



**synthesis** Annual Report 2012





**Wholesale Electricity  
Spot Market**

# **Market Report**

**26 June 2012 - 25 June 2013**



# synthesis

New developments in the Philippine electric power industry are driving rapid changes in the spot market. With the introduction of retail competition to the incredibly dynamic and fluid market landscape, WESM stands astride this crossroad of evolution. WESM welcomes the new arrivals by developing new policies to harness and integrate them into the existing market framework. The mingling of ideas results in a new type of market, one that is closer to the vision of EPIRA for a better, more efficient and transparent electricity market.





EFFECTIVE SETTLEMENT SPOT PRICE  
PHP 6,537/MWh

MARKET SUSPENSIONS  
None

WESM MEMBERS

TOTAL REGISTERED  
(LUZON and VISAYAS)

Generation Companies **53**

CUSTOMERS **196**

Private Distribution Utilities and Local Gov. Utilities **16**

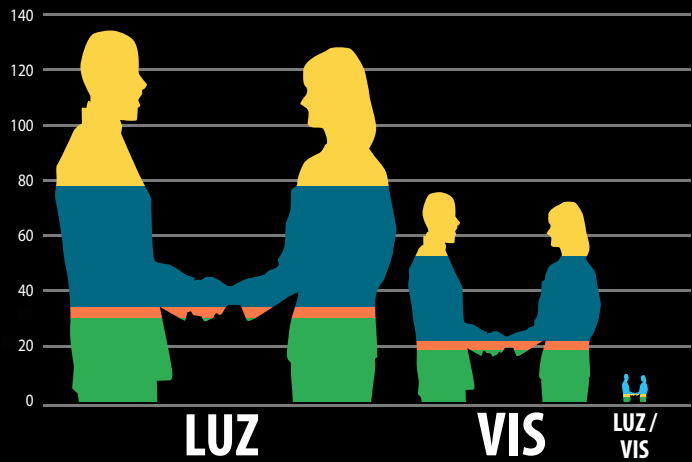
Electric Cooperatives **70**

Bulk Users **103**

Wholesale Aggregators **7**

BREAKDOWN OF REGISTRATION

DIRECT			INDIRECT		
LUZ	VIS	LUZ/VIS	LUZ	VIS	LUZ/VIS
29	17	2	0	0	0
4	3	0	5	0	0
26	25	0	16	3	0
6	7	0	48	14	1
0	0	7	0	0	0



RCOA REGISTRATION



TOTAL: **276**

Contestable Customers **240**

Retail Electricity Suppliers **15**

Local Retail Electricity Suppliers **3**

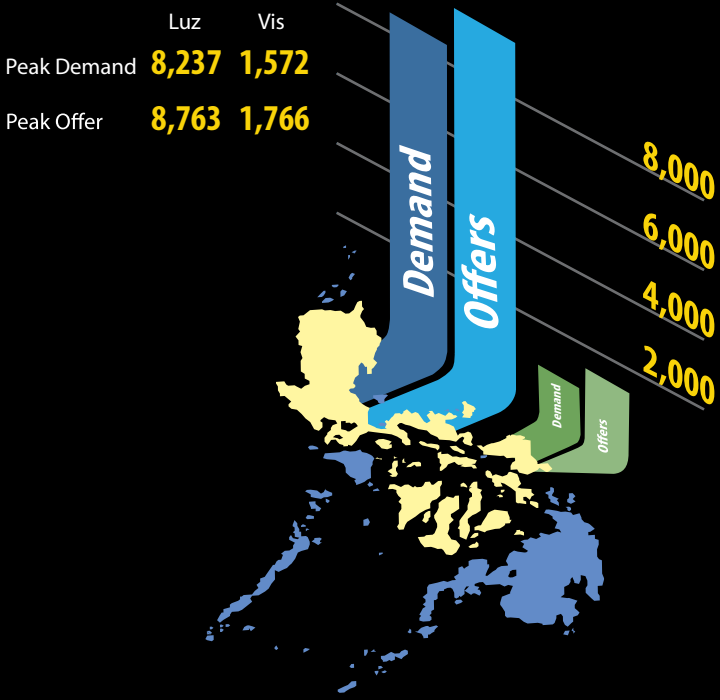
Retail Metering Service Providers **18**

Supplier of Last Resort **0**

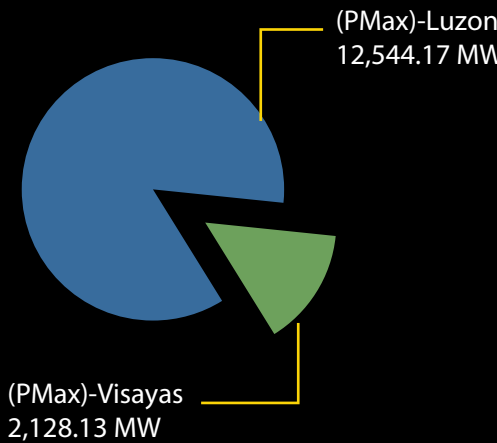
PRICING CONDITIONS

	LUZ		VIS	
	RTD	RTX	RTD	RTX
PEN	3,859	781	519	485
Non-Congestion	3,501	523	506	472
Congestion-Related	351	258	13	13

SUPPLY-DEMAND PROFILE



TOTAL REGISTERED CAPACITIES



MARKET SHARE

UMRC 0.76%

VEC 1.92%

SPC 2.07%

NPC 2.09%

Other IPPs 2.70%

QPPL 3.18%

GMCP 3.25%

GBPC 4.30%

MPPCL 4.36%

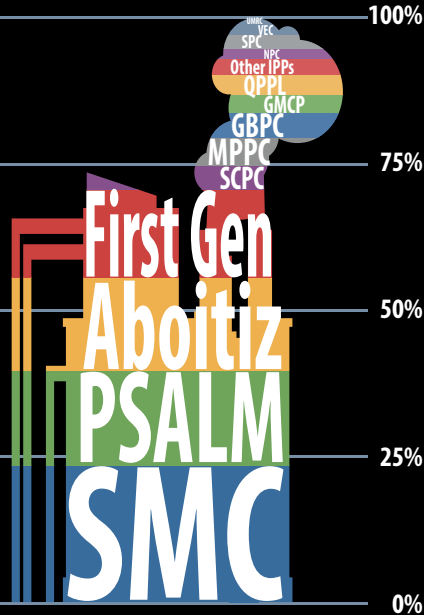
SCPC 4.57%

FIRST GEN 15.22%

ABOITIZ 15.72%

PSALM 15.85%

SMC 24.00%



UMRC - Udenna Management & Resources Corporation

VEC - Vivant Energy Corporation

SPC - SPC Power Corporation

NPC - National Power Corporation

QPPL - Quezon Power (Philippines), Ltd. Co.

GMCP - GNPover Mariveles Coal Plant Ltd. Co.

GBPC - Global Business Power Corporation

MPPCL - Masinloc Power Partners Co. Ltd.

SCPC - SEM-Calaca Power Corporation

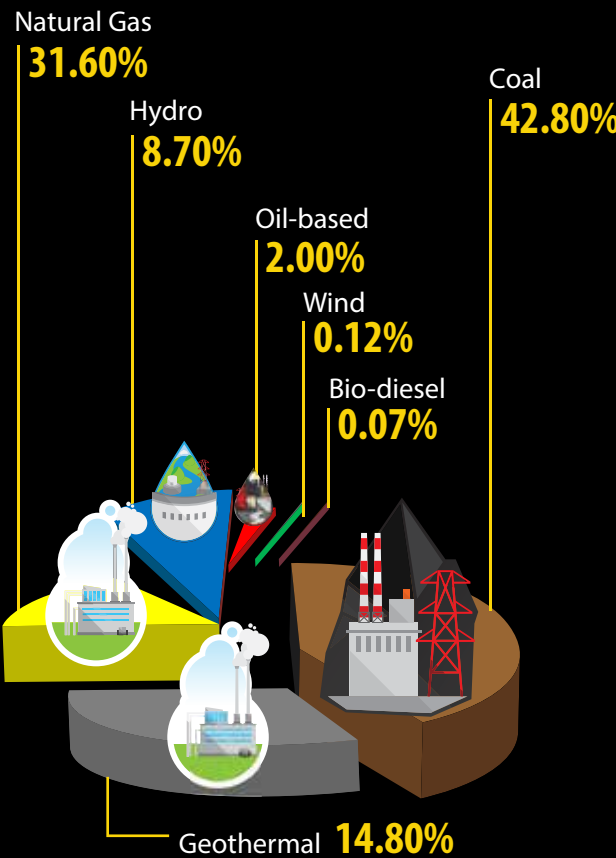
First Gen - First Gen Corporation

APC - Aboitiz Power Corporation

PSALM - Power Section Assets & Liabilities Management Corporation

SMC - San Miguel Corporation

GENERATION MIX



Bilateral Contract Quantities (BCQ) and Spot Transaction Levels

Total Transactions: 56,920 GWh

Total BCQ Transactions: 51,340 GWh (90.2%)

Total Spot Transactions: 5,580 GWh (9.8%)



## MESSAGE FROM SEC. JOSE RENE D. ALMENDRAS

Cabinet Secretary and  
Former PEM Board Chairman and DOE Secretary  
(01 July 2010 – 24 November 2012)

Leading the energy sector encompasses a myriad of responsibilities focusing on supply and demand issues, environmental concerns, and social impact among others. Such diversity and a wide breadth of issues kept my interest when I was at the helm of the Department of Energy (DOE). Thus, the oft-repeated statement that planning for and developing the energy sector is never short-term as requisite structures demand long-term strategic view and attention. This is the very principle that guided me during my tenure when the electric power industry landscape was at a critical juncture of unprecedented development and was striving to define its path towards enduring solutions.

More than a decade has passed since the Electric Power Industry Reform Act (EPIRA) was enacted and we are still in the process of searching for and determining the most suitable approaches and solutions. Before President Aquino took office, I remember people were prefiguring that the country would have protracted brownouts due to electricity supply deficiency. However, we were able to obviate that kind of a scenario because of our utmost dedication to effectively implement the Energy Reform Agenda (ERA) as the overarching policy of the DOE.

Speaking of medium and long-term planning, the ERA is a 25-year program having energy access as the most important program. Energy access should translate to availability and affordability. Key to this is the creation and development of a level playing field and competitive environment embodied in the electric power industry with the establishment and operations of the Philippine Wholesale Electricity Spot Market (WESM).

The WESM, in its seven years of commercial operations, has dramatically changed how electricity is traded and how industry stakeholders manage their energy transactions. During my time as the PEM Board Chairman, I was able to witness and recognize the growing value of the market's intricate but very potent processes that play a part in the industry's development and that benefit the country's business environment.

The Philippines is very fortunate to have a venue where energy is transacted in a free and transparent market. Since the electricity market promotes competition among generator suppliers and customer choice for the purchasing of energy, increased dynamism in the industry and optimal and sustainable pricing mechanism are ultimately achieved.

For this reason, the competition has now further extended to the retail level with the implementation of Retail Competition and Open Access (RCOA) in December 2012. This serves as an opportunity for more entities to participate in the WESM encouraging more investments and intelligent trading behaviors.

Truly, these developments foster an era of excitement and anticipation in our burgeoning industry and I believe that things are just going to get even better. I am deeply honored to have served in the Department and to have been part of an institution that is truly committed for the betterment of the quality of life for the Filipinos.

  
JOSE RENE D. ALMENDRAS

Cabinet Secretary and  
former PEM Board Chairman and DOE Secretary

*"These developments foster an era of excitement and anticipation in our burgeoning industry and I believe that things are just going to get even better."*



# A QUINTESSENTIAL MODEL OF SYNTHESIS

DOE Secretary Hon. Carlos Jericho L. Petilla

*"I wish to extend my commendations for your contributions in building the WESM on the merits of what it is today and for your support in paving a straight path towards a robust and progressive electric power industry that we rightly deserve as a nation."*



## Towards a sustainable future

### How would you describe the state of the energy sector at present, and what are your main objectives?

Our industry continues to face colossal challenges, and the Department of Energy (DOE) remains at the forefront in pursuing a reliable energy sector, responsive to the needs of our country.

### What is your strategy to achieve these objectives?

To achieve this objective, the government, as well as the industry stakeholders, and investors must work hand-in-hand to establish the necessary systems, facilities, and collaborative networks. Underpinning this strategy is DOE's sustained commitment to work together with related agencies and institutions in harmonizing energy laws and programs. Along with this harmonization is the strengthening of the present business environment and governance framework in order for competition and trading relationships to work and thrive in our electric power industry.

### What role does the WESM play in all of these?

The role of the Philippine Wholesale Electricity Spot Market (WESM) is highly relevant. The critical work the WESM does in expanding its operations to the retail level, its ventures into new markets, and the vital linkages it creates ushers for the industry a period of unrelenting development.

### What milestones have been achieved under your leadership?

The first involves the WESM's work of establishing cooperation among industry stakeholders. Last year, we achieved a significant milestone with the signing of a Memorandum of Understanding between the Philippine Electricity Market Corporation (PEMC), the designated Market Operator (MO), and the National Grid Corporation of the Philippines (NGCP), the System Operator (SO), which fortified their partnership. The DOE fully supports the arrangement which inaugurated an era of collective institutionalization, corporate accountability, and enrichment of operational standards and practices, which benefits the entire industry.

The second has to do with market expansion. The PEMC, as the designated Central Registration Body (CRB), has successfully made preparations for the integration of the retail market into the WESM with the commencement of Retail Competition and Open Access (RCOA). The DOE recognizes the distinguishable contribution of the MO to bring into line the market rules and relevant procedures, and to develop the necessary infrastructure to facilitate efficient operations of the WESM vis-à-vis the entry of retail transactions.

### What does the future hold for the Philippines' energy industry?

As the compass and benefits of competition are felt at the end-user level, the DOE is determined to promote the development and use of energy-efficient technologies and practices in households and industries. It is the government's aim to attain 10 percent energy savings by 2030 as part of our vision of a low carbon future.

This vision is also in step with the government's agenda to promote the development of natural gas, alternative fuels, and renewable energy. In fact, the DOE already targets to raise, exponentially, the renewable energy-based power generation capacity of the Philippines with the addition of almost 10,000 megawatts by 2030, which would virtually satisfy the supply demand growth during the period.

### Moving forward, what is your challenge for the WESM?

As the industry undertakes unprecedented changes, the WESM, as well as its stakeholders, will play a key role in the development of essential frameworks, tools, and capacities to effectively operate the current market and set up new ones. The WESM, now more than ever, is progressively becoming an epitome, a quintessential model of synthesis or fusion of dynamic and responsive policies, vibrant commercial mechanisms, and stakeholder interests that, when strategically worked out, has the potential to shape a more sustainable future.

### Do you have a message for the WESM and its stakeholders?

The DOE looks forward for the WESM to continue its role as an arm of enforcing and achieving the EPIRA objectives. I wish to extend my commendations to the PEM Board, PEMC Management, and to all WESM Participants for your contributions in building the WESM on the merits of what it is today and of what it can become in the future, as well as for your support in paving a straight path towards a robust and progressive electric power industry that we rightly deserve as a nation.

