



PUBLIC

WESM Manual

Billing and Settlement Issue 0.0

Abstract	This document contains the concept, flowchart and procedural steps in the preparation of settlement statement, payment of settlement amount, prudential requirements and suspension.
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1. Introduction

1.1. About this Manual

The WESM Billing and Settlement Manual is one of a series of manuals prepared by the Billing and Settlements Department, Market Operations – TRANSCO. This manual focuses on the billing and settlement procedures to be followed by the Market Participants for settlement of transactions in the energy market. There are four interrelated procedures for settlements as follows:

Procedure No.	Title
1.	Preparation of Settlement Statements
2.	Payment of Settlement Amounts
3.	Prudential Requirements
4.	Suspension

1.2. Target Users

The target users of the WESM Billing and Settlement Manual are the following:

1. Market Operator
2. System Operator
3. Generation Companies
4. Ancillary Service Providers
5. Distribution Utilities
6. Suppliers
7. Metering Service Providers
8. Bulk consumers/End-users
9. Other similar entities authorized by the ERC to become members of the WESM

1.3. References

The documents that will have to be reviewed in conjunction with this manual are:

1. Wholesale Electricity Spot Market (WESM) Rules
2. Price Determination Methodology
3. National Transmission Corporation Billing Manual (December 2002)

1.4. Using this Manual

In order that the users of this manual will have a deeper understanding of the procedures, the underlying settlement concepts have been discussed prior to the presentation of the details. The other features included in the presentation are the process flowcharts and the tabulated description of the steps to be followed by each responsible group during the required settlement timetable.



2. Preparation of Settlement Statements

2.1. Purpose

This document is designed to provide guidelines in the issuance of Preliminary, Final and Revised Statements to the market participants of the Wholesale Electricity Spot Market (WESM). The procedures discussed herein shall provide a summary of the steps and interfaces between the Market Operator (MO), the Market Participants (MP), the Electronic Fund Transfer (EFT) Administrator, and other affected parties. The procedural work flows discussed herein shall serve as a benchmark for Market Participants and the MO, and reflect the requirements set out in the WESM Rules and other applicable MO policies and standards.

2.2. Responsibilities

The **Market Operator** (MO) shall be responsible for the generation and issuance of preliminary, final and revised statement files and supporting data to Market Participants. It is the responsibility of Market Operator to respond to all queries by Market Participants pertaining to settlement statements and supporting files and to investigate notice of disagreement and apply adjustment to the statements if errors are found.

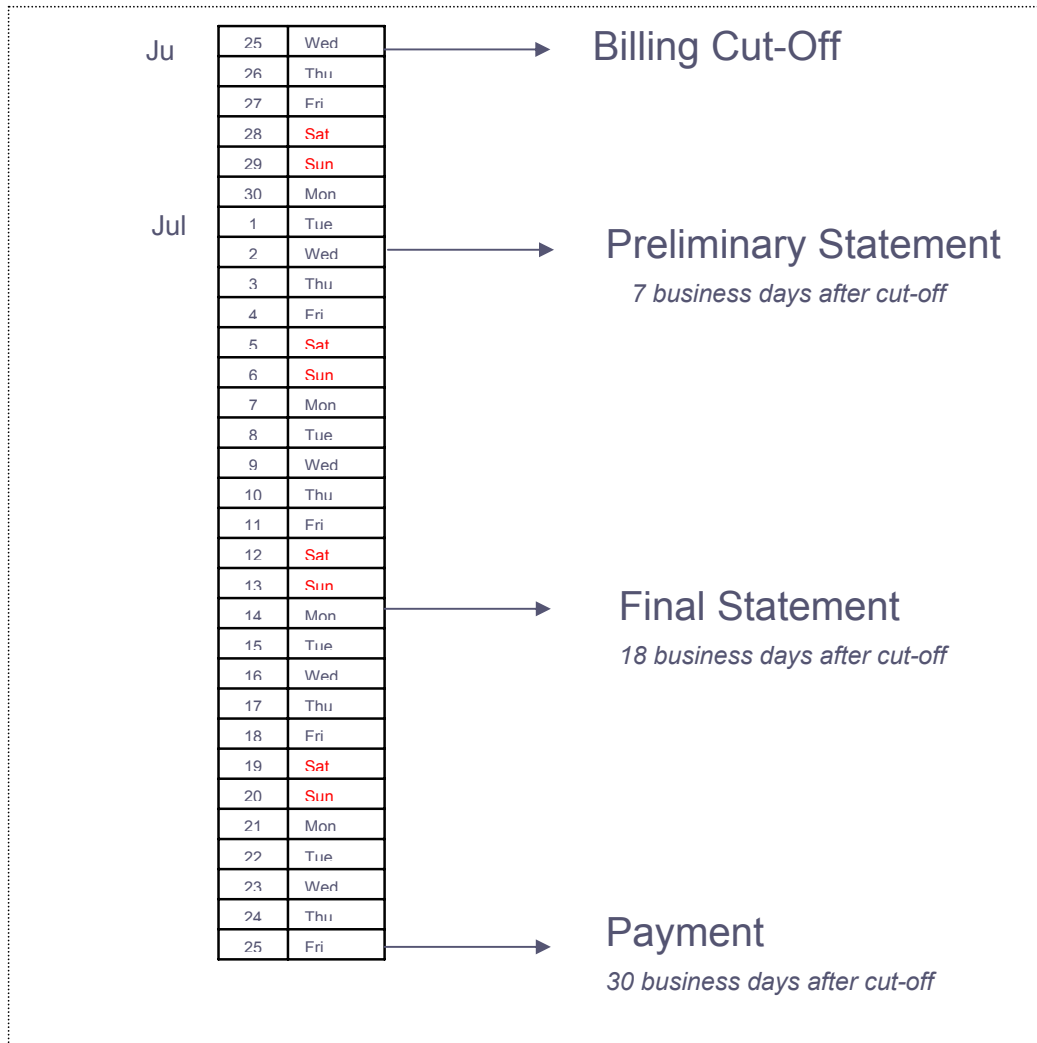
The **Market Participants** (MP) shall be responsible for retrieving and downloading settlement statement files and supporting data issued by MO. The Market Participants shall notify MO if files are not accessible or received within the timetable. Market participants must review the settlement statements and supporting data, prepare inquiries and provide notice of disagreement should errors be identified.

2.3. Timetable for Settlement Statements and Payments

The WESM Rules defined Business day as any day on which the Spot Market is open for business. Figure 1 illustrates the timeline for the preparation of the Preliminary and Final Statements and the deadline for payment based on the 25th day of the month billing cut-off.



Figure 1: Timetable for Settlement Statements and Payments





2.4. Preliminary Statement

Within seven days after the end of each billing period, the Market Operator shall issue a preliminary Statement to each Market Participant for the billing period. This statement identifies the market transactions of a WESM member in that billing period and the settlement amount payable by or to that WESM member.

Only those WESM members who have engaged in market transactions in a particular billing period will receive a Preliminary Statement. The settlement statement consists of a file that contains the Settlement quantities and trading amounts for each Market Participants. Attached to the statement are the supporting data (e. g. metering data) that will enable each Market Participant to audit the trading amounts calculated by the Market Operator.

The statement is considered issued and received on the date it was made accessible by the Market Operator to the Market Participants via the MMS System. The Market Participant shall retrieve and download the Preliminary Statement and the supporting data files in their workstations. If they fail to access the MMS System on or before the 7th day after the end of each billing period, it is the responsibility of the Market Participant to notify the Market Operator of their inability to retrieve the files.

In the event where the Market Operator receives a notification from a Market Participant that no preliminary Statement has been issued for a particular billing period, the Market Operator will investigate the matter and if necessary, re-issue the preliminary statement and its supporting data files thru the MMS System or some other modes (e.g. e-mail or fax).

If the investigation reveals that the Market Operator failed to issue a preliminary statement, the Market Operator will issue the Preliminary Statement and supporting data as soon as practicable. In this case, the date on which the statement is accessible shall be considered as the date of the issuance of the Statement, rather than on the date specified in the Billing and Settlement timetable. However, if the results of the investigation show that the Market Operator has issued a preliminary Statement within the date specified in the BS timetable, and it was the market participant's failure to retrieve it, the statement is considered served within the deadline set forth in the WESM Rule. Moreover, the period within which an inquiry or disagreement can be submitted by the market participant will not be adjusted and will be deemed to start as originally scheduled in the BS timetable.

2.5. Inquiry or Disagreement to the Preliminary Statement

The Market Participant shall be provided with an opportunity to review the preliminary statement and supporting data files and submit inquiry or formally disagree with the charges or other entries in the preliminary statement.

