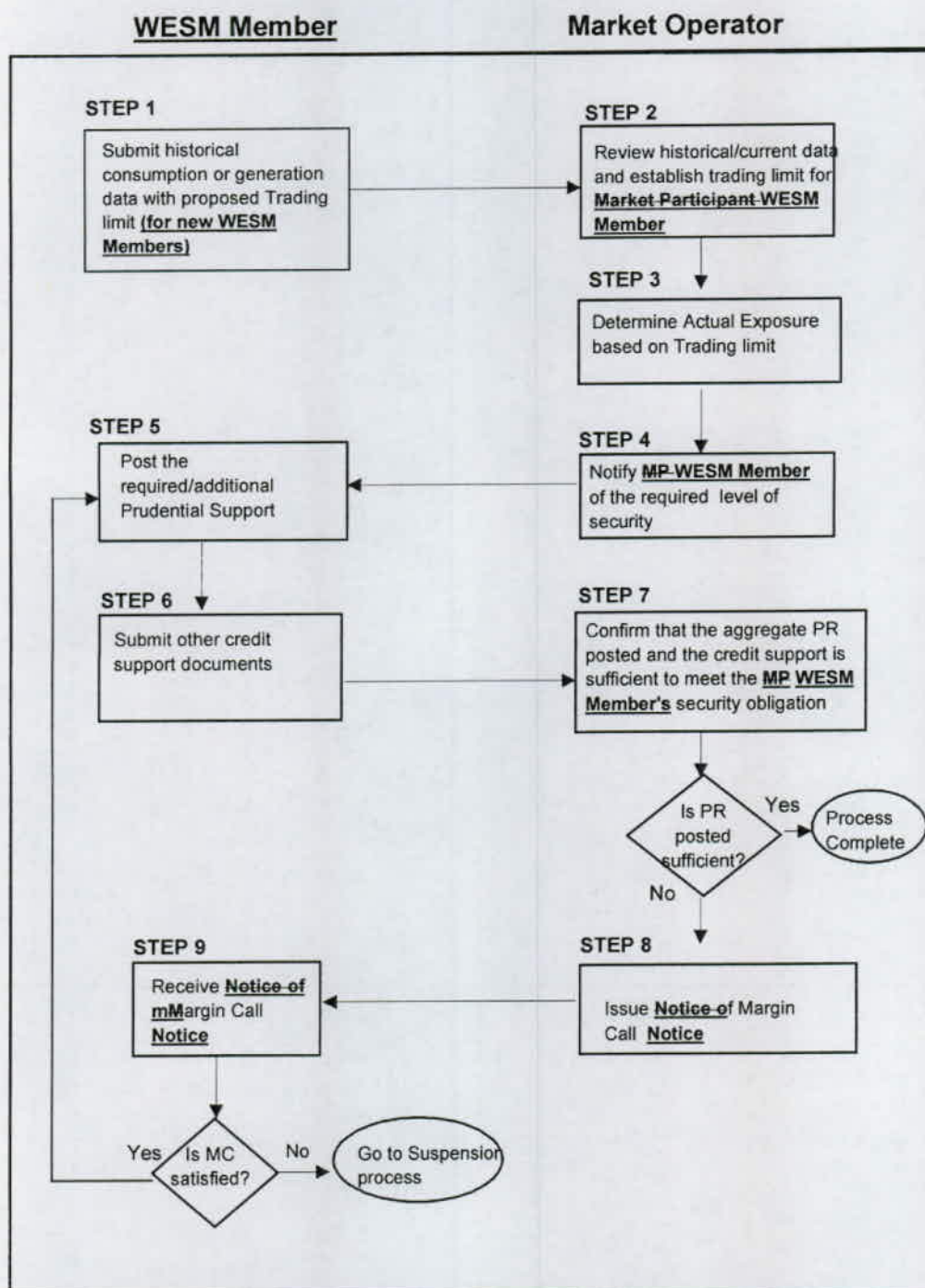
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| Section | Original Provision | Proposed Amendments | Relevant Discussions/Rationale |
|---------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| | <p>Market participant.</p> <p>Prepayments made by the Market Participant shall first be applied to unsettled accounts of the earlier Billing periods. Any excess thereof shall be offset in the succeeding billing periods in chronological order until there is no excess.</p> <p>If the margin call is made on a business day before 10:00 a.m., then this must be satisfied at the time the notice is made up to 3:00 p.m. on that business day. If notice is made on or beyond 10:00 a.m., the margin call must be satisfied up to 10:00 a.m. on the first business day after the notice is made.</p> <p>Failure of the Market Participant to satisfy the Margin Call within the prescribed period will authorize the Market Operator to issue a Suspension Notice.</p> | <p><u>of the Margin Call Notice</u>, by either:</p> <ol style="list-style-type: none"> 1. Providing an additional security or securities that will enable the <u>Market Operator</u> to increase the <u>Market Participant WESM Member's</u> trading <u>limit</u> to a level which exceeds the <u>Market Operator's</u> actual exposure to the Market-participant WESM Member; 2. Prepaying a portion of the amount payable or which will become payable, shall first be applied to unsettled accounts of the earlier Billing periods. Any excess thereof shall be offset in the succeeding billing periods in chronological order until there is no excess. <p><u>If the margin call is made on a business day before 10:00 a.m., then this must be satisfied at the time the notice is made up to 3:00 p.m. on that business day. If notice is made on or beyond 10:00 a.m., the margin call must be satisfied up to 10:00 a.m. on the first business day after the notice is made.</u></p> <p>Failure of the Market Participant WESM Member to satisfy the Margin Call <u>Notice</u> within the prescribed period will shall authorize the <u>Market Operator</u> to issue a <u>written</u> Suspension Notice <u>to the WESM Member</u>.</p> | |

