Renewed Energy

WESM Market Report
January 2009 - June 2010

Wholesale Electricity
Spot Market

Renewed Energy

WESM is a transformational presence in the Philippine power industry, and a key player in ensuring energy sufficiency. Beyond our mandate to be a neutral venue for energy trading, we are actively championing efficiency that will attract investments and secure our power needs over the long-term. We recognize our indirect footprint in the activities of our participants and consider ourselves partners in strengthening their businesses. By aligning with them on relevant issues and collaborating on the success of the spot market, we are doing our part as mutual stakeholders of this nation in creating a strong and competitive environment. As energy reform gathers momentum, we face the future with renewed energy, confident and firmly committed not just to the industries we serve, but to the broader base of consumers who depend on electricity to power their lives.

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Chairman

January 2009 - March 2010

For four years now, the WESM ensured the presence of an advocate for change and a continuing advancement in the power sector.

Years from now, when historians write the saga of the reforms implemented in the power industry, one of the most challenging but equally enriching chapters to write would be about the Philippine Wholesale Electricity Spot Market (WESM). Indeed, one of the more interesting and enriching experiences I have had in the years I spent as the Secretary of the Department of Energy (DOE) was overseeing the WESM where I had to deal with highly technical issues in order to decide policy questions. The goal was to ensure the smooth run of a market that would reflect the true cost of electricity and provide the proper price signals in the industry. These policies were centered on reforms aimed to benefit the Filipino people. I cannot emphasize enough that the provision of proper price signals entices investors to come in and venture in the Philippines, creating more job opportunities for the country's growing population.

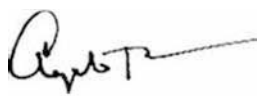
For four years now, the WESM ensured the presence of an advocate for change and a continuing advancement in the power sector. In my message in the WESM 2008 Annual Report, I mentioned that the market served as a stimulus for investor interest in generation. Indeed, in one year's time, from 2009 to 2010, the Power Sector Assets and Liabilities Corporation (PSALM) achieved the privatization level of almost 92%, thus allowing more participants in the WESM at present. The market is indeed bustling with activity. With new players coming in, the environment for competition is making its entry. And the challenge of the government now is to keep this competitive environment healthy by ensuring transparency and fairness. This challenge is also the challenge of WESM.

The two years I spent as the DOE Secretary, serving the country to the best of my capacity have been fruitful years, especially when I see how the WESM has grown and prospered, carving its own niche in the local and international power sector. For the stellar performance of the WESM in the past year – choosing to strengthen from within by reviewing its operations as well as its internal processes to ensure its consistency with the evolving market structure and the WESM rules, I only have the very able men and women of PEMC under the leadership of their president Melinda L. Ocampo to applaud.

Further, the Philippine Electricity Market Board of Directors and the Governance Committees have been very effective in performing their duties to guarantee the active and legitimate participation of the newcomers in the industry and the bourse.

I thank the members of the Energy Family for their support of the WESM. Indeed, the story of the WESM is a continuing narrative of everyday heroes who deserve to be celebrated and shared with the rest of the Filipinos and the world.

Mabuhay tayong lahat.



Angelo T. Reyes

Message from Sec. Jose C. Ibazeta

Chairman

27 March 2010 - 30 June 2010

The last four years have enabled us to continue performing the DOE mandate of ensuring that there is adequate, reliable, and reasonable supply of electricity for every household in the country.

I extend my congratulations to the Wholesale Electricity Spot Market (WESM) for the success on its fourth year of commercial operations! For four years, the Philippine Electricity Market Corporation (PEMC), through WESM, has served as a venue where electricity is centrally coordinated and traded in a level playing field.

The climate surrounding the Philippine electric power industry has undergone changes over time. WESM is a dynamic market where developments are constantly seen. The last four years have enabled us to continue performing the DOE mandate of ensuring that there is adequate, reliable, and reasonable supply of electricity for every household in the country. The increase in the participants of the spot market has also improved competition, bringing about reasonable power rates. As we go beyond the fourth year of operations, it is noteworthy to recognize the considerable progress that we have achieved, despite the inherent market challenges, in making an effective electricity spot market.

The theme for this year's Market Report, "Renewed Energy," is reflective of the changes that the EPIRA and the Renewable Energy Act have brought to the electricity industry. Our continued adherence to the guidelines for reform and for advocating the use of renewable energy will clearly reshape the industry in the years to come. These mechanisms in place have ensured private investors and consumers a sustainable source of electricity.

I would like to acknowledge and commend the men and women of PEMC, under President Melinda L. Ocampo's leadership; each of you has contributed toward making WESM a success. Over the last four years, it has indeed proven its potential to upgrade the power industry towards enhanced competition. A truly transparent, truly competitive, and truly world-class electricity market is now a reality.

Mabuhay at maraming salamat sa inyo.

Jose C. Ibazeta

Message from Sec. Jose Rene D. Almendras

Chairman

As of 1 July 2010

Competition at the wholesale level, given the complexity of WESM operations, should be put in place via entry of sufficient investments in generation and supply businesses.

In the past nine years that the government has been carrying out a power sector reform agenda, enunciated under the Electric Power Industry Reform Act of 2001 (EPIRA), several important milestones have been achieved. The establishment and the commercial operations of the Wholesale Electricity Spot Market (WESM) under the law has significantly contributed to renewed investor interest in our country. Coming from the private sector myself, a strong market will send the correct price signals, create competition, provide returns, and ultimately benefit the electricity end-users. Indeed, a bustling market is an investor's paradise.

I am extremely grateful, at the same time challenged, in being given the chance to become the Secretary of the Department of Energy (DOE) and Chairman of the Philippine Electricity Market Board. The Power Sector Assets and Liabilities Corporation (PSALM) has achieved the privatization of almost 92% of the assets of the National Power Corporation (NPC) and 68% of NPC's contracted energy output from its Independent Power Producers (IPPs), hence the Philippine electricity market is now moving forward to the ultimate goal of the EPIRA – open access and retail competition. Simultaneously, the formation and appointment of an independent entity to take over the functions, assets, and liabilities of the market operations is now in progress. We are now slowly but surely moving towards achieving these goals.

The power sector reform agenda is far from complete. The fundamental views behind the paradigm for power sector reform must be revisited and possibly fine tuned to continue pursuing our reform goals. Thus, on top of the EPIRA goals and to align the objectives and thrusts of the Aquino Administration, the DOE is currently developing strategies based on the Energy Reform Agenda geared towards addressing energy supply security, achieving optimal energy pricing, and developing a sustainable energy plan.

Competition at the wholesale level, given the complexity of WESM operations, should be put in place via entry of sufficient investments in generation and supply businesses. This way we will avoid price volatility at times of peak demand and supply shortages but still ensure adequate service to the benefit of consumers.

The WESM has played a vital role in this effort of ensuring supply of electricity in the country. The subsequent opening of WESM in Visayas and Mindanao will entice new investments in the power sector. We envision that embedded capacities will fill up the supply gap once WESM is in place. Moreover, the feasibility of establishing a single national transmission backbone line linking Luzon, Visayas, and Mindanao with a view of achieving energy self-sufficiency and interdependence is an area which the DOE is looking at. The power supply situation in Mindanao is one of his administration's priorities and I intend to comply with the President's directive by coming up with a study of our options in Mindanao.

Amidst these efforts towards energy security and sufficiency is the reminder that the WESM is a neutral venue. As such, it is only as good as its players. The highest ethical standards must be exercised by the participants. Fair play and transparency are key rules which all stakeholders must bear in mind. Hence, I call on all members of the Energy Family including the electric power industry participants to give their full support to the continued growth of the WESM. It is only through transparency, competition, and fairness that we can achieve a sustainable energy environment with an assurance of a stable supply of electricity.

I would like to commend the dedicated men and women of the Philippine Electricity Market Corporation for your wholehearted effort to steer the market to meet its goal despite the many obstructions it has experienced in its four years of operation.

Mabuhay po kayong lahat.

Jose Rene D. Almendras

President's Report

Looking back at four years of commercial operations, it cannot be denied that the Wholesale Electricity Spot Market (WESM) has shown signs of resilience in withstanding hurdles and adapting to the interesting dynamics within the power industry. In the course of only four years, the WESM now exhibits distinguishable differences from its state and structure at inception. The cumulative changes effected or seen in the market in the past year alone are testament to its capacity to adjust to the still-changing landscape of the industry.

In the realization of the objectives of the Electric Power Industry Reform Act (EPIRA), the changes in the composition of industry players brought about by the privatization of previously state-owned assets have been duly reflected not only in changes in the composition of market participants, but in the apt reconstitution of the market's main governance arm, the Philippine Electricity Market Corporation (PEMC) Board of Directors (PEM Board). Accordingly, the Rules Change Committee (RCC), mandated to assist the PEM Board in the formulation and amendment of WESM Rules and Manuals to refine market design and processes, was reconstituted as well.

Meanwhile, the on-going campaign for the country to adopt sustainable energy development strategies has borne fruit to initial preparations for the establishment of the Renewable Energy (RE) Market, to be operated under the WESM, pursuant to the provisions of the Renewable Energy Act of 2008. In anticipation of this important milestone, PEMC readily participated in the activities of the newly created National Renewable Energy Board (NREB), with the end goal of preparing the WESM for the eventual integration of a new and vital facet in its commercial operations.

Conversely, the WESM continues to initiate changes in the industry, affirming its role as a useful tool in the development of energy policies. With the objective of promoting competition and encouraging active but responsible participation in the WESM, PEMC was committed in its involvement in tackling critical issues, such as the termination of the Default Wholesale Supplier (DWS) arrangements, and the importance of reminding generation companies, distribution utilities (DU), as well as the System Operator (SO) of their mandate to ensure the stable and reliable supply of electricity.

For its part, PEMC also instituted changes within its organization and engaged in activities to attain good governance and promote transparency in and efficiency of its operation of the spot market. These changes and activities include the conduct of operational and legal audits to evaluate market processes and PEMC's compliance with applicable laws, respectively, as well as the creation of an Internal Audit Department to establish check and balance functions within PEMC.

There is still so much in store for the WESM. On the prospective side of things, there is the aim to expand commercial operations beyond Luzon. The Visayas Supply Augmentation Auction (VSAA) Program, a great concept and a product of valiant effort, may not have been implemented, but now we have WESM Visayas to eagerly look forward to, and it looks like WESM Mindanao is a materializing possibility, as well.

Evolution is a process by which one not only survives, but prospers and flourishes in a likewise changing environment. The year 2009 may not have been the easiest year, but I am nonetheless confident in saying that the WESM is a vastly evolving market that, with the continued support of its stakeholders, is on a progressive path to even more improvements and advancements, all geared towards promoting the sustainability of the electric power industry.

Melinda L. Ocampo
President

Integration of the RE Market as a sub-market of the WESM

The Department of Energy (DOE) issued Department Circular No. 2010-02-0001 Creating a Steering Committee on the Establishment of the RE Market on 3 February 2010. The RE Act of 2008 mandates the operationalization of the RE Market as a sub-market of the WESM where the trading of the RE Certificates equivalent to an amount of power generated from RE resources will be made.

The Steering Committee will be comprised of the DOE as the Chairman and the following entities as Members: Philippine Electricity Market Corporation (PEMC), Power Sector Assets and Liabilities Management Corporation (PSALM), National Electrification Administration (NEA), National Grid Corporation of the Philippines (NGCP), National Power Corporation (NPC) and National Transmission Corporation (TransCo). The Committee will be primarily responsible for the formulation and establishment of the framework that will govern the operation of the RE Market.

Under the Circular, the PEMC will have the following additional responsibilities:

1. Formulate the rules specific to the operation of RE Market and incorporate changes in the WESM Rules;
2. Establish the Renewable Energy Registrar and devise the appropriate Manual which will govern the functions and responsibilities of the RE Registrar; and
3. Develop the market fee rates which will be charged to eligible RE facilities registered under the RE Market.

On 24 June 2010, an organizational meeting of the Joint Secretariat of the Steering Committee on the Establishment of the RE Market comprised of representatives from the DOE and PEMC was held. The Joint Secretariat will extend logistical and administrative needs of the Steering Committee and will draft the proposed action plan for the setting up of the RE Market.

Market Outcome & Highlights

Market Performance

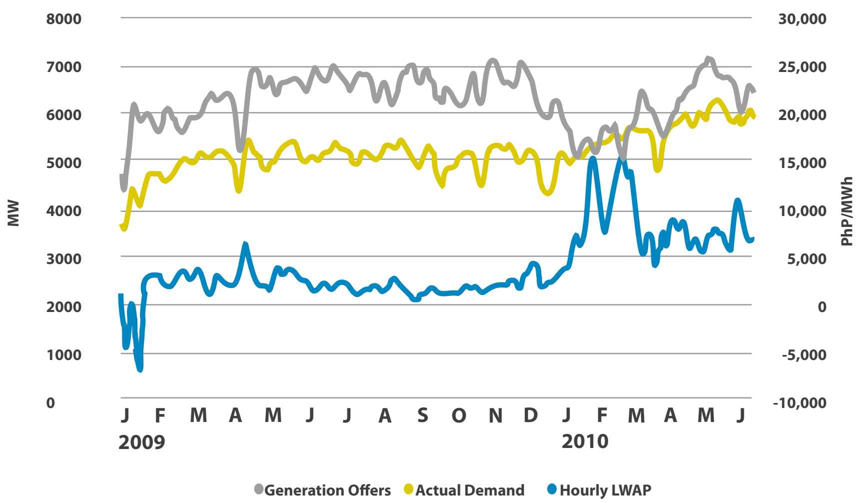
Market Summary

Market Information	2007 (Jan to Dec)	2008 (Jan to Dec)	2009 (Jan to Dec)	2010 (Jan to Jun)	% Change Jan to Jun (2009 vs 2010)
Peak Demand, MW	6,590	6,681	6.932	7,643	10.25%
Average Energy Offer, MW	5,249	4,960	5,044	5,620	13.77%
Average Energy Offer, MW	5,507	5,990	6,553	6,150	-2.70%
Total Energy Volume (Generation), GWh	40,052	41,153	42,168	23,085	12.69%
Spot Market Volume (Load), GWh	5,960	5,451	6,180	3,555	7.23%
Average Spot Volume (Load), %	15%	14%	15%	16%	-5.98%
Generator Payments, Million PhP	33,423	22,267	14,361	31,427	260.40%
Cumulative Average Buying Price, PhP/MWh	5,098	4,831	4,205	4,807	14.32%

Overall, the year 2009 saw a conservative 3.75% growth in peak demand and 2.46% increase in energy generated compared to year 2008. Electricity consumption appears largely correlated with weather conditions. Lower demand was experienced during the first quarter of the year with relatively cooler conditions. Demand increased for the rest of the year, but only in moderate terms as the country experienced rainy weather brought about by weather disturbances due to the occurrence of low pressure areas and typhoons.

The level of supply, as indicated by energy offers to the WESM, increased by 9.40% compared to 2008. During the year, hydro-electric plants enjoyed ample dam water elevation, while no major fossil fuel limitations were encountered. Some tightening of supply were experienced in some periods. During the Holy Week, maintenance outages of generation plants were implemented, while in October 2009 several coal plants in North and South Luzon were put in forced outage due to damage caused by Typhoons Ondoy and Pepeng.

7-Day Moving Averages - Supply,Demand & LWAP



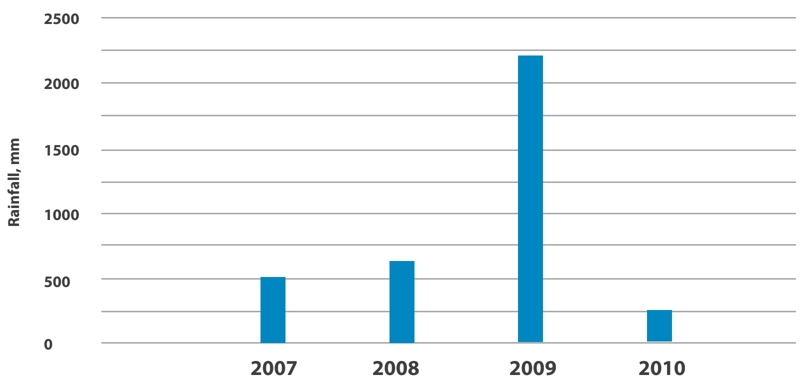
In 2009, the market cleared with relatively low and even negative market prices during the first quarter, which may be attributed to the combined effect of low demand and high supply margin levels. By April 2009, however, a moderate number of price spikes were encountered in the market as supply margins tightened during the maintenance outages of some generation plants, which were implemented during the Holy Week.

The first semester of 2010 painted a different picture. During the semester, a steady increase in demand was notable with the onset of hot climatic conditions as early as January brought about by the El Niño phenomenon. Energy demand registered a 13.77% rise on average compared to the same period in 2009.

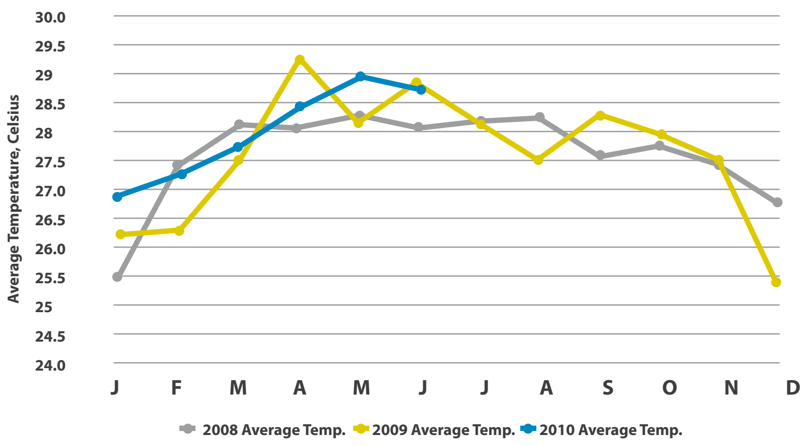
Supply, meanwhile, became tight and insufficient during the first quarter of 2010 as the El Niño phenomenon reduced the rainfall level to almost nil and significantly reduced the capability of hydro-electric plants to generate power. A significant number of the other generation plants, meanwhile, were either on planned and forced outages or were experiencing fuel constraints. By the second quarter of 2010, however, the level of supply improved as some of the generating plant maintenance and forced outages were completed.

With the increased level of demand and tight supply condition experienced in the first quarter of 2010, the market cleared with higher and more volatile prices with numerous price spikes experienced in the market.

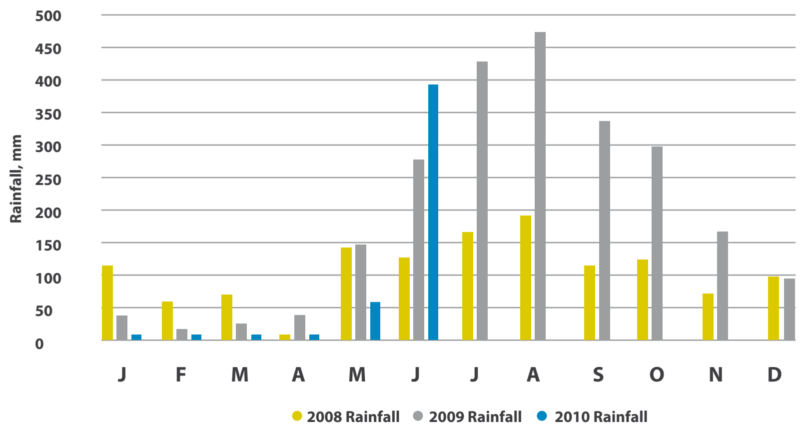
Annual Rainfall Levels



Monthly Temperature Levels



Monthly Rainfall Levels

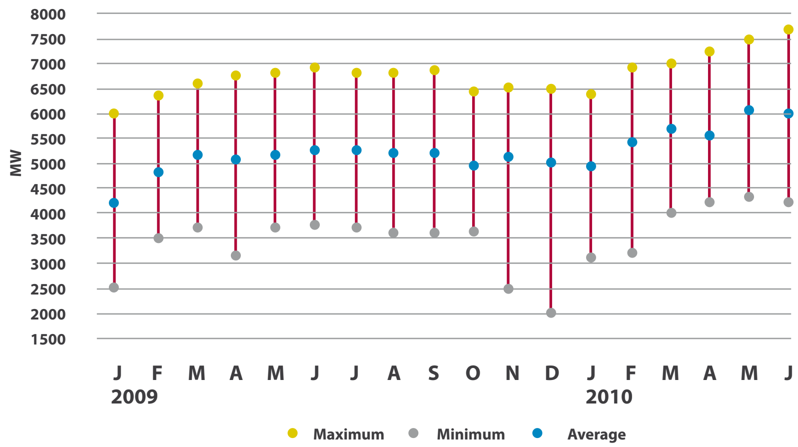


Generally cooler and rainy weather conditions were experienced in 2009 with record rainfall levels, particularly in the load center of Metro Manila from May to October 2009. On 26-27 September 2009, Typhoon Ondoy brought with it, in a span of 24 hours, the highest amount of rainfall during the month, which resulted in the declaration of market intervention as heavy rains and floods caused line outages and widespread load shedding in Metro Manila and adjacent provinces. Heavier rainfall also resulted in high dispatch of hydro-electric plants from August to October 2009. By December 2009, however, rainfall was almost nil.

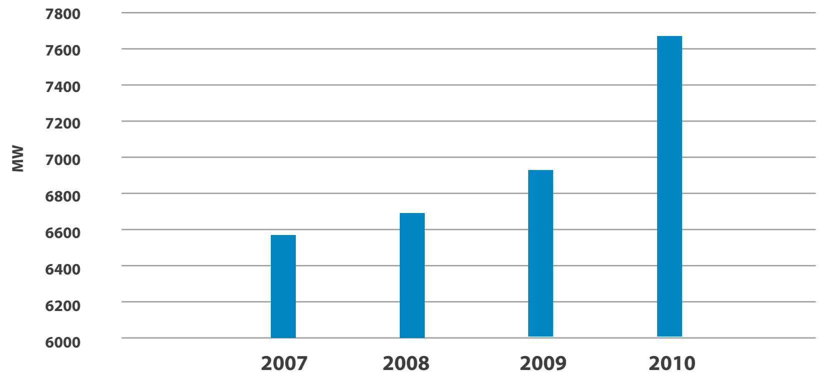
The first half of 2010, meanwhile, saw the occurrence of the El Niño phenomenon causing hot climatic condition in the Philippines and a decrease in the water elevation of the water reservoirs of the hydro-electric plants across the country.

Demand

Monthly Demand



Annual Peak Demand



Peak demand in 2009 was recorded at 6,932 MW on 26 May 2009, which is 3.75% higher compared to the peak demand in 2008, which registered at 6,681 MW.

The first semester of 2010 saw peak demand reaching a record 7,643 MW, which occurred in June 2010. This maximum demand is the highest since the WESM started commercial operations in June 2006, and represents a 10.25% increase from the peak demand of 2008.

2010 Monthly Demand Levels

2010 Demand Levels, MW	J	F	M	A	M	J
Max	6391	6877	7037	7296	7558	7643
Min	3226	4015	4189	3418	4352	4159
Ave	4902	5435	5683	5574	6101	6027

2009 Monthly Demand Levels

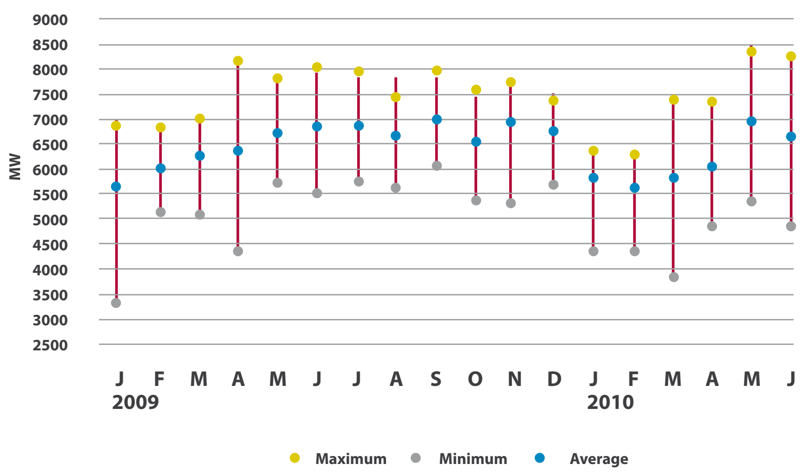
2009 Demand Levels, MW	J	F	M	A	M	J	J	A	S	O	N	D
Max	6050	6421	6638	6810	6842	6932	6819	6833	6870	6501	6585	6564
Min	2566	3492	3652	3157	3625	3717	3600	3630	3607	2502	1919	3084
Ave	4191	4853	5167	5068	5157	5203	5258	5255	5228	4935	5141	5070

Supply

The aggregate level of energy offers in 2009 improved considerably compared to 2008 with maximum energy offers reaching more than 8,000 MW in April and June 2009. On average, energy offers in 2009 increased by 9.4% to 6,553 MW in comparison to 2008's 5,990 MW.

