

Republic of the Philippines
ENERGY REGULATORY COMMISSION
San Miguel Avenue, Pasig City

**RULES ON THE DEFAULT WHOLESALE SUPPLY ARRANGEMENTS FOR THE
PHILIPPINE WHOLESALE ELECTRICITY SPOT MARKET (WESM)**

Pursuant to Sections 2 (c) and (j) of Republic Act No. 9136, Department of Energy (DOE) Circular No. 2006-06-009 and Energy Regulatory Commission (ERC) Resolution No. 30, Series of 2006, the ERC hereby promulgates the following Rules on the Default Wholesale Supply Arrangements for the Philippine Wholesale Electricity Spot Market (WESM).

**ARTICLE I
GENERAL PROVISIONS**

Section 1. Objectives

- a. To ensure transparent and reasonable prices of electricity and enhance the competitive operation of the electricity market;
- b. To ensure the provision of continuous supply of electricity to Distribution Utilities (DUs) and End-users;
- c. To establish the obligations of the Default Wholesale Supplier (DWS) with respect to supply imbalances in the WESM; and
- d. To determine the prices to be applied on Default Wholesale Supply Arrangements for the WESM.

Section 2. Scope

These Rules shall apply to:

- a. Distribution Utilities;
- b. End-users which are directly connected to the Grid;
- c. National Power Corporation;
- d. Power Sector Assets and Liabilities Management Corporation (PSALM);
- e. Philippine Electricity Market Corporation (PEMC); and
- f. All relevant industry participants.

Section 3. Definition of Terms

As used in these Rules, the following terms shall have the following respective meanings:

Act	refers to Republic Act No. 9136 also known as the “Electric Power Industry Reform Act of 2001”.
Contractual Supply Imbalance	The difference between the quantity of electricity covered by bilateral power supply contract/s of a customer and its actual metered quantity.
Default Wholesale Supplier	The entity which shall provide the supply of electricity to cover the imbalances of customers in the WESM.
Default Wholesale Supply Arrangements	Arrangements entered into for the supply of electricity to cover supply imbalances of customers in the WESM. Supply imbalances may either be Contractual Supply Imbalances or Schedule Supply Imbalances.
Department of Energy	The government agency created pursuant to Republic Act No. 7638 whose expanded functions are provided under the Act.
Direct WESM Member	A person or an entity who is registered with the Market Operator under Section 2.3. of the WESM Rules. Its transactions in the WESM shall be deemed as direct WESM transactions.
Distribution Utility	Any electric cooperative, private corporation, government-owned utility or existing local government unit which has an exclusive franchise to operate a distribution system in accordance with the Act.
End-user	Any person or entity requiring the supply and delivery of electricity for its own use.
Energy Regulatory Commission	The independent and quasi-judicial regulatory agency created under Section 38 of the Act.

Grid	The high voltage backbone system of interconnected transmission lines, substations and related facilities, located in each of Luzon, Visayas and Mindanao, or as may otherwise be determined by the ERC in accordance with Section 45 of the Act.
Indirect WESM Member	A person or an entity who is allowed to indirectly trade in the WESM through a Direct WESM Member. Its transactions shall be deemed as indirect WESM transactions.
National Power Corporation	The government corporation created under Republic Act No. 6395, as amended.
Philippine Electricity Market Corporation	The entity responsible in governing and administering the operations of the WESM.
Power Sector Assets and Liabilities Management Corporation	The corporation created pursuant to Section 49 of the Act.
Schedule Supply Imbalances	The difference between the full contracted requirements of a customer and its actual metered withdrawal of electricity.
Transition Supply Contract	A contract duly negotiated by NPC with a Distribution Utility pursuant to Section 67 of the Act.
Wholesale Electricity Spot Market	The electricity market established by the Department of Energy (DOE) in accordance with the Act.

Term not otherwise defined in Section 3 hereof, which are defined in the Act, its Implementing Rules and Regulations, the WESM Rules, have the same meaning given to them therein.