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4.5. Flowchart for Assessment and Monitoring of Prudential Requirements

Figure 6: Assessment and Monitoring of Prudential Requirements



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**Matrix of Proposed Amendments in the WESM Billing and Settlements Manual on Prudential Requirements
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4.6. Table 7: Procedural Steps in the Assessment/monitoring of Prudential Requirement

| REF | Procedures | Responsibility | Timetable |
|--------|--------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|
| STEP 1 | Submit historical consumption and/or the generator rated capacity to be the basis in assessing the initial Trading Limit <u>(for new WESM Members)</u> | <u>MP—WESM Member</u> | --during prequalification |
| STEP 2 | Review the historical/current data submitted by the Market Participant <u>WESM Member</u> and establish the Trading Limit <u>based</u> | <u>Market Operator</u> | during prequalification / or during each day of trading |
| STEP 3 | Determine and review the Actual Exposure <u>AE</u> in respect of the previous billing period. | <u>Market Operator</u> | <u>Each day of Trading Monthly basis</u> |
| STEP 4 | Notify the Market Participant <u>WESM Member</u> <u>in writing</u> of the required security based on the established Trading Limit. | <u>Market Operator</u> | As soon as practicable |
| STEP 5 | Post the required or additional Prudential Requirement or the additional security <u>in case of a Margin call</u> , in a form acceptable to the | <u>MP-WESM Member</u> | <u>If MC is made before 10 am, deadline is on or before 3pm on the same day. If MC is made beyond 10am, the MC must be satisfied on</u> |

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| REF | Procedures | Responsibility | Timetable |
|--------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | <i>Market Operator.</i> | | <u>or before 10am on the following business day. Within three (3) working days upon the WESM Member's receipt of the written notification calling for required and/or additional security</u> |
| STEP 6 | Submit documents proof that a Credit Support Provider guarantees their obligation to the <i>Market Operator</i> | <u>MP-WESM Member</u> | As soon as practicable |
| STEP 7 | <p>Confirm that the Market Participant <u>WESM Member</u> has placed a security sufficient to meet its obligation.</p> <p>Each day, tThe <i>Market Operator</i> reviews the Actual Exposure to each Market Participant <u>WESM Member</u> in respect of the previous billing periods .</p> <p>If the Security is insufficient, the <i>Market Operator</i> shall issue a written Margin Call <u>Notice</u> and compel the <u>WESM Member MP</u> to comply with the required level of PR.</p> | <u>Market Operator</u> | <p>As soon as practicable</p> <p><u>Monthly basis</u></p> <p><u>As soon as practicable.</u></p> |
| STEP 8 | Issues a <u>written Margin Call Notice</u> notice of | <u>Market Operator</u> | As soon as practicable |

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| REF | Procedures | Responsibility | Timetable |
|--------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Margin Call if the Actual Exposure AE to the Market Participant WESM Member exceeds the Market Participant's WESM Member's Trading Limit. | | |
| STEP 9 | <p>Receives <u>written Margin Call Notice</u> Notice of margin Call and satisfies or complies with the Margin eCall <u>Notice</u> by providing an additional security or making prepayment. within the period specified by the MO.</p> <p>If the Market Participant WESM Member fails to satisfy a Margin Call Notice within the period specified, the Market Operator shall give issue a written sSuspension nNotice to Market Participant WESM Member.</p> | <u>MP-WESM Member</u> | <p>As soon as practicable Deemed received <u>within three (3) working upon issuance of the written notification calling for required and/or additional security</u></p> <p><u>As soon as practicable</u></p> |