For the first half of 2010, average energy offers registered at 6,150 MW. This is lower by 6.2% compared to 2009's average offer of 6,553 MW as there was insufficiency of supply due to reduced energy output from hydro plants due to the drying up of dams as a result of the El Niño phenomenon, as well as fuel constraints and forced and planned outages of other generation plants.

Monthly Offers



2010 Energy Offers

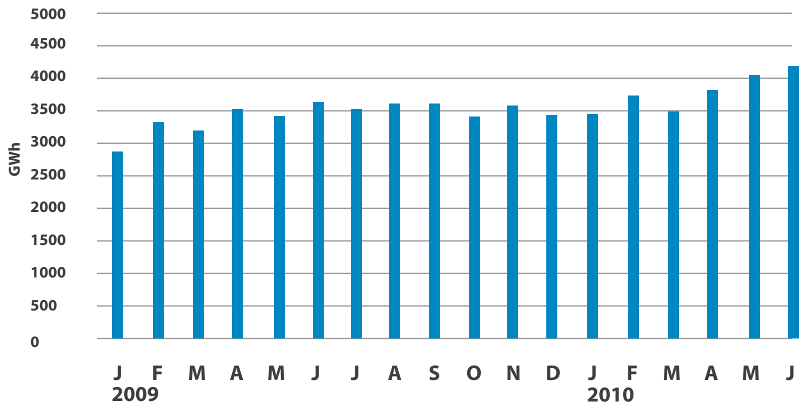
2010 Energy Offers, MW	J	F	M	A	M	J
Max	6811	6783	7483	7343	7912	7794
Min	4322	4347	3885	4297	5425	4924
Ave	5813	5592	5864	6079	6932	6618

2009 Energy Offers

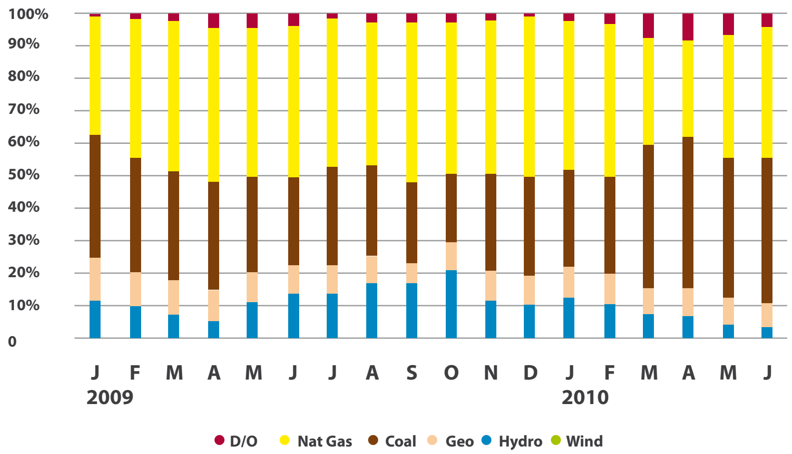
2009 Energy Offers, MW	J	F	M	A	M	J	J	A	S	O	N	D
Max	6892	6807	7058	8104	7849	8036	7956	7486	7965	7649	7775	7433
Min	3388	5130	5137	4444	5763	5494	5831	5603	6127	5366	5280	5677
Ave	5603	5969	6315	6374	6788	6876	6875	6692	7007	6511	6912	6720

Energy Generation

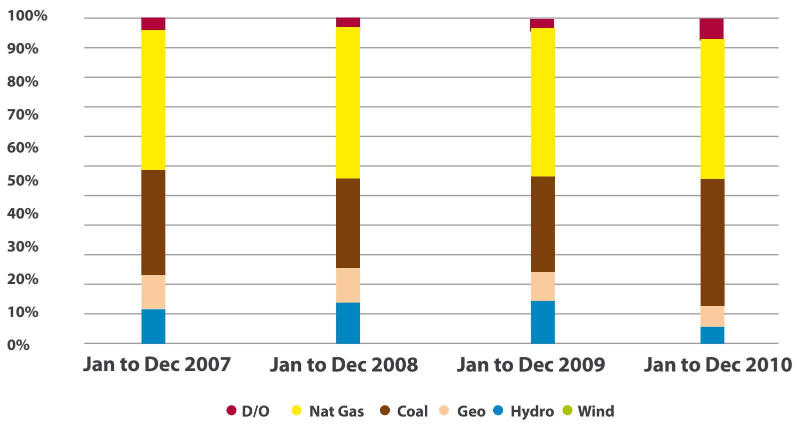
Generator Metered Quantity



Monthly Energy Mix by Fuel Type



Yearly Energy Mix by Fuel Type



Energy output (i.e., generation metered quantities) for the billing months of January 2009 to June 2010 reached a total of 65,252 GWh. In 2009, total generator energy output had a total of 42,168 GWh, indicating a 2.46% increase from the metered volume in 2008 of 41,153 GWh. From January to June 2010, generator metered quantities totaled 23,085 GWh.
In terms of the generation mix by resource type in 2009, natural gas plants produced 45.43% of the total energy requirements while coal, hydro-electric, and geothermal plants generated 29.68%, 12.80%, and 9.05%, respectively. Output of the diesel/oil generators for the year was 2.91%, while wind resource was 0.14%. Compared to generation output in 2008, energy shares from natural gas, coal, hydro, and wind plants increased in 2009. On the other hand, energy output from geothermal and diesel/oil-based plants decreased.

For 2010, natural gas plants still produced high at 37.8%, but coal-fired plants generated the most at 41.9%. The share of hydro plants was very low at only 6.1%, which is even lower than diesel/oil plants' contribution of 6.4%. Generation of geothermal plants was also low at 7.7%.

Market Prices

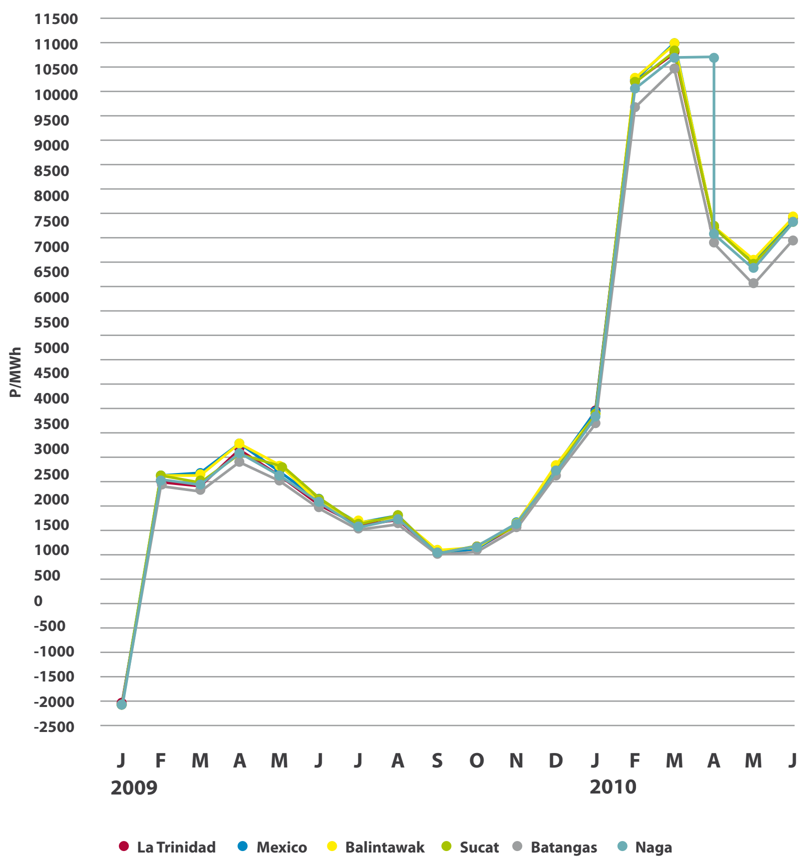
Being a Locational Marginal Pricing market, the WESM calculates a market price for each market trading node or location in the power system. As of July 2010, the WESM has 230 market trading nodes representing those of the generators and customers, as well as other power transshipment nodes that interconnect the whole Luzon grid. The chart shows the monthly average nodal price profile of six representative nodes or locations that are located in North Luzon (La Trinidad), Central Luzon (Mexico), Metro Manila (Balintawak and Sucat), South Luzon (Batangas), and the Bicol Region (Naga).

Over the 12 billing months in 2009, LMPs ranged from -PhP2,078/MWh (at the La Trinidad node in January 2009) to PhP3,094/MWh (posted in April 2009 at the Balintawak node). For the first half of 2010, LMP was minimum in January 2010 at PhP3,513/MWh (Batangas node) and was highest in March 2010 at PhP11,056/MWh (Balintawak node).

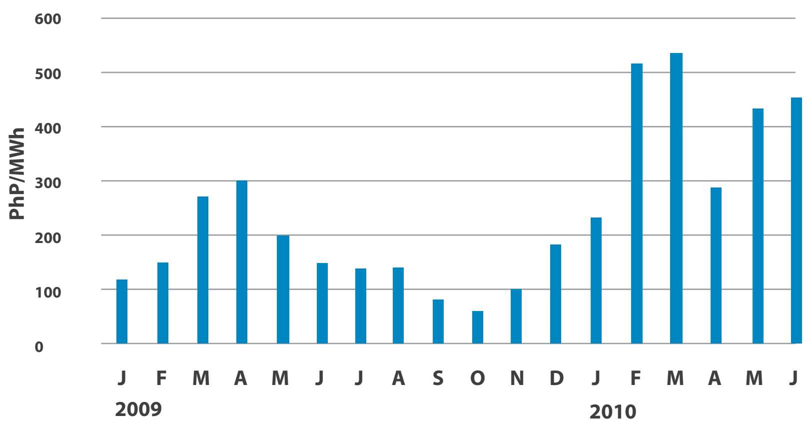
In terms of monthly average LMP, the highest for 2009 was PhP2,980/MWh, posted in April 2009. Lowest monthly average LMP for 2009 was at PhP2,028/MWh in January 2009 when low market prices, including negative price offers, were recorded along with the low levels of energy demand.

For the first half of 2010, highest monthly average LMP was recorded in March 2010 at PhP10,853/MWh, as binding transmission line constraints frequently occurred particularly at the 230/500 kV San Jose Sub-station Transformers, which is a major supply point for Metro Manila from North and South Luzon generating plants. The extreme price separation of the binding transmission constraints resulted in the implementation of the Price Substitution Methodology (PSM) for Trading Intervals affected by network congestion as approved by the Energy Regulatory Commission (ERC). The PSM essentially validates the existence of extreme price separation and if there is extreme price separation, the generators are paid based on the unconstrained market solution clearing price, while the constrained-on generators are paid based on their cleared offer price in the constrained market solution.

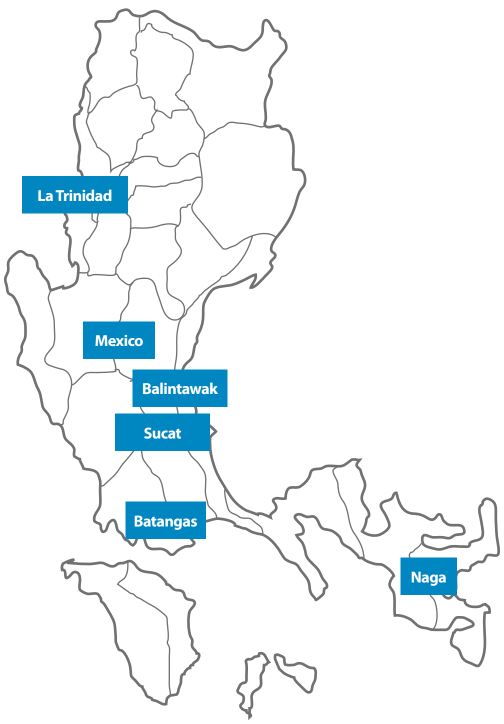
Average Locational Margin Prices at Representative Nodes



Maximum Nodal Price Spread



Representative Nodes



Lowest monthly average LMP during the first half of 2010 was PhP3,677/MWh, posted in January 2010.

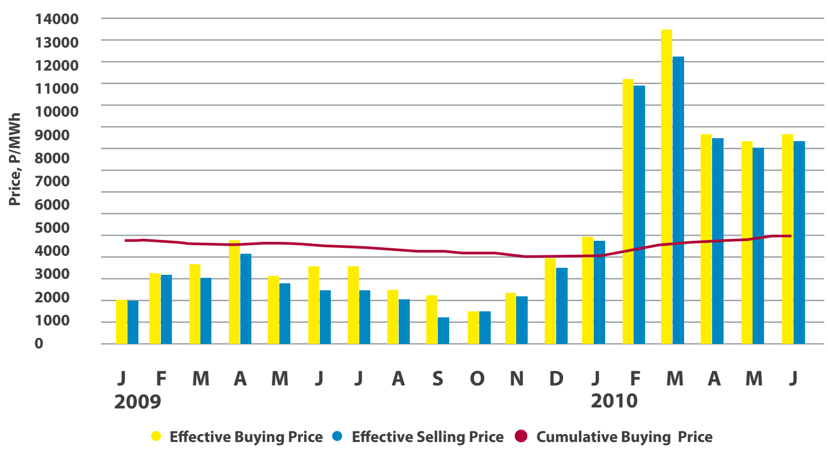
In terms of annual average LMPs, the maximum for 2009 was posted at the Balintawak node, similar to 2008, at PhP1,687/MWh. Minimum, on the other hand, was at the Batangas node at PhP1,543/MWh. For the first semester of 2010, highest semi-annual average LMP was also registered at the Balintawak node at PhP7,792/MWh and the lowest was again at the Batangas node at PhP7,385/MWh.

Average Price Spread is measured to indicate the average price difference between the highest customer and lowest generator nodal price for all trading intervals for each month.

Average Price Spread for the whole of 2009 was highest in April 2009 at PhP307/MWh and lowest in October 2009 at PhP58/MWh. For the first 6-month period of 2010, maximum average price spread was maximum in March 2010 at PhP526/MWh and minimum in January 2010 at PhP237/MWh.

Effective Settlement Prices

Effective Settlement Prices



Effective Settlement Prices represent the amount paid by the WESM trading participants for their market transactions. The Effective Buying Price represents the price of all the WESM Customer transactions in a given month, while the Effective Selling Price represents the settlement price of all the WESM Generator transactions that are both referenced from the customer's perspective. The difference between the two Effective Settlement Prices represents the price level of the market Net Settlement Surplus (NSS).

In 2009, Effective Buying Price ranged from a minimum of PhP1,445.37/MWh in October 2009 to a maximum of PhP4,350.10/MWh in April 2009. While for 2010, buying prices ranged from PhP4,559.03/MWh in January 2010 to as high as PhP13,383.73/MWh in March 2010 as tight supply conditions and transmission constraints were encountered in the WESM.

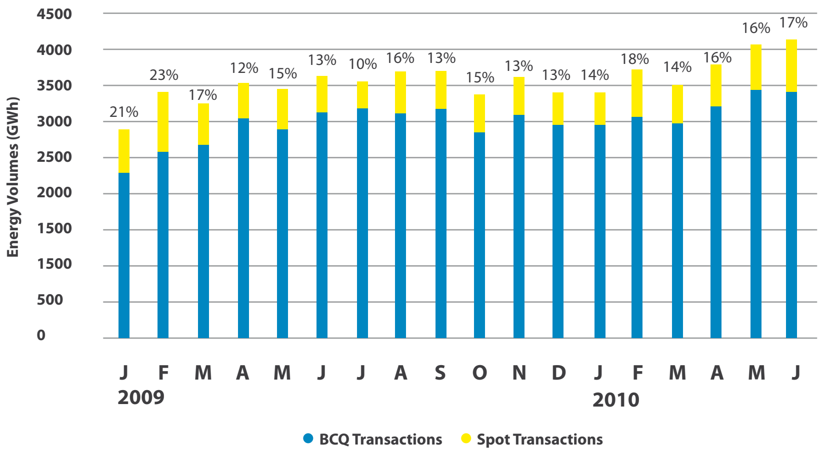
In compliance with the new guidelines on the management of NSS set by the Energy Regulatory Commission (ERC), the entire NSS trading amount (which is the difference between the total customer trading amount and the total generator trading amount) was returned to the WESM participants beginning May 2009.

The return of 100% NSS correspondingly brought down the buying price to the level of the Effective Selling Price (or Effective Settlement Price without surplus), which ranged from a low of PhP1,148.78/MWh in September 2009 to a high of PhP3,798.38/MWh also in April 2009 for the same year. Selling prices in 2010 went as high as PhP12,253.53/MWh in March 2010, while posting the lowest in January 2010 at PhP4,425.10/MWh.

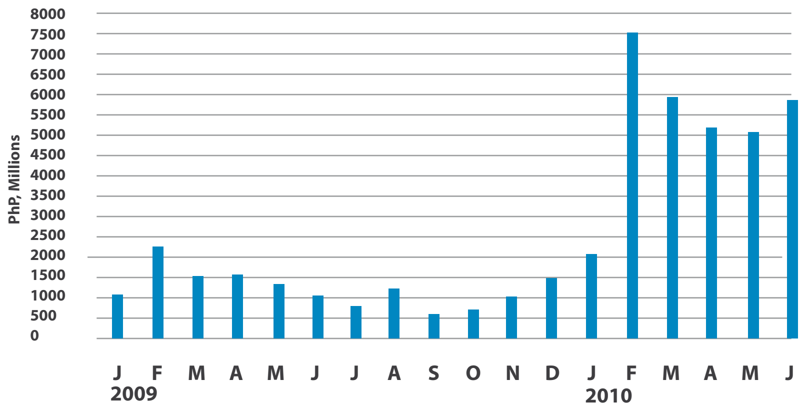
The relatively large differences between the buying and selling prices for the billing months of July 2009, September 2009, and March 2010 were due to the large amounts of NSS in the market.

WESM Market Transactions

Customer Market Transaction Volumes



Generator Spot Payments



The total customer energy volume or energy withdrawn from the grid is typically composed of Bilateral Contract Quantities (BCQ) and Spot Market Quantities (SMQ). BCQs are the energy volumes that are declared in the WESM, which are settled outside of the spot market and agreed price between the bilateral contract counterparties. On the other hand, the remaining quantities will be the energy volume that will be settled and paid based on the spot market price.

In 2009, spot market quantities went as high as 23% in February and as low as 10% in July. For the whole of 2009, the total customer metered quantity was 41,231 GWh. BCQs accounted for 85% of this withdrawn energy equivalent to 35,051 GWh, while the remaining 15% or 6,180 GWh covered the total spot market volume. Total customer meter quantity for the first six months of 2010 was 22,529 GWh, 84% of which or 18,974 GWh covered the bilateral quantities, while the remaining 16% or 3,555 GWh covered the spot market volume.

Payments for the generators' spot transactions in 2009 amounted to a total of PhP14,361 million, which is much lower than 2008's PhP22,267 million, and averaged PhP1,197 million per month. Highest monthly payment made to the generators was PhP2,217 million in February 2010, while the lowest was PhP558 million in September 2009. For the first half of 2010, the generator payments amounted to a total of PhP31,427 million. For the January to June 2010 billing months, monthly generator payments was highest in February 2010 at PhP7,468 million, and was lowest in January 2010 at PhP2,058 million.

Meanwhile, spot purchases from the load side for 2009 correspond to the total customer trading amount of PhP16,791 million, which is also much lower than the total amount collected in 2008 at PhP27,851 million. Customer trading amount in 2009 averaged PhP1,399 million a month, with a minimum of PhP741 million in October 2009 and a maximum of PhP2,348 million in February 2009. Customer purchases from January to June 2010 reached a total of PhP32,987 million.

Market Fees and Market Fee Rates

Market Fee rates in 2009 and 2010 are fixed rates that were approved by the ERC. The market fees, which are collected from the generators, are calculated by multiplying the fixed market fee rate with the gross energy delivery of each generator.

The ERC-approved market fee rate for 2009 was 1.69 centavos per kWh. For the first half of 2010, the market fee rate was at 1.44 centavos per kWh.

2009 Billing Months	Market Fees, Millions PhP	2010 Billing Months	Market Fees, Millions PhP
January	51.431	January	51.756
February	59.793	February	56.986
March	57.452	March	53.695
April	62.847	April	58.739
May	62.247	May	62.708
June	64.877	June	64.023
July	63.154		
August	66.197		
September	65.640		
October	63.539		
November	64.157		
December	60.985		
TOTAL	**742.32**		**347.91**

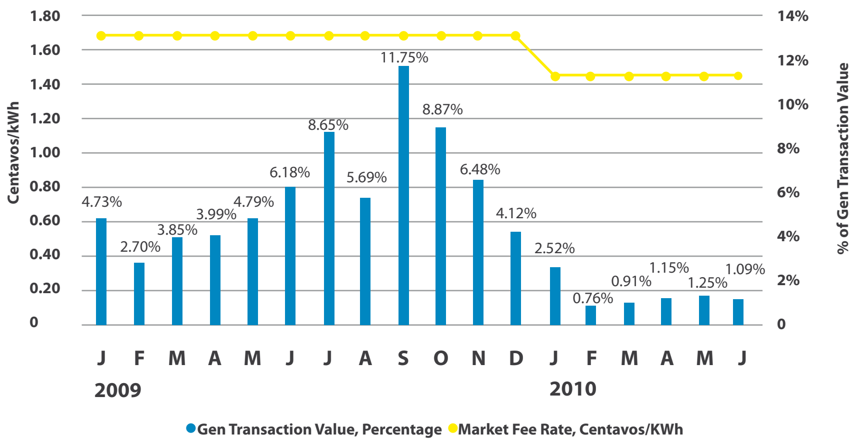
Percentage of Generator Transaction Value

Percentage of generator transaction value indicates the ratio of market fees collected from the generators to the payment they received for their WESM transactions.

For 2009, percentage of generator transaction values averaged 5.98%. It was lowest in February 2009 at about 2.70% as the total monthly payment to generators was the year's highest on that month. Transaction value was highest at about 11.75% in September 2009 when the monthly generator payment was at the lowest.

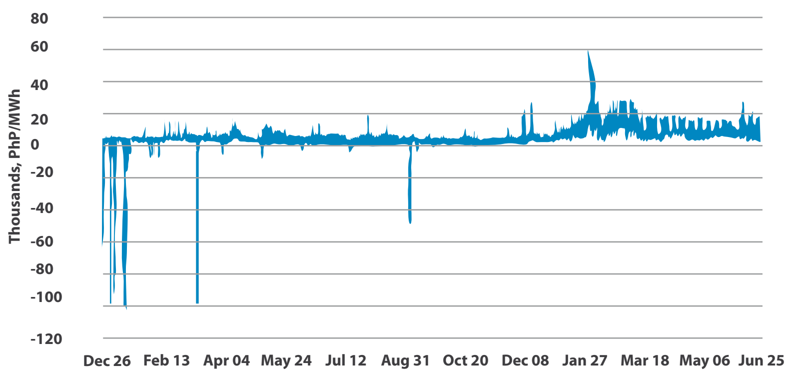
For the January to June 2010 billing months, the percentage peaked in January at 2.52% and was the least at 0.76% in February. Over the 6-month period, generator transaction value percentages averaged at 1.28%.