CARLOS JERICHO L. PETILLA  
PEM Board Chairman and  
DOE Secretary





# SYNTHESIS

## HOW THE SPIRIT OF INTEGRATION AND COLLABORATION DRIVES INNOVATION

### A MESSAGE FROM THE PEMC PRESIDENT

#### 2012: A year of value-adding work

The work we've done in the past year has added significantly to the value of the WESM. As a result of concerted stakeholder efforts, quite a number of feats were accomplished. The business of electricity can be tricky at times. I think that we have entered an era where we can no longer afford to be passive onlookers to changes within our industry. Indeed, it was a great year to witness such proactivity and cooperation from industry stakeholders in pushing for developments in our market.

Quite a number of market development initiatives have been taking place these past two years, including preparations for the integration of retail competition in our market, as well as the development of an interim electricity market for the Mindanao region. These have introduced many interdependencies, most notably during the inception and development stages, and have since resulted in some heavy inter-agency coordination and invaluable stakeholder engagement activities. This past year in particular, we have been fortunate enough to have witnessed such a high level of interest and involvement from various stakeholder groups.

The year 2012 was also marked by the conduct of the first ever WESM Participant Satisfaction Survey. It was a fruitful project because it offered stakeholders a way to voice out whether or not they feel the market has been working as intended, and whether or not they think that the Market Operator has been administering it the way it is supposed to.

Stakeholder feedback is something that we highly value. We understand that it is crucial in maintaining a market that is responsive to the needs of the power industry. We are glad that the results of the survey have reflected an over-all positive view of the WESM and of how the market's objectives are being met. All feedback on areas for improvement are likewise highly appreciated.

In keeping with our theme of Synthesis we are pleased to report that with the supervision of the PEM Audit Committee, the first Metering Arrangements Review was successfully concluded last year. The crucial relationship between the Market Operator (MO) and System Operator (SO) is something that is often highlighted in discussions about market operations. But the Metering Arrangements Review has demonstrated that close coordination with the wholesale metering services provider is also a very important aspect of ensuring the success of the market.

#### Collaboration and building strong linkages

And speaking of the linkage between the MO and SO, we are proud to have finally brought to fruition the undertaking of a Memorandum of Understanding between PEMC and the National Grid Corporation of the Philippines, promising strengthened cooperation between the two organizations through the institutionalization and enhancement of operating protocols to ensure that the market is working at an optimum level.

Last December, we organized an International Conference on Retail Markets, another WESM first. In our market, we have grown accustomed to interfacing with generation companies and large bulk consumers. The significant turnout of industrial and commercial customers at the conference was encouraging and has given us a preview of the entities we can expect to interact with on a regular basis upon the entry of retail competition in the market. We look forward to the new dimension that these new participants will bring to the WESM.

*"It was a great year to witness such proactivity and cooperation from industry stakeholders in pushing for developments in our market."*

#### Preparing for Retail Competition

From a planning perspective, there is no doubt that preparations for retail competition took center stage in the WESM in 2012. But to underpin the efficient and reliable operation of the wholesale energy market, we also maintained focus on other aspects of market improvement and development, such as the deployment of enhancements to our Market Management System, continuous compliance to market audit recommendations, and the revamping of our market website to facilitate improved exchange of market data and information. All of these accomplishments and more are featured throughout this report.

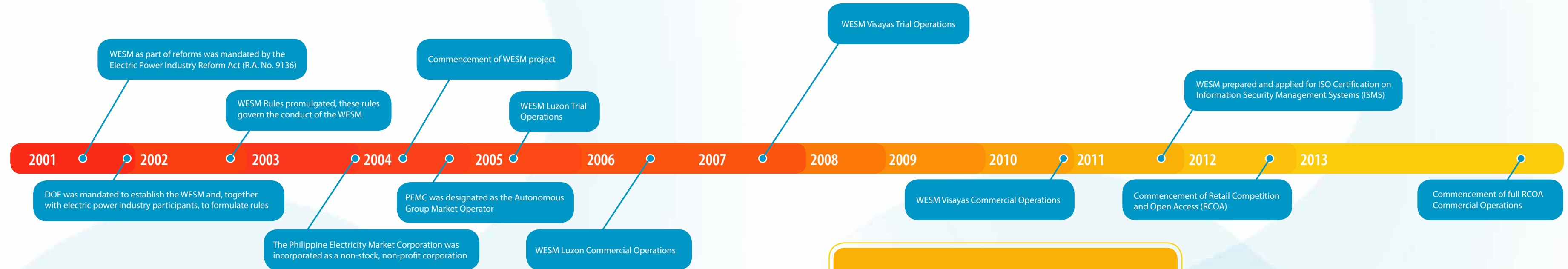
This year, we hope to continue to build on our numerous achievements and maximize the return of all efforts invested over the last twelve months. I wish to take this opportunity to extend my appreciation to the PEM Board for its continued support and to all stakeholders for being consistently engaged in our various market programs. I expect that our collaborative efforts will continue to be instrumental in making them a success.

  
MELINDA L. OCAMPO

President  
Philippine Electricity Market Corporation



## MILESTONES AT A GLANCE



### WHAT IS WESM?

- 1** A venue for
  - the centralized scheduling of generation and supply of electricity through the Luzon and Visayas grids, and
  - determining prices of un-contracted quantities and the settlement of spot market transactions.
- 2** A real-time, bid-based and hourly market for energy and, eventually for reserves.<sup>1</sup>
- 3** A gross pool and net settlement market
  - all electricity supplied through the Luzon and Visayas grids are scheduled regardless of whether or not they are covered by bilateral contracts.
  - important: quantities covered by bilateral contracts are netted out of the WESM settlements to be settled between the contracting parties outside of the WESM.
- 4** An integrated electricity market
  - retail and wholesale market combined
  - new industry players are introduced
  - retail electricity suppliers
  - contestable customers
  - captive market
  - distribution utility roles are re-defined
  - local suppliers
  - suppliers of last resort
  - metering services providers

<sup>1</sup>Trading of reserves in the WESM has not yet commenced

### WHAT ARE THE OBJECTIVES OF WESM?

WESM was primarily established to create a competitive, efficient, transparent and reliable market for electricity where:

- a level playing field exists among WESM Participants;
- trading of electricity is facilitated among WESM Participants within the spot market;
- third parties are granted access to the power system in accordance with the EPIRA;
- prices are governed as far as practicable by commercial and market forces; and
- efficiency is encouraged.

### WHAT ARE THE PRINCIPLES BEHIND WESM?

WESM works because it has adhered to the ideas of:

- 1** Gross Pool Concept
  - each generator submits offers for both price and quantity of energy for central scheduling and dispatch.
  - customers may also submit demand bid.
  - generator offers are matched with system demand requirements, taking into account system conditions and security requirements to arrive at a security-constrained economic dispatch.
  - once reserves are traded in the WESM, the principle of co-optimization of energy and reserves will likewise be applied.
- 2** Self-commitment
  - participants assume full responsibility for how and when their plants are operated
- 3** Locational pricing
  - provides the correct economic signals to market participants when they properly account for the economic impact of losses and constraints that result from the operation of the electricity network
- 4** Full nodal pricing regime
  - for both generation and customers

### WHAT IS RCOA?

- 1** A mechanism which empowers electricity end-users to choose their own Suppliers of Electricity. This effectively promotes competition in the electric power industry, which results in market efficiency.
- 2** Allows qualified parties non-discriminatory access to use the transmission system, and/or the distribution system and other facilities so that they can offer various electricity deals to the Contestable Market



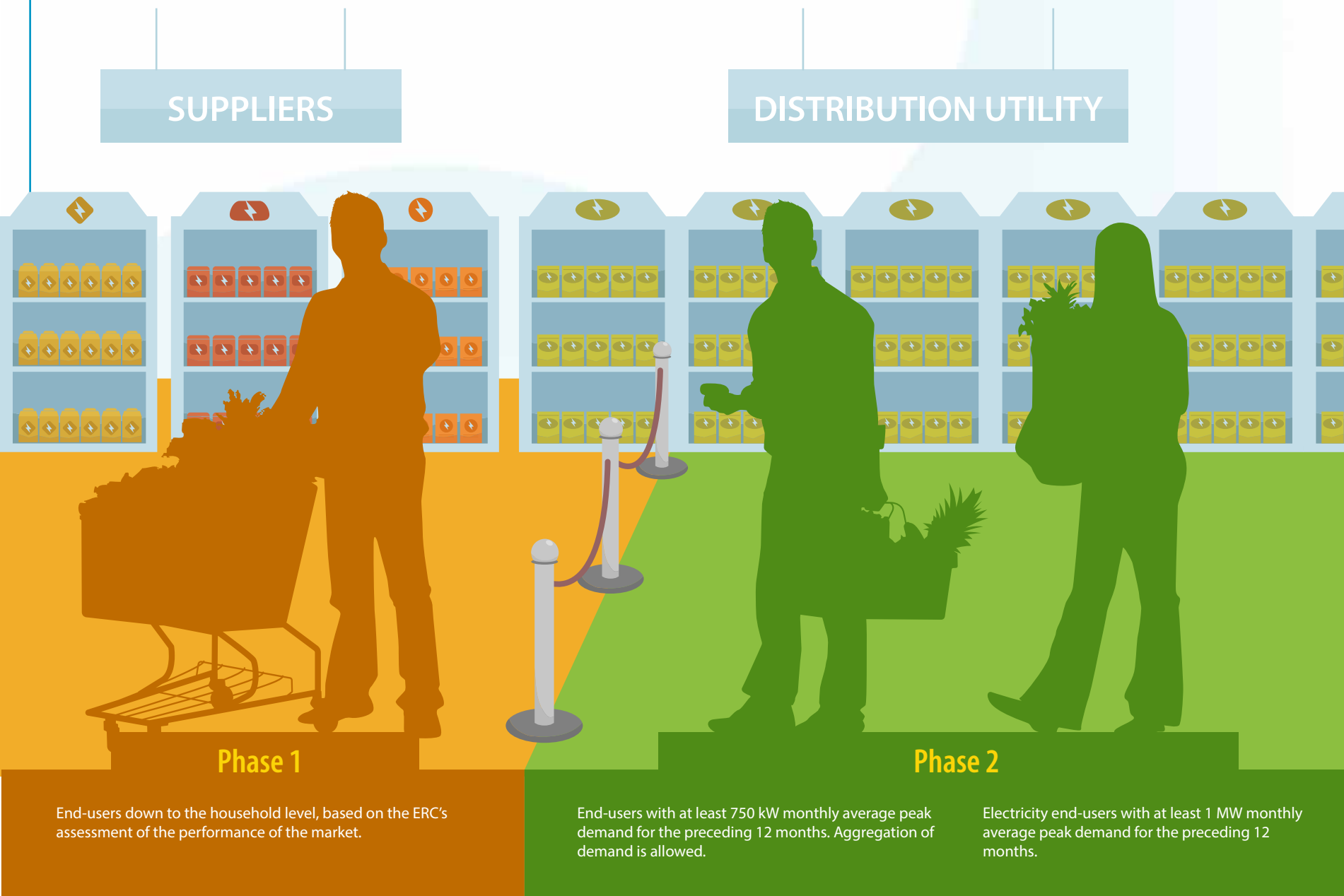


## RCOA

The introduction of RCOA brings big changes in the way energy is traded.

New power industry players called Suppliers issued with Certificates of Contestability by the Energy Regulatory Commission (ERC) succeed the merchant/electricity sourcing function of the Distribution Utilities to serve electricity end-users. Contestable Customers and Suppliers will be able to access transmission and distribution systems subject to the wheeling rates approved by the ERC.

From the commencement of RCOA, a competitive retail environment will be transitioned as follows:



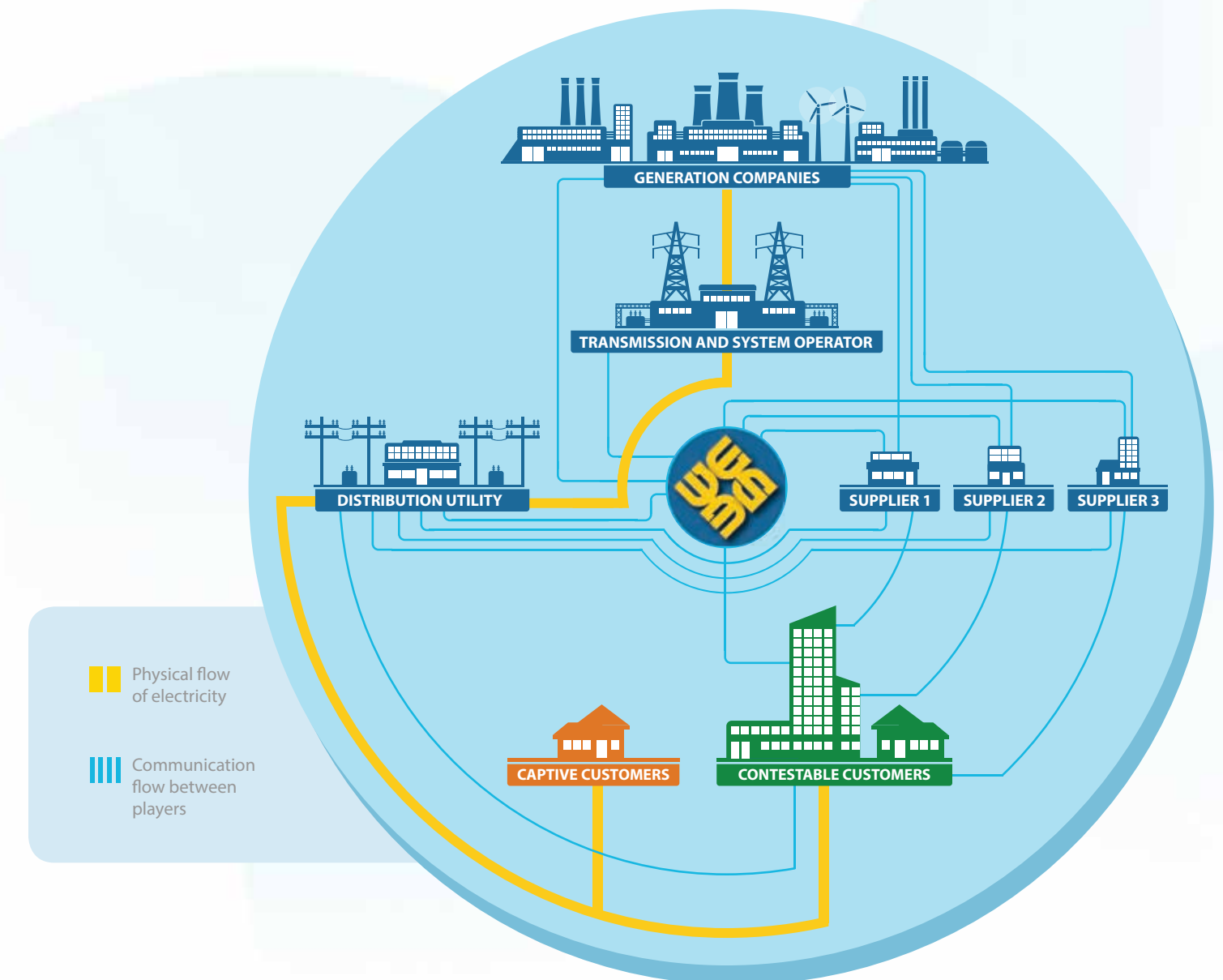
## ENERGY AND TRADE FLOWS

While RCOA brings change to how energy is traded, the physical flow of electricity remains the same. Generation companies produce electricity, which is transported through high-voltage transmission lines then stepped down and delivered to industrial, commercial, and residential customers through distribution wires.