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| Section | Original Provision | Proposed Amendments | RCC Subcommittee Discussion on Proposed Amendments |
|---------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|
| 5. SUSPENSION OF A WESM MEMBER | | | |
| 5.1. Overview | <p>The Market participant may be suspended from participating in the spot market when it receives a Suspension Notice from the Market Operator due to any of the following conditions:</p> <ol style="list-style-type: none"> 1. The Market Operator believes that the Market participant is incapable of rectifying a default event. 2. The Market Participant fails to satisfy a margin call made by the Market Operator within the prescribed period to provide additional or replacement security for the purpose of reducing Market Operator's exposure. <p>As soon as practicable after a suspension is issued to the Market Participant, the Market Operator shall publish the suspension notice in the WESM website and in a newspaper of general circulation. The Market Participant shall comply with a suspension notice. From the time of the issuance of the notice of suspension until such time the suspension is revoked, the suspended Market Participant is ineligible to participate in the Spot Market.</p> | <p>The Market Participant WESM Member may be suspended from participating in the spot market when it receives a <u>written</u> Suspension Notice from the <i>Market Operator</i> due to any of the following conditions:</p> <ol style="list-style-type: none"> 1. The <i>Market Operator</i> believes that the Market participant WESM Member is incapable of rectifying a default event; or 2. The Market Participant WESM Member fails to satisfy a <u>Mmargin Ceall Notice</u> made by the <i>Market Operator</i> within the prescribed period to provide additional or replacement security for the purpose of reducing <i>Market Operator's</i> exposure. <p>As soon as practicable after a <u>written</u> Suspension Notice is issued to the Market Participant WESM Member, the <i>Market Operator</i> shall publish the suspension notice in the WESM website and in a newspaper of general circulation.</p> | Revised to specify that the notice is in writing |

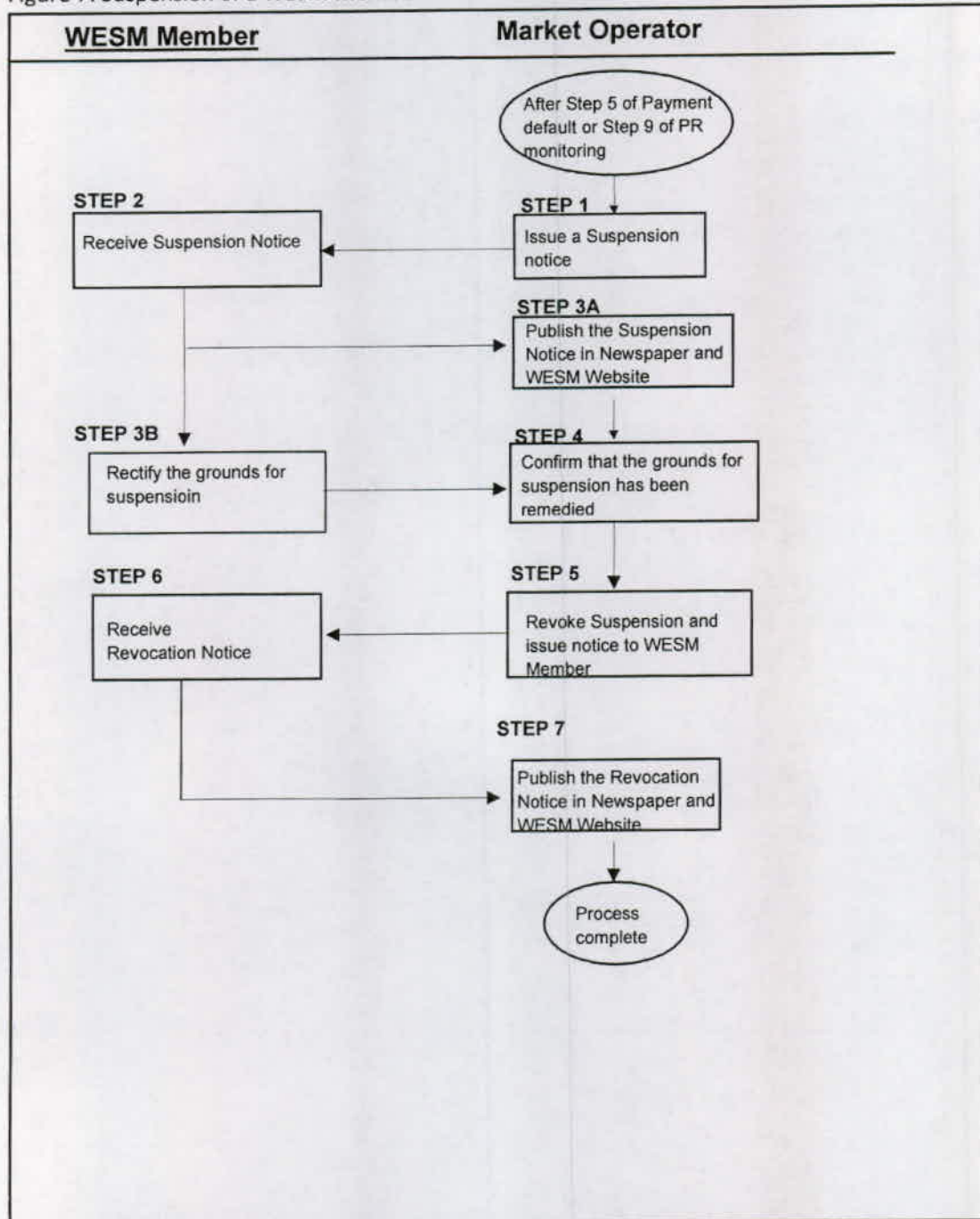
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| | | | |
|--|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| | <p>The Market Operator shall revoke a suspension notice if the default event has been remedied or if Market Participant has complied with the margin call made by the Market Operator. If the Suspension notice is revoked, the Market Operator shall publicized that fact in the same manner when the suspension notice was issued.</p> | <p><u>In the event of suspension, all the settlement statements issued to such WESM Member shall become immediately due and demandable and shall bear default interest from the date of issuance of the settlement statement up to the date of payment.</u></p> <p>The Market Participant WESM Member shall comply with a Ssuspension Nnotice. From the time of the issuance of the notice of Suspension Notice until such time the suspension is revoked, the suspended Market Participant WESM Member is ineligible to participate in the Spot Market.</p> <p>The <i>Market Operator</i> shall revoke a sSuspension nNotice if the default event has been remedied or if Market Participant WESM Member has complied with the mMargin cCall Notice made by the <i>Market Operator</i>. If the Suspension nNotice is revoked, the <i>Market Operator</i> shall publicizedd that fact in the same manner when the sSuspension nNotice was issued.</p> | |
|--|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|