Generator Transcation Value (%)

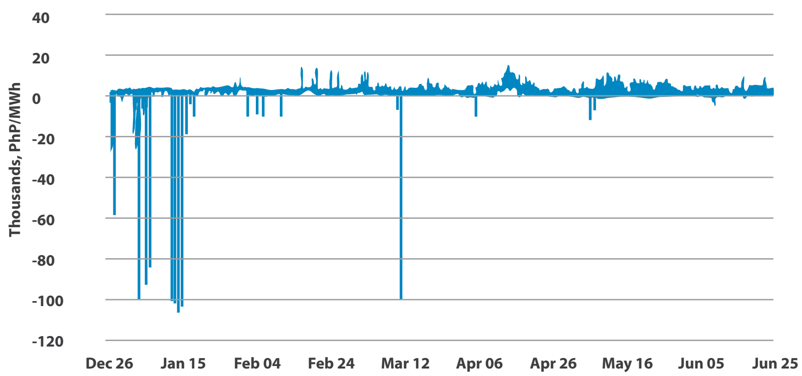


Market Assessment

Market Price Trend (Ex-ante)
Final, 26 Dec 2008 to 25 June 2010



Market Price Trend (Ex-ante)
Final, First Semester 2009



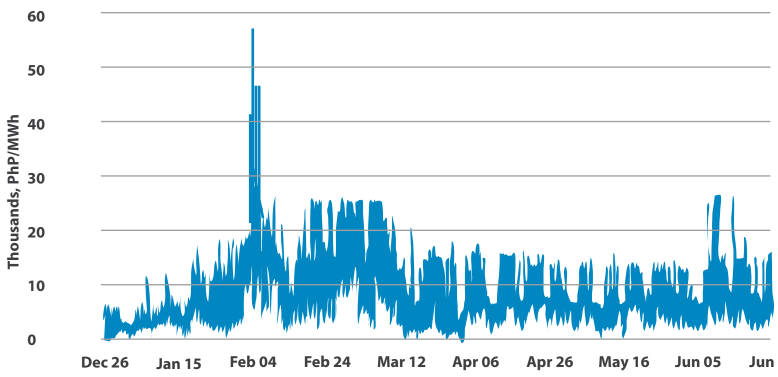
Market Assessment Highlights

The market outcome that stood out during the last year and a half of the Wholesale Electricity Spot Market's (WESM) operations was the lack of real-time market outcomes for most of the time. This was particularly true in terms of the frequency of pricing error notice impositions and how they impaired timely price discovery during the period. The market price was affected by pricing errors for 28.5% of the time in the ex-ante and 31.1% of the time in the ex-post from 26 December 2008 to 25 June 2010. During the first quarter of 2010 alone, pricing errors were present for 69% of the time in the ex-ante and 75% of the time in the ex-post. A Pricing Error Notice (PEN) is a notice issued by the market when there are no ex-ante prices determined, or the calculated prices are believed to be in error as in cases when ex-ante prices are reflective of constraint violation coefficients (CVC) . The other non-market prices, such as price substitutions during congestions and administered prices during market interventions, were negligible in frequency during the same period.

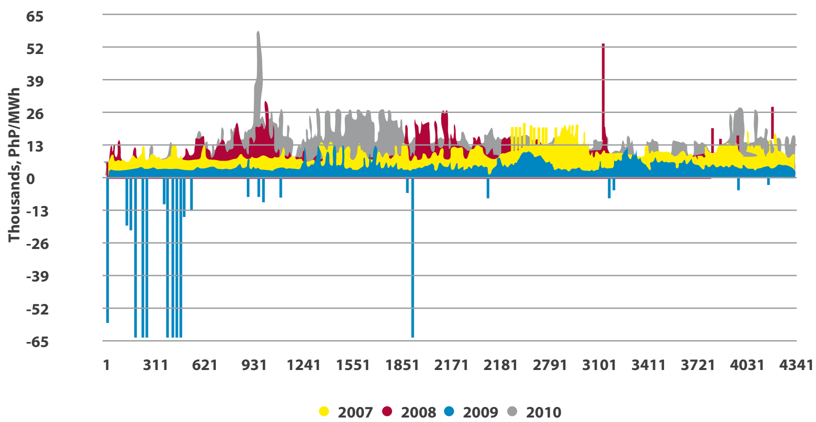
The first half of 2009 was characterized by market prices below PhP20,000/MWh and even negative prices during the early weeks. Very low levels of demand drove participants to submit negative offer prices during offpeak hours in order to optimize generation dispatch. The first half of 2010, on the other hand, was the exact opposite. As early as the first quarter, market prices were already pushing towards levels higher than PhP20,000/MWh. The reason was the simultaneous outages of several plants, primarily due to fuel constraints and other non-technical reasons such as ownership turnover. The period was also characterized by weak offers from hydro-powered plants due to the claimed El Niño weather phenomenon, the absence of the natural gas plants due to the Malampaya shut down, and the rising demand early in the first quarter.

After adjustments made through market re-runs, the market price was derived with 10.6% of the total trading hours having market cleared prices above PhP10,000/MWh during the entire covered period. The presence of negative cleared prices in the early months made 2009 a relatively price volatile year in the history of the WESM. Negative prices were present for 7.3% of the time in 2009 or an equivalent of 643 trading hours during the early months. The coefficient of volatility (CV) for 2009 was 3.4, while it was 2.1 and 1.0 in 2008 and 2007, respectively. On the other hand, the first half of 2010 was the least price volatile in WESM history at a CV of only 0.9 despite the record-high prices.

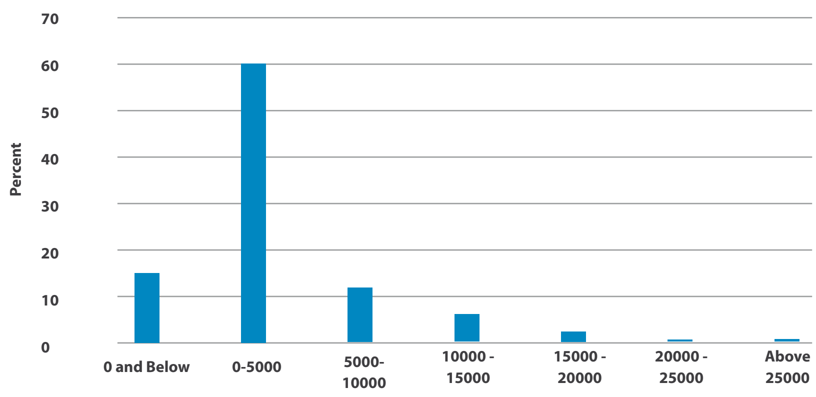
Market Price Trend (Ex-ante)
Final, First Semester 2010



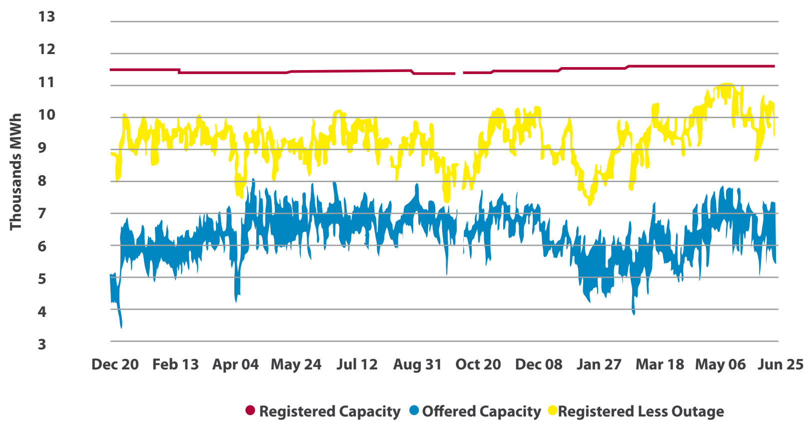
Market Price Comparisons Year-on-Year
2007 to 2010



LWAP Distribution
Final Prices, 26 Dec 2008 to 25 Jun 2010



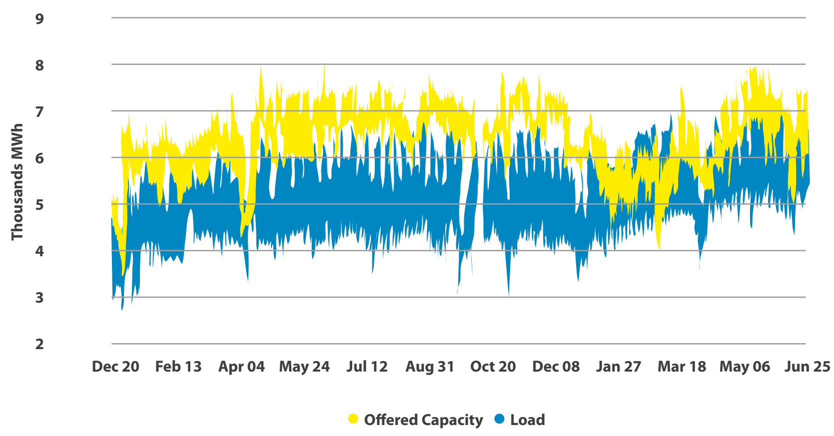
Supply Profile
26 Dec 2008 to 25 Jun 2010



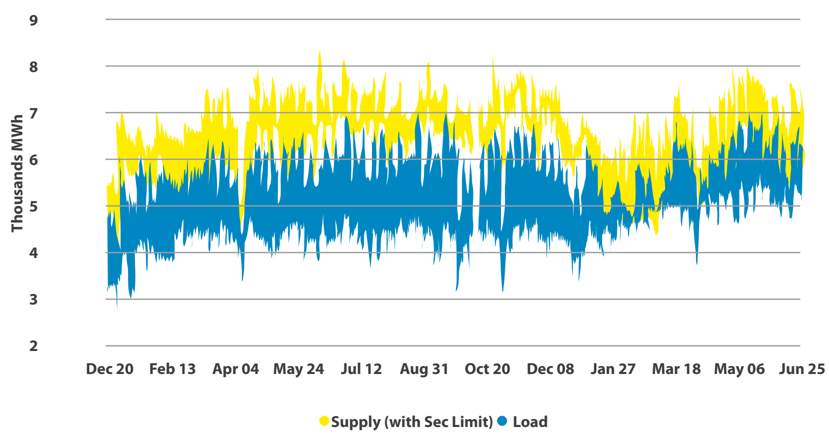
The most significant outcome was prices stayed at the PhP5,000/MWh level and below for 75.8% of the time during the covered period. This was very significant despite the fact that 14.8% of the time the cleared prices were negative and 0.8% of the time cleared prices were above PhP25,000/MWh. The First Quarter Market Assessment Report of 2009 of the Philippine Electricity Market Corporation (PEMC) discussed in greater detail the episode of negative prices in late 2008 that extended into the early months of 2009. The episode posed challenges to the market optimization process in the WESM, exposed deficiencies in the market rules and provided lessons on the strategic behavior of market participants. The First Quarter Market Assessment Report of 2010 likewise discussed in greater detail the episode of very high prices during the first three months of 2010. The report even dealt with the inherent market design of the WESM that allows misplaced economic incentives to dictate the spikes in prices.

The covered period of this assessment was generally characterized by loose demand and supply conditions. This was based on the number of trading hours when the scarcity condition was critically close to zero and below. There were only 1,115 such trading hours or 12.7% of the time when the offered capacity was equal or below the load requirement of the entire period. After the application of security limits on the supply, the critical scarcity conditions were reduced to only 619 trading hours or 7.1% of the time. This was now the difference between supply with security limits and system demand, that is, total demand adjusted for system's losses. The prevailing level of registered capacity, even after adjusting for outages, would have easily met these supply sufficiency requirements if only participants strictly abided by the must-offer rule. This excess installed capacity was one of the reasons for the submissions of very low, if not negative, offered prices in early 2009 when demand dove to very low levels and generators intensely competed to get dispatch. The capacity gap reached a maximum of 6,120 MW even if the average for the covered period was a capacity gap of only 3,395 MW.

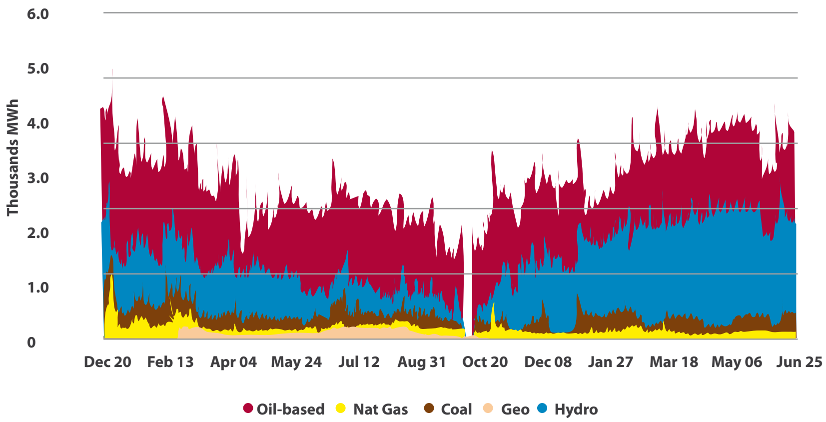
Load and Offered Capacity
RTD, 26 Dec 2008 to 25 Jun 2010



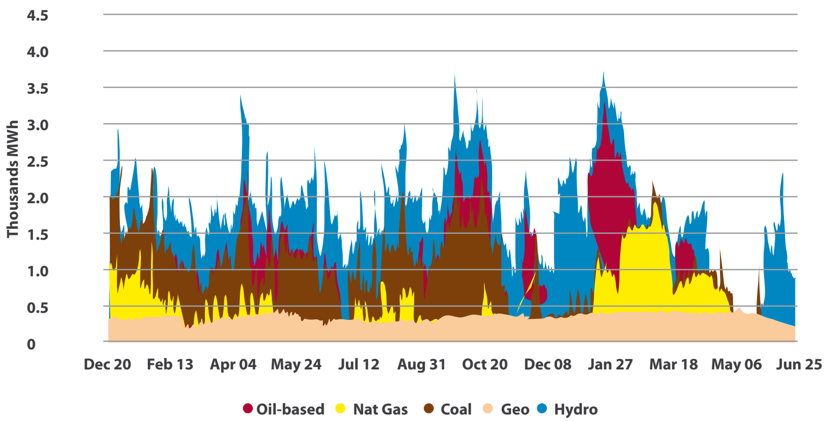
System Demand and Supply (with Security Limits)
RTD, 26 Dec 2008 to 25 Jun 2010



Capacity Gap by Resource Type
Final Prices, 26 Dec 2008 to 25 Jun 2010



Outages
26 Dec 2008 to 25 Jun 2010

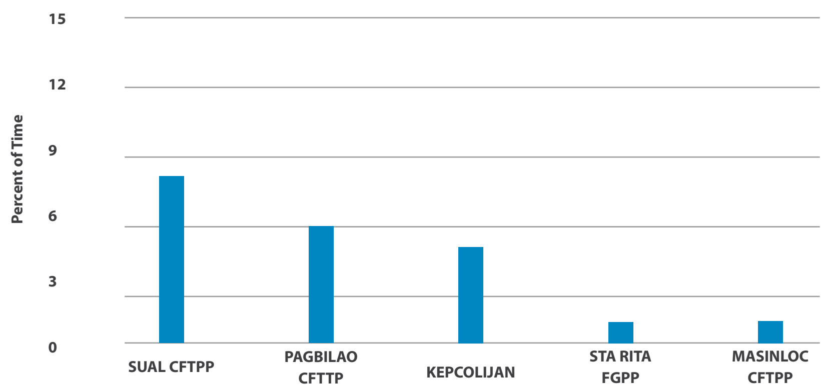


The main drivers for the outages in 2009 were shut downs from geothermal, coal, and hydro plants. The outages from geothermal plants averaged 33% of the time monthly in 2009 and 38% of the time monthly for the first four months of 2010, reaching a high of 489 MW in April 2010. The outages from coal plants averaged 21% of the time monthly in 2009 and 20% of the time monthly for the first four months of 2010, reaching a high of 2,490 MW in end-September 2009. The outages from hydro plants averaged 29% of the time monthly in 2009 and only 9% of the time monthly for the first four months of 2010, reaching a high of 1,144 MW in October 2009. Notable of the coal plant outages were those of Calaca CFTPP Units 1 and 2 with several short forced shut downs throughout the period for various technical reasons as well as fuel constraints. Notable of the hydro plant outages were those of the Kalayaan plant complex, which underwent major restoration works during the first half of 2009. The frequent typhoons in the latter half of 2009 resulted in deactivated shut downs for most hydro plants in Luzon to address the issue of high tailrace level among other typhoon-related issues. The tailrace is the channel that carries water away from the powerhouse of the plant. When flooding occurs, tailrace water rises to the point where foam interferes with the rotation process creating excessive turbine vibration and unstable power output. To continue operation, the water flow discharged via the tailrace must be reduced to limit the amount of foam generation. If the tailrace water level continues to rise, as the case during Typhoon Ondoy last year, the unit eventually shuts down since the system is not operable when submerged . Meanwhile, fuel constraints, as well as the maintenance outage of the Malampaya station, characterized the outages during the first quarter of 2010.

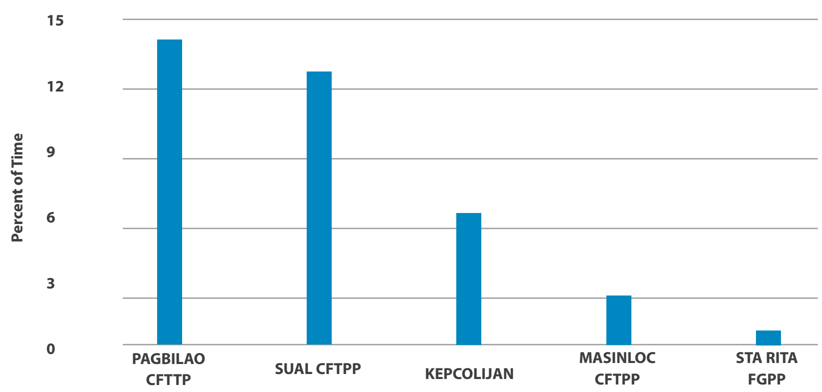
Sual CFTPP and Pagbilao CFTPP came out as the two plants with the most number of trading intervals wherein both were setting prices and providing the pivotal supply. There was a significant jump of this measure between 2009 and the first half of 2010. Sual CFTPP was simultaneously setting prices and providing pivotal supply for 7.7% of the time in 2009, and 12.5% of the time in 2010. Likewise, Pagbilao CFTPP was at the same position for 5.5% of the time in 2009, and 13.9% of the time in 2010. This goes to show how critical the market events were during the first half of 2010, especially when prices went up to unprecedented levels.

The obvious implication is that the potential for market power exercise is higher for plants that are both price setter and pivotal supplier in a trading interval, especially if their exposure in the spot market is also significantly high. This is true if the concerned plants are aware of their advantageous situation and if they have the strategic resolve to exercise those market advantages. The natural gas plants KEPCO Ilijan and Sta. Rita FGPP were also observed to occupy the same advantaged situation although on a lesser extent since a significant portion of their output are contracted.

Price Setter-Pivotal Supplier Combined Index
RTD, 26 Dec 2008 to 25 Dec 2009



Price Setter-Pivotal Supplier Combined Index
RTD, 26 Dec 2009 to 25 Jun 2010

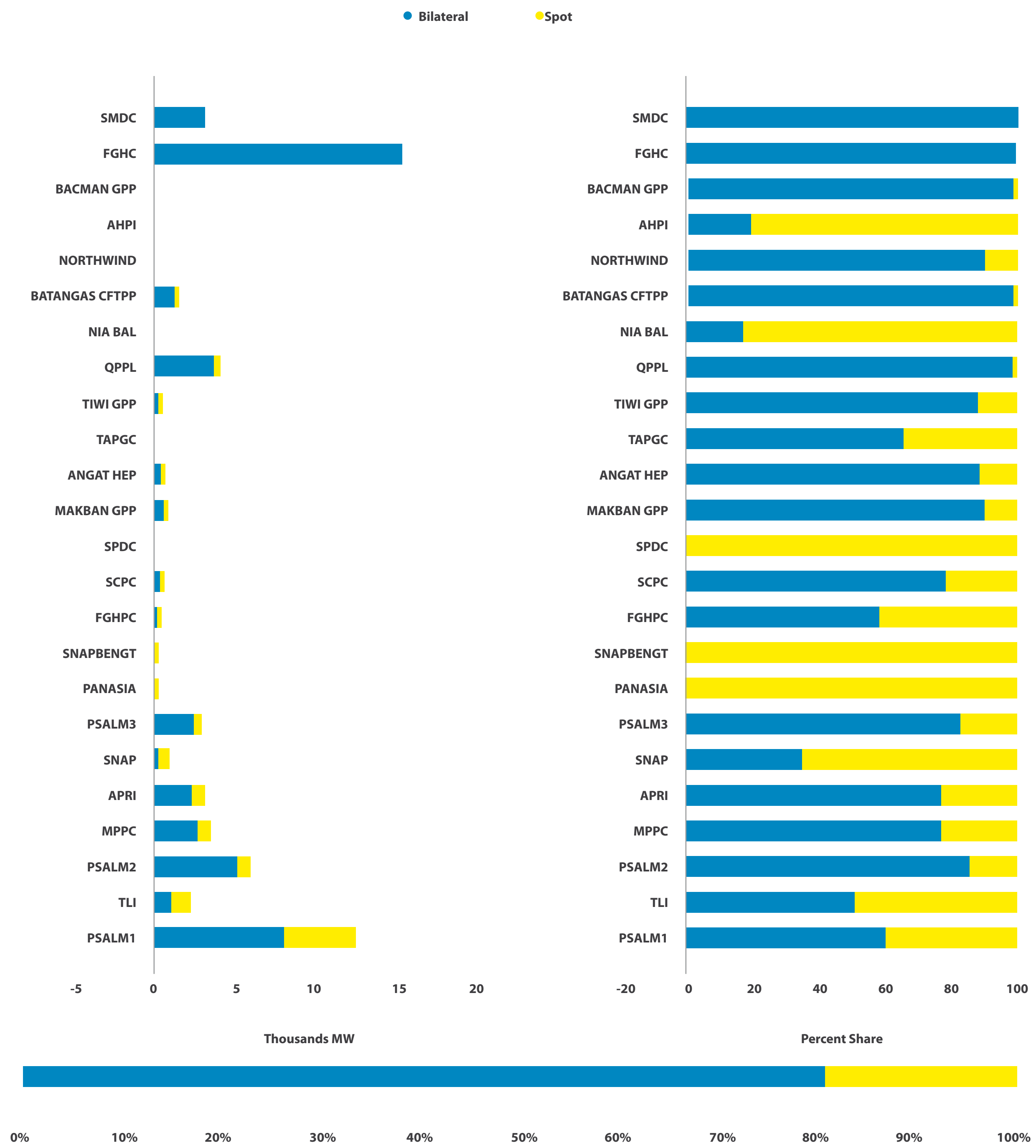


Sual CFTPP is traded by San Miguel Energy Corp. (SMEC) as the Independent Power Producer Administrator (IPPA). The trading participant is fully contracted even if it parlays 48% of its bilateral obligations to the spot market. Pagbilao CFTPP is traded by Therma Luzon Inc. (TLI) with a generating capacity almost equally allocated between the spot market and bilateral contracts market. Even KEPCO Ilijan, traded by PSALM Team 1, has a spot market exposure of 38%. Sta. Rita, owned by First Gas Power Corporation is similarly situated.

In summary, except for the negative offered prices during the early parts of 2009 and the historically high prices during the first quarter of 2010, the WESM was generally stable in terms of price volatility and price distribution. The market operations audit conducted during the period resulted in concerted efforts of minimizing the amount of time necessary to derive market prices, especially on trading intervals subjected to pricing errors, price substitution, and administered pricing. The occurrences of CVC have significantly increased in recent months, though.

Although it is too early to tell if the development will have a lasting effect on the WESM, the price spikes observed during the first quarter of 2010 was partly blamed on insufficient reserves brought about by the confluence of forced outages and deactivated shut downs during periods of heavy maintenance schedules in the first quarter. These events manifested as heavy recourse to must-run units. But when the usual must-run units also went into outage, the market was left with no other option but to allocate load drops in the Luzon grid. The PEMC's First Quarter 2010 Market Assessment Report provides all the details of the System Operator (SO) alert issuances, manual load drops, and automatic load drops that took place during the first three months of 2010.