RCOA allows qualified customers, known as Contestable Customers, access to high voltage transmission lines through the purchase of electricity supply from various qualified and competing Suppliers. Furthermore, Contestable Customers may also trade directly in the Wholesale Electricity Spot Market (WESM).

Trade can happen directly between buyers and sellers through bilateral contracts, retail supply contracts, or through the WESM.

End-consumers who do not yet qualify as Contestable Customers remain as Captive Customers who will continue to be served by their respective Distribution Utilities at regulated rates.





# HOW TRADING IN THE WESM WORKS

## 1. Hourly submission of offers

Offers from Generators are inputted in the system.



## 2. Scheduling

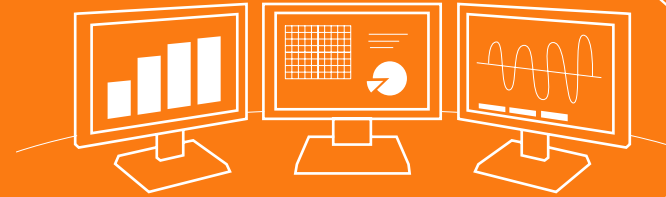
The WESM Market Management System (MMS) matches generation offers with demand:

- while considering system conditions; and
- comes up with a schedule of generation quantities to be dispatched with prices at each location.



## 3. Dispatching

The System Operator implements the dispatch schedule.



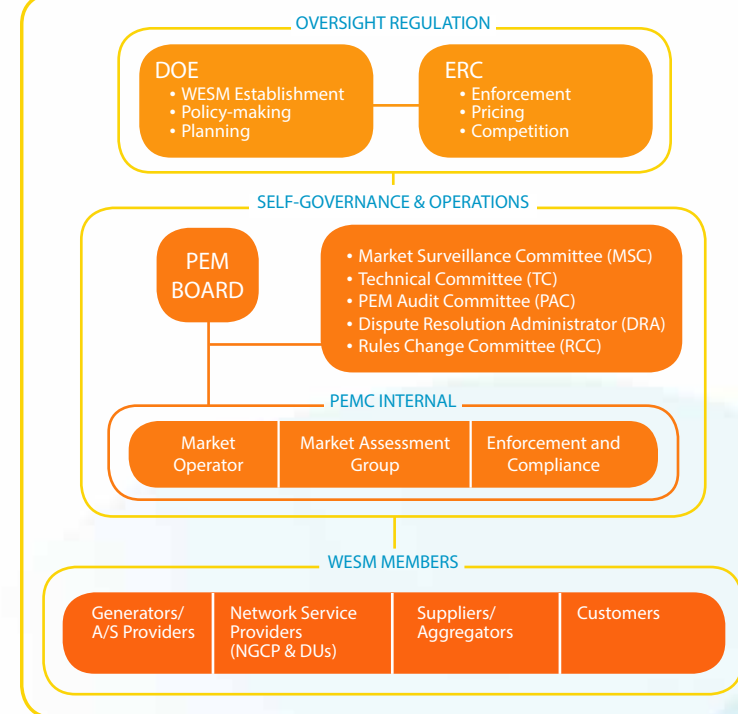
## 4. Settlement

Participants settle their transactions through the WESM settlement system, or among themselves, for quantities covered by bilateral contracts.



# STRUCTURE OF THE WESM

## MARKET STRUCTURE



## Oversight Regulation

### Department of Energy

Supervises the restructuring of the electric power industry

- Formulates energy policy making and planning, WESM rules and regulations
- Updates the Philippine Energy Plan and the Philippine Power Development Plan

### Energy Regulatory Commission

Promotes competition and market development, ensures customer protection

- Approves price determination methodology for electricity's rational pricing
- Enforces rules and regulations governing operations, market operator, and participants' activities
- Penalizes abuse of market power, prevents anti-competitive behavior

## Governance

### Philippine Electricity Market Board of Directors

- A 15-member body chaired by the Secretary of Energy, an equitable representation from the power industry sectors and independent members:

- Four representatives from the generation sector
- Four representatives from the distribution utilities
  - 2 electric cooperatives; 2 private distribution utilities
- One representative from the supply sector
- One representative from the transmission sector
- One representative from the Market Operator
- Four independent members

- The PEM Board appoints the WESM Governance Committees.

### WESM Governance Committees

- Market Surveillance Committee (MSC)
- Technical Committee (TC)
- PEM Audit Committee (PAC)
- Dispute Resolution Administrator (DRA)
- Rules Change Committee (RCC)\*

\*Except for the RCC, the members of the Committees are independent of the industry participants

\*The composition of the RCC mirrors that of the PEM Board, which is composed of independent members and an equitable representation from among the industry participants.

The **Philippine Electricity Market Corporation (PEMC)** is the Autonomous Group Market Operator (AGMO), and as such performs the Market Operator functions in the WESM.

### Market Operator (MO) of the WESM

As the MO, the WESM is tasked to establish and govern an efficient, competitive, transparent, and reliable market for the wholesale purchase of electricity and ancillary services.

### Governance arm of the WESM

- Board of Directors as the PEM Board
- Supported by two units within PEMC:
  - the Market Assessment Group (MAG)
    - implements market monitoring and assessment
    - also serves as the primary support unit of the various WESM Committees
  - the Enforcement and Compliance Office (ECO)
    - conducts investigations for breach

### Central Registration Body (CRB) of RCOA

Moving towards the implementation of RCOA, as the CRB, WESM is tasked to manage the system that will handle customer switching and information exchange among retail participants as well as settlement of transactions.

The **National Grid Corporation of the Philippines(NGCP)** serves as the **System Operator (SO)**: the company awarded the concession to operate and maintain the Philippine transmission system also registered as a wholesale metering services provider

### WESM Members include the following:

- trading participants (generation companies and customers; these end-user customers may be composed of distribution utilities, suppliers, and bulk users)
- the ancillary services provider
- the metering services provider
- the network services provider and the SO





# MARKET PERFORMANCE

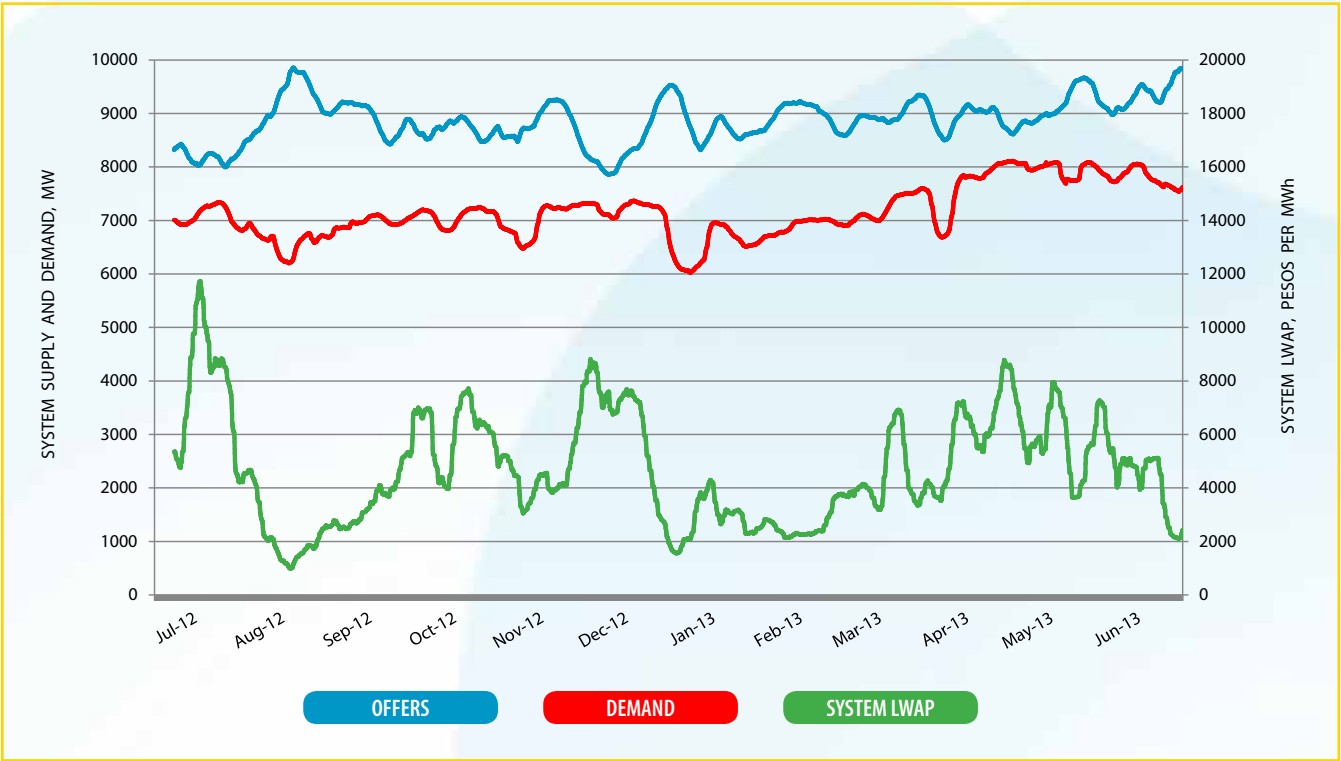
## SUMMARY OF MARKET RESULTS

Jan 2007 – Jun 2013

		2007	2008	2009	2010	2011	2012	2013 Jan to June
PEAK DEMAND	System	---	---	---	---	8,849	9,303	9,735
	Luzon	6,590	6,681	6,932	7,643	7,530	7,898	8,237
	Visayas	--	--	--	--	1,447	1,486	1,572
TOTAL ENERGY VOLUME, GWH		40,052	41,153	42,168	46,228	53,006*	55,822	29,023
SPOT MARKET VOLUME, GWH		5,960	5,451	6,180	6,150	4,274	4,425	3,117
AVERAGE SPOT VOLUME, %		15%	14%	15%	14%	8%	8%	11%

## SUPPLY, DEMAND, AND PRICES (SEVEN-DAY MOVING AVERAGES)

Jul 2012 - Jun 2013



## HIGHLIGHTS

**Peak demand requirements continued to increase over the 12-month period from July 2012 to June 2013 wherein the highest system peak demand for the period was recorded at 1400H of 07 May 2013 with a level of 9,735 MW. This was primarily driven by the highest demand recorded, by far, in the Luzon grid at 8,237 MW.**

Supply availability during the same 12-month period was generally sufficient to meet the demand requirement in most trading intervals. However, outages of generating units, particularly those with large capacities, have significantly affected the market, which eventually led to tight supply conditions. Market price outcomes continued to be largely driven by the availability of supply and the level of demand, although transmission constraints, security requirements, seasonal behavior, and weather conditions also affected market price outcomes.

The following events highlight the different factors that significantly affected market price outcomes during this 12-month period –

- High prices frequently cleared the market in July 2012, particularly from the 13th to the 20th, because of the curtailment of the natural gas facilities, most notably the Ilijan Complex, since the Malampaya onshore natural gas complex was on scheduled maintenance during the said period. The Customer Effective Spot Settlement Price (ESSP) net of surplus attributable to spot transactions was at its highest during the July 2012 billing period at PHP 10,725/MWh.
- The months of August 2012, September 2012, January 2013, and February 2013 manifested wide supply margins as a result of the lower demand requirement, which may be attributed to cold weather conditions. Hence, spot market prices were at its lowest during these periods.
- Maintenance activities at the 350 kV HVDC link affected the transfer of cheaper power from the Visayas to Luzon and vice versa, specifically in October 2012 and from January to this day (as of June 2013).
- Tight supply conditions started to manifest in March 2013 as the demand requirement began to increase significantly. High prices started to clear the market more frequently once again as the summer season set in, coupled with the lack of significant improvement in supply.

- Constraints arising from the violation of the N-1 contingency requirement imposed by the System Operator (SO) at the sub-stations serving the Manila Electric Company (MERALCO) remained the primary reason for the issuance of pricing errors.
- Congestions in the Visayas radial lines, mostly at the Negros-Panay 138 kV submarine cable, continued to manifest throughout this 12-month period.
- A significant number of must-run units (MRUs) continued to manifest in Luzon from July 2012 to June 2013, most of which were largely utilized for commercial operation requirements, inadequate reserve levels, or system voltage requirements. In the Visayas, no MRUs have been designated by the SO since March 2013.

Total transactions for the 12-month period from July 2012 to June 2013 amounted to 56,920 GWh, with 9.8% transacted in the spot market, while the rest were netted out of the market settlements as bilateral contract quantities. Total spot market generator trading amounts for the period amounted to PHP 42,526 Million. For their spot market transactions, the WESM customers transacted at an ESSP ranging from PHP 3,163/MWh in February 2013 to PHP 10,725/MWh in July 2012.

Although the capacity mix registered in the WESM is varied, coal and natural gas power plants accounted for almost three-fourths of the monthly generation mix. Geothermal power plants continued to contribute about 15%, while hydro-electric power plants contributed 6% to 16% of the total generation mix. Oil-based power plants, on the other hand, were only dispatched mostly during periods of tight supply conditions, reflecting an average of 2% for the relevant periods. Rounding up the mix are contributions from wind and biomass plants.



