

Republic of the Philippines  
ENERGY REGULATORY COMMISSION  
Pasig City

IN THE MATTER OF THE  
APPLICATION FOR THE  
ISSUANCE OF RULES ON THE  
PRICE DETERMINATION  
METHODOLOGY FOR THE  
IMPLEMENTATION OF THE  
CO-OPTIMIZED ENERGY AND  
RESERVE MARKET IN THE  
WHOLESALE ELECTRICITY  
SPOT MARKET (WESM)

ERC CASE NO. 2023-002 RC

PHILIPPINE ELECTRICITY  
MARKET CORPORATION  
(PEMC) AND THE  
INDEPENDENT ELECTRICITY  
MARKET OPERATOR OF THE  
PHILIPPINES, INC. (IEMOP),  
*Applicants.*  
X-----X

Promulgated:  
March 25, 2024

ORDER

On 10 January 2023, Philippine Electricity Market Corporation (PEMC) and Independent Electricity Market Operator of the Philippines, Inc. (IEMOP) sought the Commission’s approval of the amended the Price Determination Methodology (PDM) for the implementation of the co-optimized energy and reserve market in the Wholesale Electricity Spot Market (WESM).

The proposed amended PDM is comprised of the following major Sections:<sup>1</sup>

*(This space is intentionally left blank.)*

<sup>1</sup> Other sections comprise of i) Introduction; ii) Definitions, References and Interpretation; and iii) Responsibilities.

Table 1. PDM Sections

Section under the PDM Manual	Topic
4	Dispatch and Pricing Algorithm
5	Market Pricing Re-runs
6	Price Substitution Methodology
7	Administered Prices
8	Billing and Settlement

On 27 June 2023, IEMOP and PEMC filed their *Formal Offer of Evidence* dated 26 June 2023.

On 24 August 2023, the Commission issued an *Order* of even date, granting PEMC and IEMOP interim relief to adopt and implement the proposed PDM for the co-optimized energy and reserve market in the WESM. The dispositive portion of the said *Order* is quoted, as follows:

WHEREFORE, the foregoing premises considered, PEMC and IEMOP are hereby GRANTED INTERIM RELIEF to adopt and implement the proposed Price Determination Methodology (PDM) for the co-optimized energy and reserve market in the Wholesale Electricity Spot Market (WESM), subject to the following conditions:

- a) The Final PDM shall be adopted by the Commission upon completion of its evaluation of all matters pertinent to the instant case, including the report on the results of the Trial Operations Program (TOP) for the reserve market which shall be jointly submitted by PEMC and IEMOP to the Commission, incorporating therein pertinent findings and recommendations relevant to pricing, cost recovery, settlement, among other matters material to the PDM; and
- b) Should be the implementation of the PDM for the co-optimized energy and reserve market in the WESM result to over-recovery, the refund should be implemented immediately upon issuance of the Decision in the instant case.

xxx

SO ORDERED.

On 28 September 2023, Department of Energy (DOE) published DOE Department Circular (DC) No. DC2023-090026<sup>2</sup> wherein the DOE declared the start of the full commercial operations of the Reserve Market at interval 0005H of 26 January 2024.

---

<sup>2</sup> Declaring the Commercial Operations of the Reserve Market and Providing Further Policies.



On 25 January 2024, the Department of Energy (DOE) issued DOE *Advisory* 2024-01-001-SEC,<sup>3</sup> of even date, stating among others that the DOE mandated the full implementation and commercial operations of the Reserve Market under the DOE DC No. DC2023-090026,<sup>4</sup> subject to the issuance of the Governance Arm of a certification on the readiness and completeness of the requirements for such.

In the same *Advisory*, the DOE stated that, on 24 January 2024, the Governance Arm submitted a Certification, **without prejudice to the continuing enhancements of the Reserve Market**, attesting that the activities which are identified as crucial for the commercial operations of the Reserve Market have been complied with or implemented consistently with the requirements.

In view thereof, the DOE, in the said *Advisory*, directed all stakeholders to comply with the *Supplemental Operating Guidelines for the Commercial Operations of the Reserve Market* attached as Annex A to the said *Advisory* (Supplemental Operating Guidelines).