Spot Market Exposure



Market Governance

The PEM Board

Front row, left to right: Maria Luz L. Caminero, Melinda L. Ocampo, Sec. Jose C. Ibazeta, Froilan A. Tampingco, Deon James
Back row, left to right: Jesus L. Arranza, Gerardo P. Verzosa, Felixberto U. Bustos Jr., Jesusito H. Sulit, Juan Ignacio Rubiolo, Nixon G. Hao, Antonio Agbayani Ver, Peter G. Nepomuceno, Renato A. Balintec.
Not in photo: Luis Miguel Aboitiz

Name	Board Position
Sec. Jose C. Ibazeta Secretary, Department of Energy (DOE)	Chairman 27 March 2010-30 June 2010
Luis Miguel Aboitiz Vice President, SN Aboitiz Power	Member, Generator 17 June 2009-present
Jesus L. Arranza President, Federation of Philippine Industries (FPI)	Member, Independent 17 June 2009-present
Renato A. Balintec General Manager, Ilocos Norte Electric Cooperative, Inc. (INEC)	Member, Distributor 17 June 2009-present
Felixberto U. Bustos, Jr. Managing Director, Credit Rating and Investors Services Philippines, Inc.	Member, Independent 17 June 2009-present
Maria Luz L. Caminero Acting President, Power Sector Assets Liabilities Management Corporation (PSALM)	Member, Generator 27 April 2007-present
Nixon G. Hao Vice President, Manila Electric Company (MERALCO)	Member, Distributor 27 January 2010-present
Deon James Chief Executive Officer, Dagupan Electric Corporation (DECORP)	Member, Distributor 27 September 2005-present

Name	Board Position
Peter G. Nepomuceno President, Angeles Power, Inc.	Member, Supply 17 June 2009-present
Melinda L. Ocampo President, Philippine Electricity Market Corporation (PEMC)	Member, Market Operator 17 June 2009-present
Juan Ignacio Rubiolo Vice President for Commercial Affairs, AES Masinloc Power Partners Co., Ltd.	Member, Generator 23 July 2009-present
Jesusito H. Sulit Senior Vice President, National Grid Corporation of the Philippines (NGCP)	Member, System Operator 28 November 2007- 30 June 2010
Froilan A. Tampinco President, National Power Corporation (NPC)	Member, Generator 23 October 2008-present
Antonio Agbayani Ver President, H&BW Corporation	Member, Independent 17 June 2009-present
Gerardo P. Verzosa General Manager, Benguet Electric Cooperative, Inc. (BENECO)	Member, Distributor 26 April 2004-present

PEM Board reconstituted to reflect equitable respresentation in preparation for IMO

The Philippine Electricity Market Corporation (PEMC) Board of Directors (PEM Board) was reconstituted to reflect equitable representation from each sector of the electric power industry, as provided in the Wholesale Electricity Spot Market (WESM) Rules. This is in preparation for the transfer of operations to an Independent Market Operator (IMO).

"PEMC is working hand-in-hand with the Department of Energy (DOE) to ensure that appropriate mechanisms are in place for the proper governance of the WESM," said PEMC President Melinda L. Ocampo. "Governance of the WESM is especially vital now that we are preparing for the smooth transition into the IMO in the very near future," emphasized Ocampo.

The composition of the regular PEM Board as provided for in the WESM Rules is as follows: one (1) Director representing the Market Operator; one (1) Director representing the National Transmission Corporation (TransCo); one (1) Director from the Supply Sector; four (4) Directors from the Generation Sector; four (4) Directors from the Distribution Sector, two (2) of which will be from Electric Cooperatives; four (4) Directors independent of the Philippine electric power industry, one of which may be elected by the PEM Board Members to be the Chairperson. While in its interim period, however, the PEM Board is chaired by the Secretary of Energy. The regular PEM Board composition may be amended through changes and the growing needs of a flourishing electricity bourse.

In addition, a resolution was passed for the creation of an Advisory Board with no voting rights to serve as resource persons and expert advisors to the PEM Board during meetings. This aims to maintain coordination among agencies within the energy sector and to nurture and sustain communication channels in the industry. This group of advisors is composed of the Administrator of the National Electrification Administration (NEA), the President of TransCo residual, and a DOE Representative who is the Director of the Electric Power Industry Management Bureau.

"In our numerous meetings and consultations with the DOE, the reconstitution of the PEM Board is imperative to see to it that the entire electric power industry is represented in a Board that oversees the country's Wholesale Electricity Spot Market," said Ocampo.

PEM Board Chairperson Energy Secretary Angelo T. Reyes stressed the importance of "a robust and impregnable PEMC governance team to ensure the success of the IMO." Furthermore, Reyes said "the PEM Board confessed to the need for the government's presence in overseeing the WESM at this time." Reyes pronounced the government's willingness to step down any time "after the readiness and security of PEMC is ensured through the implementation of important and vital changes, as well as the conduct and enforcement of proper auditing procedures."

"The DOE is doing everything in its power to secure the proper governance of the WESM. We are here to make sure that the Electric Power Industry Reform Act (EPIRA) is implemented and it is implemented right," Reyes added.

"These are very exciting and promising times at PEMC. We look forward to improving the PEMC governance team and ensuring a better and brighter future for the power industry and the country," said Ocampo.

Committee Updates

Update on WESM Governance Activities
The WESM Rules provide for the creation of the PEM Committees where each Committee has its responsibilities to oversee the activities of the electricity market. The PEM Committees are composed of the Market Surveillance Committee (MSC), Rules Change Committee (RCC), Dispute Resolution Group (DRG), Technical Committee (TC), and PEM Audit Committee (PAC).

The composition of the PEM Committees and the Committee members' terms of office are prescribed under the WESM Rules and the Guidelines on the Constitution of the PEM Board Committees. Committee members, who could either be stakeholder representatives or independent of the electric power industry (Independent), are appointed by the PEM Board.

Market Surveillance Committee
The MSC primarily monitors and assesses the trading activity in WESM to ensure market efficiency and fair competition. In line with this mandate, the MSC has deliberated on a number of compliance matters and monitored participants' market behaviors. The following are the MSC's monitoring activities for the period from January 2009 to June 2010:

- For the period covering January 2007 up to September 2008, there were about six requests for investigation filed by the MSC before the PEM Board for possible breach of the WESM Rules on grounds of non-compliance with the real time dispatch (RTD) schedule/ instructions or non-compliance with the submission of offer and for which, the Board has directed the Enforcement and Compliance Office (ECO) to conduct the investigation on the concerned trading participants pursuant to the established rules of procedure.

- In January 2010, MSC reported to the Board the result of its review of the investigation of one of the cases thus conducted by the ECO. Currently, the MSC is reviewing about four investigation reports submitted by the ECO. The MSC's review of the above reports cover assessment of the compliance of the procedures set out in the WESM Rules and the Market Surveillance, Compliance and Enforcement Market (MSCEM) Manual and the validity and completeness of the data and documents upon which the factual findings are based. Such review by the MSC is submitted to the Board for its final decision, confirmation, or decision for imposition of penalties, if any, and other appropriate action.

In addition to the above monitoring activities, the MSC has submitted to the Grid Management Committee (GMC) on 21 March 2010 its proposed revisions to the Philippine Grid Code (PGC) recommending for the restoration of a provision from the original version of the PGC which requires utilities to declare their available capacities/capabilities a day ahead in order for the System Operator (SO), the Market Operator (MO), as well as the public, the investors, and the regulatory bodies to have a clear and reliable picture of generating capacities available to address projected demand for the following day. This is also in response to the price upswings in January and February brought about by the precarious supply situation.

As part of its continuous monitoring and surveillance function, the MSC conducts regular meetings with the MAG, the ECO, the MO, and the SO to discuss market issues, such as: (i) possible breaches of the WESM Rules; (ii) market intervention and suspension; (iii) price upswings; (iv) requests for investigation or complaints; among others.

The MSC is currently composed of four out of the prescribed five independent members. The members of the MSC during the covered period are shown in the following table.

Committee Member	Position	Affiliation
Current Members		
Engr. Francis V. Mapile	Chair	Managing Director – FVMapile & Associates Member – Professional Regulatory Board for Electrical Engineering
Atty. Bernarda C. Lavisores	Member	South East Asian Ministers of Education Organization Regional Center for Educational Innovation and Technology
Ms. Eulinia M. Valdezco	Member	Consultant – Australian Nuclear Science & Technology Organization Regional Project on Source Safety & Security and the US Department of Energy Global Threat Reduction Program
Dr. Peter Lee U	Member	Dean – School of Economics, University of Asia & the Pacific

Former Members		
Engr. Danilo P. Mercado, Sr.	Chair	Retired National Power Corporation Manager and former Business Consultant
Mr. Peter L. Wallace	Member	The Wallace Business Forum Inc.
Dr. Maria Joy V. Abrenica	Member	University of the Philippines
Dr. George N. Manzano	Member	University of Asia & the Pacific

Dispute Resolution Group

The DRG is tasked to resolve disputes lodged before the Committee by market participants and other WESM stakeholders. The WESM alternative dispute resolution is a voluntary process which follows the process flow of negotiation, mediation, and arbitration of any conflict between or among parties as indicated in the WESM Rules which include: the Market Operator, the System Operator, the PEM Board and working groups, the WESM Members or any intending WESM Member for issues such as interpretation of the WESM Rules, contract disputes, or disputes relative to government issuances, or registration issues.

For the period January 2009 to June 2010, no dispute has been formally filed with the DRG for mediation and arbitration.

The DRG is currently composed of five out of the prescribed eight independent members. The members of the DRG during the covered period are shown in the following table.

Committee Member	Position	Affiliation
Current Members		
Atty. Salvador S. Panga, Jr. (DRA)	Administrator	Senior Partner – Parlade Hildawa Parlade Eco & Panga Law Offices
Engr. Rogelio M. Avenido	Member	Dean – School of Engineering, Manuel L. Quezon University
Atty. Romulo R. Maristaza	Member	Private Law Practitioner
Atty. Alfredo F. Tadiar	Member	Professor of Law
Mr. Alfredo J. Non	Member	Chairman of the Board – KPS Outsourcing, Inc.

Former Members		
Atty. Victorio Mario A. Dimagiba	Member	Department of Trade and Industry
Engr. German J. Umali	Member	Professional Electrical Engineer and Entrepreneur

Rules Change Committee

The RCC is mandated to provide assistance to the PEM Board and the Department of Energy (DOE) in the formulation and amendment of the WESM Rules and the Market Manuals. The formulation and amendment of Rules and Manuals is aimed at enhancing market design, as well as refining market processes and operations appropriate to the current environment.

During the period January 2009 to June 2010, the RCC has deliberated and approved the following proposed amendments to the WESM Rules and Manuals:

- **Prescribed Form for Requests for Investigation.** The PEMC submitted the proposed amendments to the MSCEM Manual to improve efficiency and expediency in the WESM investigation process. The proposal was approved by the PEM Board on 27 April 2010.

- **WESM Compliance Officer for WESM Members, MO, and SO.** The proposed amendments to the WESM Rules on the designation of a Compliance Officer was initiated and proposed by PEMC to help foster a culture of compliance in the WESM and increase market confidence. The proposal was approved by the PEM Board on 24 June 2010 and by the DOE on 30 June 2010.

- **Proposed Metering Service Provider (MSP) Performance Measurement.** The RCC Metering Sub-Committee submitted proposed changes to the WESM Metering Standards and Procedures Manual to provide for and establish the procedural steps, criteria, and standard to measure the overall performance of the MSP.

- **Proposed Enhancement to the Rules on Information Disclosure and Transparency.** The PEMC submitted proposed changes to the WESM Rules and WESM Manual on Information Disclosure and Confidentiality (IDC) to enhance market transparency.

- Proposed Changes to the Rules Concerning Dispute Resolution Provisions. Proposed changes to the WESM Rules were submitted by the DRG to incorporate the provisions concerning the dispute resolution process in the said manual with the WESM Rules.

- Proposed Amendments to the Metering Market Manual. The proposal was endorsed by the RCC Metering Sub-Committee to improve the recording of metered quantities and make the process more equitable to the trading participants.

- Proposed Amendments to the Process of Implementing New or Modifying Existing Software for the WESM. Proposed changes to the WESM Rules and PEM Audit Manual were submitted by the PEMC IST Group to modify the pre-implementation audit requirement for software changes to a post-implementation audit requirement.

The following WESM Rules and Manuals Change Proposals were also discussed by the RCC during the same period:

- Proposal to Amend the WESM Manual on the Methodology for Determining Pricing Errors and Price Substitution due to Congestion for Energy Transactions in the WESM. The PEMC submitted the proposed changes to make the provisions in the Manual consistent with the Energy Regulatory Commission Decision (dated 16 February 2009) and Order (dated 17 August 2009) in ERC Case No. 2008-051 RC on the supplemental application for the approval of the Price Determination Methodology for the WESM, as well as to harmonize the methodology with WESM Rule Clause 3.10.5 on declaration of Pricing Error Notices (PEN).

- Proposed Changes to the Rules on the Addition of IPP Administrator as Another Category of WESM Membership. The Masinloc Power Partners Co. Ltd. (MPPCL) submitted their proposed WESM Rules Amendment to include IPP Administrator as an additional category for WESM Membership/Trading Participant to recognize the existence of IPP Administrators as a new type of market participant, which do not specifically meet the description of either a Generation Company or Customer as defined in the WESM Rules.

- Proposed Removal of Application of Site Specific Loss Adjustment (SSLA) for Generators. Submitted by the RCC Metering Sub-Committee, the changes to the WESM Metering Standards and Procedures Manual were proposed to remove the application of SSLA for all generators to ensure that the generated energy to be recognized by the Market must be net of transformer loss and plant station service consumption energy. The proposal was disapproved by the RCC.

- Proposed Changes to the Rules on Renewable Energy (RE) Resources. The proposed changes to the WESM Rules was submitted by the TC to harmonize and incorporate the relevant provisions in the EPIRA, the RE Law and its Implementing Rules and Regulations (IRR) and the WESM Rules, as well as clarify provisions on the treatment of the non-scheduled generating facilities. Discussion was deferred by the RCC in view of the ongoing formulation of the RE Market Rules by the DOE.

- Proposed harmonization of the ERC Guidelines and WESM Manual on Net Settlement Surplus. The PEMC-MO submitted proposed changes to the WESM Manual on the Management of Net Settlement Surplus (NSS) to harmonize it with the ERC approved NSS Guidelines (ERC Resolution No. 6, dated 23 February 2009). Discussion was deferred by the RCC in view of the internal review and study conducted by the PEMC Management on the NSS.

The RCC, which mirrors the sectoral representation of the PEM Board, is currently composed of the following: four members representing the Generator Sector; three out of the prescribed four members representing the Distribution Sector; one member representing the SO; one member representing the MO; one member from the Supply Sector; and two out of the prescribed four independent members. The members of the RCC during the covered period are shown in the following table.

Committee Member	Position	Affiliation
Current Members		
Dr. Epictetus E. Patalinghug	Acting Chairperson (Independent	Professor – University of the Philippines
Dr. Gloria P. Gerilla-Teknomo	Member (Independent)	Manager – CPI Energy Phils., Inc.
Ms. Cherry Aquino-Javier	Member (Generator)	Trading Manager – AES Philippines
Engr. Ralph T. Crisologo	Member (Generator)	Head of Trading – SN Aboitiz Power
Atty. Liberty Z. Dumlao	Member (Generator)	Corporate Legal Counsel – PSALM Corporation
Engr. Ronald V. Siquioco	Alternate (Generator)	Sr. Financial Planning Specialist – PSALM Corporation
Engr. Alfredo L. Licudine, Jr.	Member (Generator)	Manager – National Power Corporation
Ms. Cynthia R. Encarnacion	Alternate (Generator)	Corporate Staff Officer B – National Power Corporation
Engr. Vicente C. Sioson	Member (Distribution)	Sr. Manager & Head – Manila Electric Company
Engr. Ciprinilo C. Meneses	Alternate (Distribution)	Sr. Manager & Team Leader – Manila Electric Company
Engr. Augusto D. Sarmiento	Member (Distribution)	Network Operations Manager – Dagupan Electric Corporation
Engr. Jose P. Santos	Member (Distribution)	Interim WESM Office Chief – Ilocos Norte Electric Cooperative, Inc.
Engr. Roy F. Alimbuyuguen	Alternate (Distribution)	Interim WESM Market Researcher – Ilocos Norte Electric Cooperative, Inc.
Engr. Conrado D. Pecjo	Member (Supplier)	Manager – Angeles Power, Inc.
Engr. Raul Joseph G. Seludo	Member (SO)	Department Manager – National Grid Corporation of the Philippines
Engr. Santiago A. Dimaliwat IV	Alternate (SO)	Deputy Head – National Grid Corporation of the Philippines
Engr. Robinson P. Descanzo	Member (MO)	Philippine Electricity Market Corporation
Engr. Mario R. Pangilinan	Alternate (MO)	Head, Corporate Planning and Communications – Philippine Electricity Market Corporation
Former Members		
Dr. Phares P. Parayno	Chairperson (Independent)	Miriam College

Committee Member	Position	Affiliation
Mr. Lassi-Matti A. Holopainen	Chairperson (Independent	Philippine Electricity Market Corporation
Engr. Ramon B. Diaz de Rivera	Member (Generator)	Energy Development Corporation
Engr. Manolo T. Candelaria	Alternate (Generator)	Energy Development Corporation
Atty. Rassen M. Lopez	Member (Generator)	First Gen Corporation / Philippine Independent Power Producers' Association
Mr. Carlo L. Vega	Alternate (Generator)	First Gen Corporation / Philippine Independent Power Producers' Association
Engr. Melburgo S. Chiu	Member (Generator)	National Power Corporation
Mr. Pablo M. Pan III	Member (Distribution)	National Electrification Administration
Engr. Jose H. Seguban, Jr.	Alternate (Distribution)	National Electrification Administration
Engr. Wendell V. Ballesteros	Member (Distribution)	General Manager – Philippine Rural Electric Cooperatives Association, Inc.
Engr. Crisanto R. Laset	Member (Distribution)	Cagayan Electric Power and Light Company / Philippine Electric Plant Owners Association
Engr. Nixon G. Hao	Member (Distribution)	Manila Electric Company
Engr. Edwin N. Mosa	Alternate (MO)	Philippine Electricity Market Corporation

Technical Committee

The TC is tasked to monitor and review technical matters under the WESM Rules, the Grid Code, and the Distribution Code in relation to the operation of the spot market.

As part of the ongoing study and as per direction from the PEM Board, the TC is currently reviewing the request for the reclassification of the Bakun Hydroelectric power plant from scheduled to non-scheduled generating facility in view of the passage of the Republic Act 9513 (RE Law), Philippine Grid Code provisions, WESM Rules, and market impact. In particular, the provision in the RE Law with regard to the benefit of priority dispatch accorded to the generating facilities with intermittent energy resource is being taken into account, pending the passage of the detailed rules on the renewable energy market. The report on said request for reclassification is currently being deliberated upon by the Board taking into consideration significant factors and impact of such issue on the government, on the private sectors, on the industry participants, and the entire power system.

The TC has likewise supported and submitted, through PEMC, its proposals on the following:

- Amendments to the Philippine Grid Code (PGC), harmonizing among others, some definition of terms in the PGC, WESM Rules and Manuals, as well as Ancillary Services Procurement Plan (ASPP). The PEMC consolidated proposal was submitted to the Grid Management Committee (GMC) in December 2009.

- Amendments to the Revised Rules on the Issuance of the Certificates of Compliance for Generation Companies/Facilities. Significant provisions proposed by the TC where adopted based on the ERC issuance of the revised rules dated 10 March 2010.

In parallel with the above activities, the TC is also finalizing its study on the appropriate criteria for the determination of the minimum/maximum stable loads and ramp rates of a WESM registered generating facilities, as well as its review of the WESM Manual for the Management of Must-Run Units.

The TC is currently composed of the following: two independent members and one member from the Distribution Management Committee (DMC). The TC will still have one member from GMC and SO, respectively. The members of the TC during the covered period are shown in the following table.

Committee Member	Position	Affiliation
Current Members		
Engr. Meleusipo E. Fonollera, Sr.	Chairman	Director – Westrade International Co., Inc.
Engr. Edgar Graciolo F. Alcazar	Member	Director – Technical Support Group, Ayala Property Management Corp.
Engr. Jaime V. Mendoza	Member	Chairman – Distribution Management Committee Member – Board of Electrical Engineering
Former Members		
Engr. Carlito C. Claudio	Member	National Grid Corporation of the Philippines
Engr. Francis V. Mapile	Member	FVMapile & Associates / Professional Regulatory Board for Electrical Engineering

PEM Audit Committee

The PEM Audit Committee (PAC), tasked to conduct regular operational audits of the market operator, settlement systems, and any other procedures relevant to the spot market, has concluded the Independent Operational Audit of the Systems and Procedures on Market Operations (Audit Project 2009-01). The audit, which was conducted under the supervision of the DOE, aims to review and assess the processes of the market management systems, market models, software, billing and settlement system, emanating from the submission of generation offers/bids up to the dispatching, and publication of market information under the WESM Rules for the period June 2007 to July 2009.

The said audit was conducted by an independent auditor, Deloitte Australia, a member of Deloitte Touche Tohmatsu. Deloitte worked with its local partner Deloitte Philippines-Manabat Delgado Amper and Co., and Intelligent Energy Systems Pty Ltd (IES).

Part of the audit's objectives is to comply with the requirements of the ERC in relation to the audits of the Price Substitution Methodology (PSM) as per ERC Order dated 10 August 2009, and the Net Settlement Surplus (NSS) systems and processes as per ERC Rules for the Distribution of NSS dated 23 February 2009. In compliance with the ERC requirements, the final audit report on PSM and NSS was directly provided to the ERC by Deloitte Touche Tohmatsu/Intelligent Energy Systems, as directed by the PAC, per its letter of endorsement dated 14 April 2010. Particularly, the submitted audit report covers the compliance assessment and software certification for the NSS and PSM.

The final audit report covers the compliance assessment, software certification, and broad identification of areas to achieve better international practice.

For the next project, the PAC will focus on metering audit, which will cover the Metering Services Provider's (MSP) compliance with the requirement on metering installation, security arrangement, and other systems and processes of the WESM Rules and other standards. The metering audit is provided in Section 11 of the PEM Audit Manual.

The PAC is currently composed of three independent members. The members of the PAC during the covered period are shown in the following table.

Committee Member	Position	Affiliation
Current Members		
Dr. Felixberto U. Bustos, Jr.	Chairman/PEM Auditor	Adjunct Professor – Asian Institute of Management
Atty. Gloria Victoria Y. Taruc	Member	Assistant Solicitor General – Office of the Solicitor General
Dr. Gaston D. Ortigas, Jr.	Member	Professor – Asian Institute of Management

Other Governance Activities

Under Section 1.4.7.1 of the WESM Rules, the MAG may perform such other tasks that may be assigned by the PEM Board, the WESM Governance PEM Committees, or the President of the PEMC. Pursuant to this provision, the MAG renders secretariat and technical support to the Steering Committee of the Establishment of the Renewable Energy Market and the ERC-MAG Coordination Group.