1. SUPPLY

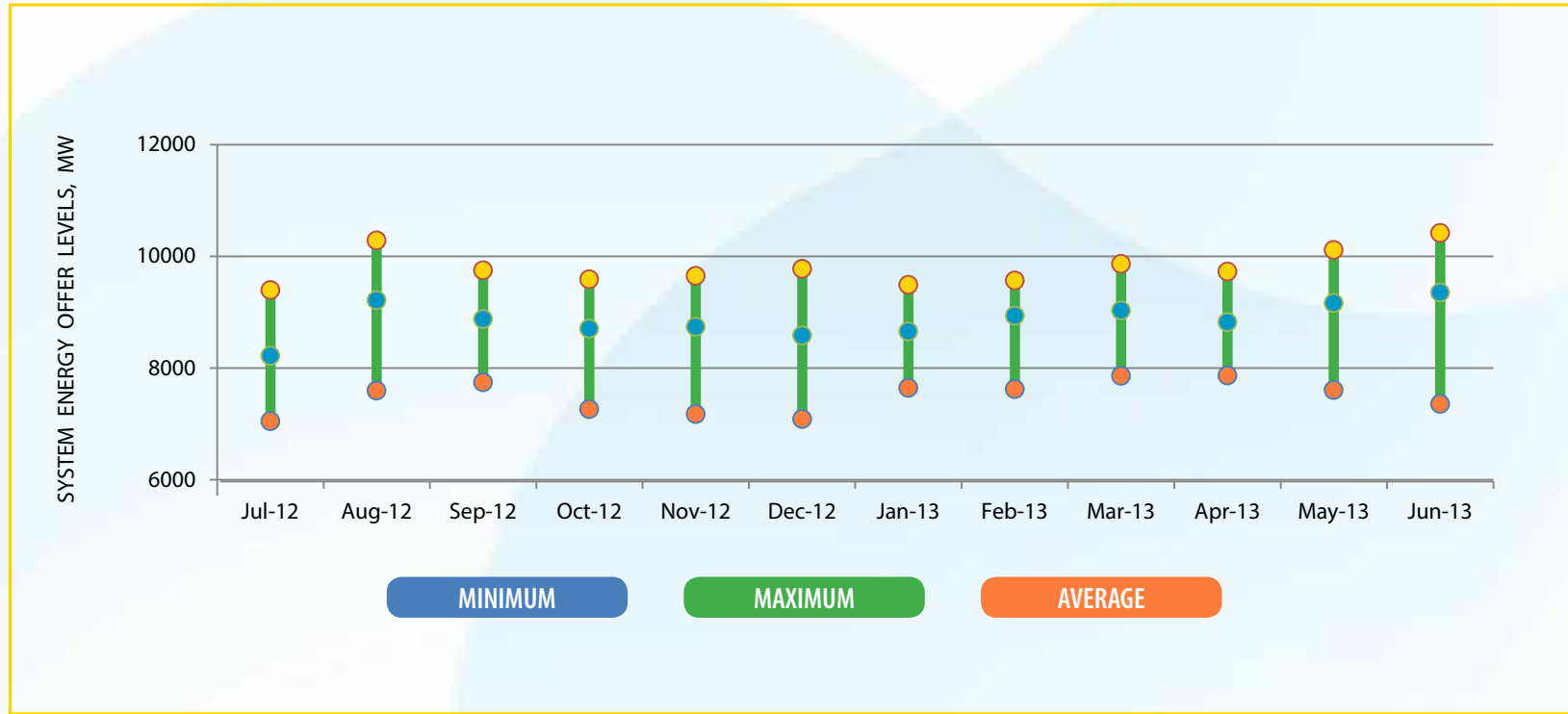
Energy Offer Levels

Monthly, Jul 2012 – Jun 2013

		Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13
SYSTEM	MINIMUM	7,046	7,595	7,741	7,260	7,173	7,088	7,643	7,620	7,861	7,866	7,604	7,358
	MAXIMUM	9,396	10,285	9,750	9,590	9,648	9,774	9,486	9,565	9,863	9,723	10,114	10,414
	AVERAGE	8,219	9,215	8,876	8,701	8,735	8,585	8,655	8,933	9,028	8,822	9,161	9,348
LUZON	MINIMUM	5,502	6,080	6,188	5,723	5,672	5,647	5,995	6,002	6,276	6,318	5,954	5,702
	MAXIMUM	7,945	8,682	8,137	8,063	8,130	8,143	7,870	7,955	8,123	8,121	8,412	8,763
	AVERAGE	6,700	7,667	7,345	7,220	7,239	7,044	7,048	7,349	7,387	7,270	7,536	7,774
VISAYAS	MINIMUM	1,363	1,421	1,389	1,280	1,353	1,382	1,364	1,441	1,518	1,134	1,469	1,180
	MAXIMUM	1,622	1,624	1,653	1,640	1,703	1,712	1,734	1,724	1,766	1,697	1,745	1,686
	AVERAGE	1,519	1,547	1,531	1,482	1,496	1,541	1,607	1,584	1,641	1,552	1,625	1,575

Energy Offers

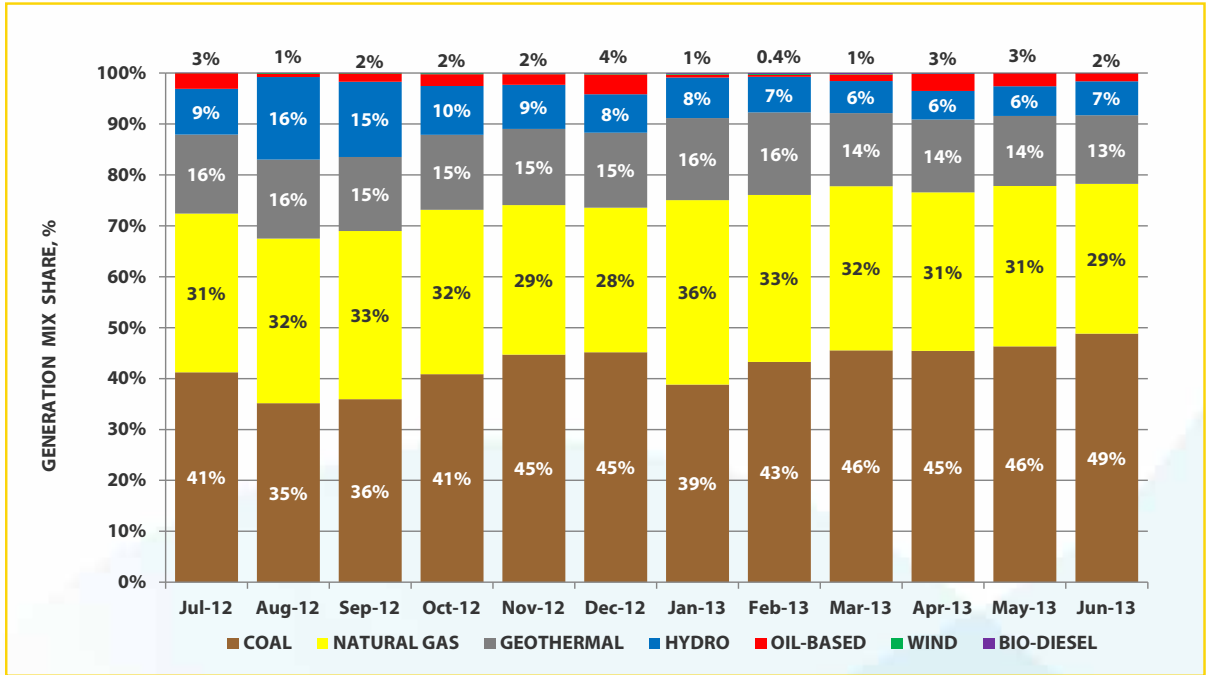
Monthly, Jul 2012 – Jun 2013



ACTUAL GENERATION

Generation Mix

Monthly, Jul 2012 – Jun 2013



2. DEMAND

Actual Demand Levels

Monthly, Jul 2012 – Jun 2013

		Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13
SYSTEM	MINIMUM	4,626	3,979	5,041	5,259	4,760	4,532	4,349	5,037	5,291	4,732	5,758	5,759
	MAXIMUM	8,939	8,480	8,666	8,701	8,764	8,750	8,355	8,573	9,111	9,688	9,735	9,613
	AVERAGE	7,077	6,618	6,967	7,073	7,003	7,071	6,548	6,873	7,300	7,645	7,924	7,730
LUZON	MINIMUM	3,793	3,142	4,175	4,391	3,905	3,737	3,535	4,189	4,449	3,938	4,672	4,839
	MAXIMUM	7,564	7,244	7,298	7,394	7,434	7,362	7,031	7,242	7,684	8,232	8,237	8,178
	AVERAGE	5,976	5,488	5,849	5,949	5,878	5,958	5,461	5,797	6,147	6,469	6,674	6,543
VISAYAS	MINIMUM	811	754	792	795	811	737	700	774	842	794	876	879
	MAXIMUM	1,436	1,462	1,448	1,425	1,467	1,486	1,417	1,408	1,475	1,484	1,572	1,526
	AVERAGE	1,100	1,130	1,119	1,123	1,125	1,113	1,087	1,075	1,153	1,176	1,249	1,187



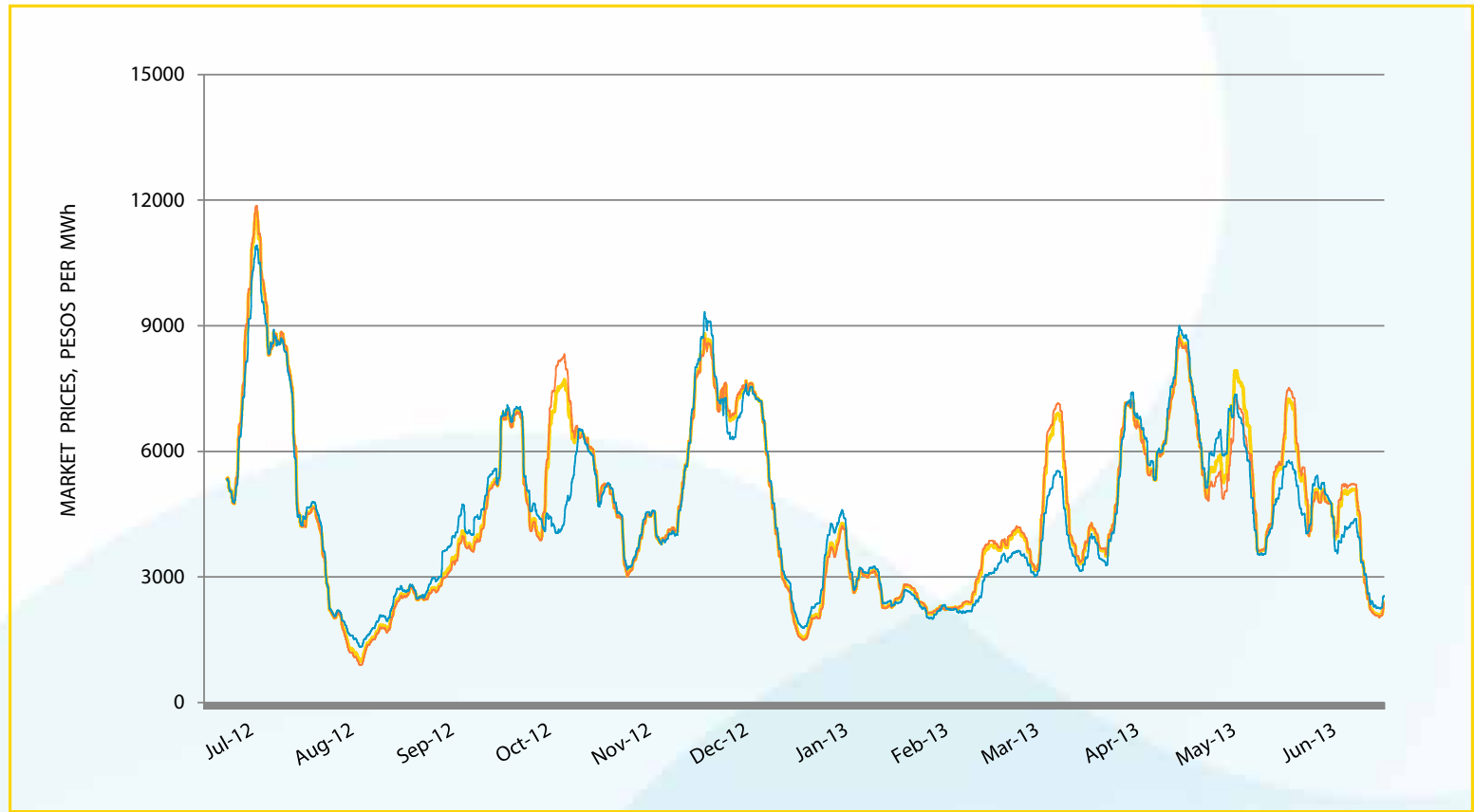




3. MARKET PRICES

Load Weighted Average Prices

Monthly, Jul 2012 – Jun 2013



Load Weighted Average Prices

Monthly, Jul 2012 – Jun 2013

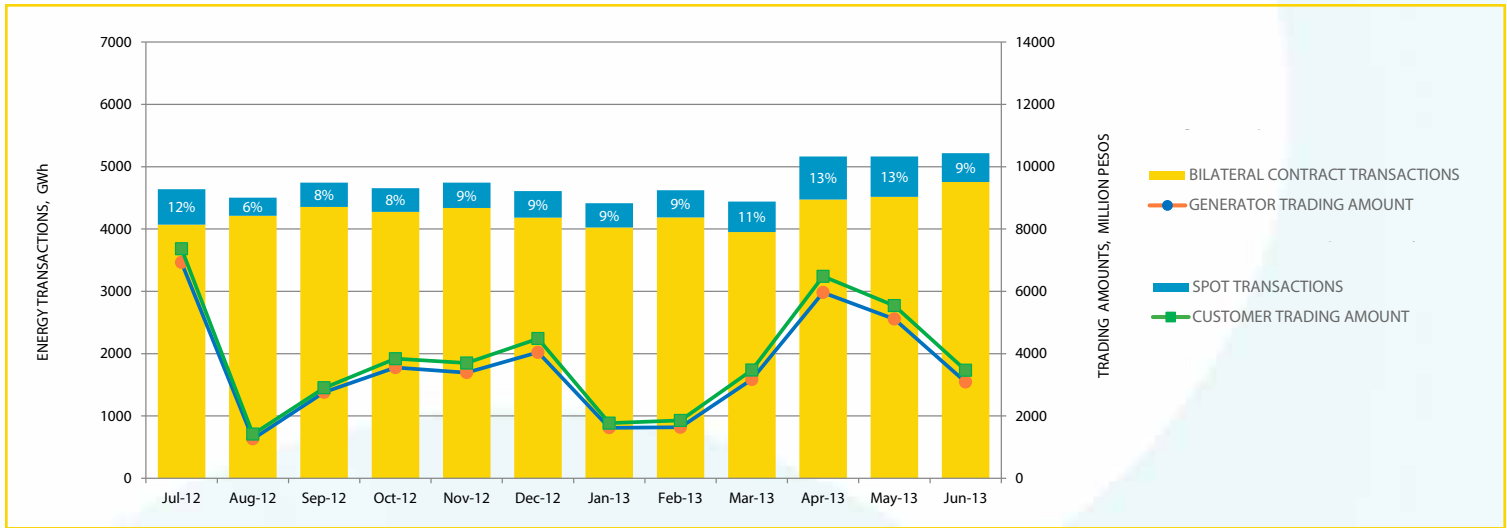
		Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13
SYSTEM	MINIMUM	0	-519	0	615	1	-478	0	0	1,225	0	391	1,315
	MAXIMUM	58,048	23,274	62,145	34,317	25,942	64,125	14,748	13,051	43,279	36,482	55,518	41,232
	AVERAGE	8,032	2,426	4,366	6,274	5,410	6,115	3,073	2,766	4,785	7,019	6,022	4,271
LUZON	MINIMUM	0	-674	0	614	1	-475	0	0	1,223	0	414	1,411
	MAXIMUM	62,463	23,802	62,312	36,323	26,070	64,507	14,778	12,411	47,904	36,482	63,800	41,062
	AVERAGE	8,068	2,392	4,301	6,409	5,394	6,107	3,038	2,792	4,890	6,993	6,023	4,310
VISAYAS	MINIMUM	0	-530	0	0	1	-495	-3	0	596	0	183	557
	MAXIMUM	53,386	32,307	61,656	35,825	61,135	62,117	15,906	16,194	29,393	65,558	38,066	42,185
	AVERAGE	7,836	2,595	4,704	5,556	5,496	6,158	3,249	2,627	4,226	7,158	6,014	4,055