2.5.1.1. Inquiry

Inquiry submitted by the market participants pertaining to the preliminary settlement statement and supporting data files is not considered a complaint or disagreement but rather a clarification or request of information on the details of the statement. Therefore, the Market Participant inquiry requires no alteration in the forwarded preliminary statement.



The Market Participant may submit a notice of inquiry by contacting the Market Operator via the MMS System as soon as any items for clarification are discovered to enable the Market Operator to respond to their queries.

The Market Operator shall respond to all queries submitted by the Market Participant prior to the preparation of the Final Statement.

2.5.1.2. Disagreement

If the Market Participant reasonably believes there was an error or discrepancy in the preliminary statement issued by the Market Operator, the Market Participant shall notify the Market Operator as soon as practicable of that error or discrepancy and file a formal notice of disagreement via user interface in the MMS System.

The disagreement form should be submitted as soon as practicable but not later than three (3) days after the issuance of the preliminary statement.

The preliminary statement may contain any of the following data that may result to disagreement:

1. Trading amount
2. Settlement quantity
3. Settlement price
4. Formula
5. Meter data
6. Other settlement or customer data.

A complete supporting data file (e. g. meter discrepancy report) if applicable, is required as an attachment to the notice of disagreement. The Market Operator shall retrieve the notice of inquiry or disagreement forms and its attachments and acknowledge receipt thereof via the MMS system. The Market Operator shall conduct an initial review on the completeness and validity of the disagreement notice. If the Market Operator cannot verify the validity of the complaints due to the incompleteness of the submitted documents, the Market Operator shall notify the Market participant to provide additional documents to support the complaint. Upon completion of the additional requirements, the Market Operator shall review the documents and inform the market participants of its intended actions on the notice of disagreement based on the following findings.

If the Market Operator finds that the complaint is invalid and that there is no error in the preliminary statement, the Market Operator shall inform the Market participant of its rejection to the latter's disagreement and no adjustment will be reflected in the final statement.

If the Market Operator considers that the disagreement is valid and the preliminary statement contains an error or discrepancy, the Market operator shall notify the market Participant and affected parties (if any) whose final statement will be affected by the error or discrepancy. Following the notification the Market Operator shall perform a thorough investigation of the issue of disagreement. If the Market Operator fully agrees or concludes that some adjustment is valid, it will effect the adjustment to the corresponding final statement and shall inform the Market Participant and affected parties of its decision and allow them to respond to the decision. They shall each use reasonable endeavors to resolve the dispute within fifteen business days after the end of the relevant billing period. The



Market Operator shall ensure that any error or discrepancy discovered in the preliminary statement is corrected in the relevant final statement.

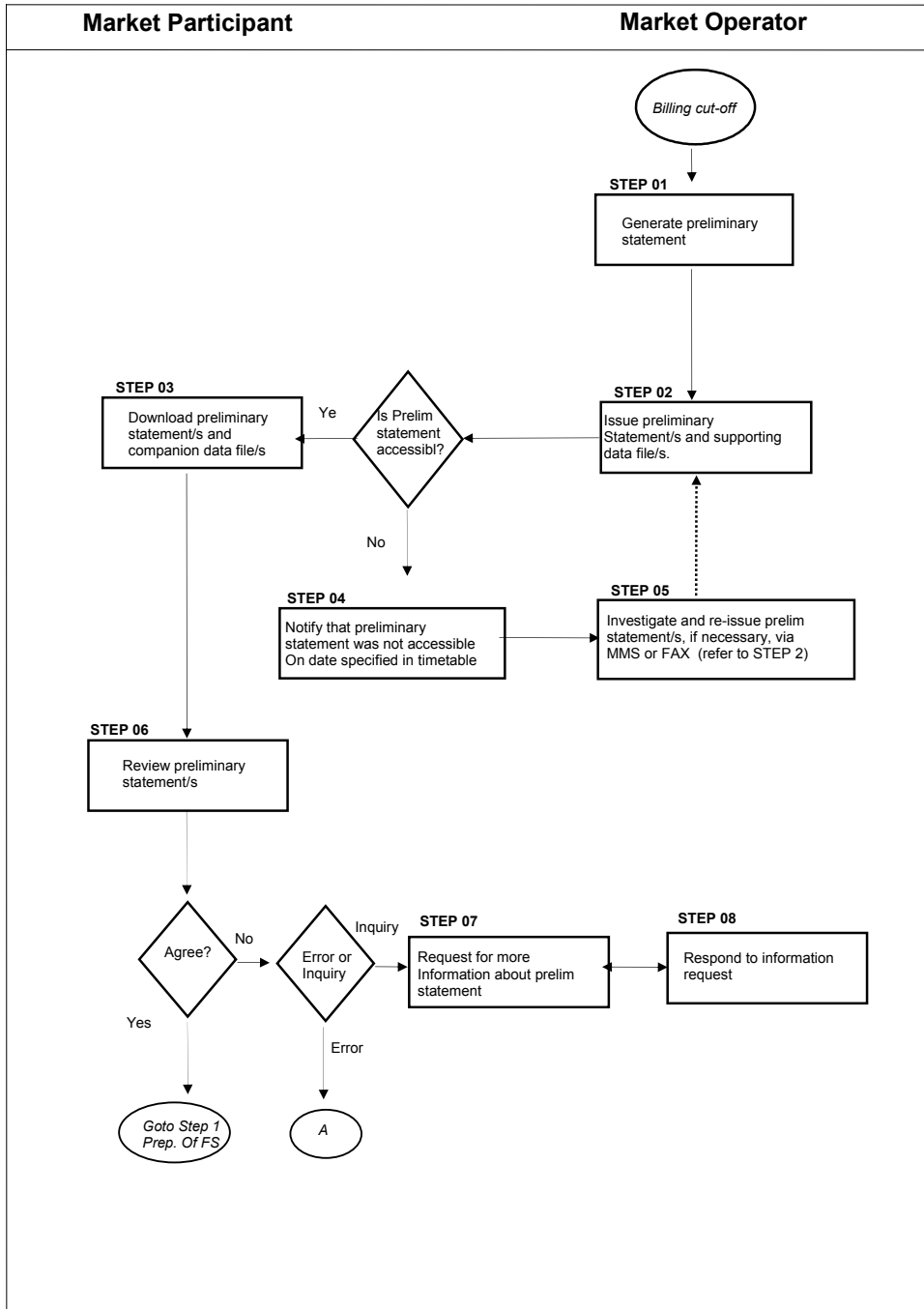
If the MO and the market participant are unable, with reasonable efforts, to resolve the disagreement in the preliminary statement within the prescribed period, the MO shall issue the final statement without any adjustment and in accordance with the BS timetable. However, the Market Operator and the Market Participant are given twelve (12) months to resolve disputes with respect to Final Statement, either by agreement or thru Dispute Resolution Procedures set out in clause 7.3 of the WESM Rules.