Steering Committee on the Establishment of the Renewable Energy Market

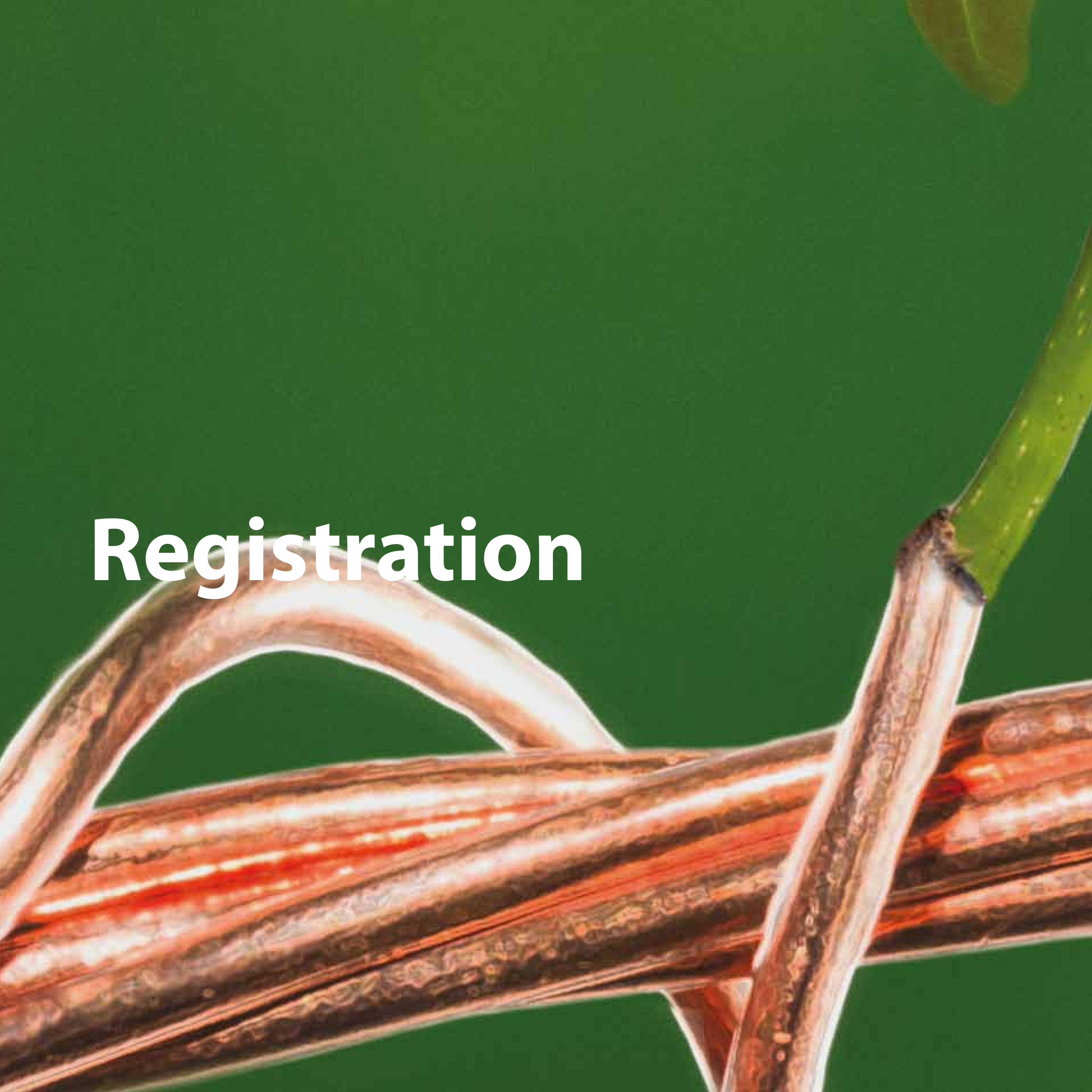
Republic Act No. 9513 otherwise known as the Renewable Energy Act of 2008 mandates the establishment of the Renewable Energy Market as a sub-market of the WESM. The Renewable Energy Market shall be the venue of the trading of the RE Certificates equivalent to an amount of power generated from RE resources.

To facilitate and expedite the operationalization of the RE Market, a Steering Committee on the Establishment of the RE Market was constituted under Department Circular No. 2010-02-0001 dated 3 February 2010. To support the Steering Committee, a Joint Secretariat was created, which is comprised of DOE and PEMC units. At present, the MAG spearheads the secretariat work of the Joint Secretariat.

ERC-MAG Coordination Group

In order to improve and enhance the respective monitoring functions of the ERC and the PEMC, a coordination mechanism was formed between ERC and MAG for the purpose of discussing the development and adoption of various monitoring indices. The MAG serves as the focal unit of the PEMC in the implementation of the ERC-PEMC Protocol.

Registration



Direct Participants

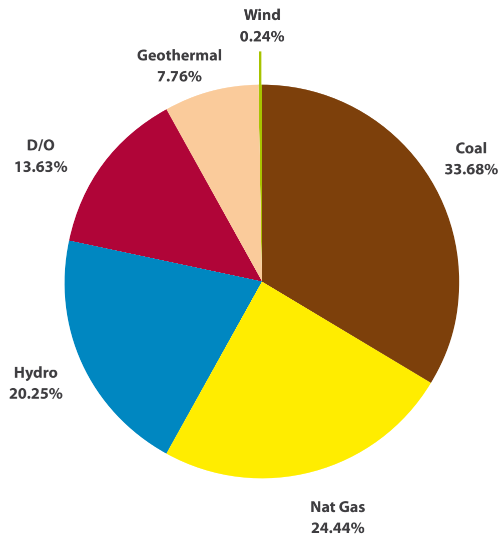
GENERATORS

Company	Plant	Registered Capacity, MW	Effective Date of Registration
Amlan Power Hydro, Inc.	Bakun Hydro Electric Power Plant	76	23-Feb-10
AP Renewables Inc.	Makban Geothermal Power Plant	442	26-May-09
	Tiwi Geothermal Power Plant	237	26-May-09
FGP Corporation	San Lorenzo Natural Gas Power Plant	500	26-Jun-06
First Gas Power Corporation	Sta. Rita Natural Gas Power Plant	1000	26-Jun-06
First Gen Hydro Corporation	Masiway Hydro Electric Power Plant	12	18-Nov-06
	Pantabangan Hydro Electric Power Plant	100	18-Nov-06
Masinloc Power Partners Co. Ltd.	Masinloc Coal-Fired Thermal Power Plant	620	17-Apr-08
National Irrigation Administration	Niabal Hydro Electric Power Plant	6	26-Oct-08
National Power Corporation	Bacman Geothermal Power Plant	150	26-Jun-06
	Angat Hydro Electric Power Plant	246	26-Jun-06
NorthWind Power Development Corporation	NWPDC Wind Power Plant	27	26-Nov-06
PANASIA Energy Holdings, Inc.	Limay Combined Cycle Gas Turbine Power Plant	620	19-Jan-10
Power Sector Assets & Liabilities Management Corportaion	Botocan Hydro Electric Power Plant	20	26-Jun-06
	Caliraya Hydro Electric Power Plant	24	26-Jun-06
	Hedcor Hydro Electric Power Plant	30	26-Jun-06
	Casecnan Hydro Electric Power Plant	165	26-Jun-06
	BPPC Diesel Power Plant	225	26-Jun-06
	Malaya Oil Thermal Power Plant	650	26-Jun-06
	Kalayaan Hydro Electric Power Plant	720	26-Jun-06
Quezon Power Philippines (Limited) Company	QPPL Coal-Fired Power Plant	459	26-Jun-06

GENERATORS

Company	Plant	Registered Capacity, MW	Effective Date of Registration
San Miguel Energy Corporation	Sual Coal-Fired Power Plant	1247	06-Nov-09
SEM-Calaca Power Corporation	Calaca Coal-Fired Thermal Power Plant	660	04-Dec-09
SN Aboitiz Power - Benguet, Inc.	Binga Hydro Electric Power Plant	100	11-Jul-08
SN Aboitiz Power, Inc.	Magat Hydro Electric Power Plant	380	26-Apr-07
South Premiere Power Corporation	Ilijan Natural Gas Power Plant	1200	26-Jun-16
Strategic Power Development Corporation	San Roque Hydro Electric Power Plant	400	26-Jan-10
Therma Luzon Inc.	Pagbilao Coal-Fired Power Plant	763	01-Oct-09
Trans Asia Power Generation Corporation	TAPGC Diesel Power Plant	50	05-Jan-07

Generation Capacities by Plant



Direct Participants

CUSTOMERS		
Distribution Utilities	**Demand Level, MW**	**Effective Date of Registration**
Cabanatauan Electric Corporation	31.948	26-Jan-10
Dagupan Electric Corporation	31	26-Nov-09
Manila Electric Company	4855	26-Jun-06
Electric Cooperatives	**Demand Level, MW**	**Effective Date of Registration**
Albay Electric Cooperative, Inc.	45	26-Aug-07
Batangas I Electric Cooperative, Inc.	46.25	26-Dec-09
Batangas II Electric Cooperative, Inc.	122.53	5-Mar-10
Benguet Electric Cooperative, Inc.	41	26-Apr-08
Camarines Norte Electric Cooperative, Inc.	20.2	26-May-10
Camarines Sur II Electric Cooperative, Inc.	35	6-Dec-06
Camarines Sur III Electric Cooperative, Inc.	14	26-Jan-10
Camarines Sur IV Electric Cooperative, Inc.	7.7	25-Jun-10
Ilocos Norte Electric Cooperative, Inc.	30	26-Nov-06
Isabela I Electric Cooperative, Inc.	39	26-Jul-09
Kalinga-Apayao Electric Cooperative, Inc.	4	26-Mar-09
Mountain Province Electric Cooperative, Inc.	3.74	26-Dec-09
Nueva Ecija II Area I Electric Cooperative, Inc.	21	26-Aug-09
Peninsula Electric Cooperative, Inc.	52	26-Nov-09
Sorsogon I Electric Cooperative, Inc.	6	26-Jun-08
Tarlac I Electric Cooperative, Inc.	4	26-May-08
Tarlac II Electric Cooperative, Inc.	29	26-Jul-09
Wholesale Aggregators		**Effective Date of Registration**
Aboitiz Energy Solution, Inc.		4-Jun-07
AES Philippines Inc.		13-Apr-08
Angeles Power Inc.		8-Apr-08
First Gen Energy Solutions		26-Jan-10
Team (Philippines) Energy Corporation		2-Jan-08
Trans-Asia Oil and Development Corporation		20-Sep-07

Indirect Participants

COMPANY	CATEGORY
Abra Electric Cooperative, Inc.	Electric Cooperative
Angeles Electric Corporation	Distribution Utility
Asia Pacific Energy Corporation	Generator
Central Pangasinan Electric Cooperative	Electric Cooperative
Dagupan Electric Corporation	Distribution Utility
Duracom Mobile Power Corp.	Generator
Hedcor, Inc.	Generator
Holcim Philippines, Inc.	Non-Utility
Ilocos Sur Electric Cooperative, Inc.	Electric Cooperative
La Union Electric Corporation	Distribution Utility
Pangasinan I Electric Cooperative, Inc.	Electric Cooperative
Pangasinan III Electric Cooperative, Inc.	Electric Cooperative
Sorsogon II Electric Cooperative, Inc.	Electric Cooperative

Intending Participants

COMPANY	CATEGORY
Global Green Power PLC Corporation	Generator
GN Power Ltd. Co.	Generator
Montalban Methane Power Corporation	Generator
Philippine National Oil Company	Generator
Premier Energy Resources Corporation	Supplier

Eight (8) generation companies, including IPP Administrators, two (2) private distribution utilities and eleven (11) electric cooperatives became WESM Members during the period from January 2009 to June 2010.

Corporate Update

Company Reorganization

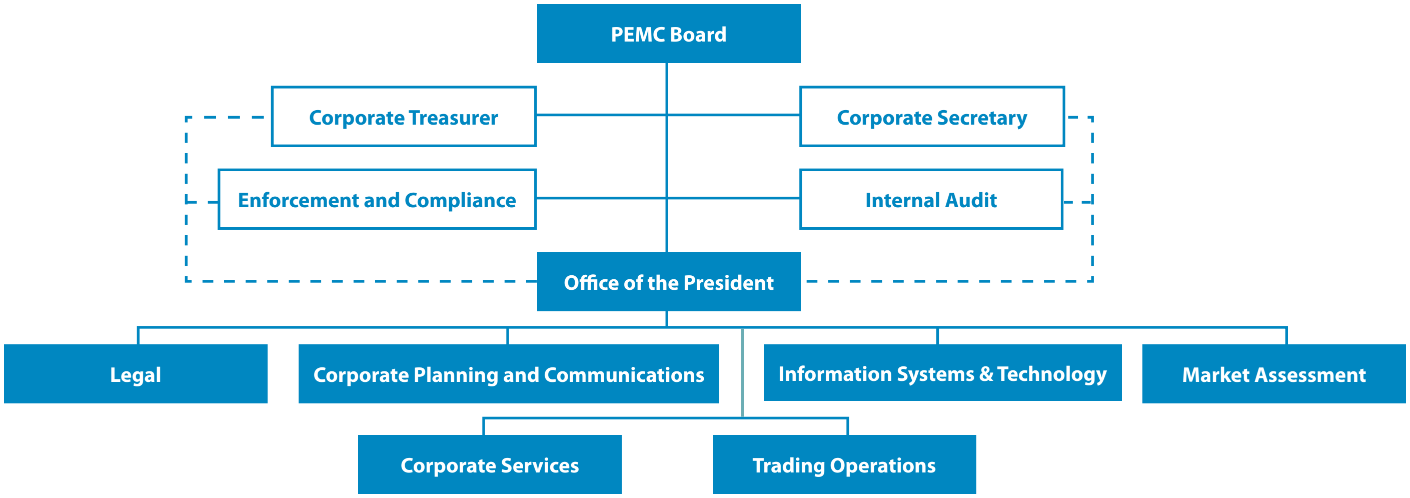
Front row, left to right: Chrysanthus S. Heruela, Melinda L. Ocampo, Mario R. Pangilinan
Back row, left to right: Carlito S. Claudio, Claudette G. Ubaldo, Ma. Nerissa A. Cordoba, Sheila P. Ingco, Criselda S. Martin-Funelas, Medardo T. Nuñez
Not in photo: Jesusito H. Sulit

To continuously safeguard the effective governance and efficient operations of the Wholesale Electricity Spot Market (WESM), as well as to ensure a stronger and more resilient Philippine Electricity Market Corporation (PEMC) in the years to come, the Company is currently undergoing an organizational realignment anchored on enhancing its organization set-up and maximizing its human capital requirements.

A key phase of the organization realignment effort is the thorough screening and selection of the new leadership team. The following highly competent individuals were appointed to take on the key roles in the organization:

Group	Officer
Corporate Planning and Communications	Mario R. Pangilinan
Corporate Secretary	Claudette G. Ubaldo
Corporate Treasurer/ Corporate Services	Medardo T. Nuñez
Enforcement and Compliance	Sheila P. Ingco
Information Systems and Technology	Carlito C. Claudio
Internal Audit	Ma. Nerissa A. Cordoba
Legal	Criselda S. Martin-Funelas
Market Assessment	Chrysanthus S. Heruela
Trading Operations	Jesusito H. Sulit

The realignment decision stemmed from the organization study and manning level review conducted by the SGV & Co., the largest professional services firm in the Philippines, and a member of the Ernst & Young global organization, wherein a workload analysis and development of a new organization structure was done. Currently, the new leadership team takes part in the review, design, and staffing of the functional units. In this light, PEMC President Melinda L. Ocampo encourages all employees to work together in building a stronger and world-class PEMC by achieving the highest standard of self-governance and market operations in the competitive electricity market.



Internal Audit

The Philippine Electricity Market Corporation (PEMC) has been promoting effective governance since it began its commercial operations in 2006. President Melinda L. Ocampo envisioned its full realization by ensuring that internal controls are effectively applied across the organization.

In 2009, President Ocampo proposed to the PEM Board the creation of Internal Audit, which is critical for effective governance, proper check and balance, and improvement of controls in the existing policies, systems, procedures, standards, and practices of PEMC. Thus, in the same year, the Internal Audit Department (IAD) was formally created to functionally report to the Board Audit Committee (BAC) and administratively to the President.

The IAD, headed by Chief Audit Executive Maria Nerissa Adana-Cordoba, commenced its operation in January 2010 and has since been assisting the Management in a manner that would add value and improve the Company's operations. These objectives have been, to some extent, realized when IAD made the following initial accomplishments for half a year:

- Development and adoption of Board Audit Committee Charter and Internal Audit Charter to establish the purpose, authority, reporting relationship, and responsibilities conferred by the PEM Board on internal audit function
- Review and assessment of Internal Processes on Market Operations
- Review and assessment of an in-house developed software for Market Operations
- Review and assessment of Finance Process

As the IAD continues to adopt high standards in executing its core functions by setting the right tone in the Company, it undertakes to unremittingly look for ways to further improve the Company's performance in terms of effective governance.

Audit

DOE and PEMC initiate Independent Operational Audit on the systems on Market Operations

Deloitte Australia bags PEMC independent auditor project

The Philippine Electricity Market Audit Committee (PAC), under the supervision of the Department of Energy (DOE), finalized the selection process for the auditor of the Independent Operational Audit of the Systems and Procedures on Market Operations. The Australian partnership of Deloitte Touche Tohmatsu (Deloitte Australia) was granted the contract for the project.

The Independent Operational Audit of the Systems and Procedures on Market Operations aims to review and assess the processes of the market management systems, market models, software, billing and settlement system emanating from the submission of generation offers/bids up to the dispatch, and publication of market information under the Wholesale Electricity Spot Market (WESM) Rules as approved by the DOE. This audit further validates the market operations' performance towards its obligation to the electricity consumers and stakeholders set forth by the market rules and the orders of the Energy Regulatory Commission (ERC). This first market audit will cover the last two years of transactions of market operations.

"The operational audit of the systems and procedures on market operations endeavors to further improve the market and its processes for a smooth transition towards the Independent Market Operator (IMO)," said PEMC President Melinda L. Ocampo.

The quality-cost based selection process involved the publication of Expressions of Interest (EOI), short listing of received EOI, release of Requests for Proposals (RFP) to short listed firms, technical and preliminary bidding conferences, and technical and financial evaluation. To ensure the success of the undertaking, the DOE created the WESM Audit Technical Working Group (TWG) composed of members from DOE and PEMC to assist the PAC in the evaluation of the EOI and Technical/Financial Proposals and the preparation of the necessary tasks in the conduct of the independent audit. The TWG ensured a transparent selection process, which impressed the participants, particularly Intelligent Energy Systems Pty Ltd (IES) Chairman Hugh Bannister who said, "This was one of the most organized, timely, and transparent selection processes I have ever been involved in."

After undertaking the transparent selection process, Deloitte Australia was chosen as the independent auditor for the project because of its extensive experience in the audit of the electricity market of other jurisdictions and its adequate and detailed work program for the audit process.

Deloitte Australia refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity servicing clients in the areas of audit, assurance and advisory, taxation, corporate finance, and consulting. Deloitte Australia worked with the local Deloitte member firm Deloitte Philippines-Manabat Delgado Amper and Co. and IES, an Australian company that provides advisory services and software solutions to organizations working with energy markets.

"We are honored to have been chosen as the independent auditor for this particular project. The Philippines has quite an interesting electricity market and we are excited to review the systems and procedures of its market operations," said Deloitte Australia Partner Jaimee Thompson.

"We at PEMC strive to provide an environment of efficiency and transparency for the WESM and its members. This audit is but one of our efforts in ensuring that goal," said Ocampo.

DOE and PEMC hold Stakeholders' Meeting on Independent Audit

Following the selection of the independent auditor, the PAC with the active participation and guidance of the DOE, held a WESM Participants' Consultation Meeting on the Independent Operational Audit of the Systems and Procedures on Market Operations.

Thirty representatives from 15 WESM member organizations were present during the consultation meeting who actively shared their experiences, views, concerns, and suggestions on how to enhance and improve WESM operations. The half-day consultation was part of DOE and PEMC initiatives aimed at meeting the needs of the WESM Participants by encouraging feedback mechanisms that ensure key concerns with the Market Operations are addressed.

"By hosting the WESM Participants' Meeting on the Independent Operational Audit, we are encouraging the Market Participants to be more candid with their concerns. Their feedback will be compiled and collated and taken into serious consideration for the improvement of the Market Operations," said Ocampo.

"This operational audit will not only pave the way for a smooth transition into the appointment of the IMO, but will improve the procedures and controls of quality and security of data in the WESM, as well as ensure that the Philippines' MO is up to par with the best international practices," said Energy Secretary Angelo T. Reyes.

Regulatory Updates

as of 30 June 2010

Pricing and Cost Recovery Mechanism for Reserves

A motion for the approval of a phased-in implementation of the Pricing and Cost Recovery Mechanism for reserves to be traded in the WESM (PCRM for Reserves) has been filed with the Energy Regulatory Commission (ERC). The motion proposes the interim operation of the WESM Reserve Market pending full compliance with the directives of the ERC in the application for the approval of the PCRM for Reserves.

Structure and Level of Market Fees

The ERC approved a fixed market fee rate for CY 2009, which was increased to cover a portion of the funding requirements for the MMS Migration Project. In February 2010, a petition was filed for the approval of rules to govern the subsequent approvals of the structure and level of market fees for the WESM. A Supplemental Application was also filed for the approval of additional budget necessary for CAPEX projects urgently needed in CY 2010, particularly the MMS Migration project.

Price Substitution Methodology

The ERC approved with modification the Price Substitution Methodology (PSM) to be applied in determining market prices in times of extreme nodal price separations due to network congestion. The PSM as approved was made retroactive to July 2008.

Net Settlement Surplus

The ERC issued the Rules for the Distribution of Net Settlement Surplus (NSS), setting forth the definition and allocation of NSS, distribution period, flow back computation, treatment of NSS interests, and reportorial requirements. NSS is now allocated and distributed to all participants who have paid line loss and congestion charges, except for generation units designated as Must-Run Units (MRU).

PEMC Cooperation

PEMC and NEA empower Electric Cooperatives

Following the Memorandum of Agreement (MOA) between the Philippine Electricity Market Corporation (PEMC) and National Electrification Administration (NEA), the first wave of training seminars for the empowerment of Electric Cooperatives (ECs) have been completed in October this year.

"The MOA aims to foster empowerment of the ECs through proper training and capacity building activities in preparation for the eventual termination of the Default Wholesale Supplier (DWS), as well as the commencement of Open Access and Retail Competition," said NEA Administrator Edita S. Bueno.

EC empowerment is part of the bigger plan to beef up competition in the electricity market, pursuant to the Electric Power Industry Reform Act (EPIRA). This is also in preparation for the termination of the DWS as instructed by DOE Secretary and PEM Board Chair Angelo T. Reyes with full support of the PEM Board members.

Already, 134 representatives from 34 ECs have undergone training on Open Access and Retail Competition, WESM Principles, Concepts, and Methodologies, Market Assessment and Governance, and Enforcement and Compliance. Currently WESM-active ECs shared their experiences on their participation and practical knowledge on the market. To date, only nine out of the 43 Luzon ECs have yet to attend these trainings.

PEMC Training Manager Regino H. Galindes emphasized that "the main objective of the training is to equip ECs with the proper tools to act decisively and make the necessary preparations leading up to the Open Access and Retail Competition, which will make the business of retail electricity supply highly competitive."

PEMC is currently preparing a similar program for private Distribution Utilities (DUs) so they will likewise be encouraged to register with the market.

"We are taking a definitive step in the right direction of ensuring that ECs under the jurisdiction of NEA, as well as all private distribution utilities, will be ready to confidently take active participation in the Wholesale Electricity Spot Market (WESM) reducing their dependence on the DWS," said PEMC President Melinda L. Ocampo.

Associations & Memberships

Association	Description	Membership Date
Energy Intermaket Surveillance Group (EISG)	International organization of Wholesale Electricity Market Monitors	March 2006
Association of Power Exchanges (APEx)	International organization of Electric Power Markets	July 2007
People Management Association of the Philippines (PMAP)	Organization of human resource practitioners and people managers in the Philippines	November 2008

Energy Secretary and PEM Board Chairman Angelo T. Reyes giving the opening remarks.

DOE and PEMC host 2nd APEx Asia-Pacific Region Meeting

In June 2009, the Department of Energy (DOE) and the Philippine Electricity Market Corporation (PEMC) hosted the 2nd Association of Power Exchanges' (APEx) Asia-Pacific Region Meeting.

APEx is the international organization composed of electric power markets across the globe, which fosters free communication of ideas and practices geared towards operators to share information and experiences essential to the procedures of their respective markets. The organization aims to provide an accessible venue for operators to share information and experiences essential to the procedures of their respective markets. Membership requires any of the following qualifications: operates an electricity trading pool, engages in an electricity power exchange, operates an exchange for trading financial instruments related to electricity trading, or operates an electricity transmission system in a competitive electricity market. PEMC, the second South East Asian country to operate an electricity market, was accepted as a member of the APEx in July 2007.

The Asia-Pacific meeting was initiated to provide a venue for members in the region to discuss issues that particularly concern the territory. Thus, in 2008, the Energy Market Company (EMC) of Singapore hosted the 1st APEx Asia-Pacific Region with representatives from five member countries.

Energy Secretary and PEM Board Chairman Angelo T. Reyes delivered the opening remarks to the well-attended event. "Sourcing electricity for power needs has been a volatile issue but the market has provided another venue for us to do so. Establishing a market is very difficult and that's mainly why very few countries do it. The Philippines and the delegates stand to learn a lot from their individual experiences and from there improve the mechanisms for their respective markets," said Reyes.

PEMC President Melinda L. Ocampo expressed that she was impressed "with the quality of presentation and the massive amount of information imparted by the speakers."

2nd APEx Asia-Pacific Meeting delegates and ERC, MERALCO, NGCP, and NPC representatives with Energy Secretary and PEM Board Cbairman Angelo T. Reyes and PEMC President Melinda L. Ocampo

Among those who gave presentations on the country/market situationer entitled, "Challenges in Existing Markets" were: Korea Power Exchange (KPX), Tenaga Nasional Berhad (TNB) from Malaysia, The Marketplace Company (M-co) from New Zealand, Energy Market Company (EMC) from Singapore, Independent Market Operator (IMO) from Western Australia, and PEMC.