**ARTICLE II
THE DEFAULT WHOLESALE SUPPLY ARRANGEMENTS**

Section 1. The Default Wholesale Supply Arrangements shall apply to the following customers in the Luzon and Visayas Grid:

- a. DUs, including Electric Cooperatives (ECs), private DUs and local government utilities; and
- b. End-users of electricity, which have been permitted by the NPC or such other competent government agency, to connect directly to the Grid.

Section 2. As an interim measure, the NPC and PSALM shall be designated as the DWS upon the commencement of WESM commercial operations.

Section 3. The designated DWS shall ensure the availability of their respective generation facilities to efficiently cover any Contractual and Schedule Supply Imbalances in the market.

Section 4. The DWS arrangements shall apply to consumptions not covered by Transition Supply Contracts, bilateral power supply contracts and direct WESM transactions.

Section 5. For Transition Supply Contracts, the supply imbalance shall be equivalent to actual consumption beyond one hundred twenty per cent (120%) of the total contracted levels under said Contract or such other level, determined by the ERC, relative to its approval of the Transition Supply Contracts.

**ARTICLE III
TRANSITION SUPPLY CONTRACTS AND
BILATERAL SUPPLY CONTRACTS**

Section 1. The ERC shall monitor compliance by the Distribution Utilities to the provisions of Section 45 (c) of the Act requiring that not more than ninety per cent (90%) of total demand be sourced from bilateral power supply contracts.

Section 2. The central dispatch of electricity in the WESM entails the scheduling of all requirements of customers, including the requirements covered by Transition Supply Contracts and regular bilateral power supply contracts.

Section 3. A Transition Supply Contract entered into between the National Power Corporation (NPC) and Distribution Utilities (DUs) or End Users connected directly to the Grid, shall remain valid until one (1) year after introduction of open access.

Section 4. The Transition Supply Contracts shall be treated as special and distinct contracts, and shall not be considered bilateral supply contracts for purposes of Section 45 (c) of the Act.

**ARTICLE IV
PRICING FOR THE DEFAULT
WHOLESALE SUPPLY ARRANGEMENTS**

Section 1. The price to be imposed on the supply provided by the DWS shall be the NPC effective rates or the WESM nodal prices, whichever is higher, and a premium of ten per cent (10%) of the said higher amount, unless the ERC approves, upon application by the DWS, a different premium rate.

Section 2. The WESM nodal prices may, at the option of the Direct Member, be imposed on scheduled direct WESM transactions which are beyond the contracted levels as stated under the Transition Supply Contracts. The Direct WESM Member is deemed to have exercised such option upon submission of demand bids for the said levels.

**ARTICLE V
PERIOD OF EFFECTIVITY OF THE DEFAULT WHOLESALE SUPPLY
ARRANGEMENTS**

The Default Wholesale Supply Arrangements shall be implemented for a period not longer than one (1) year from the start of WESM commercial operation in Luzon, for Luzon customers and from the start of commercial operations of the WESM in Visayas, for Visayas customers.

**ARTICLE VI
SEPARABILITY**

If for any reason any provision of these Rules is declared unconstitutional or invalid by final judgment of a competent court, the other parts or provisions hereof which were not affected thereby shall continue to be in full force and effect.

**ARTICLE VII
SANCTIONS**

The ERC shall impose the appropriate fines and penalties for any violation or non-compliance with these Rules, pursuant to the "Guidelines to Govern the Imposition of Administrative Sanctions in the Form of Fines and Penalties Pursuant to Section 46 of R.A. 9136".

**ARTICLE VIII
EFFECTIVITY**

These Rules shall take effect immediately upon its publication in a newspaper of general circulation.

Pasig City, ____ July 2006.

RODOLFO B. ALBANO, JR.
Chairman

RAUF A. TAN
Commissioner

ALEJANDRO Z. BARIN
Commissioner

MA. TERESA A. R. CASTAÑEDA
Commissioner