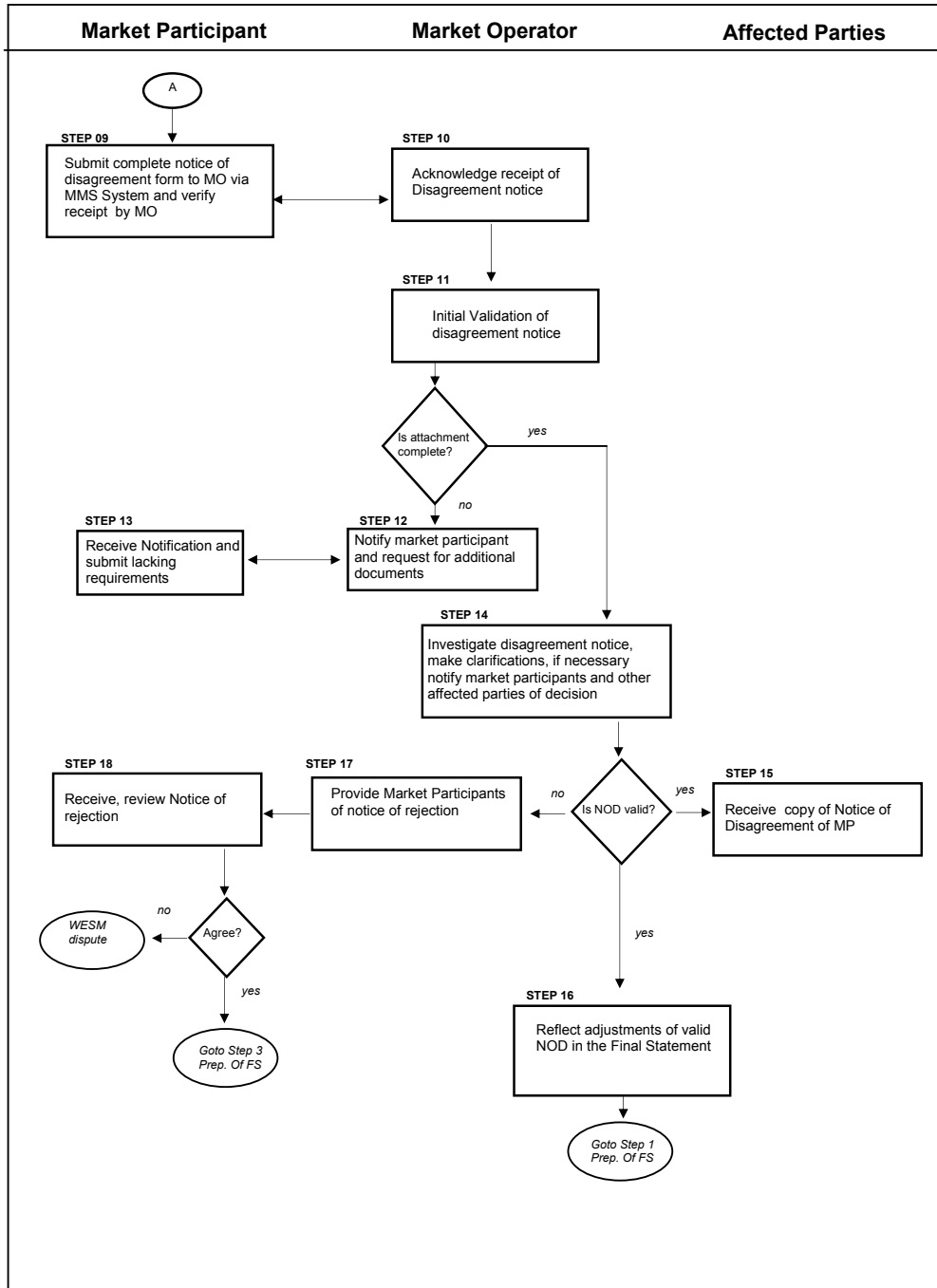
2.6. Flowchart for the Preparation of Preliminary Statement

The MO will generate the preliminary statement for each billing period (7 business days after each billing cut-off). The steps discussed hereunder describe the preparation and issuance of the preliminary statement, including the process for the review and submission of a Disagreement Notice to the MO.



Figure 2: Preparation of Preliminary Statement







The table below enumerates the detailed steps to be undertaken by the Market Operator and Market Participants in the preparation of Preliminary Statement including Inquiry and Disagreement Notice.

2.7. Table 1: Procedural Steps in the Preparation of Preliminary Statement

REF.	Procedures	Responsibility	Timetable
STEP 1	Generate the preliminary statement and the supporting data files for each Market Participant.	MO	1 to 6 days after the Billing cut-off
STEP 2	Issue the preliminary and supporting data files via MMS System to Market Participants who are active in trading.	MO	On or before the 7 th day after cut-off
STEP 3	Download the preliminary statement file(s) and attachment files to their workstation through MMS System.	MP	On the 7 th day after cut-off
STEP 4	Notify the Market Operator that the preliminary statement file(s) and supporting data files were not received or not accessible on the date of issue.	MP	On the 7 th day after cut-off
STEP 5	Investigate and if necessary, re-issue the preliminary statement and supporting data files thru MMS or fax whichever is applicable.	MO	As soon as practicable after notified by MP
STEP 6	Review the preliminary statement and supporting data files to check for errors or queries.	MP	As soon as practicable.
STEP 7	Submit an inquiry to the Market Operator requesting for additional information or clarification pertaining to the preliminary settlement statement and supporting data files.	MP	No later than the 10 th day after cut-off
STEP 8	Respond to the inquiry submitted by the market participant.	MO	Immediately but no later than the 11 th day of cut-off
STEP 9	Submit the Disagreement notice with complete attachments through the MMS System, if an error is found in the preliminary statement.	MP	No later than the 10 th day of cut-off
STEP 10	Receive and acknowledge receipt of the disagreement notice	MO	On the 10 th day of cut-off



	submitted by the market participant.		
STEP 11	Undertake an initial validation of the disagreement notice submitted by the market participant.	MO	As soon as practicable.
STEP 12	Request additional documents or information from the market participant to completely support the disagreement notice.	MO	As soon as practicable.
STEP 13	Submit the necessary requirements to the MO. Failure to transmit the required documents or information within the deadline may delay the processing of the disagreement notice and the adjustment in the final statement, if any.	MP	As soon as practicable.
STEP 14	Investigate the subject of the disagreement using the information in the disagreement notice and all other available supporting data.	MO	As soon as MO receives the complete NOD attachments.
STEP 15	Receive Notification of Disagreement filed by the Market Participant	MO	As soon as MO validated the NOD
STEP 16	Reflect adjustment of valid Notice of Disagreement in the final statement	MO	No later than 18 th day of cut off
STEP 17	Reject the disagreement notice and provide notice of rejection if the MO finds that the disagreement is not valid.	MO	No later than 15 th day of cut-off
STEP 18	Receive notice of rejection from Market Operator. If market participant disagrees with the rejection MP may raise the issue thru the WESM rules dispute resolution process.	MP	On the 15 th day of cut-off



2.8. Final Statement

A final statement shall be issued by the Market Operator no later than eighteen business days after the end of each billing period to each market participant who has engaged in market transactions during that billing period. The statement shows the amounts payable by the market participant to the Market Operator or payable by the Market Operator to the market participant in respect of the relevant billing period depending on the type of transaction.

The Market participant may download the final settlement statement through the MMS System starting on the date of issue. If the final statement cannot be retrieved on the date it was made available, the Market Participant shall notify the Market Operator who will investigate the reason for its non acceptance and re-issue the final statement, if possible.

The final statement contains:

all the information in the preliminary statement that were not subject to disagreement between the Market Participant and the Market Operator,

any adjustments resulting from a disagreement or complaint submitted by the market participants that was found valid and was resolved prior to the date of issuance of final statement. It shall appear as either an increase or decrease in the amounts payable to or by the market participants.

Errors may also arise in respect of final statements or the supporting data thereto. Disputes in respect of final statement shall be raised within twelve months of the relevant billing period and shall be resolved by agreement or pursuant to the dispute resolution procedures set out in WESM Rules (clause 7.3).

If the dispute in the Final Statement has been resolved in any way which causes the amount payable to differ from the amount payable as set out in the issued Final Statement or if the correct amount has been determined, the Market Operator shall issue to each WESM member affected by the resolution of the dispute or the correction of the error a **Revised Statement** for the relevant billing period setting out:

The amount payable by the WESM Member to the Market Operator or the amount payable by the Market Operator to the WESM Member; and

The adjustment to the final statement as agreed or determined plus interest calculated on a daily basis at the interest rate for the period from which the adjustment relates to the payment date applicable to the Revised Statement issued. The rate of interest is equal to the prevailing 91-day Treasury Bill rate.

The Market Operator shall specify the time and date on which a payment of an adjustment under a revised statement issued is due, which date shall be not less than ten business days and not more than fifteen business days after the issuance of that Revised Statement.