"Market forces and other factors drive electricity prices. But it is always interesting to pick up a thing or two from meetings like these. We owe a lot to the participants of the APEx 2nd Asia Pacific Meeting who willingly shared their experiences and expertise," said Ocampo.

Reyes is optimistic that the attendees of the gathering, from the Philippines and from abroad, learned a lot from each other in their shared experiences. "The meeting brought us together in our collective desire to learn, to share, and to continuously improve each of our own markets. This has provided us with an additional venue to collaborate among peoples in the Asia-Pacific region," said Reyes.

APEx is the international organization composed of electric power markets across the globe, which fosters free communication of ideas and practices geared towards operators to share information and experiences essential to the procedures of their respective markets.

PEMC delegates attend EISG's 20th Meeting

The Energy Intermarket Surveillance Group (EISG) held its 20th Meeting in Banff, Alberta, Canada from 28-29 September 2009, hosted by the Alberta Market Surveillance Administrator (MSA). The EISG is restricted to member organizations or market monitors that have primary responsibility for surveillance of the efficiency and competitiveness of wholesale electricity markets, and that observe an independent and arm's-length relationship with market participants and the market and system operator. The EISG is composed of 18 member organizations, including the Market Assessment Group (MAG) of the Philippine Electricity Market Corporation (PEMC) and the Philippine Energy Regulatory Commission (ERC).

The EISG meeting was attended by representatives from the Australia Energy Regulator (AER), California ISO, New Zealand Electricity Commission, Ontario Independent Electricity System Operator (IESO), Energy Market Company (EMC), New York ISO, PEMC, Southwest Power Pool (SPP), and Western Australia IMO and MSA. The US Federal Energy Regulatory Commission and the Philippine Department of Energy (DOE) were welcomed by the EISG as guests to the said meeting.

The representatives from various jurisdictions presented topics on market updates, impact of renewable energy integration in market performance design, market manipulation, monitoring data and tools, assessing market power, and other case studies.

20th EISG Meeting delegates with PEMC and DOE participants

Audited Financial Statements

Independent Auditor's Report

The Board of Directors
Philippine Electricity Market Corporation

We have audited the accompanying financial statements of Philippine Electricity Market Corporation (a nonstock, nonprofit corporation), which comprise the statements of assets, liabilities and fund balance as at December 31, 2009 and 2008, and the statements of comprehensive income, statements of changes in fund balance and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Philippine Electricity Market Corporation as of December 31, 2009 and 2008, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

J. Carlitos G. Cruz
Partner
CPA Certificate No. 49053
SEC Accreditation No. 0072-AR-1
Tax Identification No.102-084-648
PTR No. 2087522, January 4, 2010, Makati City

March 25, 2010

Statements of Assets Liabilities and Fund Balance

	December 31	
	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱402,671,969**	₱170,665,207
Wholesale Electricity Spot Market receivables (WESM; Note 5)	**125,723,376**	90,926,819
Other receivables	**2,804,341**	826,727
Input value-added taxes (VAT) - net	**–**	4,270,904
Other current assets (Note 6)	**10,594,883**	9,263,148
Total Current Assets	**541,794,569**	275,952,805
Noncurrent Assets		
Market Management System (MMS; Note 8)	**574,909,649**	574,909,649
Property and equipment - net (Note 7)	**56,963,207**	71,340,569
System software (Note 9)	**23,315,063**	20,607,402
Other noncurrent receivables (Note 1)	**8,374,250**	3,311,126
Total Noncurrent Assets	**663,562,169**	670,168,746
TOTAL ASSETS	**₱1,205,356,738**	₱946,121,551
LIABILITIES AND FUND BALANCE		
Current Liabilities		
Accounts payable and accrued expenses (Note 10)	**₱57,575,482**	₱70,445,494
Output VAT - net	**13,902,196**	–
Current portion of advances from National Transmission Corporation (Transco; Note 11)	**120,531,453**	107,955,550
Total Current Liabilities	**192,009,131**	178,401,044
Noncurrent Liabilities		
Obligation for the MMS (Note 8)	**574,909,649**	574,909,649
Advances from Transco - net of current portion (Note 11)	**134,685,743**	255,217,196
Retirement benefit obligation (Note 14)	**41,308,849**	27,766,600
Total Noncurrent Liabilities	**750,904,241**	857,893,445
Fund Balance	**262,443,366**	(90,172,938)
TOTAL LIABILITIES AND FUND BALANCE	**₱1,205,356,738**	₱946,121,551

See accompanying Notes to Financial Statements.

Philippine Electricity Market Corporation (A Nontstock, Nonprofit Corporation)

Statements of Comprehensive Income

	Years Ended December 31	
	2009	2008
REVENUES		
Market fees (Note 15)	**₱740,660,035**	₱537,289,094
Interest	**7,629,441**	3,371,257
Others (Note 12)	**18,974,588**	17,971,013
	767,264,064	558,631,364
EXPENSES		
Personnel (Note 13)	**185,301,337**	165,482,313
Depreciation and amortization (Notes 7 and 9)	**44,068,030**	32,459,048
Interest (Note 11)	**35,214,317**	46,693,070
Professional fees and contracted services	**29,610,368**	18,041,864
Rental (Note 16)	**19,770,073**	21,537,388
Repairs and maintenance	**18,599,306**	14,954,414
Utilities	**18,106,229**	22,173,637
Honorarium and allowances	**16,782,882**	15,627,800
Transportation and per diem	**15,518,023**	7,648,231
Materials, supplies and equipment	**6,955,456**	8,690,685
Insurance	**5,665,738**	3,286,589
Conference	**5,532,264**	5,237,798
Training and education	**5,036,008**	5,822,994
Advertising and promotions	**2,615,645**	4,340,038
Litigation	**1,833,300**	1,269,405
Taxes and licenses	**428,802**	368,268
Representation and entertainment	**362,323**	272,065
Others	**3,247,659**	4,937,881
	414,647,760	378,843,488
EXCESS OF REVENUES OVER EXPENSES (Notes 15 and 20)	**352,616,304**	179,787,876
OTHER COMPREHENSIVE INCOME	**–**	–
TOTAL COMPREHENSIVE INCOME	**₱352,616,304**	₱179,787,876

See accompanying Notes to Financial Statements.

Philippine Electricity Market Corporation (A Nontstock, Nonprofit Corporation)

Statements of Changes in Fund Balance for the years Ended December 31, 2009 and 2008

	Contributed Capital	Accumulated Excess (Deficiency) of Revenues Over (Against) Expenses (Note 15)	Total
Balances at January 1, 2008	₱10,000	(₱269,970,814)	(₱269,960,814)
Total comprehensive income for the year	–	179,787,876	179,787,876
Balances at December 31, 2008	10,000	(90,182,938)	(90,172,938)
Total comprehensive income for the year	–	352,616,304	352,616,304
Balances at December 31, 2009	₱10,000	₱262,433,366	₱262,443,366

See accompanying Notes to Financial Statements.

Statement of Cash Flows

	Years Ended December 31	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues over expenses	**₱352,616,304**	₱179,787,876
Adjustments for:		
Depreciation and amortization (Notes 7 and 9)	**44,068,030**	32,459,048
Interest expense (Note 11)	**35,214,317**	46,693,070
Loss on sale of property and equipment	**27,149**	47,123
Interest income	**(7,629,441)**	(3,371,257)
Excess of revenues over expenses before working capital changes	**424,296,359**	255,615,860
Decrease (increase) in:		
WESM receivables	**(34,796,557)**	(42,622,007)
Other receivables	**(1,574,842)**	854,615
Input VAT – net	**4,270,904**	3,925,276
Other current assets	**(1,331,735)**	26,774
Other noncurrent receivables	**–**	(76,645)
Increase (decrease) in:		
Accounts payable and accrued expenses	**(11,693,759)**	31,161,342
Output VAT – net	**13,902,196**	–
Retirement benefit obligation (Note 14)	**13,542,249**	8,747,000
Net cash generated from operations	**406,614,815**	257,632,215
Interest received	**7,226,670**	3,371,257
Income taxes paid (Note 1)	**(5,063,124)**	(3,234,481)
Interest paid	**(36,390,571)**	(47,564,097)
Net cash flows from operating activities	**372,387,790**	210,204,894
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment and system software (Notes 7 and 9)	**(32,463,505)**	(45,386,945)
Proceeds from sale of property and equipment	**38,027**	–
Net cash flows used in investing activities	**(32,425,478)**	(45,386,945)
CASH FLOW FROM A FINANCING ACTIVITY		
Payment of advances from Transco (Note 11)	**(107,955,550)**	(96,782,023)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**232,006,762**	68,035,926
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**170,665,207**	102,629,281
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱402,671,969**	₱170,665,207

See accompanying Notes to Financial Statements.

Notes to Financial Statements

1. **Corporate Information**

Philippine Electricity Market Corporation (the Company) is a nonstock, nonprofit corporation originally registered with the Philippine Securities and Exchange Commission (SEC) on November 18, 2003. The Company was created by the Department of Energy (DOE) as mandated by Section 30 of Republic Act (RA) No. 9136, the Electric Power Industry Reform Act (EPIRA) which directs the DOE to form an autonomous group market operator (AGMO) that shall undertake the preparatory work and initial operation of the Wholesale Electricity Spot Market (WESM). The Company acts as the AGMO and governing body of the WESM. Its powers and functions are exercised by a Board of Directors (the Board) whose composition is equitably represented by the electric power industry participants. The Philippine Electricity Market (PEM) Board is composed of independent and stakeholder members that represent the Philippine electricity market. The Company's primary purpose is to manage, govern and administer an efficient, competitive, transparent and reliable market for the wholesale and purchase of electricity and ancillary services in the Philippines in accordance with the EPIRA, the rules promulgated to govern the operation of the WESM, including their respective amendments and such other laws, rules and regulations which may be enacted hereafter that shall govern the WESM.

The PEMC by-laws provide for expiration of the Interim Period one year from spot market commencement date. However, as of March 25, 2010, the Board remains at its Interim Period with its members appointed by the Secretary of the DOE.

Pursuant to the DOE's Department Circular No. 2006-06-008 issued on June 21, 2006 in accordance with the EPIRA, commercial operations of the WESM in Luzon were formally launched on June 26, 2006. In October 2005, the WESM Trial Operations Program for the Visayas began. In February 2008, the final phase of the trial operations, the Live Dispatch Operations Program, officially began. In the course of the WESM Trial Operations Program, however, the DOE identified various issues pertaining to the operations of the WESM as well as identified certain gaps in the WESM Rules that needed to be addressed before commercial operations of the WESM can be extended to the Visayas grid. Trial operations were temporarily suspended in May 2009. As of March 25, 2010, commencement of commercial operations of the WESM in the Visayas has not yet been declared by the DOE.

Section 30 of the EPIRA and provision 10.2 of the WESM Rules mandate that the AGMO will undertake the initial operations of the WESM, and one year from implementation of the WESM, an Independent Market Operator (IMO) shall be formed and the functions, assets and liabilities of the AGMO shall be transferred to the IMO upon the joint endorsement of the DOE and the industry participants. As of March 25, 2010, an IMO has not yet been formed or selected by the DOE and the participants as there are yet policy issues raised by the DOE that have to be addressed before transition to the IMO can be implemented. The DOE has engaged the services of consultants to study the possible structure and manner of selection or appointment of the IMO.

The WESM trading participants include generation companies, distribution utilities including electric cooperatives, bulk customers and suppliers or aggregators.

The Company is a nonstock, nonprofit corporation which is exempt from income tax and consequently, from withholding tax, pursuant to Section 30(F) of the 1997 Tax Code, as amended, in relation to Section 31 of Revenue Regulations (RR) No. 2-40. Thus, the income from activities conducted in pursuit of the objectives for which the Company was established is exempt from income tax. However, any income on any of its properties, real or personal, or from any activity conducted for profit, regardless of the disposition of such income, is subject to income tax. The Company has a pending application for Bureau of Internal Revenue (BIR) ruling confirming its exemption from income tax as a nonstock, nonprofit business corporation.

Pending the issuance of the BIR ruling, market participants continue to withhold on the portions of the market fees as withholding taxes, which is creditable against the income tax due of the Company for the taxable quarter/year. Since the Company will have no taxable income against which the withholding tax credits may be applied, the Company has chosen the option of claiming a cash refund of the excess and unutilized withholding tax credits from the BIR. As of December 31, 2009 and 2008, excess and unutilized withholding taxes amounted to ₱8.4 million and ₱3.3 million, respectively. These are classified as "Other noncurrent receivables" in the statement of assets, liabilities and fund balance of the Company.

As a nonstock, nonprofit corporation, the cost of administering and operating the WESM is expected to be fully funded by the collected market fees (see Note 15).

As Market Operator of the WESM, the Company oversees the transaction billing and settlement procedures of the market in accordance with the WESM Rules. All the amounts and the net effect of such amounts received and paid by the Company as Market Operator, from and to the WESM trading participants for energy transactions in the WESM, are not reflected in the Company's statement of assets, liabilities and fund balance as no economic benefits flow to and from the Company under this pass-through arrangement (see Note 19).

The Company has its principal office at 9th Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City.

The financial statements of the Company as of and for the years ended December 31, 2009 and 2008 were authorized for issue by the Board on March 25, 2010.

2. Summary of Significant Accounting Policies

<u>Basis of Preparation</u>
The financial statements of the Company have been prepared under the historical cost basis. The financial statements are presented in Philippine peso (₱), which is the Company's functional and presentation currency. All values are rounded to the nearest peso, except when otherwise indicated.

<u>Statement of Compliance</u>
The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

<u>Changes in Accounting Policies and Disclosures</u>
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following revised and amended PFRS which the Company has adopted starting January 1, 2009:

Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*
This amendment introduces a new statement of compremahensive income that combines all items of income and expenses recognized in the profit or loss together with "other comprehensive income".

Entities may choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. This amendment also provides additional requirements in the presentation of the balance sheet and owner's equity as well as additional disclosures to be included in the financial statements. The Company elected to present the statement of comprehensive income as a single statement combined with the statement of revenues and expenses. The Company does not have any other comprehensive income for the years ended December 31, 2009 and 2008. Adoption of this Standard has no effect on the valuation of the Company's assets and liabilities.

Amendments to PFRS 7, *Financial Instruments: Disclosures*
The amendments to PFRS 7 require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three-level fair value hierarchy: (1) Quoted price, (2) Observable inputs other than quoted price and (3) Unobservable inputs, by class, for all financial instruments remeasured at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The fair value measurement and the liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 17 to the financial statements.

Adoption of the following new, revised and amended PFRS and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) and improvements to PFRS did not have any significant impact on the Company.

New and Revised Standards and Interpretations

PAS 23, *Borrowing Costs* (Revised)
The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the standard, the Company has adopted the standard on a prospective basis. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009.

PFRS 8, *Operating Segments*
PFRS 8 replaces PAS 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the statement of financial position and statement of comprehensive income and the Company provides explanations and reconciliations of the differences. This standard is only applicable to an entity that has debt or equity instruments that are traded in a public market or that files (or is in the process of filing) its financial statements with a securities commission or similar party.

Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
This Interpretation requires loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. Consideration received in the sales transaction is allocated between the sale of the goods or services and the award credits.

Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
This Interpretation provides guidance on the accounting for a hedge of a net investment. This Interpretation also clarifies what constitutes hedged risk in the hedge of a net investment in a foreign operation (functional to functional currency, hedgeable amount up to net assets in parent's consolidated financial statements).

Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*
This Interpretation is to be applied prospectively to transfers of assets from customers received on or after July 1, 2009. The Interpretation provides guidance on how to account for items of property, plant and equipment received from customers or cash that is received and used to acquire or construct assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. When the transferred item meets the definition of an asset, the asset is measured at fair value on initial recognition as part of an exchange transaction. The service(s) delivered are identified and the consideration received (the fair value of the asset) allocated to each identifiable service. Revenue is recognized as each service is delivered by the entity.

Amendments to Standards and Interpretations

PAS 32, *Financial Instruments: Presentation* and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
These amendments specify, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) the instrument entitles the holder to require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro rata share of the entity's net assets; (b) the instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation; (c) all instruments in the subordinate class have identical features; (d) the instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a pro rata share of the entity's net assets; and (e) the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument.

PFRS 1, *First-time Adoption of PFRS* and PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
The amendments to PFRS 1 allowed an entity to determine the "cost" of investments in subsidiaries, jointly controlled entities or associates in its opening PFRS financial statements in accordance with PAS 27 or using a deemed cost method. The amendment to PAS 27 required all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the statement of comprehensive income. The revision to PAS 27 was applied prospectively.

PFRS 2, *Share-based Payment - Vesting Conditions and Cancellations*
The standard has been revised to clarify the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires non-vesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a non-vesting condition that is within the control of either the entity or the counterparty is accounted for as cancellation. However, failure to satisfy a non-vesting condition that is beyond the control of either party does not give rise to a cancellation. These amendments do not have an impact on the financial statements.

Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives* and
PAS 39, *Financial Instruments: Recognition and Measurement - Embedded Derivatives*
This amendment to Philippine Interpretation IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss (FVPL) category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. PAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at FVPL.

Improvements to PFRS
In May 2008, the International Accounting Standards Board (IASB) issued its first omnibus of amendments to the following standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. These improvements do not have an impact on the financial statements.

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5 even when the entity retains a non-controlling interest in the subsidiary after the sale.

PAS 1, *Presentation of Financial Statements*
- Assets and liabilities classified as held for trading are not automatically classified as current in the statement of financial position.

PAS 16, *Property, Plant and Equipment*
- The amendment replaces the term "net selling price" with "fair value less costs to sell", to be consistent with PFRS 5 and PAS 36, Impairment of Assets.
- Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.

PAS 18, *Revenue*
- The amendment adds guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity: (a) has primary responsibility for providing the goods or service; (b) has inventory risk; (c) has discretion in establishing prices; and (d) bears the credit risk.

PAS 19, *Employee Benefits*
- Revises the definition of "past service cost" to include reductions in benefits related to past services ("negative past service costs") and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.
- Revises the definition of "return on plan assets" to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.
- Revises the definition of "short-term" and "other long-term" employee benefits to focus on the point in time at which the liability is due to be settled.
- Deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*

- Loans granted with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as a government grant.

PAS 23, *Borrowing Costs*

- Revises the definition of borrowing costs to consolidate the types of items that are considered components of "borrowing costs", i.e., components of the interest expense calculated using the effective interest rate method.

PAS 27, *Consolidated and Separate Financial Statements*

- Requires an entity that prepares separate financial statements to account for investments that are classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5. However, financial assets that the entity accounts for in accordance with PAS 39 are excluded from PFRS 5's measurement requirements.

PAS 28, *Investments in Associates*

- If an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.
- An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

PAS 29, *Financial Reporting in Hyperinflationary Economies*

- Revises the reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.

PAS 31, *Interests in Joint Ventures*

- If a joint venture is accounted for at fair value, in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.

PAS 36, *Impairment of Assets*

- When discounted cash flows are used to estimate "fair value less cost to sell" additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate "value in use".

PAS 38, *Intangible Assets*

- Expenditure on advertising and promotional activities is recognized as an expense when the Company either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues.
- Deletes references to there being rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit of production method.

PAS 39, *Financial Instruments: Recognition and Measurement*

- Changes in circumstances relating to derivatives - specifically derivatives designated or de-designated as hedging instruments after initial recognition are not reclassifications.
- When financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4, Insurance Contracts, this is a change in circumstance, not a reclassification.
- Removes the reference to a "segment" when determining whether an instrument qualifies as a hedge.
- Requires use of the revised effective interest rate (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.

PAS 40, *Investment Property*

- Revises the scope (and the scope of PAS 16) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.

PAS 41, *Agriculture*

- Removes the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or post-tax discount rate depending on the valuation methodology used.
- Removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Instead, cash flows that are expected to be generated in the "most relevant market" are taken into account.

<u>New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2009</u>
The Company will adopt the standards, interpretations and amendments enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations from IFRIC to have significant impact on its financial statements.

Effective in 2010

Revised PFRS 3, *Business Combinations* and Amendments to PAS 27, *Consolidated and Separate Financial Statements*
The revised standards are effective for annual periods beginning on or after July 1, 2009. The revised PFRS 3 introduces a number of changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. The amended PAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised PFRS 3 and amended PAS 27 will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. The revised PFRS 3 will be applied prospectively while the amended PAS 27 will be applied retrospectively with a few exceptions.

Amendments to PFRS 2, *Share-based Payments - Group Cash-settled Share-based Payment Transactions*
The amendments to PFRS 2 effective for annual periods beginning on or after January 1, 2010, clarify the scope and the accounting for group cash-settled share-based payment transactions.

Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*
The amendment to PAS 39 effective for annual periods beginning on or after July 1, 2009, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

Philippine Interpretations IFRIC 17, *Distributions of Non-cash Assets to Owners*
This Interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The Interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability.

Improvement to PFRS in 2009
The omnibus amendments to PFRSs issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The improvements are effective for annual periods beginning on or after January 1, 2010 except if otherwise stated. The Company has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

- PFRS 2, *Share-based Payment*
    - Clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3 (Revised). The amendment is effective for financial years on or after July 1, 2009.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
    - Clarifies that the disclosures required with respect to noncurrent assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such non-current assets or discontinued operations.

- PFRS 8, *Operating Segments*
    - Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 1, *Presentation of Financial Statements*
    - Clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7, *Statement of Cash Flows*
    - Explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, *Leases*
  - Removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either "finance" or "operating" in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

- PAS 36, *Impairment of Assets*
  - Clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 38, *Intangible Assets*
  - Clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- PAS 39, *Financial Instruments: Recognition and Measurement*
  - Clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract;
  - The scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and
  - Gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect comprehensive income.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
  - Clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
  - States that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

Effective in 2012

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This Interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Market Transaction Fees
Market transaction fees are recognized when services are rendered and are based on market fee filings as approved by the ERC.

Market Registration Fees
Market registration fees consist of fixed and variable fees. Fixed market registration fees are recognized on a straight-line basis over the year and are based on rates approved by the ERC. Variable market registration fees are recognized when related services are rendered.

Interest
Interest income is recognized as the interest accrues using the effective interest rate method.

Expenses
Expenses are decreases in economic benefits during the accounting period in the form of outflows or decreases of assets or incurrence of liabilities that result in decreases in fund balance. Expenses are generally recognized when the service is used or the expense arises. The Company's expenses consist primarily of personnel expenses and depreciation and amortization on property and equipment and system software.

Cash and Cash Equivalents
Cash includes cash on hand and with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from date of placement and that are subject to an insignificant risk of changes in value (see Note 17).

Financial Instruments
Financial instruments are recognized in the statement of assets, liabilities and fund balance when the Company becomes a party to the contractual provisions of the instrument. The Company determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date.

All regular way purchases and sales of financial assets are recognized on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial instruments at FVPL, the initial measurement of financial instruments includes transaction costs. Financial assets under PAS 39, are classified as either financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments or available-for-sale (AFS) financial assets. As of December 31, 2009 and 2008, the Company has no financial liabilities at FVPL. The Company's financial assets are of the nature of loans and receivables. As of December 31, 2009 and 2008, the Company has no outstanding financial assets classified as FVPL, AFS financial assets and HTM investments. The Company's financial liabilities are of the nature of other financial liabilities.

Loans and Receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS financial assets nor designated at FVPL. This accounting policy relates to the Company's "Cash and cash equivalents", "WESM receivables", "Other receivables" and "Other noncurrent receivables".

Loans and receivables are recognized initially at fair value, which normally pertain to the billable amount. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization, if any, is included in "Interest income" in the statement of comprehensive income. The losses arising from impairment of receivables are recognized in the statement of comprehensive income. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectibility of accounts (see accounting policy on Impairment of Financial Assets Carried at Amortized Cost).

Loans and receivables are classified as current when they are expected to be realized within twelve months after the reporting date or within the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets. "Other noncurrent receivables" which consist of withholding taxes filed for refund with the BIR, are classified as noncurrent because of the uncertainty of the timing of collection (see Note 1).

