

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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D O C K E T E D
Date: JAN 23 2007
By: ln

ORDER

On January 8, 2007, the Philippine Electricity Market Corporation (PEMC) filed 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.

Finding said application sufficient in form and in substance, with the required fees having been paid, the same is hereby set 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** - Pre-Trial Conference and Expository Presentation
 2. **March 6, 12, 13, 19 and 20, 2007** - Evidentiary Hearings
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PEMC is hereby directed to cause publication of the attached Notice of Public Hearing at its own expense, twice (2x) for two (2) successive weeks in two (2) newspapers of general circulation in the Philippines, with the date of the last publication to be made not later than ten (10) days before the date of the scheduled initial hearing. It is also directed to inform the consumers, within its franchise area, by any other means available and appropriate, of the filing of the instant application, its reasons therefor, and of the scheduled hearing thereon.

Let copies of the application, this Order and the attached Notice of Public Hearing be furnished the Office of the Solicitor General (OSG), the Commission on Audit (COA) and the Committees on Energy of both Houses of Congress. They are hereby requested, if they so desire, to send their duly authorized representative at the scheduled hearing.

Likewise, let copies of this Order and the attached Notice of Public Hearing be furnished the Office of the Mayor of Pasig City for the appropriate posting thereof on its bulletin board.

PEMC is hereby directed to furnish all those making requests therefor with copies of the application and its attachments, subject to reimbursement of reasonable photocopying costs.

On the date of the initial hearing, PEMC must submit to the Commission its written Compliance with the jurisdictional requirements attaching therewith, methodically arranged and duly marked, the evidences on the actual posting and publication of the Notice of Public Hearing consisting of certification issued to that effect, signed by the afore-mentioned Mayor or his duly authorized representative, bearing the seal of his office, and the affidavits of the Editors or

Business Managers of the newspapers where the said Notice of Public Hearing was published together with the complete issues of the said newspapers, and such other proofs of compliance with the requirements of the Commission.

PEMC is further directed to submit, at least five (5) days before the date of initial hearing, its Pre-trial Brief containing among others, the following:

- a) a summary of admitted facts and proposed stipulations of facts;
- b) the issues to be tried or resolved;
- c) the documents or exhibits to be presented, stating the purposes thereof and proposed markings therefore; and
- d) the number and names of witnesses, with their written testimonies in affidavit form, if already available, to be attached to the Pre-trial Brief.

As part of the pre-trial conference, PEMC must also be prepared to make an expository presentation on its application, aided by whatever communication medium that it may deem appropriate for the purpose, in order to put in plain words and explain, for the benefit of the consumers and other concerned parties, what the application is all about and the reasons and justifications being cited in support of the rate adjustments prayed for.

SO ORDERED.

Pasig City, January 15, 2007.


RODOLFO B. ALBANO, JR.
Chairman

Copy furnished:

1. **The Office of the Solicitor General**
234 Amorsolo Street, Legaspi Village, Makati City
Metro Manila
 2. **The Commission On Audit**
Don Mariano Marcos Avenue
Diliman, Quezon City, Metro Manila
 3. **The Committee On Energy**
Senate of the Philippines
GSIS Building, Roxas Blvd., Pasay City, Metro Manila
 4. **The Committee On Energy**
House of Representatives
Batasan Hills, Quezon City, Metro Manila
 5. **The City Mayor**
Pasig City
 6. **Philippine Electricity Market Corporation**
9th Floor, Robinsons Equitable Tower
Ortigas Center, Pasig City
 7. **National Transmission Corporation**
Agham Road, Diliman
Quezon City
 8. **The Office of the Secretary**
Department of Energy
Fort Bonifacio
Makati City
 9. **Puyat Jacinto and Santos Law Offices**
Counsel for Applicant
12/F Manilabank Building
6772 Ayala Avenue
Makati City
 10. **Market Operations Service**
Energy Regulatory Commission
 11. **Power Sector Assets and Liabilities Management Corporation (PSALM)**
2nd Floor, SGV II Building
Ayala Avenue, Makati
 12. **Philippine Rural Electric Cooperatives Association (PHILRECA)**
4th Floor, Casman Building
372 Quezon Avenue, Quezon City
Metro Manila
 13. **PHILIPPINE ELECTRIC PLANT OWNERS ASSN.**
8th Floor, Strata 100 Buiding
Ortigas Avenue, Pasig City
Metro Manila
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