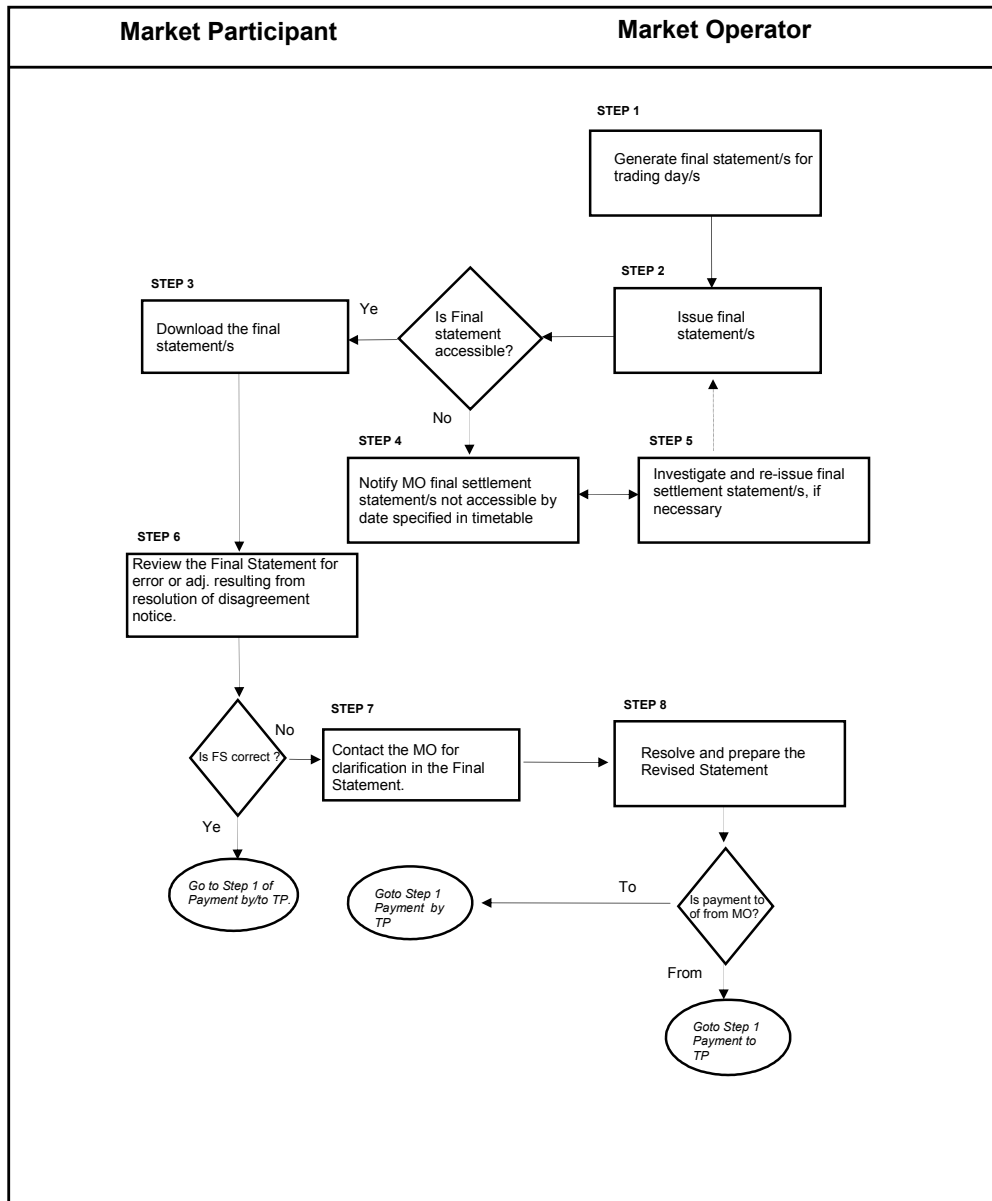
By no later than this time and date specified in the Revised Statement, the full net amount of the adjustment, if any, shall be paid in cleared funds or refunded by the Market Participant to the Market Operator.



2.9. Flowchart for the Preparation of Final Statement

Within eighteen (18) business days after the end of each billing period, the Market Operator shall prepare the Final Statement, which includes all items in the Preliminary Statement and all adjustments made as a result of resolution of all disagreements raised in the particular Preliminary Statement.

Figure 3: Preparation of Final Statement





The following table enumerates the steps in the preparation and issuance of Final Statement to all active market participants.

2.10. Table 2: Procedural Steps in the Preparation of Final Statement

REF	Procedures	Responsibility	Timetable
STEP 1	Generate a final settlement statement(s), reflecting any adjustments as a result of resolution of disagreements with the preliminary statement	MO	No later than 18 th day of cut-off
STEP 2	Issue the final statement(s) for a given billing period for each active market participant.	MO	On the 18 th day of cut-off
STEP 3	Download the final statement file to their workstation through the MMS System.	MP	On the 18 th day of cut-off
STEP 4	Notify the MO that the final statement(s) was inaccessible within the issue date.	MP	On the 18 th day of cut-off
STEP 5	Investigate and re-issue the Final Statement for a given billing period, if necessary, thru MMS or fax.	MO	As soon as practicable
STEP 6	Review the Final Statement for errors in the settlement amounts and to verify if the adjustments in the preliminary statement had been included.	MP	As soon as practicable
STEP 7	Contact the MO for any further queries or disagreement regarding the Final Statement.	MP	As soon as receipt of FS from MP
STEP 8	Seeks a resolution and prepare a Revised Statement.	MO	As soon as resolved but no later than 25 th day of cut-off to be reflected within the billing period.
STEP 9	Settle the adjustments. The Revised Statement may result either to a payment to or by the Market Operator. If the dispute is resolved and the Revised Statement is issued prior to the payment cut-off, the amount due in the Revised Statement must be paid. Otherwise the amount due in the Final Statement must be settled despite of unresolved dispute.	MO/MP	No later than 3:00 p.m. on the 30 th day after cut-off.



3. Payment of Settlement Amount

3.1. Purpose

This document is intended to provide guidelines in the settlement of transactions between the Market Operator and the Market Participants and the other parties thru the Electronic Fund Transfer (EFT) facility that will be made available by the MO. The instructions enumerated herein is preceded by another procedure entitled "Preparation of Settlement Statements".

The procedures discussed herein include the activities and schedule required by the Market Operator and Market Participants in processing the following:

1. Payment by Trading Participants;
2. Payment to Trading Participant;
3. Payment default;
4. Issuance of a Suspension Notice

3.2. Responsibilities

The responsibility is shared between the Market Operator and the Market Participant in carrying out the following functions:

1. Payment of settlement amounts via electronic funds transfer.
2. Facilitate payment of settlement amounts thru other means in case of failure of EFT system or the Market Management System (MMS).
3. Identify and resolve discrepancy in payments.
4. Payment of interest on overdue amounts.
5. Compliance to a suspension notice due to default event.

3.3. Overview of the Settlement Payment

3.3.1. Payment by the Trading Participants

When the settlement amount stated in the Final or Revised Statement is a negative amount, the Market Participant shall pay in cleared funds the amount in full as stated in the Final or Revised Statement to the Market Operator via Electronic Fund Transfer (EFT). Payment of settlement amounts stated in the Final Statement must be made not later than 1500H on the thirtieth (30th) business day after the end of a billing period or 1500H on the twelfth business day after receiving a final statement whichever is the later. The Market Participant must make payment regardless of a pending dispute in the net amount payable in the settlement statement. In the case where the EFT system failure, the market participant and the MO shall find other means of payment to ensure that payment is received on the due date. Payment of settlement amounts stated in the Revised Statement shall be made ten (10) days after the issuance of Revised Statement.

3.3.2. Payment to the Trading Participants



Where the settlement amount stated in the Final or Revised Statement is a positive amount, the Market Operator shall pay in cleared funds that amount in full to each Market Participant via Electronic Fund Transfer. Payment must be made no later than 1500H on the thirtieth (30th) business day after the end of a billing period or 1500H on the twelfth business day after receiving a final statement whichever is later.

The amount due shall be paid by or to the Market Participant whether or not the settlement amount is subject to a dispute. In the event of a failure of the EFT system, payment shall be made either in cash or check or other means that the EFT provider and the MO shall agreed as part of the EFT back up plan.

3.4. Electronic Fund Transfer

Unless otherwise authorized by the Market Operator, the transfer of funds from the Market Participant's bank account to the Market Operator and vice versa for payment of settlement amount shall be thru an Electronic Fund Transfer (EFT) facility. All settlement of transaction and payment of market fees shall be done through EFT service provider accredited by the Market Operator to facilitate collection and payment.

3.5. Default Procedure

Immediately after 1500H on the due date the Market Operator shall determine whether the full amount due to be paid by the Market Participants are credited in full to the MO settlement account. Otherwise the market participants shall be considered in default and default interest shall accrue on the entire outstanding amount. Where the default event has occurred in relation to the Market participants, the Market Operator shall issue a default notice which specifies the nature of the alleged default as soon as practicable. The Market Participant shall remedy the default within twenty-four hours of the issuance of the default notice. Remedial actions shall include cash payment, the drawing by the Market Operator of the unsettled amount from the prudential requirement (i.e. security deposit) or claim from any credit support (guarantee) held in respect of the Market Participant.

The Market Participant shall be responsible for notifying the Market Operator when they find that the default specified in the Default Notice is not likely to be remedied. If the default event is not remedied within 24 hours of the issue of the default or any later deadline agreed to in writing by the Market Operator and the Market Operator considers that the default event is not capable of remedy, the Suspension Notice shall be issued immediately to the defaulting Market Participant.