Other Financial Liabilities
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

This accounting policy applies primarily to the Company's "Obligation for the Market Management System (MMS)", "Advances from Transco", "Accounts payable and accrued expenses" and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as retirement benefit obligation).

Other financial liabilities are classified as current when they are expected to be settled within twelve months from the reporting date or the Company has an unconditional right to defer settlement for at least twelve months from the reporting date. "Obligation for the MMS" is classified as a noncurrent liability because of the uncertainty of the timing of settlement (see Note 8).

“Day 1” Profit and Loss

Where the transaction price in a nonactive market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a “Day 1” profit and loss) in the statement of comprehensive income, unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the “Day 1” profit and loss amount.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of assets, liabilities and fund balance if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Impairment of Financial Assets Carried at Amortized Cost

The Company assesses at each reporting date whether there is objective evidence that a financial or group of financial assets is impaired. If there is objective evidence that an impairment loss on financial assets carried at amortized cost (e.g., “WESM receivables”) has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the asset’s original effective interest rate. Time value is generally not considered when the effect of discounting is not material. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The asset, together with the associated allowance accounts, is written off when there is no realistic prospect of future recovery. The amount of the loss shall be recognized in the statement of comprehensive income.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the estimated impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Derecognition of Financial Instruments

Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

MMS

The MMS is the infrastructure with various hardware, software and interfaces that supports the operations of the WESM. It is made up of several highly advanced applications for market interface, market application, settlement, accounting and metering that supports the Day-Ahead Market, Week-Ahead Market, Economic Dispatch for Real-Time Market, Locational Marginal Pricing and Billings and Settlements.

The cost of the asset is still provisional until (a) the actual amount to be recovered is established with sufficient documentation from Transco, NPC or PSALM; (b) an agreement has been reached regarding the manner of repayment and the actual payee, and (c) ERC's approval has been obtained for the cost recovery and loan repayment.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization and impairment in value, if any.

The initial cost of property and equipment comprises its purchase price, including import duties, nonrefundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance, are normally charged against revenues in the period when the costs are incurred.

Depreciation and amortization is computed using the straight-line method over the estimated useful lives of property and equipment, or in the case of leasehold improvements, the term of the related lease or the estimated useful lives of the improvements, whichever is shorter. Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The estimated useful lives of property and equipment are as follows:

Category	Number of years
Office equipment	3 to 5
System hardware	3 to 5
Leasehold improvements	5
Transportation equipment	5
Furniture and fixtures	3

The useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

When property and equipment are retired or otherwise disposed of, both the cost and related accumulated depreciation and amortization and any allowance for impairment losses are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

System Software

System software is stated at cost less accumulated amortization and any impairment in value. The initial cost of system software comprises its purchase price. Expenditure which enhances or extends the performance of system software programs beyond their original specifications is capitalized and added to the original cost of the software. Costs associated with developing or maintaining system software programs are recognized as expense when incurred.

System software development costs recognized as assets are amortized using the straight-line method over their useful lives, but not exceeding a period of five years.

Input Value-added Taxes (VAT)

Input VAT represents VAT imposed on the Company by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation, laws and regulations. The input VAT is recognized as an asset and will be used to offset against the Company’s current VAT liabilities. Input VAT are stated at its estimated net realizable value.

Impairment of Nonfinancial Assets

The MMS, property and equipment, system software and input VAT are reviewed for impairment when the events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their estimated recoverable amounts. The estimated recoverable amount is the greater of net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm’s length transactions less the cost of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statement of comprehensive income.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in the statement of comprehensive income. However, the increased carrying
amount of an asset due to recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation and amortization) had no impairment loss been recognized for that asset in prior years.

Fund Balance
The fund balance represents cumulative results of corporate operations. A credit balance indicates excess of revenues over expenses, while a debit balance indicates excess of expenses over revenues.

Operating Leases
Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Lease payments under an operating lease are recognized in the statement of comprehensive income on a straight-line basis over the lease term.

Retirement Benefit Expense
The Company has an unfunded noncontributory defined benefit retirement plan. The cost of providing benefits is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan. The retirement obligation is measured at present value of estimated future cash flows.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a retirement benefit plan, past service cost is recognized immediately.

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are made by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of reimbursement.

Contingencies
Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

Events After the Reporting Date
Post year-end events that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

3. Significant Accounting Judgments and Estimates

The Company's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes. The judgments and estimates used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Company's financial statements. Actual results could differ from such estimates.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments
Determining Functional Currency
The functional currency of the Company has been determined to be the Philippine peso. Based on the Company's evaluation, the Philippine peso is the currency that most faithfully represents the economic substance of the Company's underlying transactions, events and conditions.

Operating Leases - Company as Lessee
The Company has entered into lease agreements as a lessee. The lease agreements are accounted for as an operating lease, with the lessor retaining all significant risks and rewards of ownership of these properties (see Note 16).

Estimates
Estimating Impairment Losses on WESM Receivables
The Company assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on age and status of the financial asset, as well as on historical loss experience. Allowance for impairment loss is provided when management believes that the balance cannot be collected or realized after exhausting all efforts and courses of action.

As of December 31, 2009 and 2008, no allowance for impairment losses on WESM receivables was recognized. WESM receivables are carried at ₱125.7 million and ₱90.9 million as of December 31, 2009 and 2008, respectively (see Note 5).

Estimating Useful Lives of the MMS, Property and Equipment and System Software
The Company estimates the useful lives of the MMS, property and equipment and system software based on the period over which they are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives is based on collective assessment of internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

As of December 31, 2009 and 2008, the net book values of property and equipment and system software amounted to ₱80.3 million and ₱91.9 million, respectively (see Notes 7 and 9).

As the amount of the MMS is still provisional, management has not yet identified the cost and estimated useful lives of the MMS hardware and software components. Moreover, management is still in discussion with the software provider as to whether the perpetuity of the software license applies in case the system is migrated to a server with a higher capacity. Consequently, management has not yet recognized depreciation (see Note 8).

Estimating Retirement Benefit Expense
The determination of the Company's retirement benefit obligation and retirement benefit expense is dependent on the selection of certain assumptions used by the actuaries in calculating such amounts. Those assumptions are described in Note 14 to the financial statements.

Retirement benefit expense amounted to ₱14.0 million and ₱8.7 million in 2009 and 2008, respectively. Retirement benefit obligation amounted to ₱41.3 million and ₱27.8 million as of December 31, 2009 and 2008, respectively (see Note 14).

Recognizing and Estimating the Obligation for the MMS
The amount of the obligation for the MMS was measured based on the best estimate of the expenditure required to settle the present obligation at the reporting date.

The obligation for the MMS is recognized at ₱574.9 million as of December 31, 2009 and 2008 (see Note 8).

Estimating Impairment of Nonfinancial Assets
The Company assesses impairment on the MMS, property and equipment, system software and input VAT whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The estimated recoverable amount is computed using the asset's value in use. The value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates and assumptions that can materially affect the financial statements.

No impairment loss was recognized in 2009 and 2008. The net book values of the MMS, property and equipment, system software and input VAT amounted to ₱655.2 million and ₱671.1 million as of December 31, 2009 and 2008, respectively (see Notes 7, 8 and 9).

4. Cash and Cash Equivalents

	2009	2008
Cash	**₱21,321,090**	₱47,235,037
Short-term investments	**381,350,879**	123,430,170
	₱402,671,969	₱170,665,207

Cash with banks earn interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term investment rates.

Interest income amounted to ₱7.6 million and ₱3.4 million in 2009 and 2008, respectively.

5. WESM Receivables

WESM receivables pertain to the amounts due to the Company from the imposition of market fees on the generation companies (see Note 15). As mandated by Section 3.14.6 of the WESM Rules, these WESM receivables are noninterest-bearing and are generally have 30-day terms.

WESM receivables amounting to ₱125.7 million and ₱90.9 million as of December 31, 2009 and 2008, respectively, are neither past due nor impaired. No impairment loss was recognized for the years ended December 31, 2009 and 2008. The Company assessed the WESM receivables as collectible and in good standing (see Note 17).

6. Other Current Assets

	2009	2008
Guaranty deposits (see Note 16)	**₱4,552,480**	₱3,808,197
Prepaid rent (see Note 16)	**3,043,420**	3,209,420
Prepaid insurance	**902,392**	1,117,728
Materials and supplies	**621,040**	390,108
Others	**1,475,551**	737,695
	₱10,594,883	₱9,263,148

7. Property and Equipment

2009

	Office Equipment	System Hardware	Leasehold Improvements	Transportation Equipment	Furniture and Fixtures	Total
Cost:						
Balances at beginning of year	**₱66,578,290**	**₱27,660,065**	**₱45,350,880**	**₱9,644,856**	**₱10,978,103**	**₱160,212,194**
Additions	**15,137,470**	**4,765,102**	**–**	**1,339,286**	**292,921**	**21,534,779**
Disposal	**–**	**–**	**–**	**–**	**(97,902)**	**(97,902)**
Balances at end of year	**81,715,760**	**32,425,167**	**45,350,880**	**10,984,142**	**11,173,122**	**181,649,071**
Accumulated depreciation and amortization:						
Balances at beginning of year	**45,941,795**	**4,187,936**	**25,951,688**	**4,626,492**	**8,163,714**	**88,871,625**
Depreciation and amortization	**13,317,519**	**9,567,664**	**9,072,660**	**1,998,423**	**1,890,699**	**35,846,965**
Disposal	**–**	**–**	**–**	**–**	**(32,726)**	**(32,726)**
Balances at end of year	**59,259,314**	**13,755,600**	**35,024,348**	**6,624,915**	**10,021,687**	**124,685,864**
Net book values	**₱22,456,446**	**₱18,669,567**	**₱10,326,532**	**₱4,359,227**	**₱1,151,435**	**₱56,963,207**

2008

	Office Equipment	System Hardware	Leasehold Improvements	Transportation Equipment	Furniture and Fixtures	Total
Cost:						
Balances at beginning of year	₱74,337,890	₱–	₱45,268,737	₱8,618,070	₱10,613,398	₱138,838,095
Additions/ Reclassification (see Note 9)	(7,670,314)	27,660,065	82,143	1,026,786	364,705	21,463,385
Disposal	(89,286)		–	–	–	(89,286)
Balances at end of year	66,578,290	27,660,065	45,350,880	9,644,856	10,978,103	160,212,194
Accumulated depreciation and amortization:						
Balances at beginning of year	35,542,614	–	16,884,250	2,731,926	4,612,108	59,770,898
Depreciation and amortization/ Reclassification (see Note 9)	10,441,344	4,187,936	9,067,438	1,894,566	3,551,606	29,142,890
Disposal	(42,163)	–	–	–	–	(42,163)
Balances at end of year	45,941,795	4,187,936	25,951,688	4,626,492	8,163,714	88,871,625
Net book values	₱20,636,495	₱23,472,129	₱19,399,192	₱5,018,364	₱2,814,389	₱71,340,569

8. MMS and Obligation for the MMS

The National Power Corporation (NPC) entered into loan agreements with the Asian Development Bank (ADB) and Japan Bank of International Cooperation (JBIC) for the purpose of securing financing for developments in the Philippine power industry.

Among the undertakings supported from the proceeds of the loan is the cost of the development of the MMS for the WESM. Transco was the designated project executing agency for the development of the MMS. The Company was assigned as the project administrator.

The MMS is the infrastructure with various hardware, software and interfaces that supports the operations of the WESM. It is made up of several highly advanced applications for market interface, market application, settlement, accounting and metering that supports the Day-Ahead Market, Week-Ahead Market, Economic Dispatch for Real-Time Market, Locational Marginal Pricing and Billings and Settlements.

On March 17, 2004, Transco, for the development of the MMS, entered into a “Contract for the Turnkey Implementation of the MMS” with ABB Inc. Network Management Unit and a “Contract for the Project Management Consultant” for the WESM with the Marketplace Company PTY Limited. The MMS was physically transferred to the Company and installed at its office during the development stage in December 2004 and was completed in June 2006.

Under the Operating Agreement dated May 5, 2004 entered into between and among the Company, Transco and the DOE, capital expenditures from the operation of the WESM shall be recovered from the market fees. The Memorandum of Agreement (MOA) between Transco and the Company dated October 22, 2004 covered the recovery mechanism for advances by Transco to the Company for the operations of the WESM but did not include the cost and recovery for the MMS. In view of these conditions, as of December 31, 2006, the Company did not recognize the cost of the MMS in its accounts.

Without due resolution on the identity of contracting party (whether NPC, Transco where the MMS is still recorded as part of its books, or PSALM), PSALM has requested payment of the MMS through the demand letters dated February 20, 2008 and May 30, 2008. During a meeting held on April 24, 2008 between PSALM/NPC/Transco and the Company, the parties agreed that PSALM will provide the documents supporting the amount being claimed by June 30, 2008 to enable the Company to include this cost in its application with the ERC for the 2009 market fees.

In its request on August 6, 2008, PSALM estimated the amount payable to be ₱697.4 million, payable yearly for a period of five years. Aside from the loan drawdowns and project management costs, the amount being claimed by PSALM included accumulated financing costs and other transaction costs incurred from 2004 to 2008.

The MMS cost recovery and loan repayment was included in the market fees application filed with the ERC on September 11, 2008, with the intention that the ERC will decide on the cost to be recovered and manner of repayment. The filing for the WESM market fees for calendar year (CY) 2009-2011 includes a provision on MMS repayment based on the amortization schedule (5 years with the first repayment date scheduled in December 2009) and interest rate (12% per annum) as provided by PSALM (see Note 15). In its Order dated September 28, 2009 ruling on the motion for reconsideration filed by PEMC on the ERC’s Decision on the market fees for CY 2009, the ERC stated that the cost and recovery mechanism for the MMS loan repayments will be subject of a separate application with the agreement that there should be established recovery arrangements between NPC, Transco, PSALM and the Company.

As of March 25, 2010, the Company has not yet received all the documents supporting the amount being claimed as cost of the MMS and no agreement has been reached between NPC, as loan borrower, Transco, as executing agency and/or PSALM regarding the final payee. In the absence of complete supporting documents from PSALM for the cost of the MMS, based on management’s estimate and as supported by project management invoices monitored by the Company, the MMS project cost (without considering loan administration cost) is approximately ₱574.9 million. Accordingly, the MMS at the amount of ₱574.9 million is recorded as an asset and an equivalent amount is recorded as “Obligation for the MMS” in the statement of assets, liabilities and fund balance as of December 31, 2009 and 2008.

The cost of the asset and the amount of the obligation are provisional until (a) the actual amount to be recovered is established with sufficient documentation from Transco, NPC or PSALM;
(b) an agreement has been reached regarding the manner of repayment and the actual payee, and (c) ERC's approval has been obtained for the cost recovery and loan repayment.

9. System Software

	2009	2008
Cost		
Balance at beginning of year	**₱23,923,560**	₱–
Additions/reclassifications (see Note 7)	**10,928,726**	23,923,560
Balance at end of year	**34,852,286**	23,923,560
Accumulated amortization		
Balance at beginning of year	**3,316,158**	–
Amortization/reclassifications (see Note 7)	**8,221,065**	3,316,158
Balance at end of year	**11,537,223**	3,316,158
Net book value	**₱23,315,063**	₱20,607,402

10. Accounts Payable and Accrued Expenses

	2009	2008
Accounts payable	**₱24,050,529**	₱42,686,820
Accrued expenses	**16,431,652**	14,878,107
Withholding taxes payable	**13,899,510**	8,546,271
Interest payable (see Note 11)	**2,813,926**	3,990,180
Others	**379,865**	344,116
	₱57,575,482	₱70,445,494

Accounts payable and accrued expenses are noninterest-bearing, carried at cost and usually have a 30 to 60-day terms.

11. Advances from Transco

	2009	2008
Principal	**₱199,312,995**	₱282,628,113
Assets and leasehold improvements	**15,512,373**	23,268,559
Interest	**40,391,828**	57,276,074
	255,217,196	363,172,746
Less current portion	**120,531,453**	107,955,550
	₱134,685,743	₱255,217,196

Pursuant to the Operating Agreement dated May 6, 2004 between the Transco, DOE and the Company, Transco shall provide for the initial operational and capital expenditures for the Company prior to the collection of market fees. To ensure the recovery by Transco of its capital and operating expenditures, Transco and the Company formulated on October 22, 2004 a recovery mechanism.

Based on the recovery mechanism, the Company shall deliver to Transco a schedule of quarterly drawdown, indicating the amount of each availment and intended drawdown date. Each drawdown shall be evidenced by a promissory note issued by the Company, dated as at the drawdown date, and payable to Transco in the amount of such drawdown. The aggregate amount indicated in the promissory notes, or any portion thereof still unpaid and outstanding shall earn 12% interest per annum, compounded and capitalized annually. The principal amount and interest accruing thereon shall be amortized and paid quarterly over a five-year period starting three months from the date of collection of market fees from electric power industry participants.

On November 25, 2006, the Company began collecting market fees from the electric power industry participants for the portion attributable to the repayment of the advances from Transco.

On February 16, 2007, the Company received notice from Transco regarding the schedule of amortization of payments of the promissory notes issued to the Company. The maturities and principal amortization of the advances from Transco for each of the next two years as of December 31, 2009 are as follows:

Year	Amounts
2010	₱120,531,453
2011	134,685,743
	₱255,217,196

Interest expense amounted to ₱35.2 million and ₱46.7 million in 2009 and 2008, respectively.

12. Other Revenues

	2009	2008
Excess of standard over actual input VAT	**₱16,958,982**	₱16,194,550
Miscellaneous income	**2,015,606**	1,776,463
	₱18,974,588	₱17,971,013

The excess of standard over actual input VAT reflects the difference between 12% VAT and the 5% VAT deducted and withheld by government-owned and controlled corporations from payment.

13. **Personnel Expenses**

	2009	2008
Salaries and wages	**₱171,294,463**	₱156,735,313
Retirement benefit expense (see Note 14)	**14,006,874**	8,747,000
	₱185,301,337	₱165,482,313

Compensation of identified key management personnel are as follows:

	2009	2008
Short-term employee benefits	**₱18,266,168**	₱20,362,421
Post-employment benefits	**1,676,725**	1,371,400
Total compensation of key management personnel	**₱19,942,893**	₱21,733,821

14. **Retirement Benefit Expense**

The Company has an unfunded noncontributory defined benefit retirement plan covering all of its employees.

The following tables summarize the components of net benefit expense recognized in the statements of comprehensive income and amounts recognized in the statement of assets, liabilities and fund balance.

The components of retirement benefit expense recognized in the statement of comprehensive income are as follows:

	2009	2008
Current service cost	**₱9,520,374**	₱6,968,800
Interest cost	**1,664,127**	1,778,200
Amortization of:		
Past service cost	**3,491,855**	–
Net actuarial gain	**(669,482)**	–
Retirement benefit expense	**₱14,006,874**	₱8,747,000

The amounts recognized under "Retirement benefit obligation" in the statement of assets, liabilities and fund balance are as follows:

	2009	2008
Present value of defined benefit obligation	**₱46,225,786**	₱11,244,100
Unrecognized actuarial gain	**11,293,014**	16,522,500
Past service cost	**(16,209,951)**	–
Retirement benefit obligation	**₱41,308,849**	₱27,766,600

Changes in the present value of the defined benefit obligation are as follows:

	2009	2008
Present value of the obligation at beginning of year	**₱11,244,100**	₱17,571,200
Past service cost	**19,701,806**	–
Current service cost	**9,520,374**	6,968,800
Actuarial loss (gain)	**4,560,004**	(15,074,100)
Interest cost	**1,664,127**	1,778,200
Benefits paid	**(464,625)**	–
Present value of the obligation at end of year	**₱46,225,786**	₱11,244,100

Amounts for the current and previous four years are as follows:

	2009	2008	2007	2006	2005
Defined benefit obligation	**₱46,225,786**	₱11,244,100	₱17,571,200	₱15,592,800	₱5,925,200
Actuarial loss on experience adjustments	**(26,098,855)**	(3,041,900)	1,918,800	5,713,500	1,544,900
Change in actuarial assumptions	**30,658,859**	(12,032,200)	(9,332,700)	(3,207,300)	2,247,000

The principal actuarial assumptions used to determine defined benefit obligation as of December 31, 2009 and 2008 are as follows:

	2009	2008
Discount rate	**10.85%**	14.80%
Salary increase	**10.00%**	13% for 2009 and 9% thereafter

15. **Market Fees**

	2009	2008
Market transaction fees	**₱740,056,724**	₱536,803,365
Market registration fees	**603,311**	485,729
	₱740,660,035	₱537,289,094

As mandated in Section 2.10 of the WESM Rules, the cost of administering and operating the WESM shall be recovered by the Company through a charge imposed on all trading participants, provided such charge shall be filed with the ERC for approval.

2006 Market Fees
Pursuant to its decision dated June 22, 2006 rendered on *ERC Case No. 2005-048*, *"Application for the Approval of the Structure and Level of Market Fees for the Philippine Wholesale Electricity Spot Market"*, the ERC approved the fixed annual market transaction fees for the CY 2006 at ₱433.6 million. The market transaction fees shall be levied upon the generators registered with the WESM and will be apportioned based on the gross kilowatt hours generated by the trading participant during the billing period. Subsequently, the Company began the collection of market fees in November 2006.

2007-2008 Market Fees
On January 30, 2008, the ERC released its decision on Case No. 2007-124 RC, *"In the Matter of the Application for the Approval of the Level of Market Transaction Fees for Year 2007 for the Philippine Wholesale Electricity Spot Market"* docketed on February 20, 2008. The ERC approved market fees amounting to ₱461.2 million for Luzon and ₱28.1 million for the Visayas, which would cover twelve (12) billing periods covering the October 26, 2007 to November 25, 2007 billing period until the September 26, 2008 to October 25, 2008 billing period. The market fees for Luzon would be charged to the generation companies registered under WESM while the Visayas budget requirements would be obtained from the cash remaining from the advances from Transco since the Visayas is still under trial operations. The market fees per month would be computed by subtracting the actual collections from the October 26, 2007 to March 25, 2008 billing periods from the approved budget, then allocating the balance to the remaining months. The Company began charging the revised market fees in the March 26, 2008 to April 25, 2008 billing period, thus, giving a total recovery period of seven (7) months or until the September 26, 2008 to October 25, 2008 billing period.

On March 7, 2008, the Company filed a motion for reconsideration on the ERC's January 30, 2008 decision on the market fees. On June 26, 2008, the ERC resolved that the Luzon market fees would be increased by ₱59.6 million, which would also cover the same twelve (12) month period as its original decision. As a result, total market fees in Luzon for the year covering October 26, 2007 to October 25, 2008 amounted to ₱520.9 million. The additional market fees approved under the motion for reconsideration were charged to participants starting with the July 26 to August 25, 2008 billing statements, and were computed using the ERC directed method described in the January 30, 2008 decision.

The recorded market transaction fees in 2008 amounted to ₱536.8 million, which differ from the total approved market fees for 2008 of ₱520.9 million. Total market transaction fees for the CY 2008 is computed as follows:

Approved ERC budget for billing periods October 26, 2007 to October 25, 2008		₱520,857,506
Less portion of the budget allocable to calendar year 2007:		
Billing periods October 26, 2007 to December 25, 2007	(₱72,270,713)	
Market transaction fee accrual for period December 26 to 31, 2007	(6,993,940)	(79,264,653)
Add:		
Billing periods October 26, 2008 to December 25, 2008 based on market fees approved from the 2008 budget	86,809,584	
Market transaction fee accrual for period December 26 to 31, 2008	8,400,928	95,210,512
		₱536,803,365

2009-2011 Market Fees
On September 11, 2008, the Company filed an application with the ERC for its 2009, 2010 and 2011 market fees amounting to ₱1,089.4 million, ₱998.1 million, and ₱977.6 million, respectively. This application includes a provision for the repayment of the first three amortizations of the MMS loan principal and interest amounting to ₱223.2 million in 2009, ₱206.4 million in 2010, and ₱189.7 million in 2011 pending resolution of the final cost of the MMS (see Note 8). For budgeting purposes, the provision for MMS loan amortization is based on the computations provided by PSALM.