The *Supplemental Operating Guidelines* include provisions on the replacement of contracted Ancillary Service (AS) capacities, which happens when a contracted AS facility becomes unavailable and opts to buy replacement AS capacity from other AS Providers or from the WESM. The relevant provisions of which are quoted below:

Guidelines on Replacement of Contracted AS Capacities:

1. Should a contracted AS Facility become unavailable, the relevant AS Provider which owns the unavailability AS Facility may opt to buy replacement AS capacity from other AS Providers or from the WESM.
2. An AS Provider may be allowed to buy replacement AS Capacity from another AS Provider provided that an AS Capacity Replacement Protocol has been duly agreed upon among the Buying AS Provider, Selling AS Provider and the System Operator. The AS Capacity Replacement Protocol shall include the following terms:
  - 2.1 Timeline and procedures for the replacement of AS capacities.
  - 2.2 Settlement procedures among the System Operator, buying AS Providers, and selling AS Providers.
  - 2.3 Should an AS Provider buy replacement AS capacity from another AS Provider, the Buying and Selling AS

---

<sup>3</sup> Commencement of the Full Commercial Operations of the Reserve Market

<sup>4</sup> Declaring the Commercial Operations of the Reserve Market and Providing Further Policies.



Providers shall update their generation and reserve offers to reflect their arrangement which includes, but is not limited to, the cancellation by the Buying AS Provider of its generation and reserve offers for the unavailable AS Facility.


3. The System Operator shall continue to declare bilateral contract quantities (BCQs) to the scheduled contracted AS Providers, including cases where an AS Provider bought replacement capacity from other AS Providers.

On 13 February 2024, the Commission issued an *Order* directing IEMOP and PEMC to submit additional documents to facilitate its evaluation of the present Application, including the audit findings of the enhanced Central Registration and Settlement System (CRSS), Market Participants Interface (MPI) and Market Management System (MMS). **To date, IEMOP and PEMC have yet to comply with such directive from the Commission.**

On 21 March 2024, IEMOP presented to the Commission its report on the prices resulting from the commercial operations of the Reserve Market for the months of February and March 2024. IEMOP’s report included the following table:

Figure 1. Reserve Cost for February and March 2024  
**RESERVE COST | FEBRUARY AND MARCH 2024**

February 2024 Reserve Transactions	Luzon	Visayas	Mindanao	Philippines
Total Spot Market Cost, PHP	2,713,033,603.12	217,719,530.10	183,414,033.49	3,114,167,166.70
Average Scheduled Quantity, MW	1,358.29	303.40	269.12	1,930.81
Average Contracted Quantity, MW	848.55	276.44	217.67	1,342.66
Average Spot Quantity, MW	509.74	26.97	51.45	588.15
% Contracted Quantity	62.5%	91.1%	80.9%	69.5%
% Spot Quantity	37.5%	8.9%	19.1%	30.5%
Effective Spot Settlement Price, P/kWH	7.15	10.85	4.79	7.12
Estimated Rate Impact to Customers, P/kWH	0.4257	0.1732	0.1412	0.3488
March 2024 Reserve Transactions	Luzon	Visayas	Mindanao	Philippines
Total Spot Market Cost, PHP	3,752,106,815.27	1,060,709,241.74	131,615,941.34	4,944,431,998.34
Average Scheduled Quantity, MW	1,476.40	371.00	279.86	2,127.27
Average Contracted Quantity, MW	736.48	258.61	218.69	1,213.78
Average Spot Quantity, MW	739.92	112.40	61.18	913.49
% Contracted Quantity	49.9%	69.7%	78.1%	57.1%
% Spot Quantity	50.1%	30.3%	21.9%	42.9%
Effective Spot Settlement Price, P/kWH	5.80	16.38	3.74	5.40
Estimated Rate Impact to Customers, P/kWH	0.7074	1.0061	0.1198	0.6631

 Note: March 2024 data is only until 20 March 2024. It is also still subject to pricing corrections

IEMOP reported that reserve prices were significantly high during the said period, with such high prices ostensibly attributable to: (a) the large quantities purchased by the System Operator from the spot market to complete the reserve capacity requirements for different types of reserve, despite the AS Procurement Agreements (ASPAs) provisionally approved by the Commission; and (b) the large quantities being purchased at a high price.



The amounts resulting from the Reserve Market are covered by Billing and Settlement in Section 8 of the proposed PDM manual.

