



**Proposed Amendments to the (1) WESM  
Rules and (2) WESM Manual on the  
Management of Net Settlement Surplus for  
the Implementation of ERC Resolution No.  
07 Series of 2019 entitled “A Resolution  
Adopting Amendments to the Rules for the  
Distribution of Net Settlement Surplus  
(NSS)”**

Independent Electricity Market Operator of the  
Philippines

January 2020

## I. SUMMARY OF THE PROPOSED RULES CHANGE

The amendments to the WESM Rules and Manual are proposed to reflect the provisions of ERC Resolution No. 07 Series of 2019 entitled "A Resolution Adopting Amendments to the Rules for the Distribution of Net Settlement Surplus (NSS)". The affected documents are:

- WESM Rules
- WESM Manual on the Management of Net Settlement Surplus Issue 3.0

## II. BACKGROUND

Under WESM Rules Clause 3.13.16.1, Net Settlement Surplus (NSS) or Deficit (NSD) is defined as the surplus or deficit resulting from the aggregate settlement transactions in the WESM. Specifically, Net Settlement Surplus or Deficit arises when the total payments of customers exceed or fall short of the total payments to generation companies. The NSS or NSD is currently flowed back to the WESM participants in accordance with the Rules for the Distribution of Net Settlement Surplus (NSS Rules) issued by the Energy Regulatory Commission (ERC). Subsequently, the WESM Manual on the Management of Net Settlement Surplus (NSS Manual) is harmonized with the ERC's NSS Rules. The current version of the NSS Manual (Issue 3.0) is aligned with ERC Resolution No. 01 Series of 2018, which provides that the NSS will be allocated to trading participants on a pro-rata basis depending on each recipient's contribution to the total NSS.

On 8 November 2019, the ERC promulgated ERC Resolution No. 07 Series of 2019 amending the rules for the distribution of NSS. Under the said amended rules, the accounting and allocation of NSS or Net Settlement Deficit (NSD) due to line loss payments (LL) and NSS/NSD due to congestion charge payments (CC) will be performed separately. The new mechanism is in contrast with the current calculation wherein the total NSS/NSD is allocated based on the total contribution of each trading participant to the said NSS/NSD (aggregate of LL and CC).

Also, in the current provisions of the WESM Rules and the NSS Manual, the Market Operator is allowed to retain ten percent (10%) of the total NSS amount from the previous three (3) months preceding the current WESM billing period to cover settlement adjustments. However, under the two (2) most recent issuances<sup>1</sup> by the ERC amending the NSS rules, the provisions for NSS retention have been removed.

## III. THE PROPOSED RULES CHANGE

The proposed amendments align the WESM Rules and Manual to the provisions of ERC Resolution No. 07 Series of 2019. The table below provides the highlights of the proposed amendments and the reference provision from the said resolution.

Process	Proposed Amendments
Ownership of Net Settlement Surplus	Adopt the wording of the provisions of Article IV of the resolution on the re-distribution of NSS

<sup>1</sup> ERC Resolution No. 01 Series of 2018 and ERC Resolution No. 07 Series of 2019

Process	Proposed Amendments
Determination of Net Settlement Surplus / Deficit Allocation	Revise the methodology for the calculation of NSS/NSD allocation pursuant to the provisions of the resolution: <ul style="list-style-type: none"> <li>• Separate allocation of NSS/NSD due to losses and NSS/NSD due to congestion</li> <li>• Separate computation of line loss payments (LL) and congestion charge payments (CC) of trading participants (i.e., determinant of participant's contribution to NSS/NSD)</li> <li>• Calculation of NSS/NSD allocation for intervals when there are no calculated LL and CC</li> </ul>
Reportorial Requirements	Include the updated requirements provided in the resolution: <ul style="list-style-type: none"> <li>• Timeline for the submission of monthly NSS/NSD report (i.e., 90 days from the last day of the concerned billing period)</li> <li>• NSS/NSD data and data format requirement (i.e., MS Excel format)</li> <li>• Timeline for the submission of the quarterly market audit report (i.e., 90 days after the period in review)</li> </ul>
Treatment of Remaining Surplus (WESM Rules, NSS Manual)	Remove provisions for the retention of NSS by the Market Operator

**IV. BACKGROUND AND DESCRIPTION OF THE PROPONENT**

The proponent is the Independent Electricity Market Operator of the Philippines. IEMOP acts as the independent market operator of the WESM.

Top Officers:

Richard J. Nethercott – President and CEO

Robinson P. Descanzo – Acting Chief Operating Officer / Trading Operations Head

Rachel Angela P. Anosan – Chief Legal Officer

Isidro E. Cacho Jr. – Chief Corporate Strategy and Communications Officer

Arthur P. Pintado – Internal Audit Head

Salvador D. Subaran – Chief Information Systems and Technology Officer

**V. CONCLUSIONS AND RECOMMENDATIONS**

With the promulgation of ERC Resolution No. 07 Series of 2019 amending the rules for the distribution of NSS, it is proposed that the WESM Rules and the WESM Manual on NSS be updated to reflect the new mechanism for the calculation and distribution of NSS and NSD. The proposed revisions will harmonize the affected documents and provide compliance with the ERC resolution.

## **VI. REFERENCES**

1. WESM Rules
2. WESM Manual on the Management of Net Settlement Surplus Issue 3.0
3. ERC Resolution No. 01 Series of 2018
4. ERC Resolution No. 07 Series of 2019