The Company received a copy of ERC's decision entitled *ERC Case No. 2008-050 RC Decision* dated March 16, 2009, docketed on April 29, 2009, regarding its application of the level of market transaction fees for the CYs 2009-2011. Based on the decision, ERC deferred the (1) implementation of the proposed output-based methodology and (2) three-year regulatory period for the market fee determination to allow further study and development. In the meantime, ERC allowed a single fixed rate market transaction fee for CY 2009 which was set at ₱0.0144/kWh. Based on a projected volume of transaction by the ERC, the budget amount is estimated to be at ₱622.9 million. Moreover, based on this ERC Decision, should the Company need more budgetary allotment for priority capital expenditure projects, it will be allowed to secure loans to finance the same. The Company shall also be allowed to apply for a supplemental budget for urgent and important requirements which cannot be accommodated from their approved market transaction fees for 2009 and which cannot be reasonably and timely financed through loans. A Motion for partial reconsideration and a Supplemental Motion for Partial Reconsideration were filed by the Company on May 19, 2009 and May 26, 2009, respectively, seeking an increase in the approved market fees for CY 2009 to a rate sufficient to cover the Company's budgetary requirements for the MMS enhancement projects and the PSALM MMS loan repayment. In its Order dated September 28, 2009, the ERC partially granted the Motions and increased the market fees rate for CY 2009 to ₱0.0169/kWh to account for the amount of ₱108.7 million that will cover part of the requirements for the MMS enhancement projects. The motion was denied in respect to the MMS loan repayment as the ERC reiterated its earlier ruling that the same should be subject of a separate and independent application after an agreement amongst NPC, PSALM, Transco and the Company establishing the cost and recovery mechanism of the MMS loan repayment. Moreover, the ERC directed that the increase in budget shall be covered only for CY 2009.

The recorded market transaction fees in 2009 amounted to ₱740.1 million, which differ from the total approved market fees for 2009 of ₱739.3 million. Total market transaction fees for the CY 2009 is computed as follows:

Approved ERC budget for billing periods December 26, 2008 to December 25, 2009 (43,744,203,013 kWh @ ₱0.0169/kWh)	₱739,277,031
Market transaction fee accrual for period December 26 to 31, 2008	(8,400,928)
Market transaction fee accrual for period December 26 to 31, 2009	9,180,621
	₱740,056,724

Accumulated Excess (Deficiency) of Revenues Over (Against) Expenses
Below is a comparison of the accumulated market transaction fees and the accumulated expenses from inception to December 31, 2009:

	Market Transaction Fees	Other Income	Expenses	Excess (Deficiency) of Revenues Over (Against) Expenses
2003	₱–	₱–	₱3,211	(₱3,211)
2004	–	637,590	19,342,521	(18,704,931)
2005	–	9,159,956	182,455,779	(173,295,823)
2006	115,400,009	10,865,627	293,222,417	(166,956,781)
2007	433,624,276	18,022,190	362,656,534	88,989,932
2008	536,803,365	21,827,999	378,843,488	179,787,876
2009	740,056,724	27,207,340	414,647,760	352,616,304
Accumulated amounts	₱1,825,884,374	₱87,720,702	₱1,651,171,710	₱262,433,366

16. Operating Leases

The Company entered into various cancelable and non-cancelable operating leases for its Ortigas and Cebu office spaces for periods ranging from one to three years. As of December 31, 2009 and 2008, guaranty deposits amounting to ₱4.6 million and ₱3.8 million, respectively, were included as part of "Other current assets" in the statement of assets, liabilities and fund balance. Total rent expense charged to operations amounted to about ₱19.8 million in 2009 and ₱21.5 million in 2008. As of December 31, 2009 and 2008, future minimum rentals payable within one year amounted to ₱5.4 million and ₱8.1 million, respectively. The Company has no future minimum rentals payable beyond the reporting date.

17. Financial Instruments

Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise cash and cash equivalents and interest-bearing loans in the form of its obligation for the MMS and advances from Transco. The main purpose of these financial instruments is to raise finances for the Company's operations. The Company has various other financial instruments such as WESM receivables, other current and noncurrent receivables, accounts payable and accrued expenses which arise directly from operations. The main risks arising from the Company's financial instruments are liquidity risk and credit risk. The Company is not exposed to interest rate risk because the interest rate of its advances from Transco is fixed at 12%.

The Board reviews and approves the policies for managing liquidity risk and credit risk and they are summarized below.

Liquidity Risk

The Company's funds are obtained through the collection of market fees. The market fees and its utilization are prescribed by the ERC and are considered by management to be sufficient to cover the Company's payments of accounts payable and accrued expenses, obligation for the MMS and advances from Transco. As part of its liquidity management, the Company regularly monitors its compliance with the ERC approved budget.

The tables below summarize the maturity profile of the Company's financial liabilities as of December 31, 2009 and 2008 based on contractual undiscounted payments. The tables below, however, exclude the maturity profile for the MMS Obligation as the amount of the obligation is provisional as of December 31, 2009 (see Note 8).

	On demand	**1 to 6 months**	**6 to 12 months**	**1 to 2 years**	**3 to 5 years**	**Total**
2009						
Accounts payable and accrued expenses	**₱27,073,304**	**₱16,554,937**	**₱–**	**₱–**	**₱–**	**₱43,628,241**
Advances from Transco:						
Principal	**–**	**58,599,461**	**61,931,992**	**134,685,743**	**–**	**255,217,196**
Fixed interest	**–**	**13,573,599**	**10,241,068**	**9,660,378**	**–**	**33,475,045**
	₱27,073,304	**₱88,727,997**	**₱72,173,060**	**₱144,346,121**	**₱–**	**₱332,320,482**

	On demand	1 to 6 months	6 to 12 months	1 to 2 years	3 to 5 years	Total
2008						
Accounts payable and accrued expenses	₱36,660,527	₱25,203,045	₱–	₱–	₱–	₱61,863,572
Advances from Transco:						
Principal	–	52,497,320	55,458,230	120,531,453	134,685,743	363,172,746
Fixed interest	–	19,675,740	16,714,830	23,814,667	9,660,378	69,865,615
	₱36,660,527	₱97,376,105	₱72,173,060	₱144,346,120	144,346,121	₱494,901,933

Credit Risk
Credit risk is the risk that the Company will incur a loss because its clients or counterparties failed to discharge their contractual obligations. In the case of the Company, credit risk may arise from financial assets such as cash and cash equivalents and WESM receivables. However, based on management's assessment, the Company is not subject to significant credit risk from these financial assets.

The Company is not subject to significant credit risk from the WESM receivables because participants are mandated by Section 3.14.6 of the WESM Rules to remit the settlement amount due to the Company within thirty (30) days after the end of each billing period. If any participant is unable to remit payment, the Company is allowed to use the participant's prudential fund to settle the accounts (see Note 19). The Company's maximum exposure to credit risk is equal to the carrying amount of its financial assets, except cash on hand, amounting to ₱528.3 million and ₱261.4 as of December 31, 2009 and 2008, respectively.

The cash and cash equivalents are considered to be of good credit quality because these are deposited in government financial institutions and in top commercial banks in the Philippines.

The Company's financial assets are of good standing and high credit quality.

<u>Fund Management</u>
The primary objective of the Company's fund management is to ensure that it utilizes its funds in accordance with the ERC approved budget.

No changes were made in the objectives, policies or processes for the years ended
December 31, 2009 and 2008.

<u>Fair Value of Financial Instruments</u>
Cash and cash equivalents, WESM receivables, other receivables, other noncurrent receivables and accounts payable and accrued expenses
The carrying amounts of cash and cash equivalents, WESM receivables, other receivables and accounts payable and accrued expenses approximate their fair values due to the short-term maturity of these accounts. The fair value of the other noncurrent receivables is its carrying value because the timing of collection is not determinable.

Obligation for the MMS
As the amount of the Obligation for the MMS remains to be provisional, the fair value of the obligation for the MMS is based on the recorded amount as of year end.

Advances from Transco
In the case of advances from Transco, the fair value is based on the present value of expected future cash flows using the applicable discount rates.

The carrying values and fair values of the Company's financial assets and liabilities as of December 31, 2009 and 2008 are as follows (in millions):

	2009		2008	
	Carrying Values	**Fair Values**	Carrying Values	Fair Values
Loans and receivables				
Cash and cash equivalents	**₱402.7**	**₱402.7**	₱170.7	₱170.7
WESM receivables	**125.7**	**125.7**	90.9	90.9
Other receivables	**2.8**	**2.8**	0.8	0.8
Other noncurrent receivables	**8.4**	**8.4**	3.3	3.3
	₱539.6	**₱539.6**	₱265.7	₱265.7
Other financial liabilities:				
Accounts payable and accrued expenses	**₱57.6**	**₱57.6**	₱70.4	₱70.4
Obligation for the MMS	**574.9**	**574.9**	574.9	574.9
Advances from Transco	**255.2**	**266.2**	363.2	376.3
	₱887.7	**₱898.7**	₱1,008.5	₱1,021.6

18. EPIRA

RA No. 9136, the EPIRA, which became effective in 2002, and the covering Implementing Rules and Regulations (IRR) provide for significant changes in the power sector, which include, among others:

i. The unbundling of the generation, transmission, distribution and supply and other disposable assets of Electric Power Industry Participant, including its contracts with independent power producers and electricity rates;

ii. Creation of a WESM within one year; and

iii. Open and nondiscriminatory access to transmission and distribution systems.

In respect to the creation of the WESM, the EPIRA mandated the DOE to formulate the rules that will govern the market (WESM Rules) jointly with the electric industry participants and to create an AGMO. The AGMO, which is composed of an equitable representation from the electric industry participants, is to undertake the preparatory work for the establishment of the WESM and its initial operations for one year from start of commercial operations. Thereafter, the operations will be managed by an independent market operator (IMO) jointly endorsed by the DOE and the electric industry participants.

In implementation of this mandate, the WESM Rules were promulgated on June 28, 2002. As mentioned in Note 1, the Company was incorporated in November 2003 to be the AGMO as well as the governing body for the WESM. The Company, as AGMO, started the initial operations of the WESM on June 26, 2006.

In line with provision 10.2 of the WESM Rules, the AGMO will undertake the initial operations of the WESM for a period of twelve (12) months from the spot market commencement date, and one year from implementation of the WESM, an IMO shall be formed and the functions, assets and liabilities of the AGMO shall be transferred to the IMO. As of March 25, 2010, an IMO has not yet been formed or selected by the DOE and the participants (see Note 1).

19. WESM Trading Operations

As Market Operator of the WESM, the Company oversees the transaction billing and settlement procedures of the market in accordance with the WESM Rules. Under the WESM settlement process described in Section 3.14.6 and Section 3.14.7 in the WESM Rules, each WESM member shall pay to the Market Operator in cleared funds the settlement amount (if any) stated to be payable to the Market Operator by that WESM member in that WESM member's final statement, whether or not the WESM member disputes or continues to dispute, the amount payable. The Market Operator shall also pay to each WESM member in cleared funds the settlement amount (if any) stated to be payable to that WESM member in that WESM member's final statement.

In accordance with Section 3.14.8.2 of the WESM Rules, disputes in respect of final statements or the supporting data shall be raised within twelve (12) months of the relevant billing period.

All the amounts and the net effect of such amounts received and paid by the Company as Market Operator, from and to the WESM trading participants for energy transactions in the WESM are not reflected in the Company's statements of assets, liabilities and fund balance as no economic benefits flow to and from the Company under this pass-through arrangement.

Cash held by the Company in a fiduciary capacity amounted to ₱260.1 million and ₱2,425.2 million as of December 31, 2009 and 2008, respectively. This represents the amount received by the Company from the WESM trading participants and is composed of (a) the WESM prudential fund, (b) the WESM net settlement surplus, and (c) interest earned from these accounts which shall be flowed back to the corresponding trading participants.

Prudential Fund
The WESM prudential fund pertains to security deposits submitted by trading participants to secure payment of obligations upon due date. As prescribed in Section 3.15 of the WESM Rules, the Company shall assess a prudential security requirement from trading participants to ensure settlement of their obligations. The security shall amount to no less than the potential maximum liability that may be incurred by the participant in the market until such time that it is suspended from trading. The Company will draw on the prudential security deposit if the settlement amount of the trading participant to the Company is not fully remitted within the timetable as set in Section 3.14 of the WESM Rules. In the event of a drawdown, the participant shall deliver a valid security of such amount as would bring its prudential security deposit back to the required level.

In 2008, majority of the newly registered WESM trading participants delivered Letter of Credits serving as their prudential security requirement.

Net Settlement Surplus
The WESM Rules defines net settlement surplus as that surplus remaining after all market transactions have been accounted for and is assumed to be attributable to economic rentals arising from other binding constraints. The net settlement surplus is the difference between the collections from the customers and payments to the generators. Under clause 3.13.16.2 of the WESM Rules, the net settlement surplus may be: (1) retained by the Market Operator to fund deficit settlement as a result of transactions required in clause 3.13.14 of the WESM Rules; (2) flowed back to the trading participants in accordance with the procedures to be developed and approved by the Philippine Electricity Market Board (PEM Board); and (3) used by the Market Operator to establish and support the market for Financial Transmission Rights subject to the approval of the PEM Board. Pursuant to the WESM Rules, the PEM Board approved the WESM Manual on Management of Net Settlement Surplus which provides for the formula and procedures for the allocation and flowback of the net settlement surplus to the participants. As approved, the net settlement surplus is allocated to WESM customer participants on a monthly basis in proportion to their respective WESM trading amounts for each billing month. The Company, however, is allowed to retain ten percent (10%) of the net settlement surplus generated to fund any settlement adjustments, if any. Any excess amount will likewise be returned to the participants together with the interest earned from the account.

On March 13, 2009, ERC Resolution No. 06, Series of 2009 regarding the rules for the Distribution of Net Settlement Surplus was passed. The aforementioned (the Resolution) directed that the net settlement surplus allocation of each participant, less the allowable retention amount, shall be returned through automatic deduction from their WESM trading amounts. The Resolution also directed that the retention amount should be equivalent to ten percent (10%) of the net settlement surplus for the previous three (3) months. Based on Section 8.1 of the Resolution, "…should PEMC be unable to return the amount of the net settlement surplus due to be returned to WESM recipients and/or the interest incurred in the retained 10% during the specified period under these Rules, the retained amount will be imposed an interest at the rate of the prevailing 91-day T-bill rate plus 300 basis points." The rules under the Resolution shall be implemented in Luzon and will take effect fifteen days following its publication in a newspaper of general circulation and will continue until otherwise directed by the ERC.

PEM Auditor and Operational Audit of the Market Operations

One of the working groups of the PEM Board includes the PEM Auditor. The PEM Auditor shall conduct audits of the operation of the spot market and of the Market Operator in accordance with Section 1.5.1 of the WESM Rules. The PEM Auditor, in accordance with Section 1.5.1 of the WESM Rules, shall:

- Conduct annual audits of the Market Operator and the settlement system and any other procedures, persons, systems or other matters relevant to the spot market;
- Test and check any new items or versions of software provided by the Market Operator for use by WESM Members;
- Review any procedures and practices which are covered by the WESM Rules at the direction of the PEM Board;
- Recommend changes to the WESM Rules where the PEM Auditor detects deficiencies as a consequence of an audit, review, test, check or other form of review; and
- Publish on the market information website the results of any findings and recommendations under this clause 1.5.1.

On April 27, 2007, the PEM Board appointed two members to the PEM Audit Committee. An operational audit of the Company's market operations was completed in December 2009. The audit was conducted by independent auditors engaged for this purpose and was overseen by the DOE and the PEM Audit Committee. Results of the audit included recommendations for best practices as well as enhancements to the existing market systems and processes.

Company's Investigation of Allegations of Anti-competitive Behavior of PSALM

In October 2006, the Company's Market Surveillance Committee (MSC) investigated allegations of anti-competitive behavior on the part of the PSALM, bidding on behalf of NPC's independent power producers, that was brought about by a spike in the load weighted average rates during the August 26 to September 25, 2006 billing period (third month of operations).

Based on the findings of the MSC, the PEM Board then issued a resolution on November 22, 2006 affirming the MSC's findings and ordering an adjustment in the WESM settlement prices to administered price in accordance with the ERC approved administered price methodology. At the instance of NPC, clarification was sought from the Commission on the price adjustments. On December 6, 2006, the ERC (1) directed the Company to submit the resolution; and (2) initiated an inquiry into the resolution and the PEM Board's action in adjusting the WESM settlement prices.

In an Order dated December 13, 2006 (*ERC Case No. 2006-080*), invoking its mandate under the EPIRA, the ERC provisionally declared "the action of the PEM Board, in correcting the WESM settlement prices and imposing the administered prices, to be invalid for having been carried out beyond the scope of its authority and in violation of the EPIRA and the WESM Rules." However, the ERC provisionally applied the NPC-Time of Use (TOU) rates. The Company's lack of authority was affirmed in ERC's subsequent Order dated August 14, 2007.

Pursuant to the January 2, 2007 order of the ERC, the Company issued to the WESM customers revised settlement statements on January 25, 2007 covering the billing periods falling due, with payment due date for the generators on January 26, 2007.

On July 20, 2007, the Company filed a motion for clarification concerning the appropriate date by which late payment interest is to be reckoned considering the revisions made in the settlement statements due to the adjustments arising from the Order to use NPC-TOU rates.

Subsequently, after the ERC issued its order dated February 5, 2007, confirming the appropriate calculation on the customer metered quantities and consequently, the Company issued on April 25, 2007 the second revised settlement statements with due dates for the customers set on May 5, 2007 and for the payment due to generators on May 6, 2007.

In *ERC Case No. 2007-421 MC* (IU case No. 06-01), the ERC conducted its own investigation on the allegations, and on June 6, 2007, the ERC cleared PSALM of the accusations and found that no prima facie evidence for anti-competitive behavior exists against PSALM.

In view of its finding in *ERC Case No. 2007-421*, the ERC resolved on the aforementioned Order dated August 14, 2007, that the WESM settlement prices should be used for third and fourth month billing period.

On June 17, 2008, the Company received a copy of ERC's order *ERC Case No. 2006-080 RC* docketed June 16, 2008 regarding the prices from the third billing period. Although the ERC denied the Company's motion for reconsideration regarding the validity of the PEM Board's decision to adjust the prices, the ERC granted the Manila Electric Company's request that it "intervene for the greater interest of the industry and the consumers, and set the WESM settlement prices at NPC-TOU rates." The ERC set the WESM settlement prices for the third and fourth billing periods of 2006 at the ERC-approved NPC-TOU rates.

PSALM filed a Motion for Reconsideration which was denied by the ERC in its Order dated October 20, 2008. PSALM then filed a Petition for Review with the Court of Appeals. On August 28, 2009, the Court of Appeals dismissed the Petition of PSALM and further denied in CA order dated November 6, 2009, the Motion for Reconsideration of PSALM. A petition was filed by PSALM to the Supreme Court. Management believes that should the Court of Appeals rule in favor of PSALM, the monetary obligations will be collected from the WESM buyers. As of March 25, 2010, the petition is still pending with the Supreme Court.

Price Substitution Methodology
In September 2008, the DOE, through the Company, filed a Supplemental Application with the ERC, docketed as *ERC Case No. 2008-051 RC*, for the approval of the proposed methodology for price substitution and settlement of energy transactions in the WESM for trading intervals affected by network congestions, and the immediate and provisional application of the proposed methodology to energy transactions in the WESM beginning June 26, 2008. The Price Substitution Methodology (PSM) is intended to form part of and will supplement the WESM Price Determination Methodology (PDM) which was approved by the ERC in its Decision dated June 20, 2006 in *ERC Case No. 2006-007 RC.*

The prevailing provisions of the WESM Rules, market manuals and the approved WESM PDM do not adequately address or mitigate the pricing and subsequent impact of network congestion particularly the nodal price separations arising from the spring washer or loop constraint effect.

The PEM Board ratified the amendment of the WESM Rules Clause 3.10.5 to include the effects of the network congestion as cause for pricing errors and to authorize the formulation of a pricing and supplement methodology for the correction of errors, and the adoption of the WESM Manual on Methodology for Determining Pricing Errors and Price Substitution Congestion for Energy Transactions in the WESM Affected by Congestion.

The filing of the Supplemental Application and the formulation of the proposed PSM was prompted by the adverse effects on the prices and settlements in the WESM caused by network congestion and contingency events in the Luzon Grid in 2008, particularly the constraint caused by the shutdown of Transco's San Jose, Bulacan Transformer 2 from July 11, 2008 to September 30, 2008.

On September 15, 2008, the ERC directed that NPC-TOU rates be provisionally imposed for the July, August and September WESM billing periods, while on October 20, 2008, the ERC issued that PEMC cease the implementation of NPC-TOU rates and utilize actual market clearing prices starting October 26, 2008, which is the next WESM billing period from the completion of the restoration works at the San Jose substation.

In *ERC Case No. 2008-051 RC*, docketed on April 2, 2009, the ERC approved the PSM, which would apply beginning July 11, 2008 onwards. Based on the ERC ruling, if pricing error notices are triggered by the price trigger mechanism, the approved methodology of price substitution shall be used where it is applicable. With the retroactive application of the PSM, PEMC will issue revised settlement statements to the WESM participants to reflect the adjustment in settlement amounts beginning with the July 2008 billing month and onwards.

Visayas Supply Augmentation Auction (VSAA)
In a move to address the power supply situation in the Visayas Grid, the DOE released Department Circular No. DC 2009-01-001 on January 16, 2009, "Directing DOE attached agencies, all electric power industry, participants, consumers and various stakeholders to adapt and implement contingency measures to ensure adequate and reliable electric power supply in Visayas Grid particularly in the islands of Cebu, Negros and Panay". The VSAA is a day-ahead market which would allow embedded generators to sell their un-contracted capacity and grid-connected customers to sell an interruptible portion of their loads through an auction process.

The Company will act as administrator of the VSAA. The application for the approval of the pricing and cost recovery mechanism as well as the structure and level of Administration Fees was filed with the ERC by the DOE, through the Company, on March 6, 2009 and was set for jurisdictional hearing, expository presentation, pre-trial conference and evidentiary hearing for various dates scheduled in April and May 2009.

On April 4, 2009, the Company received a copy of ERC's order *ERC Case No. 2009-015 RC Order* dated April 13, 2009, docketed on April 22, 2009, which provisionally approved the DOE through PEMC to conduct the preparatory acts for the VSAA to operate, particularly the commencement of registration process to determine the market.

On September 17, 2009, the Company received the Decision of the ERC dated August 24, 2009, which approved the pricing and cost recovery methodology and the administration fees for the VSAA.

On the ground that the methodology approved by the ERC is fundamentally different from the methodology applied for, a motion for reconsideration was filed by the Company, on behalf of the DOE. Acting on the motion reconsideration, the ERC in its Order dated November 3, 2009 and received by the Company on November 26, 2009 allowed for an interim implementation of the pricing and cost recovery methodology as originally applied for with some modifications for a period of three months, to allow the Company to prepare for the implementation of the approved methodology. The ERC also directed compliance with additional conditions, including the audit of the software to be used, the conduct of information dissemination and formulation of mitigation measures as well as enforcement and penalty mechanisms.

On December 26, 2009, the DOE filed a Petition for Review with the Court of Appeals. As of March 25, 2010, the Petition is still pending with the Court of Appeals.

20. Reconciliation of Excess Revenues over Expenses

On March 25, 2010, the Management reported to the Board the reconciliation of the difference between the excess of revenues over expenses for the year ended December 31, 2009 amounting to ₱352.62 million as presented in the statement of comprehensive income and the savings/unutilized market transaction fees for the year amounting to ₱64.14 million, reported to the Board on March 8, 2010 as per PEMC Board Resolution no. 2010-17. The reconciliation is as follows:

Savings/unutilized market transaction fees		
Excess of revenue due to increase in volume	₱32.30	
Unutilized budget	31.84	₱64.14
Market transaction fees allotted for the MMS migration project		109.36
Other income		
Excess of standard over actual input VAT	16.96	
Interest income	7.63	
Training and registration	.60	
Miscellaneous income	2.02	27.21
Accrual of market transaction fee		
Market transaction fee accrual for period December 26 to 31, 2009	9.18	
Market transaction fee accrual for period December 26 to 31, 2008	(8.40)	.78
Depreciation of fixed assets		
Capital expenditures purchased	32.46	
Depreciation per book	(44.07)	(11.61)
Accrual of interest of advances from Transco loan		
Interest paid	36.39	
Interest expense	(35.21)	1.18
Principal amount of advances from Transco loan		107.95
Retirement fund arrears		
Per utilization	41.77	
Retirement expense	(14.01)	27.76
Committed expenses for capital and operational expenditures		
CY 2009	44.57	
CY 2008	(18.72)	25.85
Excess of revenues over expenses		₱352.62

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