

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

**IN THE MATTER OF THE APPLICATION
FOR THE APPROVAL OF THE PRICING
AND COST RECOVERY MECHANISM
FOR RESERVES IN THE PHILIPPINE
WHOLESALE ELECTRICITY SPOT
MARKET**



ERC CASE NO. 2007-004 RC

**THE PHILIPPINE ELECTRICITY MARKET
CORPORATION (PEMC),**

Applicant.

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NOTICE OF PUBLIC HEARING

DOCKETED
Date: JAN 23 2007
By: ve

TO ALL INTERESTED PARTIES:

Notice is hereby given that on January 8, 2007, Philippine Electricity Market Corporation (PEMC) filed with the Commission, pursuant to the provisions of Republic Act No. 9136, an application for the approval of the Pricing and Cost Recovery Mechanism for Reserves (Reserve PCRM) in the Philippine Wholesale Electricity Spot Market (WESM).

In the said application, PEMC alleged, among others, that:

1. The instant application is in compliance with the Commission's Decision dated June 20, 2006 in ERC Case No. 2006-007 RC;
2. The application is intended to supplement the Ancillary Services Cost Recovery Mechanism (AS-CRM) of the National Transmission Corporation (TRANSCO) which has been provisionally approved by

the Commission in its Order dated October 11, 2006 in ERC Case No. 2006-049 RC;

3. Upon the approval of the instant application and operation of the reserve market in the WESM, the Reserve PCRM is intended to apply to all reserves that are to be traded in the Philippine WESM and will supersede to this extent the AS-CRM of the TRANSCO. The TRANSCO AS-CRM will then apply to other ancillary services that are not traded in the WESM as well as to reserve regions or cost recovery zones where the WESM reserve market is not yet in operation;
4. The approval of the Commission of the instant application finds basis in Section 30 of Republic Act No. 9136, otherwise known as the "Electricity Power Industry Reform Act (EPIRA);
5. The Reserve PCRM has been developed in consultation with the electricity industry participants through the WESM Interim Rules Change Committee and the Philippine Electricity Market Board (PEM Board), both of which are composed of equitable representation from the electricity industry participants;
6. The Reserve PCRM aims to: a) establish the principles and procedures by which reserves traded in the WESM will be priced as well as the formula and procedures for determining the reserve trading amounts of reserve providers and the allocation of reserve costs among the market participants (the "reserve cost recovery charges"); and b) establish the methodology to be used for determining the administered prices and cost recovery charges that will be used for

settlement of reserve transactions during market suspension and intervention.

7. The WESM adopts a zonal pricing regime for reserves traded in the spot market for all regions. Zonal reserve pricing is a pricing scheme wherein a single price applies to reserve region (WESM Rules clause 3.3.5);
8. Unlike the pricing scheme for energy, an ex-ante pricing scheme is adopted for reserves. This is because reserves are procured in advance to enable the System Operator to quickly respond or dispatch the energy reserves to maintain power system security and reliability in real-time (WESM Rules clause 3.10.1 (e), 3.10.10);
9. The WESM Rules provide for co-optimization of energy and reserves. Thus, the MDOM simultaneously determines energy schedules and reserve allocation and their associated energy and reserve prices (WESM Rules, Section 6); and
10. It prayed that the Reserve PCRM of the WESM be approved for implementation.

The Commission has set the application for hearing at **nine o'clock in the morning (9:00 A.M.) at the ERC Hearing Room, 15th Floor, Pacific Center Building, San Miguel Avenue, Pasig City**, on the following dates:

1. **February 26, 2007** - Expository Presentation and Pre-Trial Conference
2. **March 6, 12, 13, 19 and 20, 2007** - Evidentiary Hearings

All persons who have an interest in the subject matter of the proceeding may become a party by filing, at least five (5) days prior to the initial hearing and subject to the requirements in the ERC's Rules of Practice and Procedure, a verified petition with the Commission giving the docket number and title of the proceeding and stating: (1) the petitioner's name and address; (2) the nature of petitioner's interest in the subject matter of the proceeding, and the way and manner in which such interest is affected by the issues involved in the proceeding; and (3) a statement of the relief desired.

All other persons who may want their views known to the Commission with respect to the subject matter of the proceeding may file their opposition to the application or comment thereon at any stage of the proceeding before the applicant concludes the presentation of its evidence. No particular form of opposition or comment is required, but the document, letter or writing should contain the name and address of such person and a concise statement of the opposition or comment and the grounds relied upon.

All such persons who may wish to have a copy of the application may request the applicant, prior to the date of the initial hearing, that they be furnished with a copy of the application. The applicant is hereby directed to furnish all those making such request with copies of the application and its attachments, subject to reimbursement of reasonable photocopying costs. Likewise, any such person may examine the application and other pertinent records filed with the Commission during the usual office hours.

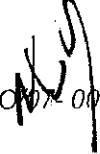
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WITNESS, the Honorable **RODOLFO B. ALBANO, JR.**, Chairman, the Honorable Commissioners **ALEJANDRO Z. BARIN, MARIA TERESA A.R. CASTAÑEDA** and **JOSE C. REYES**, Energy Regulatory Commission, this 15th day of January, 2007 at Pasig City.


ATTY. FRANCIS SATURNINO C. JUAN
Executive Director


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