4. MARKET TRANSACTION LEVELS

Enegy Transaction Volumes and Trading Amounts

Monthly, Jul 2012 – Jun 2013



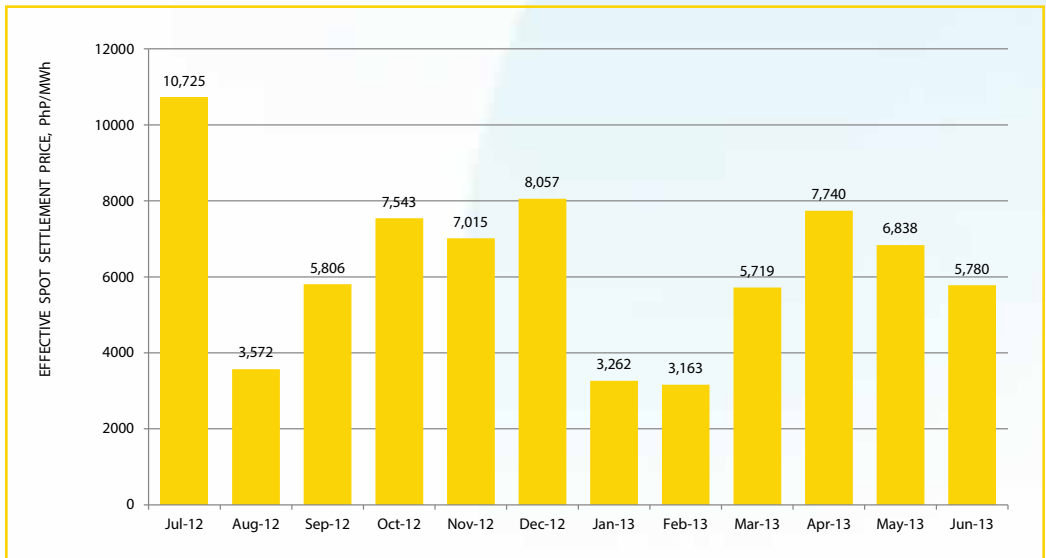
Enegy Transaction Volumes and Trading Amounts

Monthly, Jul 2012 – Jun 2013

	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12
CUSTOMER TRANSACTIONS, GWh	569	289	392	383	406	425	390	436	489	690	649	462
SPOT PERCENTAGE	12%	6%	8%	8%	9%	9%	9%	9%	11%	13%	13%	9%
GENERATOR TRADING AMOUNT, MILLION PESOS	6,927	1,264	2,762	3,554	3,393	4,044	1,621	1,638	3,169	5,962	5,108	3,086
CUSTOMER TRADING AMOUNT, MILLION PESOS	7,366	1,416	2,902	3,836	3,699	4,480	1,770	1,853	3,471	6,481	5,538	3,465

Customer Effective Spot Settlement Price

Monthly, Jul 2012 – Jun 2013





## RETAIL MARKET DEVELOPMENT

**Through a joint statement issued by the Department of Energy (DOE) and Energy Regulatory Commission (ERC) on 24 September 2012, the Retail Competition and Open Access (RCOA) was successfully launched on 26 December 2012. The commencement is envisaged to be a phased-in implementation where the first six months will be a transition period for concerned parties to complete the necessary preparations. The transition period covers registration, discussions, trainings, and simulations to ensure smooth transition to RCOA Commercial Operations, which commenced on 26 June 2013.**

Meanwhile, the DOE and ERC promulgated various policy and regulatory issuances that will govern the RCOA, such as the designation of the Philippine Electricity Market Corporation (PEMC) as the Central Registration Body (CRB), policies integrating RCOA into the WESM, and the transitory rules for the first year of RCOA implementation. The DOE and ERC, together with PEMC, conducted a series of public consultations for the ERC Transitory Rules and Rules for the Integration of Retail Competition in the WESM (the Retail Rules) during the last quarter of 2012. Finally, upon incorporating the concerns of various stakeholders, the Transitory Rules and Retail Rules were finally promulgated by the ERC and DOE on 17 December 2012 and 09 January 2013, respectively. In December 2012, PEMC, in partnership with the DOE, also hosted an international conference with the theme, "Understanding the Dynamics of Electricity Trade in the Philippines with the Entry of Retail Competition and Open Access". This event focused on the critical convergence of wholesale and retail markets, which involved discussions on the concepts of operations and governance, as well as presentations and case studies on retail market from other international jurisdictions.

On 26 March 2013, PEMC started the Retail Trial Operations Program (TOP) and was conducted for two billing periods. The TOP was a preparatory exercise to ensure the successful commercial operations of the retail market. The program provided tools, test cases, and forms that will aid the participants, service providers, and the CRB in simulating market transactions and information exchange, as well as an opportunity to identify process gaps and develop procedural improvements and system advancements.

On 06 May 2013, the DOE promulgated a department circular, which prescribes supplemental policies for all generation companies, distribution utilities, suppliers, and local suppliers to address the concerns of the contestable customers regarding their negotiations for retail supply contracts.

On 28 May 2013, the DOE and ERC issued another joint statement to address the growing concerns of many Contestable Customers of possible disconnection due to the inability to sign a retail supply contract with a supplier on or before the prescribed deadline of 20 May 2013. It stated that Contestable Customers who have not yet signed a contract with a Supplier shall continue to be served by their franchised Distribution Utilities until they are able to negotiate a more competitive retail supply contract. This was also supported with the ERC issuance of a resolution adopting the supplemental rules to the transitory rules for the initial implementation of open access and retail competition on 10 June 2013.

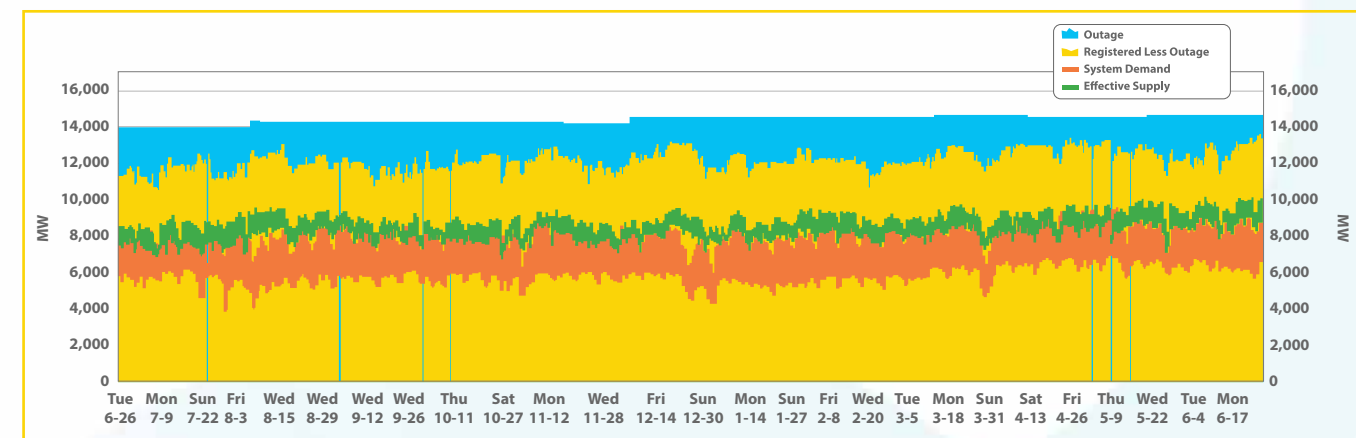
In consideration of the responsibilities of PEMC as the CRB, PEMC has been conducting registration and training of retail participants. As of June 2013, 275 Retail Participants have registered and 14 batches of RCOA training have been completed. On 14 May 2013, PEMC successfully completed the bidding process for the Central Registration and Settlement System (CRSS) – the IT system that will be used by PEMC to support its function as the CRB. PEMC signed a contract with the winning bidder on 28 May 2013 and the detailed design and requirement scoping was then started on 04 June 2013. The said system is to be deployed, in phases, starting early 2014 until the last quarter. Meanwhile, an interim system was internally developed by PEMC and was deployed in March 2013. The interim system consists of partially automated processes using office automation tools, and a secure file transfer facility for the information exchange between the CRB and the retail market participants. Other relevant activities include: (1) Focus Group Discussions for Contestable Customers led by the DOE, which provide contestable customers a more detailed discussion on the recent developments, issues, and upcoming activities of RCOA; and (2) posting of Supplier contracting parameters pursuant to Section 4.8 of the ERC's Transitory Rules.

PEMC has completed the necessary preparations for RCOA Commercial Operations, which commenced successfully on 26 June 2013.

## DEMAND AND SUPPLY SITUATION

### System Demand and Supply Levels (Ex-ante)

Hourly, Jul 2012 – Jun 2013



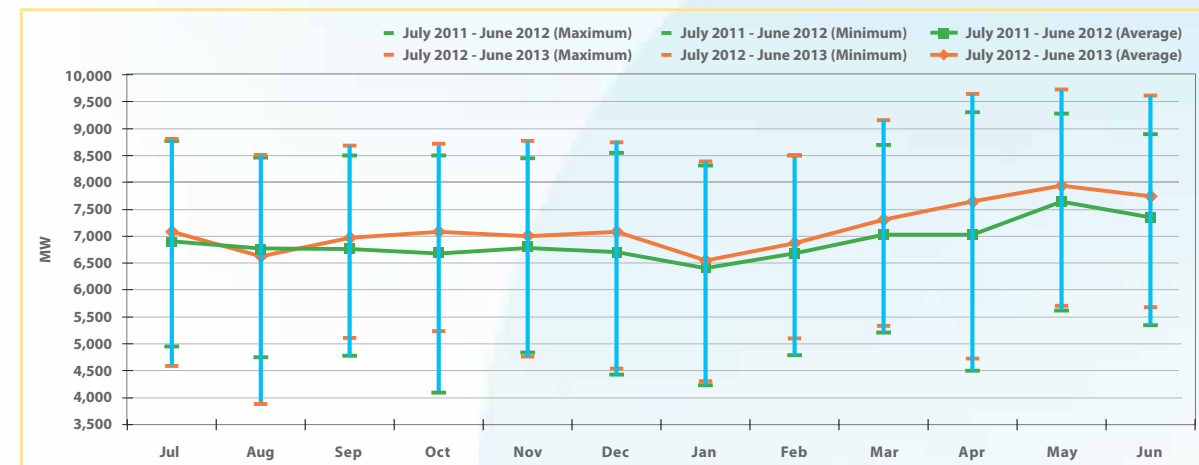
The electricity market has seen gradual and positive developments over the course of the 12-month period as new market players came in, augmenting the total WESM registered capacity. Notwithstanding, plant outages and inability of generator trading participants to stringently

offer their maximum available capacity as required under the WESM Rules rendered the supply much lower than it should have been.

## DEMAND

### System Demand Levels (Ex-ante)

Monthly, Jul 2011 – Jun 2012 vs. Jul 2012 – Jun 2013



Electricity demand requirements continued to grow strongly over the 12-month period, peaking at 9,727 MW on 24 May 2013 at trading interval 1400H, the highest recorded demand thus far since the January 2011 billing period, which marked the beginning of the integrated Luzon and Visayas market operations. On the other hand, the lowest demand recorded was 3,886 MW, which occurred on 30 July 2012 at trading interval 0200H.

Weather/temperature and seasonal changes, as well as economic behavior, remained the major factors affecting demand. It was observed that demand was relatively lower during the billing months of August 2012 and January and February 2013 during which time cooler weather was experienced. In particular, monthly system demand was lowest in August 2012 attributed to the successive heavy rains brought about by the Southwest Monsoon

(Habagat) and Typhoon Gener. However, despite the cold season, demand in December 2012 was relatively higher as commercial/business establishments and the general public started hanging up lights in celebration of the Christmas season.

On the other hand, high electricity demand was noted during the months of April to June 2013 as the country experienced extreme and sweltering temperatures. It was noted that temperatures recorded during this period were by far the hottest in 2013.

As the country continues to achieve strong annual economic growth, demand during the 12-month period averaged 7,154 MW, up by 3.6% compared to the previous period's (July 2011 to June 2012) 6,895 MW.

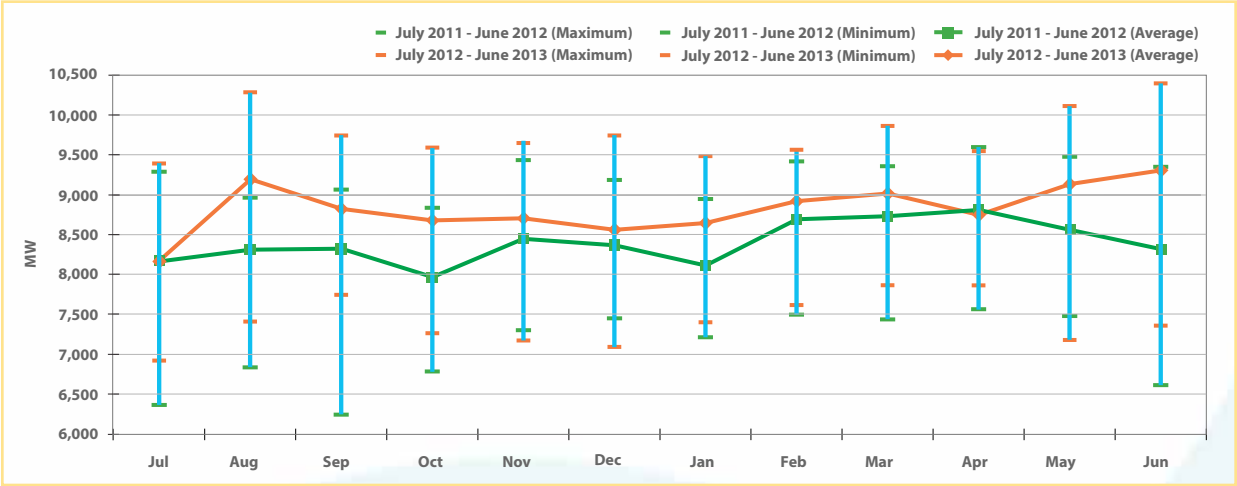




SUPPLY

System Offer Levels (Ex-ante)

Monthly, Jul 2011 – Jun 2012 vs. Jul 2012 – Jun 2013



On the whole, supply condition was better during the period in review compared to the previous period as the level of capacity that was offered in the market increased as more capacity was made available due to lower outage capacity. Nevertheless, tight supply conditions were noted in several instances, particularly during the billing months of July and December 2012 and April and May 2013. The lowest supply level was posted in July 2012 with an average of 7,982 MW, largely due to the non-availability of Ilijan plants brought about by the Malampaya gas facility maintenance, which took place from 13-20 July 2012.

The monthly average supply had been increasing steadily during the first half of 2013,

except for the April 2013 billing month when supply dipped to 8,659 MW primarily due to the significant decrease in the level of offered capacity. The highest supply level during the 12-month period was recorded in June 2013 with an average of 9,132 MW. Although the level of capacity that went on outage increased, higher offered capacity was noted during the said billing period, which was attributed to the capacity offers by GNPowder Mariveles Coal Plant Ltd. Co. (GMPC) and Petron Corporation (Petron). It is important to note that while both plants have registered their respective generating units in 2012 and March 2013, respectively, it wasn't until well into the middle of the May 2013 billing month that said participants started to submit offers following the conclusion of their plants' commissioning tests.

Capacity Gap

While supply levels increased due to higher capacities offered in the market, it was observed that a significant level or about 28% of the registered capacity net of outage, corresponding to an average of 3,415 MW, was not offered over the course of the 12-month period.

Of the total 851,208 generator-trading intervals from the July 2012 to June 2013 billing months, 417,134 or 49.0% showed capacity gap between the generators' registered capacity net of outage and offered capacity.

The table shows the generator-trading intervals with capacity gap by resource. The oil-based plants recorded the highest frequency with a total of 127,197 generator-trading intervals, translating to 30.5% of the total generator-trading intervals with capacity gap, followed by the hydro-electric and geothermal plants with 117,956 or 28.3% and 77,741 or 18.6%, respectively.