**Matrix of Proposed Amendments in the WESM Billing and Settlements Manual on
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5.2. Flowchart for Suspension of a WESM Member

Figure 7: Suspension of a WESM Member



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5.3. Table 8: Procedural Steps in Suspending a ~~Market Participant~~ **WESM Member**

| REF | Procedures | Responsibility | Timetable |
|---------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|------------------------------------------------------------------------------------------------|
| STEP 1 | Send written Notice of Suspension Notice indicating the reason for suspending the Market Participant WESM Member . | Market Operator | Immediately when Market Operator determines that there are valid grounds for suspension |
| STEP 2 | Receives the written notification from Market Operator of the suspension. | MP-WESM Member | As soon as practicable Deemed received immediately upon issuance |
| STEP 3A | Publish in the Newspaper of general circulation the Suspension Notice to inform public and other Market Participants WESM Members . | Market Operator | As soon as practicable after the an Notice is issued |
| STEP 3B | Determine how to resolve suspension. <u>In the case of default: pay the default amount.</u> In the case of shortage of Prudential R requirement or Margin Call Notice : post additional security or give prepayment. <u>In all cases, do such acts necessary to</u> remedy to other circumstances that entitles the issuance of suspension. | MP-WESM Member | As soon as practicable |
| STEP 4 | Coordinates with the Market Participant WESM Member | Market Operator | As soon as practicable |

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| | | | |
|--------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | in resolving the issues of suspension. | | |
| STEP 5 | Revoke the Suspension <u>Notice</u> by issuing a <u>written</u> notice to the <u>Market Participant WESM Member</u> if the <u>Market Participant WESM Member</u> has rectified the causes of suspension. | <u>Market Operator</u> | As soon as practicable after the <u>MP WESM Member</u> has <u>made remedy to revoke remedied causes of suspension to warrant a revocation of the suspension upon the Market Operator's determination of sufficiency of such remedies employed by the WESM Member</u> |
| STEP 6 | Receives the <u>written</u> Notice from <u>Market Operator</u> that the suspension is revoked. The <u>MP WESM Member</u> can then resume trading with the spot market. | <u>MP-WESM Member</u> | As soon as practicable |
| STEP 7 | Publish in the newspaper of general circulation that the suspension notice is revoked | <u>Market Operator</u> | As soon as practicable after the <u>written</u> notice is issued |

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5.4. Table 9: Response Time and Penalty

| <u>Particulars</u> | <u>Response Time</u> | <u>Penalty</u> |
|--------------------------|------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|
| <u>Replacement of PR</u> | <u>Within 3 working days from receipt of written notification</u> | <u>Suspension</u> |
| <u>Margin Call</u> | <u>Within 3 working days from receipt of written notification</u> | <u>Suspension and all settlement statements shall become immediately due and demandable on the date of Invoice</u> |
| <u>Default</u> | <u>Within three (3) working days from receipt of notification of default in PR</u> | <u>Suspension</u> |
| | <u>Within twenty four (24) hours from receipt of notification of default in payment of settlement statements</u> | <u>Suspension</u> |
| <u>Suspension</u> | <u>Within three (3) working days from notification</u> | <u>Disconnection</u> |