If the Market Participant fails to remit payment for any amount due and payable by it to the Market Operator, such overdue amount shall bear a default interest rate reckoned from the first day such amount becomes due up the date the full payment is remitted, computed using the 360-day year. The default interest rate is equivalent to 2% per annum above the 91-day T-Bill rate.

3.6. Default Events

As stated in Sec 3.14.11 of the WESM Rules, each of the following events is a default event in relation to the Market participant:

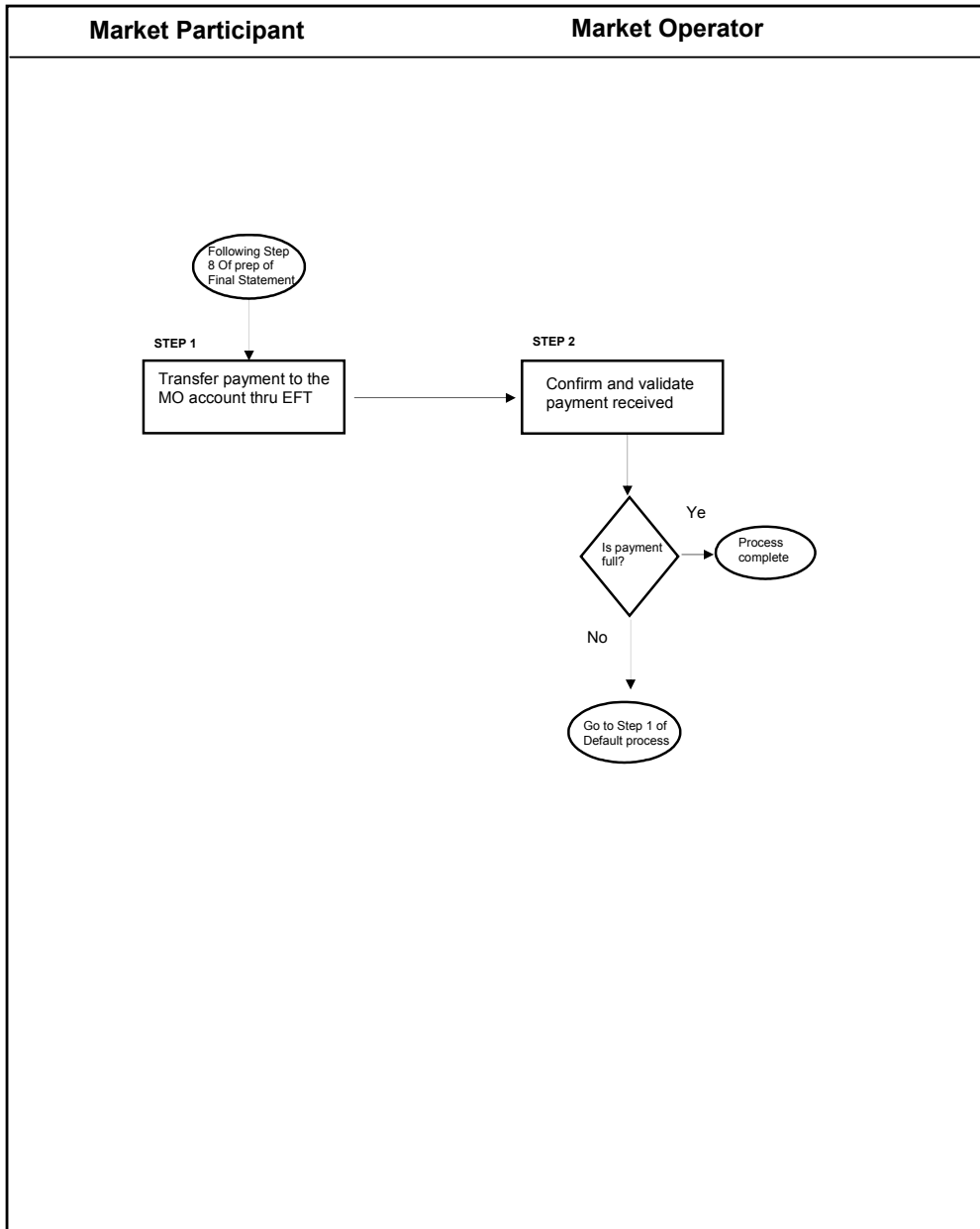


1. The market participants does not pay any money due for payment by it under the WESM Rules by the appointed time on the due date.
2. The Market Operator does not receive payment in full of any amount claimed by the Market Operator under any credit support in respect of a WESM member, within ninety minutes after the due time for payment of that claim;
3. The Market Participant fails to provide credit support required to be supplied under the WESM Rules by the appointed time on the due date
4. It is or become unlawful for the market participant to comply with any of its obligations under the WESM Rules or any other obligation owed to the Market Operator or it is claimed to be so by the Market Participant.
5. It is or become unlawful for any credit Support Provider in relation to the Market Participant to comply with any of its obligations under the WESM Rules or any other obligation owed to the Market Operator or it is claimed to be so by the Credit Support provider.
6. An authorization from a government authority necessary to enable the WESM Member or a Credit Support Provider which has provided support for that WESM member to carry out on their respective principal businesses or activities ceases to have full force and effect.
7. The WESM Member or a credit Support Provided which has provided credit support for that WESM Member ceases or is likely to cease to carry on its business or a substantial part of its business.
8. The WESM Member or a Credit Support Provider which has provided credit support for that WESM Member enters into or takes any action to enter into an arrangement (including a scheme of arrangement), composition or compromise with, or assignment for the benefit of, all or any class of their respective creditors or members, or a moratorium involving any of them.
9. The WESM Member or a Credit Support Provider which has provided credit support for that WESM Member states that it is unable to pay from its own money its debts as and when they fall due for payment.
10. A receiver or receiver and manager is appointed in respect of any property of the WESM Member or a Credit Support Provider which has provided credit support for that WESM member.
11. An Administrator, provisional liquidator, liquidator, trustee in bankruptcy or person having a similar or analogous function is appointed in respect of the WESM Member or a Credit Support Provider which has provided credit support for that WESM Member, or any action is taken to appoint any such person.
12. An application or order is made for the winding up or dissolution or a resolution is passed or any steps are taken to pass a resolution for the winding up or dissolution of the WESM Member or a Credit Support Provider which has provided credit support for that WESM Member.
13. The WESM Member or a Credit Support Provider which has provided credit support for that WESM Member dies or is dissolved unless such notice of dissolution is discharged, and;
14. The WESM Member or a Credit Support Provider which has provided credit support for that WESM Member is taken to be insolvent or unable to pay its debts under any applicable legislation.



3.7. Flowchart for Payment by Trading Participant

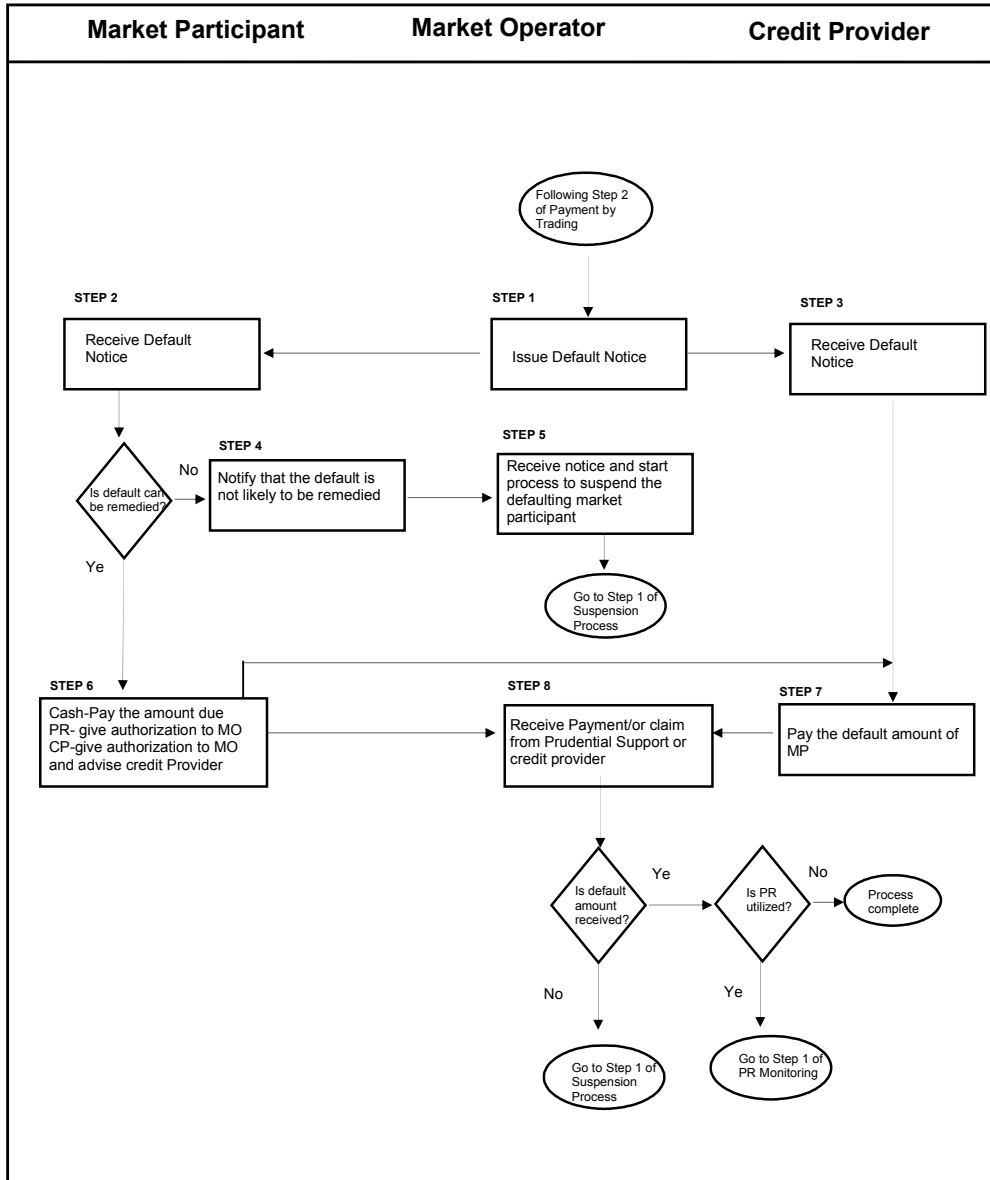
Figure 3: Payment by Trading Participants