Generator-Trading Intervals with Capacity Gap by Resource, System

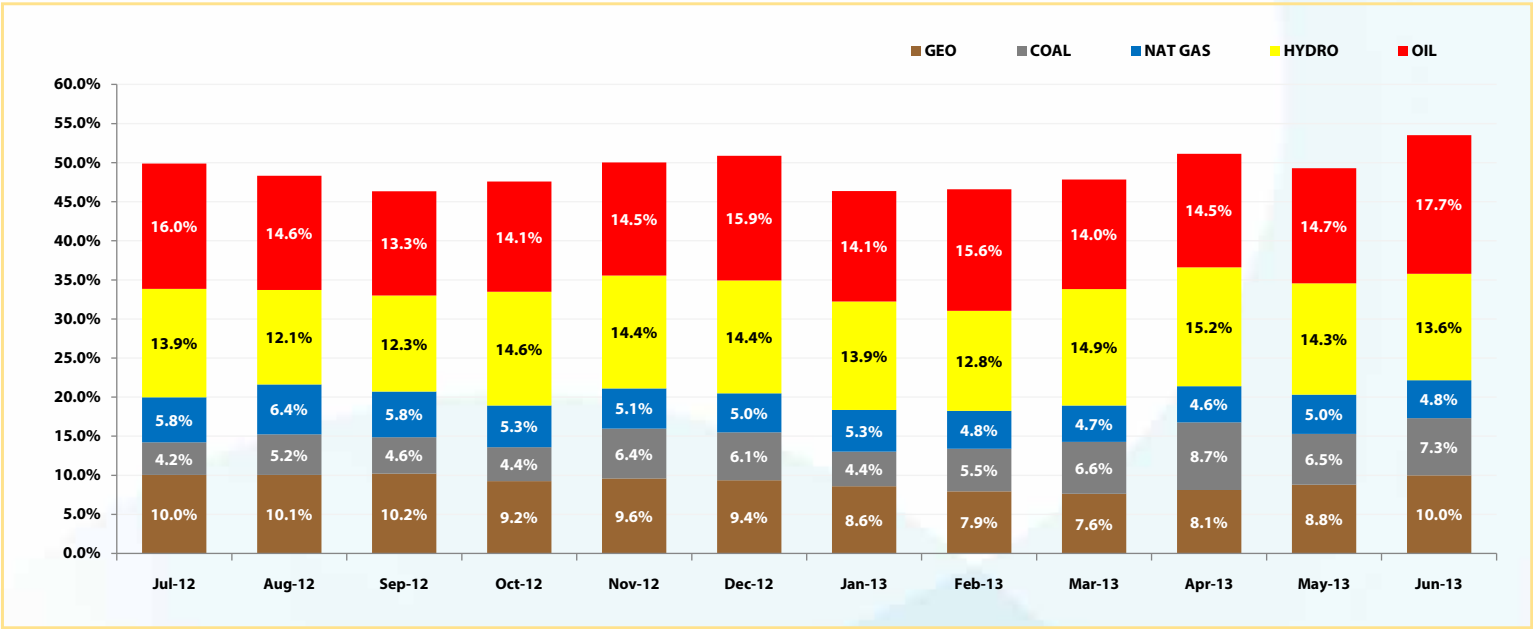
Jul 2012 – Jun 2013

Resource Type	Generator-Trading Intervals	% of Total (with Capacity Gap)	% of Total Generator-Trading Intervals
GEO	77,741	18.6%	9.1%
COAL	49,779	11.9%	5.8%
NAT GAS	44,463	10.7%	5.2%
HYDRO	117,956	28.3%	13.9%
OIL	127,195	30.5%	14.9%
Total	417,134	100.0%	49.0%
Total Generator-Trading Intervals	851,208		

The graph shows that occurrences of capacity gap were consistently observed in all of the billing months of July 2012 to June 2013, with hydro-electric and oil-based plants comprising the majority of said occurrences.

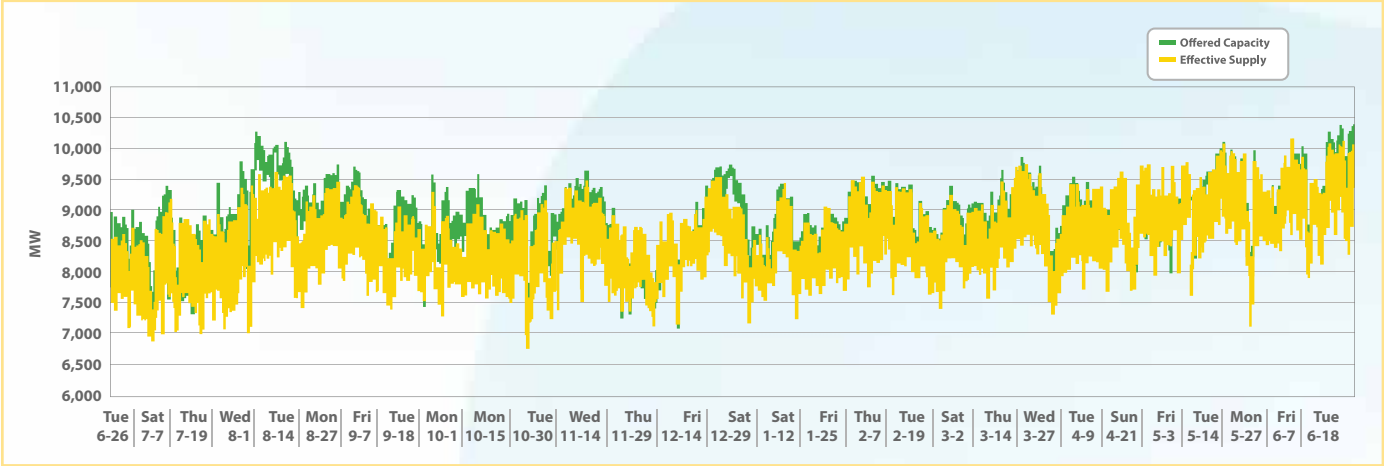
Generator-Trading Intervals with Capacity Gap by Resource, System

Monthly, Jul 2012 – Jun 2013



System Offer and Effective Supply Levels (Ex-ante)

Hourly, Jul 2012 – Jun 2013



This graph shows effective supply levels were lower than the capacity offers due to ramp rate limitations as specified by the generators in their offer submissions, and other generator constraints considered during Market Management System (MMS) simulation (e.g. breaker status) as indicated in above figure.



System Outage Levels (Ex-ante)

Monthly, Jul 2011 – Jun 2012 vs. Jul 2012 – Jun 2013



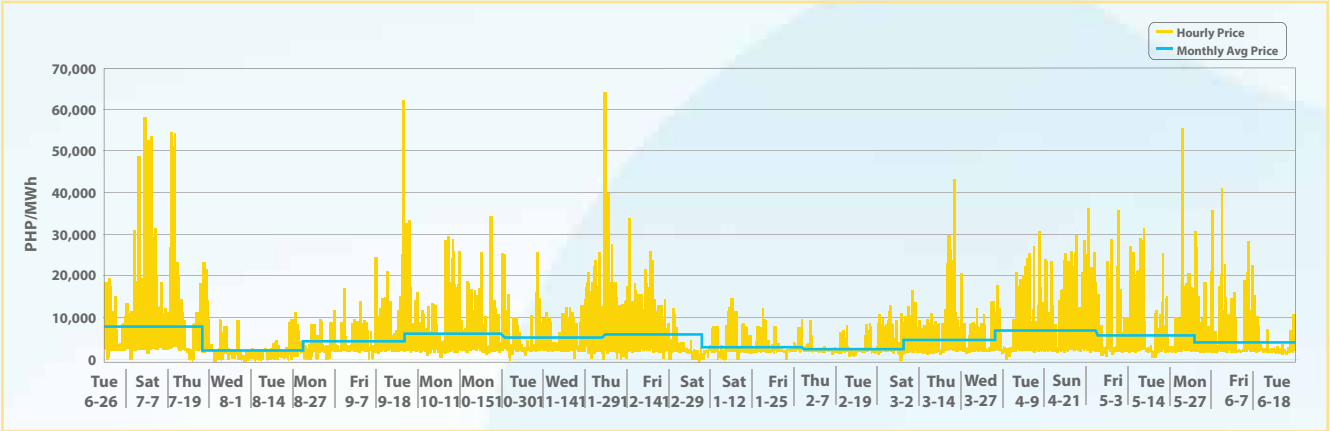
As discussed earlier, the level of capacity outage during the period in review decreased compared to the previous period, which was persistently beleaguered by major plant outages, particularly of coal and natural gas plants. The highest outage capacity level was recorded in January 2013 with the maintenance and forced outages of several major coal plants (i.e., Masinloc, Pagbilao, QPPL, Calaca, and Sual). It is positive to note, however, that since then up until May 2013, the outage capacity had been on a decreasing trend as coal

and natural gas plant outage occurrence became less frequent. Likewise, a significant reduction in the outage capacity was noted for oil-based plants starting April 2013 attributed to the resumption of operations of the generating units (for conduct of commissioning tests) previously owned by Duracom, which had been on deactivated shutdown since 13 July 2006. The said units registered in the WESM only in April 2013 under the new owner Therma Mobile, Inc. (TMO).

MARKET PRICES

System Load Weighted Average Price Levels (Ex-ante)

Hourly, Jul 2012 – Jun 2013



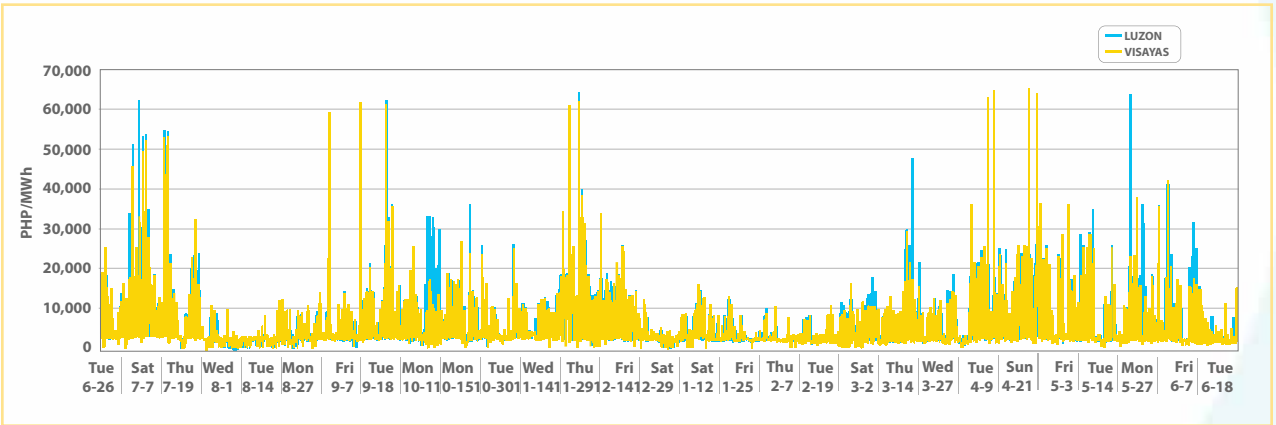
Spot market prices over the 12-month period were generally driven by supply levels, except for the April 2013 billing month when market prices were distinctly influenced by higher electricity demand. Prices went up during tight supply conditions largely due to the dispatch of more expensive oil-based plants, which accordingly set the market clearing prices.

The level of hourly market prices were relatively lower in the first half of 2013 compared to the second half of 2012 due to higher supply levels, owing to reduced occurrences of plant outages and higher capacity offers from the generator trading participants. In particular, market prices showed a downtrend in January and February 2013 as supply margins considerably improved.

The highest market price over the 12-month period was recorded during the billing month

System Load Weighted Average Price Levels (Ex-ante)

Hourly, Jul 2012 – Jun 2013

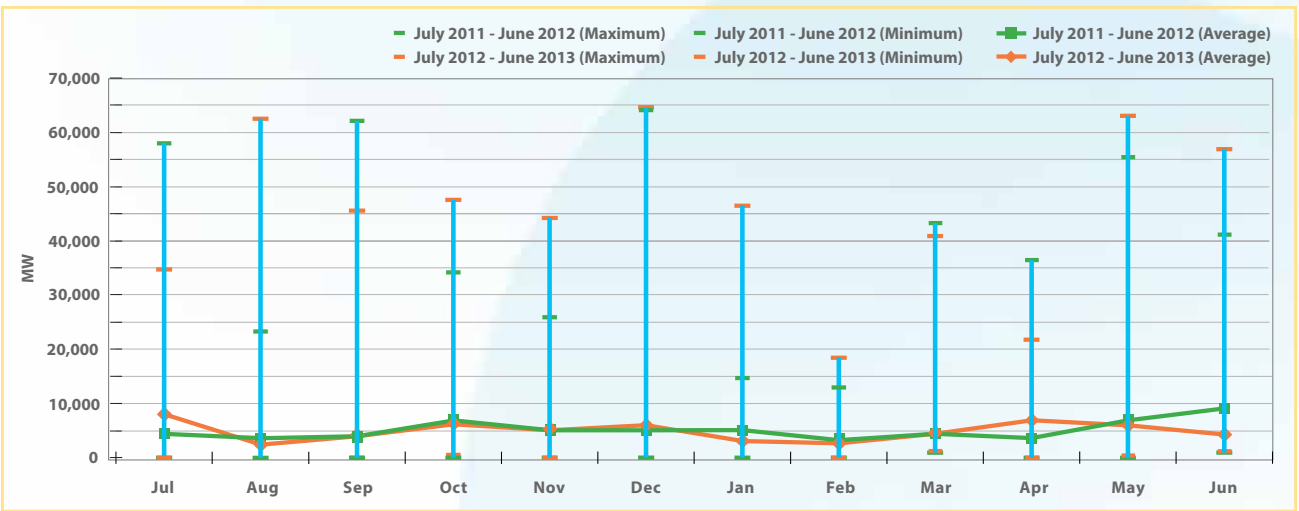


The figure compares the hourly market prices between the Luzon and Visayas regions where price separations were noted to have occurred over the course of the July 2012 to June 2013 billing period. Said price separations were the result of the regional application of pricing errors in one region while maintaining the resulting normal market prices in the non-affected region. For the most part, pricing errors were declared in the Luzon region due to N-1 contingency violation at the Manila Electric Company (MERALCO) sub-stations.

Price separations in several instances were likewise caused by constraints at the HVDC. Price separations which occurred in several trading intervals in October 2012 were the consequence of the shutdown of the Leyte-Luzon HVDC interconnection, with the Visayas region obtaining a lower market price level. Further, with the National Grid Corporation of the Philippines-System Operator (NGCP-SO) setting the limit of the HVDC transfer capability to 200 MW starting January 2013, the same was reached for a majority of the time resulting in price separations between the Luzon and Visayas regions.

System Load Weighted Average Price Levels (Ex-ante)

Monthly, Jul 2011 – Jun 2012 vs. Jul 2012 – Jun 2013



On the whole, market prices during the July 2011 to June 2012 and July 2012 to June 2013 billing period were comparable, with the latter averaging PHP 4,640/MWh, which was slightly lower than the previous period's average of PHP 4,717/MWh.