Under Section 43(c) of the Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), the Commission is mandated to ensure rational pricing and protect consumers:

SEC. 43. Functions of the ERC. –The ERC shall promote competition, encourage market development, ensure customer choice and penalize abuse of market power in the restructured electricity industry. In appropriate cases, the ERC is authorized to issue cease and desist order after due notice and hearing. Towards this end, it shall be responsible for the following key functions in the restructured industry:

xxx

- (c) Enforce the rules and regulations governing the operations of the electricity spot market and the activities of the spot market operator and other participants in the spot market, for the purpose of ensuring a greater supply and **rational pricing of electricity**; xxx (emphasis supplied)

The significant prices in the Reserved Market will necessarily result in a significant increase in the electricity prices that will be charged to the public. Considering that:

(a) IEMOP and PEMC have yet to comply with the Commission's directive in its *Order*, dated 13 February 2024, requiring, among others, documents relevant to the audit of the CRSS, MPI and MMS;

(b) there are concerns raised to the attention of the Commission by IEMOP regarding possible non-implementation of certain ASPAs despite approvals from the Commission; and

(c) clarifications are needed on the mechanics of co-optimization given the firm nature of ASPA volumes pursuant to DOE Department Circular No. DC2019-12-001818,<sup>5</sup>

the Commission determined the need to exercise its afore-mentioned authority under the EPIRA.

---

<sup>5</sup> Entitled, "Adopting a General Framework Governing the Provision and Utilization of Ancillary Services in the Grid."

In view thereof, pursuant to its mandate to protect consumer interest, the Commission resolved to suspend the implementation of Section 8 on Billing and Settlement Manual until PEMC and IEMOP have submitted all their compliances pursuant to the *Orders* of the Commission.

**WHEREFORE**, the foregoing premises considered, PEMC and IEMOP are hereby **DIRECTED** to **SUSPEND** the implementation of the Section 8 of the PDM Manual on the Billing and Settlement under the promulgated Interim Relief dated 24 August 2023. This will apply to all capacities offered in the Reserve Market, except those offered and dispatched pursuant to the ASPAs covered by the relevant rulings of the Commission.

**RELATIVE THERETO**, the suspension will cover the March 2024 billing period and will remain in effect until otherwise lifted by the Commission.

**MOREOVER**, all the capacities dispatched pursuant to ASPAs, as provisionally approved or granted interim relief by the Commission, shall be **SETTLED** by the National Grid Corporation of the Philippines (NGCP) in accordance with the terms and conditions, including the rates of their respective ASPAs as authorized by the Commission. NGCP is likewise **DIRECTED** to implement the terms of its ASPAs, as provisionally approved or granted interim relief by the Commission, and to nominate all AS volumes available in its contracted ASPAs.

*(This space is intentionally left blank.)*



**RELATIVE TO THE FOREGOING**, PEMC and IEMOP are hereby **DIRECTED** to **SUBMIT** the following documents and information:

- a) The Software Audit Certification on the audit findings on the enhanced CRSS, MPI, and MMS, **not later than 15 April 2024**;
- b) In coordination with NGCP, the list of AS Providers that did not implement their ASPAs and instead offered their capacities in the spot market, indicating as well the price offered in the spot market *vis-à-vis* the provisionally approved or interim rates granted by the Commission in respect to such ASPAs, **not later than 05 April 2024**; and
- c) The values of the variables under the proposed Operational Pre-Requisites pertinent to the Commission's *Clarificatory Order* dated 23 January 2024, **not later than 05 April 2024**;

**SO ORDERED.**

Pasig City, 25 March 2024.

FOR AND BY AUTHORITY  
OF THE COMMISSION:



*medimalanta*  
**MONALISA C. DIMALANTA**  
*Chairperson and CEO*

*llp/amb/SOM*  
MOS:mkzp/llp/amb/SOM

*ls*  
LS:LSP

**ERC CASE NO. 2023-002 RC**  
**ORDER/25 MARCH 2024**  
**PAGE 8 of 8**

---

**Copy Furnished:**

1. Atty. Andrea S. Joson-Mendiola  
*Counsel for Applicant Philippine Electricity Market Corporation (PEMC)*  
18<sup>th</sup> Floor Robinsons Equitable Tower  
ADB Avenue, Ortigas Center, Pasig City  
[ajmendiola@wesm.ph](mailto:ajmendiola@wesm.ph)
2. Attys. Rachel Angela P. Anosan, Sheryll J. Mallari-Dy, Lilibeth Grace L. Vetus, Carlota N. Villaroman, and Manuel Martin C. Escasura  
*Counsel for Applicant Independent Electricity Market Operator of the Philippines, Inc. (IEMOP)*  
9<sup>th</sup> Floor Robinsons Equitable Tower  
ADB Avenue, Ortigas Center, Pasig City  
[rachel.anosan@iemop.ph](mailto:rachel.anosan@iemop.ph); [sheryll.dy@iemop.ph](mailto:sheryll.dy@iemop.ph); [grace.vetus@iemop.ph](mailto:grace.vetus@iemop.ph); [carlota.villaroman@iemop.ph](mailto:carlota.villaroman@iemop.ph); [martin.escasura@iemop.ph](mailto:martin.escasura@iemop.ph)
3. *Department of Energy (DOE)*  
Energy Center, Rizal Drive cor. 34<sup>th</sup> Street Bonifacio Global City, Taguig City
4. Attys. Mark Anthony S. Actub, Rich L. Almario, Jerome C. Verzosa and Bienz Reiner Draeion A. Que  
*Counsel for Intervenor National Grid Corporation of the Philippines (NGCP)*  
NGCP Building, Quezon Avenue cor. BIR Road,  
Diliman, Quezon City  
[msactub@ngcp.ph](mailto:msactub@ngcp.ph); [rlalmario@ngcp.ph](mailto:rlalmario@ngcp.ph); [jcverzosa@ngcp.ph](mailto:jcverzosa@ngcp.ph); [baque@ngcp.ph](mailto:baque@ngcp.ph)
5. Attys. Paul B. Soriño, Celeni Kristine G. Guinto and Rosanne Jeli G. Magtagñob  
*Counsel for Intervenor Therma Luzon, Inc. (TLI)*  
16<sup>th</sup> Floor, NAC Tower, 32<sup>nd</sup> St., Bonifacio Global City,  
Taguig City  
[paul.sorino@aboitiz.com](mailto:paul.sorino@aboitiz.com); [celeni.guinto@aboitiz.com](mailto:celeni.guinto@aboitiz.com); [rosanne.magtagnob@aboitiz.com](mailto:rosanne.magtagnob@aboitiz.com)
6. Attys. Irving N. Chua, Jacqueline Kate Saliente-Tamayo and Maybelle C. Ramos-Tolentino  
*Counsel for Intervenor Panay Energy Development Corporation (PEDC), Panay Power Corporation (PPC), Cebu Energy Development Corporation (CEDC), Toledo Power Co. (TPC) and Global Energy Supply Corporation (GESC) [collectively referred to as PEDC, et al.]*  
8<sup>th</sup> Floor Rockwell Business Center Tower 1  
Ortigas Avenue, Barangay Ugong, Pasig City  
[Irving.Chua@globalpower.com.ph](mailto:Irving.Chua@globalpower.com.ph); [JacquelineKate.Tamayo@globalpower.com.ph](mailto:JacquelineKate.Tamayo@globalpower.com.ph); [Maybelle.Ramos-Tolentino@globalpower.com.ph](mailto:Maybelle.Ramos-Tolentino@globalpower.com.ph)
7. Attys. Vladi Miguel S. Lazaro and Sophia P. Inoturan  
*Counsel for Intervenor SN Aboitiz Power – Magat, Inc. (SNAP-MI)*  
30/F 88 Corporate Center  
Sedeño corner Valero Streets  
Salcedo Village, Makati City  
[vmslazaro@cagatlaw.com](mailto:vmslazaro@cagatlaw.com); [sophie.inoturan@cagatlaw.com](mailto:sophie.inoturan@cagatlaw.com)
8. Attys. Francis Dino S. Antonio, Hazel Rose B. See, Adrian Rex C. Dimalanta, Isagani C. Coruna II, and Edgar Michael C. Robles  
*Counsel for Intervenor Manila Electric Company (MERALCO)*  
7<sup>th</sup> Floor, Lopez Building,  
Ortigas Avenue, Pasig City  
[fdsantonio@meralco.com.ph](mailto:fdsantonio@meralco.com.ph); [hrbsee@meralco.com.ph](mailto:hrbsee@meralco.com.ph); [arcdimalanta@meralco.com.ph](mailto:arcdimalanta@meralco.com.ph); [iccorunaii@meralco.com.ph](mailto:iccorunaii@meralco.com.ph); [emcrobles@meralco.com.ph](mailto:emcrobles@meralco.com.ph)
9. Regulatory Operations Service (ROS)  
Energy Regulatory Commission  
12F Exquadra Tower, Jade 1 Drive, Pasig City  
[ros@erc.ph](mailto:ros@erc.ph)