3.8. Flowchart for Default

Figure 4: Default





3.9. Table 3: Procedural Steps in Payment by Trading Participant.

REF	Procedures	Responsibility	Timetable
STEP 1	Initiates an electronic funds transfer to the MO bank account.	MP	No later than 3:00pm on the 30 th day after end of billing period
STEP 2	Confirms that the full payment made by the market participant is received. Also determine whether there is discrepancy between the amount billed and the amount collected. The payment process ends when the full and correct payment is received otherwise, an event of default is declared.	MO	Immediately after funds is credited to MO's account



3.10. Table 4: Procedural Steps in Default

REF	DESCRIPTION	RESPONSIBILITY	TIMETABLE
STEP 1	Issues a "Default notice," and requires immediate payment to the defaulting market participant	MP	Immediately after discovery of default
STEP 2	Receives the "Default notice" issued by the MO. Make remedial action to resolve default.	MO	Immediately after MO issue the Default Notice
STEP 3	Receives the "Default notice" issued by the MO. Coordinate with the defaulting Market Participant.	CP	Immediately after MO issue the Default Notice
STEP 4	Notify the MO if the "Default notice" is not possible having remedied during the specified time frame.	MP	As soon as practicable
STEP 5	Receives notice from the defaulting market participant and proceed to the process of suspension	MO	As soon as practicable
STEP 6	Remedies an event of default by : paying in cash, authorizing the market operator to claim from Prudential Requirement, authorizing MO to claim from the credit provider all amount due including default interest, and any cost incurred by the reason of default.	MP	Within 24 hours after receipt of Notice of default
STEP 7	Pay the default amount including interest and other cost incurred to Market Operator.	CSP	As soon as practicable
STEP 8	Receives cash payment or draw down from Security or claim from Credit Support Provider the full amount due. If the amount in default is not paid on the time	MO	As soon as MP transfer fund or give authorization to claim.

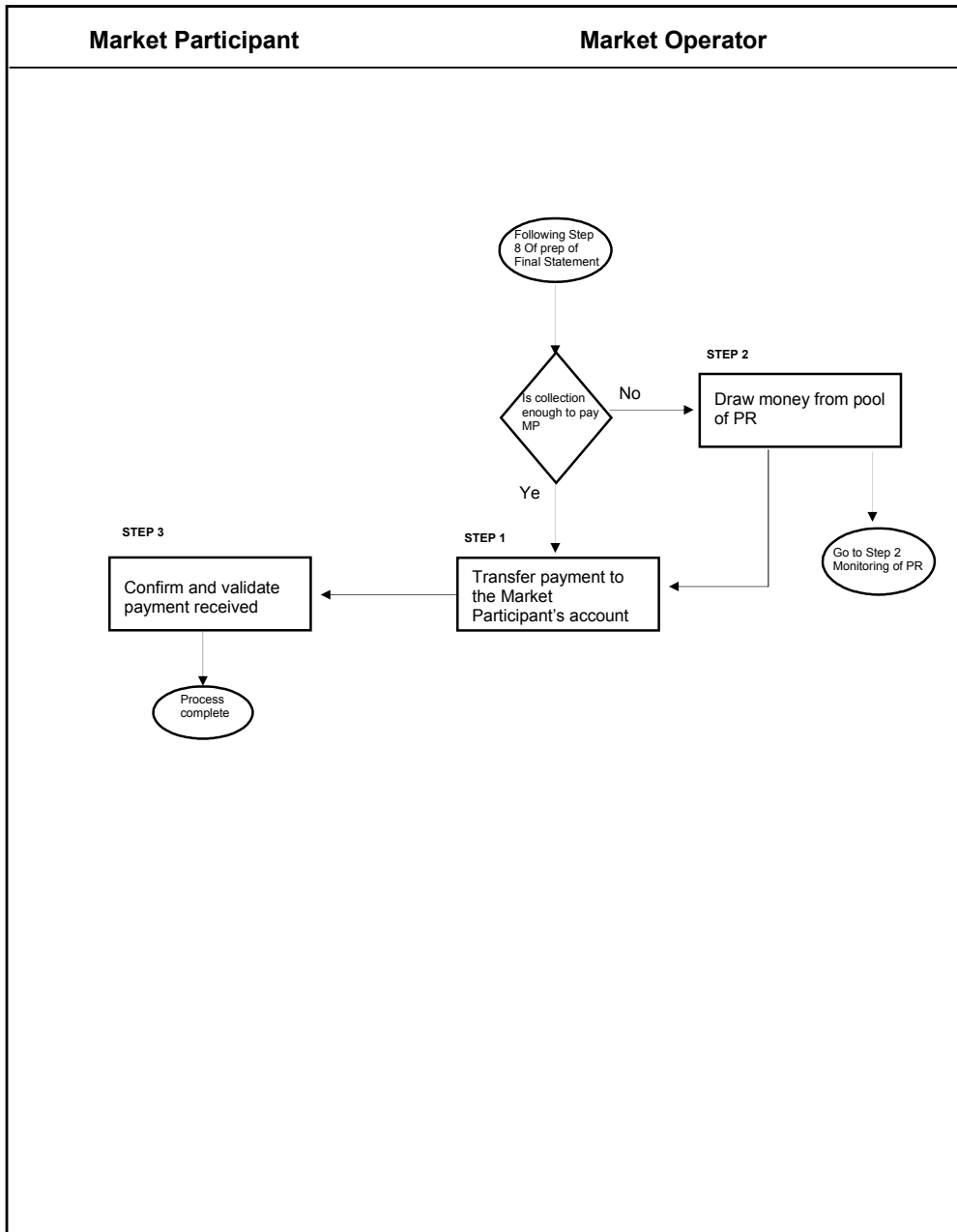


	<p>specified the MO should proceed to the process of Suspension. If the MO claims from the Prudential Support, the amount of security shall be monitored if still exceeds the maximum exposure, otherwise, proceed to the PR monitoring process.</p>		
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3.11. Flowchart for Payment to Trading Participant

Figure 5: Payment to Trading Participant





3.12. Table 5: Procedural Steps in Payment to Trading Participants.

REF	DESCRIPTION	RESPONSIBILITY	TIMETABLE
STEP 1	Transfers the payment to the market participant's bank account thru EFT after validating that the total amount collected is enough to pay the amount due to the Market Participant	MO	No later than 3:00pm on the 30 th day after end of billing period
STEP 2	Draws money from the pool of PR (security deposit) of a defaulting MP to pay the amount due to creditors (generators).	MP	Immediately after default of MP.
STEP 3	Receives the payment from the MO in their specified bank account. The process is complete when the full payment is received. In any case, the MO shall not incur default to its creditors.	MP	Immediately after the fund is transferred by MO to their accounts.