MARKET CONCENTRATION INDICES

MARKET SHARE

Major Participant Groups, Luzon

Jul 2012 – Jun 2013

Major Grouping	WESM Participant	Resources
PSALM	Power Sector Assets and Liabilities Management Corp.	Botocan HEP, Caliraya HEP, Kalayaan PSPP, Casecnan HEP, HEDCOR, Malaya TPP
NPC	National Power Corp.	Angat HEP
SMC	PANASIA Energy Holdings, Inc.	Limay CCGT
	San Miguel Energy Corp.	Sual CFTPP
	Strategic Power Development Corp.	San Roque HEP
	South Premier Power Corp.	Ilijan NatGas Plant
	Petron Corp.	Petron RSFFBPP (commencing registration on 13 March 2013)
First Gen	Bac-man Geothermal, Inc.	BacMan GPP
	FGP Corp.	San Lorenzo FGPP
	First Gas Power Corp.	Sta. Rita FGPP
	First Gen Hydro Power Corp.	Masiway HEP, Pantabangan HEP
Aboitiz	AP Renewables, Inc.	Makban GPP, Tiwi GPP
	SN Aboitiz Power - Magat, Inc.	Magat HEP
	SN Aboitiz Power - Benguet, Inc.	Ambuklao HEP, Binga HEP
	Therma Luzon Inc.	Pagbilao CFTPP
	Therma Mobile, Inc.	Therma Mobile DPP (commencing registration on 12 April 2013)
	HEDCOR, Inc.	Irisan 3 HEP, Sal-Angan HEP
VEC	1590 Energy Corp.	Bauang DPP
	Vivant Sta. Clara Nothern Renewables Generation Corp.	Bakun HEP
MPPC	Masinloc Power Partners Co. Ltd.	Masinloc CFTPP
QPPL	Quezon Power (Phils.) Ltd. Co.	QPPL CFTPP
SCPC	SEM-Calaca Power Corp.	Calaca CFTPP
UMRC	Udenna Mgmt. Resource Corp.	Subic DPP
GMPC	GNPower Mariveles Coal Plant Ltd. Co.	Mariveles CFTPP (commencing registration on 07 August 2012 and 06 December 2012 for Unit 1 and Unit 2, respectively)
Other IPPs	National Irrigation Administration	NIA-Baligatan
	North Wind Power Development, Inc.	NWPDC Wind Power Plant
	People's Energy Services, Inc.	Barit HEP
	Trans-Asia Power Generation Corp.	TAPGC DPP
	Asia Pacific Energy Corp.	APEC CFTPP
	CIP II Power Corp.	CIP DPP (commencing registration on 17 January 2013)
	Green Future Innovations, Inc.	GFII Bio-Ethanol

Major Participant Groups, Visayas

Jul 2012 – Jun 2013

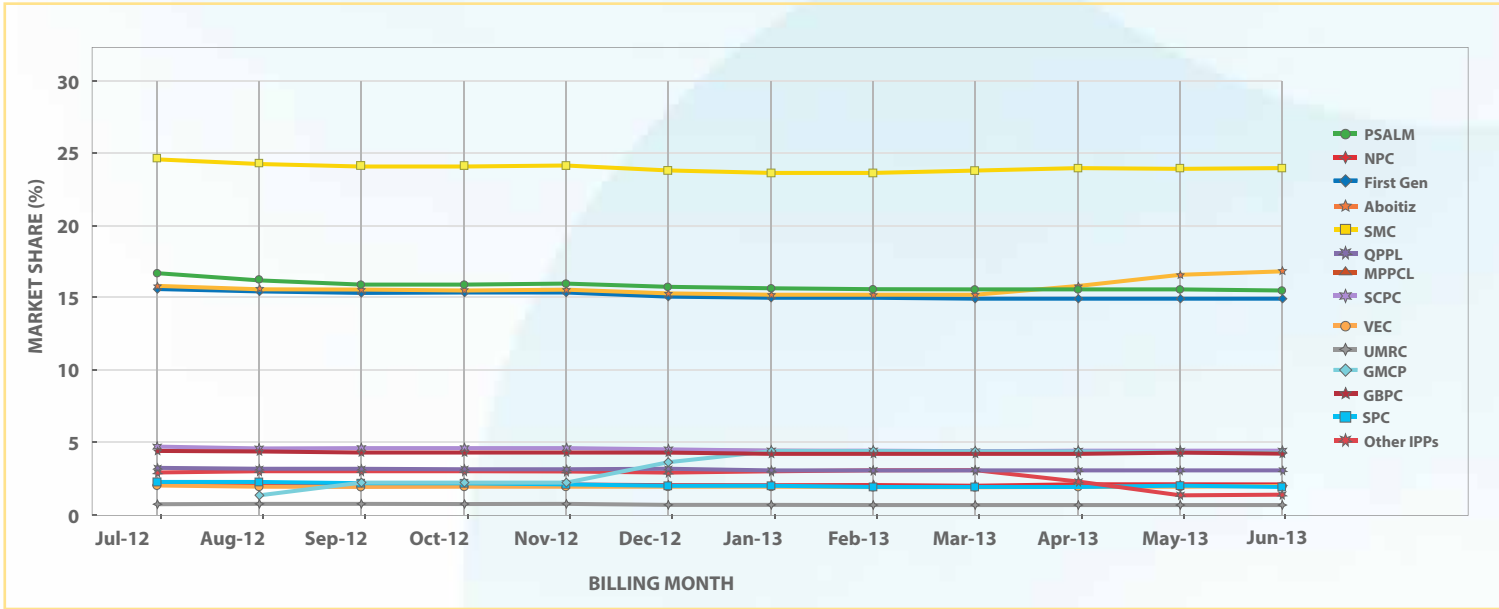
Major Grouping	WESM Participant	Resources
PSALM	Power Sector Assets and Liabilities Management Corp.	Leyte A (Tongonan II & III), Cebu DPP I, Cebu DPP II, Cebu TPP I, Cebu TPP II
NPC	National Power Corp.	Power Barges 101, 102, 103
First Gen	Energy Development Corp.	Northern Negros GPP
	Green Core Geothermal, Inc.	Leyte (Tongonan) GPP, Palinpinon GPP I, Palinpinon GPP II
Aboitiz	Cebu Private Power Corp.	CPPC DPP
	East Asia Utilities Corp.	EAUC DPP
GBPC	Cebu Energy Development Corp.	CEDC CFTPP
	Panay Energy Development Corp.	PEDC CFTPP
	Panay Power Corp.	Avon (La Paz) DPP, Avon (Nabas) DPP, Avon (New Wash.) DPP, PPC DPP
	Toledo Power Corp.	TPC (Carmen) TPP, TPC (Sangi) CFTPP

Major Grouping	WESM Participant	Resources
SPC	KEPCO SPC Power Corp.	KSPC CFTPP
	SPC Island Power Corp.	Bohol DPP, Panay DPP I, Panay DPP III
Other IPPs	Bohol I Electric Cooperative, Inc.	Janopol HEP
	Central Azucarera de San Antonio	CASA Biomass Cogen.
	ICS Renewables	Amlan HEP
	Sta. Clara Power Corp.	Loboc HEP
	Trans-Asia Oil Development Corp.	Trans-Asia DPP
	First Farmers Holdings Corp.	FFHC Biomass
	San Carlos Bioenergy, Inc.	SCBI Biomass

The market share indices and the Herfindahl-Hirschman Index (HHI) provide indication on the level of market concentration. The market share was calculated based on grouping of related trading participants, whih include subsidiaries and affiliates. The tables show the major participant groups in Luzon and the Visayas.

Share of Registered Capacity by Major Participant

Monthly, Jul 2012 – Jun 2013



The monthly market share of major participants in the WESM indicates that the market was dominated by four major players, with the San Miguel group topping the list with a share of about 24% of the total WESM registered capacities. Aboitiz, Power Sector Assets & Liabilities Management Corporation (PSALM), and First Gen followed with close market shares of about 17%, 16%, and 15%, respectively.

The entry of GMPC, which ownership of the 650 MW coal plant translated to a 4% market share, had somewhat altered, albeit minimally, the landscape of the market. It was noted

that the market share of the top four major players slightly declined starting August 2012 with the registration of one unit of GMPC and further decreased starting December 2012 with the registration of the second unit. The period likewise saw the share of the Aboitiz group slightly increasing in April and May 2013 with the registration by TMO of the generating units it acquired from Duracom. Accordingly, the market share of other Independent Power Producers (IPPs), to which the Duracom was previously grouped, noticeably dipped in the said billing months.



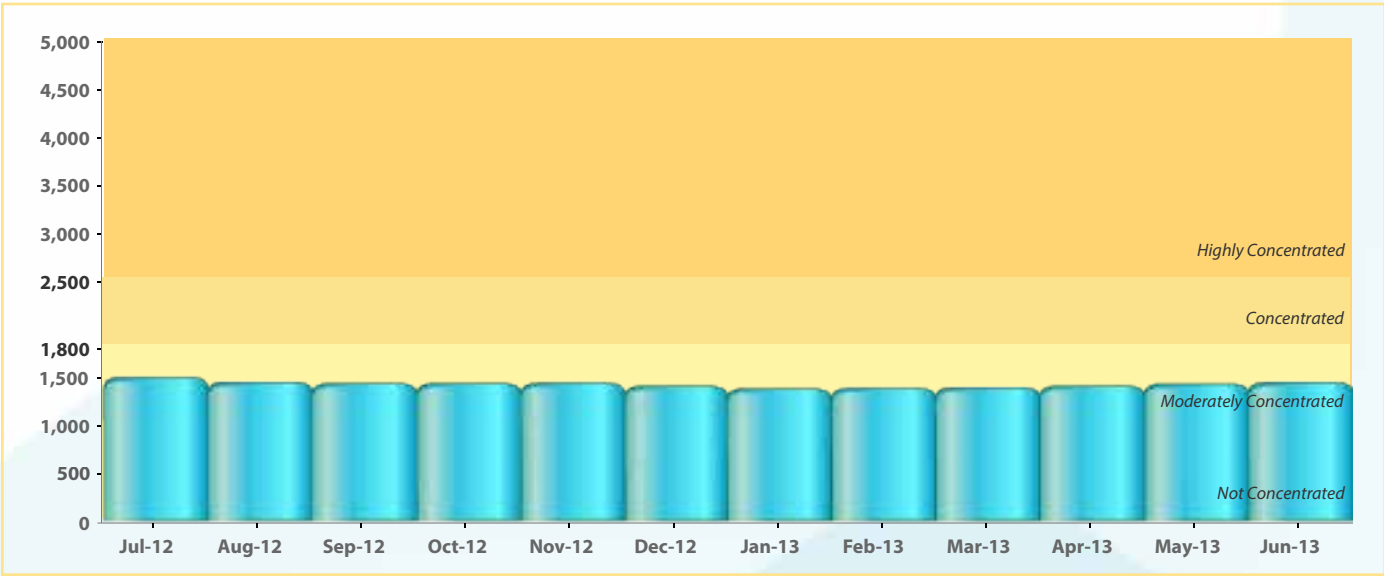


HERFINDAHL-HIRSCHMAN INDEX (HHI)

The monthly HHI was calculated based on the following scenarios: registered capacity, registered capacity net of outage, offered capacity, metered quantity, and spot transaction. The HHI, when based on registered capacity, provides the base scenario in assessing market concentration which does not vary over time unless there are changes in the ownership and registered capacity of the generators, or registration and deregistration of generators.

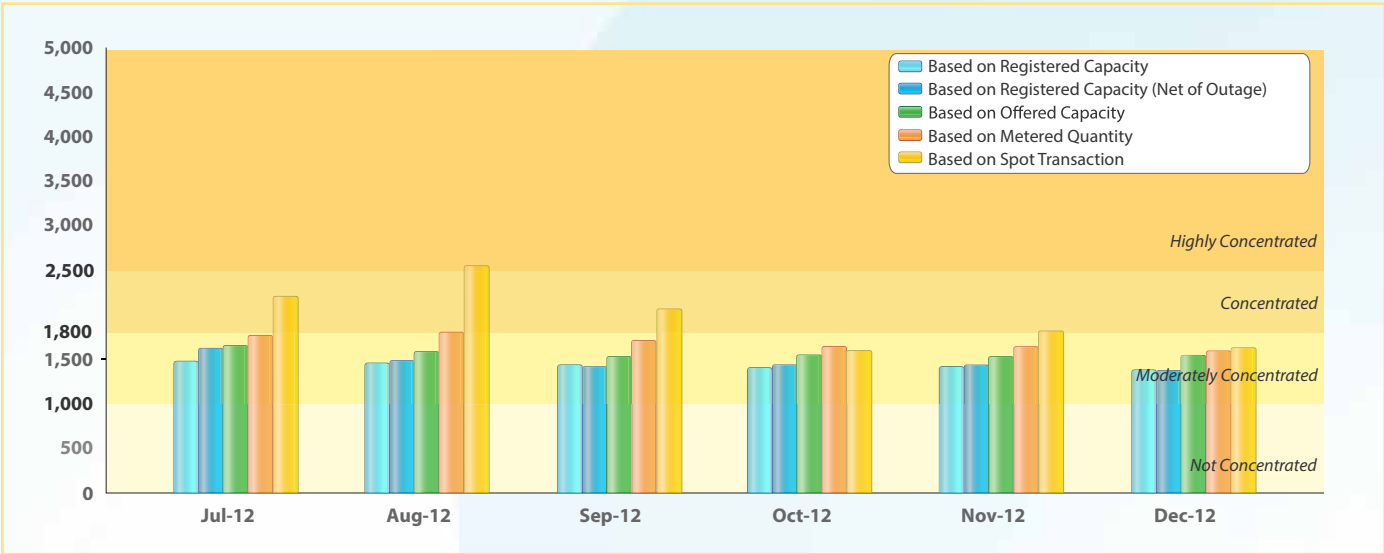
HHI Based on Share of Registered Capacity

Monthly, Jul 2012 – Jun 2013



HHI Based on Various Scenarios

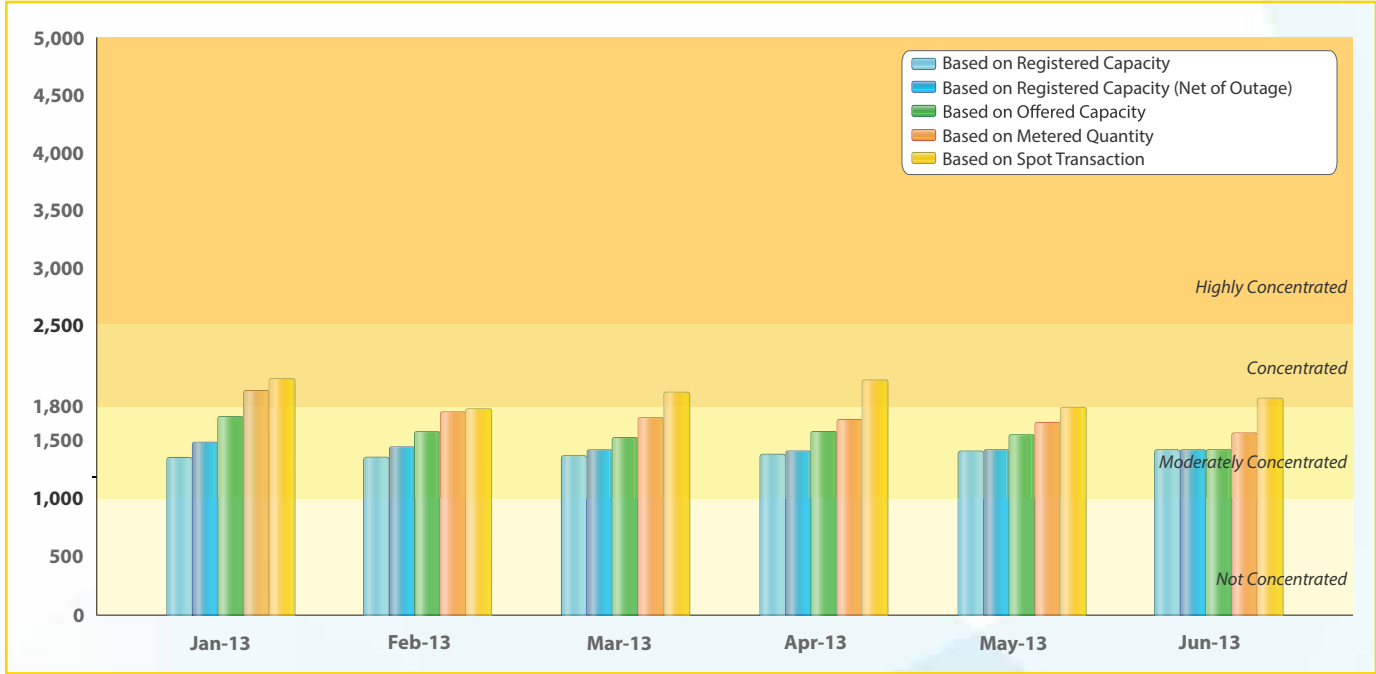
Monthly, Jul – Dec 2012



With only four major participants (namely San Miguel Corporation (SMC), Aboitiz Power, First Gen, and PSALM) controlling the majority of the market share, the market remained moderately concentrated over the 12-month period, as measured by the HHI calculated at major participant level using registered capacity.