4. Prudential Requirement

4.1. Purpose

In order to ensure that the market Participants will meet their obligations to pay the settlement amounts, they are required to provide and maintain a security based on Market participant's maximum exposure. This procedure describes the activities to be undertaken by the Market Operator and the Market participant in relation to the provision of Prudential Requirement. It also enumerates the actions to be taken by the Market Operator in case of non-compliance to the Prudential Requirement.

4.2. Responsibility

The Market Operator shall ascertain the placement of Prudential Requirement by all Market Participants to ensure the effective operation of the Spot Market and resolution of all default events by the Market Participants. This process involves the following activities:

1. the initial assessment of the prudential requirement for a market participant, based on their estimated maximum exposure to the Market Operator.
2. the regular review of a market participant's trading limit.;
3. the daily monitoring of the market participant's actual exposure against their trading limit
4. The market participant is responsible for complying with the requirements of the Market Operator with respect to the following:
5. placement of prudential support to meet their current obligation.
6. Securing of credit guarantee or protection from a Credit Support Provider
7. Satisfying the Margin Call

4.3. Assessment of Prudential Requirements

The MO shall assess the amount of security deposit required from each Trading Participant wishing to participate in the spot market transaction. The assessment shall be based on the information provided by the Market Participant about its expected trading transactions in the spot market. The Market Operator shall set a trading limit for each Trading Participant, which will be the basis for computing the Prudential requirement. The total value of the security provided by the Market Participant to the Market Operator shall be 15% higher than its Trading Limit (i.e. $\text{Trading Limit} = 85\% \text{ of Prudential Requirement}$).

If the Market Operator has exempted a Market Participant from the requirement to provide a security for a period; then the Market Operator shall not set a trading limit for that Market Participant for that period during which that exemption applies.

In accordance with Section 3.15.2.2 of the WESM rules, the Market operator may exempt a Market Participant from the requirement to provide a security , if:

1. The Market Operator believes it is likely that the amount payable by the Market Operator to that Market Participant under the WESM Rule will consistently exceed the amount payable to the Market Operator by that Market Participant under the WESM Rules in respect of that period; or



2. The Market Operator believes it is unlikely that the Market Participant will be required to pay any amounts to the Market Operator; or

As provided in Section 3.15.3 of the WESM rules, the security provided by a market participant shall either be :

1. a bank guarantee in a form and from a bank acceptable to the Market Operator; or
2. another immediate, irrevocable and unconditional commitment in a form and from a bank or other institution acceptable to the Market Operator; or
3. Surety Bond issued by a surety or insurance company duly accredited by the Office of the Insurance Commissioner of the Philippines.

The Market Operator shall assess the Prudential Requirement of the Market Participant on the following events:

1. Application for registration of Market Participant.
2. At anytime that the Market Operator reviews its determination of a Market participant's maximum exposure
3. When an existing security provided by the Market Participants is due to expire or terminate such that the aggregate undrawn and unclaimed amounts of current and valid security held by the market Operator will be less than the MP's maximum exposure

Prior to the end of each financial year after the Market Operator has determined its maximum exposure in respect of the billing period for the following financial year.

4.4. Actual Exposure of a Market Participant

On a regular basis, the MO shall review its actual exposure to each Market Participant in respect of the previous billing period.

In computing for the Market Operator's Actual Exposure to a Market Participant, the Market Operator shall take into account:

1. Outstanding Settlement amount for the Market Participant in respect of the previous billing period:
2. Settlement amount for the Market participant for trading intervals from the start of the billing period in which the review occurs to the end of the trading day on which the review occurs based on:
 - a. Actual market prices or, if actual market prices are not available for all or part of a trading day, the market prices forecast for the relevant trading day as specified in the relevant day ahead projection; and
 - b. Actual metered quantities for the Market participant or, if actual metered quantities are not available for a trading interval, then a trading imbalance for that trading interval determined by the Market operator as the average of the trading imbalances of that Market participant for the corresponding trading interval on the corresponding trading days of the four previous weeks.

The MO should verify whether each market participant has sufficient levels of prudential support to cover their financial trading activity in the spot market. The MO shall calculate the



market participant's actual exposure (AE) and compare it with the trading limit established for the Market Participant.

If the actual exposure of a Market Participant exceeds his Trading limit, then the Market Operator shall make a **MARGIN CALL** on that Market Participant. Upon receiving the Notice of Margin call from the Market Operator, the Market Participant must satisfy the Margin Call within a prescribed period by either:

1. Providing an additional security or securities that will enable the Market Operator to increase the Market Participant's trading limit to a level which exceeds the Market Operator's actual exposure to the Market participant;
2. Prepaying a portion of the amount payable or which will become payable in respect of previous billing periods sufficient to reduce the Market Operator's actual exposure to the Market participant.

Prepayments made by the Market Participant shall first be applied to unsettled accounts of the earlier Billing periods. Any excess thereof shall be offset in the succeeding billing periods in chronological order until there is no excess.

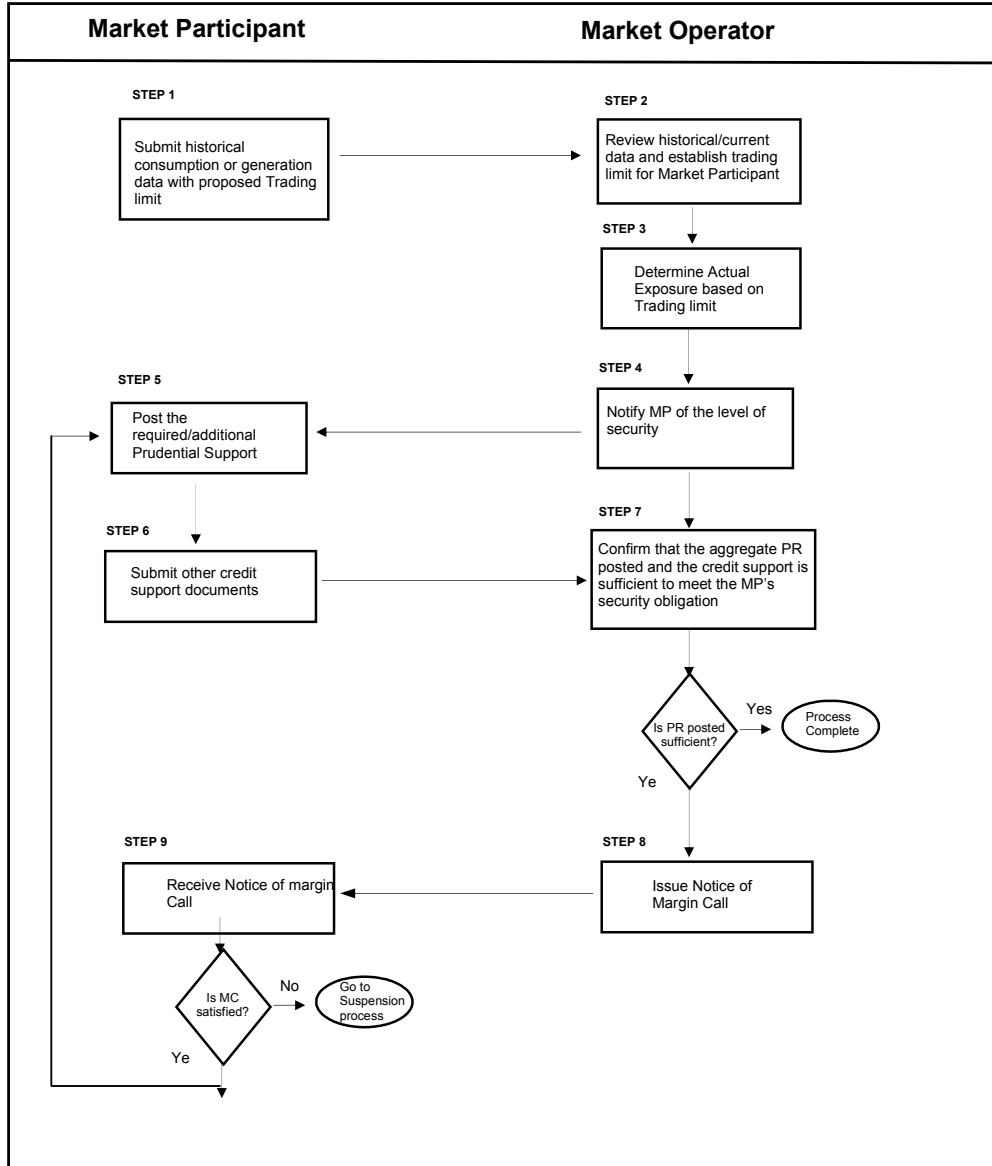
If the margin call is made on a business day before 10:00 a.m., then this must be satisfied at the time the notice is made up to 3:00 p.m. on that business day. If notice is made on or beyond 10:00 a.m., the margin call must be satisfied up to 10:00 a.m. on the first business day after the notice is made.

Failure of the Market Participant to satisfy the Margin Call within the prescribed period will authorize the Market Operator to issue a Suspension Notice.



4.5. Flowchart for Assessment and Monitoring of Prudential Requirement

Figure 6: Assessment and Monitoring of Prudential Requirements





4.6. Table 6: Procedural Steps in the Assessment/monitoring of Prudential Requirement

REF	Procedures	Responsibility	Timetable
STEP 1	Submit historical consumption and/or the generator rated capacity to be the basis in assessing the initial Trading Limit.	MP	--during prequalification
STEP 2	Review the historical/current data submitted by the Market Participant and establish the Trading Limit based	MO	during prequalification / or during each day of trading
STEP 3	Determine and review the Actual Exposure in respect of the previous billing period.	MO	Each day of Trading
STEP 4	Notify the Market Participant of the required security based on the established Trading Limit.	MO	As soon as practicable
STEP 5	Post the required Prudential Requirement or the additional security, in case of a Margin call, in a form acceptable to the MO.	MP	if MC is made before 10 am deadline is on or before 3 pm on the same day. If MC is made beyond 10 am, MC must be satisfied on or before 10 am on the following business day.
STEP 6	Submit documents proof that a Credit Support Provider guarantees their obligation to the Market Operator	MP	As soon as practicable
STEP 7	Confirm that the Market Participant has placed a security sufficient to meet its obligation. Each day, the MO reviews the Actual Exposure to each Market Participant in respect of the previous billing periods. If the Security is insufficient, the Market Operator shall issue a Margin call and compel	MO	As soon as practicable



	the MP to comply with the required level of PR.		
STEP 8	Issue a notice of Margin Call if the Actual Exposure to the Market Participant exceeds the Market Participant's Trading Limit.	MO	As soon as practicable
STEP 9	Receives Notice of margin Call and satisfy the Margin call by providing an additional security or making prepayment within the period specified by the MO. If the Market Participant fails to satisfy a Margin call within the period specified, the MO shall give a suspension notice to Market Participant.	MP	As soon as practicable



5. Suspension of a WESM Member

5.1. Overview

The Market participant may be suspended from participating in the spot market when it receives a Suspension Notice from the Market Operator due to any of the following conditions:

1. the Market Operator believes that the Market participant is incapable of rectifying a default event.
2. the Market Participant fails to satisfy a margin call made by the Market Operator within the prescribed period to provide additional or replacement security for the purpose of reducing Market Operator's exposure.

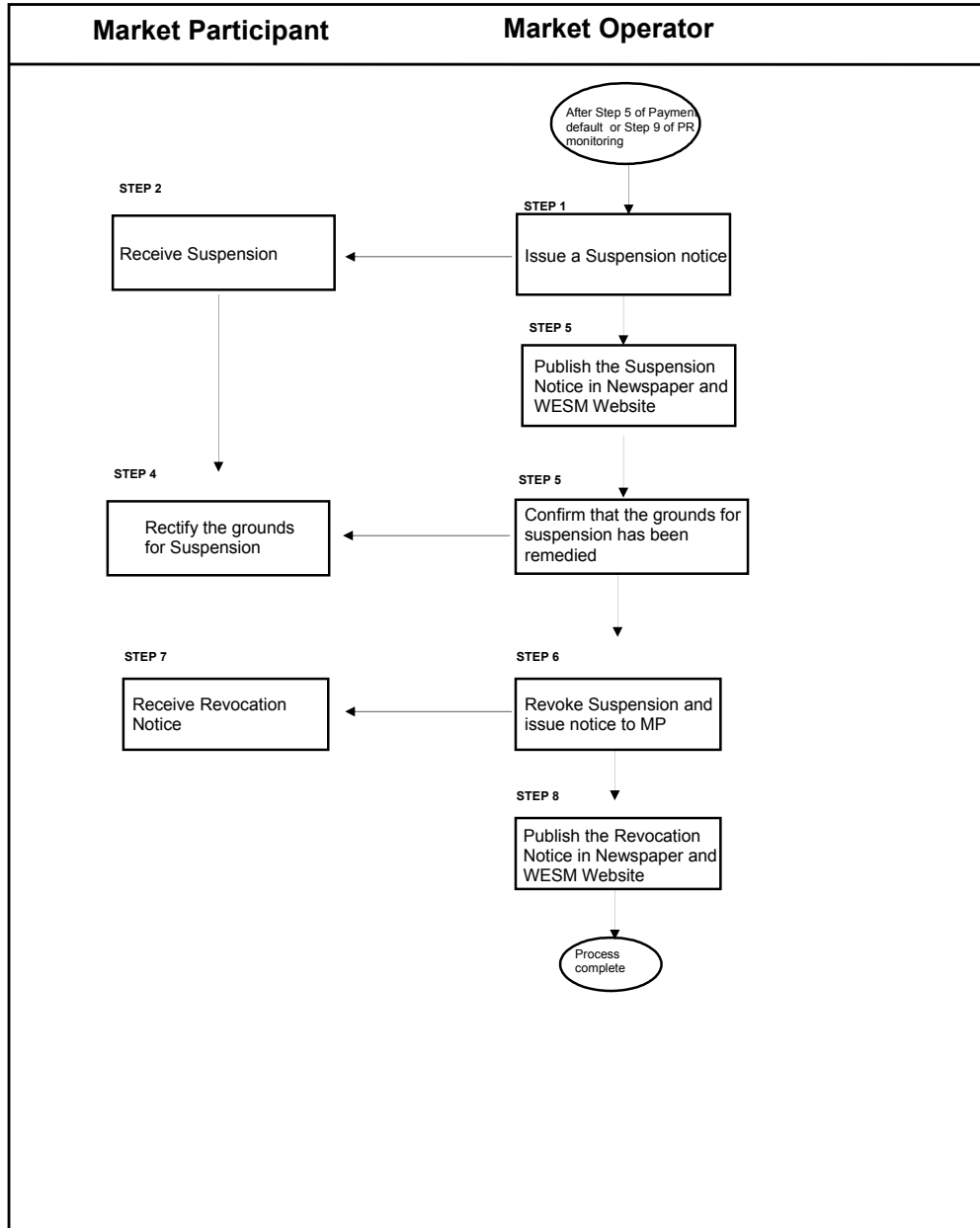
As soon as practicable after a suspension is issued to the Market Participant, the Market Operator shall publish the suspension notice in the WESM website and in a newspaper of general circulation. The Market Participant shall comply with a suspension notice. From the time of the issuance of the notice of suspension until such time the suspension is revoked, the suspended Market Participant is ineligible to participate in the Spot Market.

The Market Operator shall revoke a suspension notice if the default event has been remedied or if Market Participant has complied with the margin call made by the Market Operator. If the Suspension notice is revoked, the Market Operator shall publicized that fact in the same manner when the suspension notice was issued.



5.2. Flowchart for Suspension of a WESM Member

Figure 7: Suspension of a WESM Member





5.3. Table 7: Procedural Steps in Suspending a Market Participant.

REF	Procedures	Responsibility	Timetable
STEP 1	Send Notice of Suspension indicating the reason for suspending the Market Participant.	MO	Immediately when MO determines that there are valid grounds for suspension.
STEP 2	Receives the notification from MO of the suspension.	MP	As soon as practicable
STEP 3	Publish in the Newspaper of general circulation the Suspension Notice to inform public and other Market Participants.	MO	As soon as practicable after the notice is issued
STEP 4	Determine how to resolve suspension. In the case of default: pay the default amount, in the case of shortage of Prudential requirement or margin call: post additional security or give prepayment and do remedy to other circumstances that entitles the issuance of suspension.	MP	As soon as practicable
STEP 5	Coordinates with the Market Participant in resolving the issues of suspension.	MO	As soon as practicable
STEP 6	Revoke the Suspension by issuing notice to the Market Participant if the market Participants has rectified the causes of suspension.	MO	Immediately after the MP has made remedy to revoke suspension
STEP 7	Receives the Notice from MO that the suspension is revoked. The MP can resume trading with the spot market	MP	As soon as practicable
STEP 8	Publish in the newspaper of general circulation that the suspension notice is revoked	MO	As soon as practicable after the notice is issued