HHI Based on Various Scenarios

Monthly, Jan – Jun 2013



Unlike the HHI based on registered capacity, the HHI when calculated based on available capacity (registered capacity net of outage), offered capacity, metered quantity, and spot transaction may vary over time.

Results of HHI calculations based on the aforesaid various scenarios, except for spot transaction, point to a moderately concentrated market. HHI values tended to be higher, however, when calculated based on metered quantity with First Gen and the SMC groups controlling almost 50% of the market share. Further, there was an indication of a concentrated market during the August 2012 and January 2013 billing months when calculations yielded an HHI based on metered quantity of above 1,800. Likewise, the HHI calculations based on other scenarios during the January 2013 billing month tended to be higher as market share of other major participants Quezon Power Philippines (Limited) Company (QPPL), Masinloc Power Partners Co. Ltd. (MPPCL), and SEM-Calaca Power Corporation (SCPC) decreased due to the outages of their respective generating units.

The level of market concentration when bilateral contract quantities are netted out from the total energy transacted in the WESM (metered quantities), or simply put the spot market transaction, was likewise determined and assessed. When calculated based on spot transaction, the market indicates a concentrated market, except for the months of October and December 2012 and February 2013 when HHI calculations yielded values falling within the moderately concentrated region. Notable was the high HHI value during the August 2012 billing month indicating a highly concentrated market. It was noted that two-thirds of the market share based on spot transaction were dominated by major participants PSALM and Aboitiz. Further, the First Gen group with large generating facilities had a very low market share based on spot transaction, only standing at about 5.5%. The SMC group, which controlled about 24% of the total WESM registered capacity, likewise had low market share. It was observed that First Gen had very low spot transaction market share throughout the period in review. Similarly, the market share of the SMC group for the billing months of July to December 2012 were remarkably low, only falling below 20%. These indicate that a bulk of the energy injected into the grid from the groups' generating units was covered by bilateral contracts.







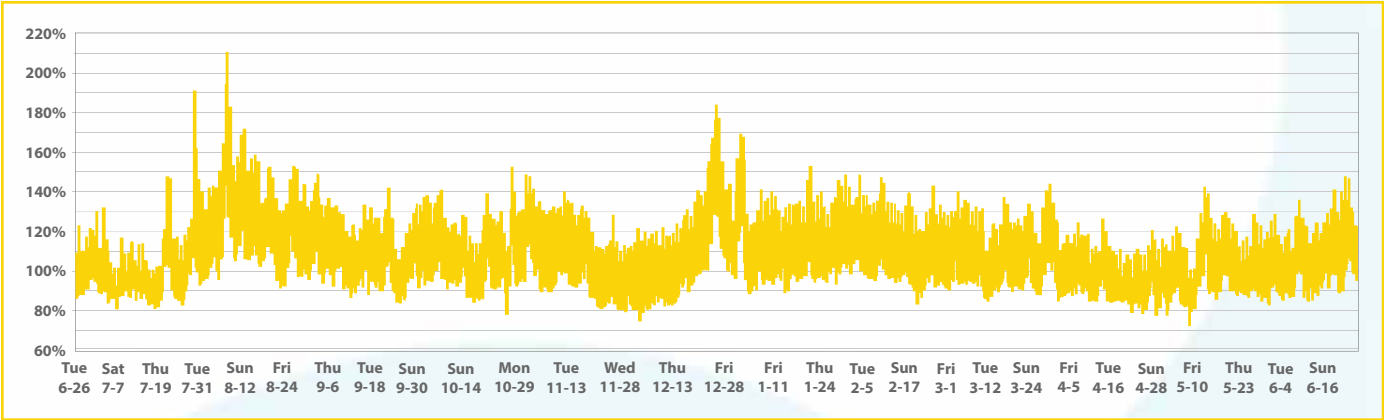
RESIDUAL SUPPLY INDEX (RSI)

The Residual Supply Index (RSI) is a dynamic continuous index that provides additional information to the concept of pivotal generator (PSI), by measuring the ratio of the available

generation without a Generator to the total generation (including operational reserve) required to supply the demand. It tries to identify the potential of a Generator to have and exercise market power and its ability to influence market outcome.

Market RSI Based on Offered Capacity of Generators

Hourly, Jul 2012 – Jun 2013



Market RSI Summary

Monthly, Jul 2012 – Jun 2013

Market RSI	Percent of Time											
	2012						2013					
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
< 100%	65.6	10.5	26.6	36.4	38.0	46.7	24.5	21.1	41.1	57.9	57.4	43.0
> 100%	34.4	89.5	73.4	63.6	62.0	53.3	75.5	78.9	58.9	42.1	42.6	57.0

RSI correlates with PSI, where lower RSI denotes a higher number of pivotal suppliers. The figure shows the hourly trend of the market RSI for the period in review. In general, the market demonstrated a robust environment during the said period as indicated by the high percentage of time that the Market RSI exceeded the 100% mark, indicating the absence of pivotal generators most of the time. The frequency by which the Market RSI exceeded 100% was highest in August 2012, which was attributed to improved supply conditions due to fewer plant outages and increased availability of hydro-electric plants. It also helped that demand for electricity during the month was relatively lower resulting in wider supply margin. It was observed that the percentage of time with RSI above 100% was higher during certain billing months when the market manifested better supply and demand conditions.

On the other hand, the frequency by which the market RSI values exceeded the 100% mark was lower during tight demand and supply conditions such as those experienced during the billing months of July and December 2012 and April and May 2013. In particular, the July 2012 billing month had the lowest number of RSI values falling above the 100% mark indicating tight supply conditions due to the outages of coal plants and the non-availability of the Ilijan plant brought about by the Malampaya gas facility maintenance. Further, the April and May 2013 billing periods likewise yielded lower RSI values as supply was insufficient to meet the higher demand for electricity, which was limited due to lower capacity offers from the generating plants.

PIVOTAL SUPPLY INDEX (PSI)

The pivotal supply index (PSI) is a binary variable which measures for a Generator in a particular period of time whether, given the market conditions of demand and generation, the demand can be supplied without that Generator. The higher the system demand, the greater the tendency to have pivotal suppliers, and if a large plant is on outage, the higher the probability of other plants qualifying as pivotal suppliers.

The tables list the pivotal generators in Luzon and Visayas and the percentage of time that said generators were pivotal in any billing month. During the period in review, the most

frequent pivotal generators in Luzon include the large generating capacities coal plants Sual, Pagbilao, and Masinloc and the natural gas plants Ilijan, Sta. Rita, and San Lorenzo. It was noted that the billing months of high demand July and December 2012 and April and May 2013 had the most number of pivotal generators.

In the Visayas, geothermal plant Leyte A was the most frequent pivotal generator. The number of pivotal generators was particularly high during the billing months December 2012 and April and May 2013.

PSI by Plant Based on Offered Capacity

Monthly, Jul 2012 – Jun 2013, Luzon

Plant Name	Percent of Time											
	2012						2013					
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
LUZON												
AMBUKLAO HEP	4.4	0.8	0.7	1.8	4.7	17.5			0.1	11.4	11.8	2.6
ANGAT HEP	2.9	0.7	0.5	0.8	4.6	15.7		0.1	0.1	11.4	10.8	1.5
APEC	0.1								0.1	8.2	10.4	1.1
BACMAN GPP										10.5	6.1	1.3
BAKUN HEP				0.3	3.8	12.6				9.1	10.6	1.5
BATANGAS CFTPP	9.4	0.9	2.0	4.4	10.5	27.4		0.1	4.5	30.4	18.3	6.3
BAUANG DPP	6.1	0.9	1.2	2.8	5.9	20.8		0.1	1.0	17.6	13.3	4.2
BINGA HEP	3.2	0.7	0.5	0.8	4.2	15.1		0.1	0.1	10.3	10.8	1.3
CALIRAYA HEP	2.2	0.4	0.4	0.8	3.8	5.4		0.1	0.1	4.8	8.3	1.2
CBK (KPSPP)	7.5	0.9	1.5	2.5	5.5	16.9		0.1	0.6	11.2	9.7	3.5
CE CASECNAN	3.3	0.8	0.3	0.6	4.6	10.6		0.1		3.6	3.2	0.5
CIP								0.1	0.1	9.5	10.3	1.1
GFII									0.1	7.5	6.3	0.9
HEDCOR	2.6	0.4	0.4	0.8	3.8	12.5			0.1	9.0	10.6	1.2
KEPCO ILIJAN	39.6	5.0	26.5	34.9	29.6	35.6	19.6	17.3	36.6	56.3	53.2	37.6
LIMAY CCGT	6.3	0.8	1.2	3.1	2.2	6.0			1.5	15.2	7.6	2.3
MAGAT HEP	3.3	0.7	0.5	1.7	4.6	18.3		0.1		1.7	7.4	2.0
MAKBAN GPP	9.7	0.9	1.7	4.9	7.4	22.2		0.3	1.2	19.5	14.6	5.6
MALAYA TPP		0.3	2.3	4.3	3.4	1.1	0.1	0.3	1.3	1.3		1.5
MARIVELES CFTPP											5.0	15.3
MASINLOC CFTPP	32.6	2.6	7.9	12.9	13.3	25.8	0.1	1.9	7.1	34.1	29.7	19.8
MASIWAY HEP	2.5	0.4	0.4	0.8	3.6	12.6			0.1	9.1	9.3	1.1
PAGBILAO CFTPP	29.6	2.3	10.9	9.6	11.3	34.7	3.9	0.3	5.2	40.5	36.0	24.1
PANTABANGAN HEP	3.5	0.3	0.5	1.1	4.6	17.1		0.1	0.3	8.6	8.1	1.5
PETRON SFFPP											1.3	0.7
QUEZON POWER	11.1		1.1	10.4	10.9	27.8	0.8	0.4	3.6	29.8	20.7	11.4
SAN LORENZO FGPP	24.7	1.9	2.7	10.8	10.3	29.2	0.9	1.1	4.9	32.3	24.0	5.5
SAN ROQUE POWER	11.0	1.1	3.4	3.8	4.4	16.3		0.1	0.3	9.4	8.9	0.7
STA RITA FGPP	53.6	5.0	19.1	16.8	18.0	36.5	7.1	3.4	12.5	42.5	43.2	32.4
SUAL CFTPP	60.4	8.1	4.2	20.4	37.8	46.7	19.4	20.3	40.6	55.8	55.1	41.7
SUBIC POWER CORP	4.3	0.8	0.7	1.5	4.6	17.5		0.1	0.3	12.6	11.5	2.2
TIWI GPP	5.3	0.8	0.7	2.1	5.2	19.6		0.1	0.3	15.5	12.2	3.1
TRANS-ASIA	2.9	0.7	0.4	0.8	4.2	15.0		0.1	0.1	10.8	10.8	1.5





PSI by Plant Based on Offered Capacity  
Monthly, Jul 2012 – Jun 2013, Visayas

Plant Name	Percent of Time											
	2012						2013					
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
VISAYAS												
AVON (NABAS) DPP	1.1	0.4			3.6	12.5			0.1	6.6	10.6	1.1
BOHOL DPP	2.2	0.4	0.4	0.8	3.4	11.4		0.1	0.1	7.9	9.9	1.1
CEBU DPP I	2.5	0.4	0.4	0.8	3.9	12.4		0.1	0.1	9.7	10.7	0.4
CEBU DPP II	2.5	0.4	0.4	0.8	3.9	12.9		0.1	0.1	9.7	10.7	
CEBU TPP 1	2.9		0.4	0.7	4.2	13.9		0.1	0.1	9.9	9.9	1.5
CEBU TPP 2	2.9	0.1	0.4	0.8	4.3	15.3				8.1	10.7	1.5
CEDC CFTPP	9.2	0.9	1.6	2.8	5.9	22.2		0.3	1.2	18.7	15.6	5.6
CPPC DPP	2.9	0.7	0.5	0.8	4.3	15.8		0.1	0.1	11.0	10.8	1.6
EAUC DPP	2.9	0.5	0.4	0.8	4.3	14.9		0.1	0.1	10.6	10.8	1.5
KSPC CFTPP	4.3	0.8	0.7	1.8	4.7	17.9		0.1	1.0	14.2	13.5	4.8
LEYTE A	19.7	1.3	3.9	10.4	9.7	25.6	0.3	0.3	2.7	28.6	22.2	11.7
PALINPINON GPP I	4.4	0.8	0.7	1.8	4.7	18.2		0.1	0.3	13.4	11.8	1.9
PALINPINON GPP II	3.8	0.7	0.5	1.0	4.6	16.5		0.1	0.3	11.7	11.1	1.7
PANAY DPP I	1.3	0.4	0.4	0.8	2.4	7.5		0.1	0.1	6.6	8.9	1.1
PANAY DPP III	2.5	0.4	0.4	0.8	4.0	13.8		0.1	0.1	9.8	10.7	1.3
PB 101	2.5		0.4	0.4	3.8	12.5				9.0	8.1	1.1
PB 102	1.4		0.4	0.8	3.8	12.5			0.1	9.1	10.1	1.1
PB 103	2.2		0.4	0.8	0.1			0.1	0.1	3.1		1.1
PEDC CFTPP	5.8	0.9	0.9	2.8	5.5	18.8		0.1	0.4	16.5	13.1	3.2
TONGONAN GPP	4.2	0.7	0.5	1.0	4.6	17.6		0.1	0.3	11.6	11.7	2.6
TPC (CARMEN)	2.9	0.5	0.4	0.8	4.2	14.9		0.1	0.1	10.5	10.8	1.5
TPC (SANGI)	2.9	0.7	0.5	0.7	4.2	15.4		0.1	0.1	10.8	10.8	1.5



PRICE SETTING FREQUENCY INDEX (PSFI)

The PSFI is the percentage of time in a given period that a generating unit or a Generator qualifies as a Price Setter. The tables list the generating plants that qualified as price setters and the percentage of time that they became price setters in any billing month. The qualified generating plants are determined for the following price ranges: PHP 5,000/MWh and below; between PHP 5,000/MWh and PHP 10,000/MWh and above PHP 10,000/MWh.

PSFI at Prices Equal to PHP 5,000/MWh and Below  
Monthly, Jul 2012 – Jun 2013, Luzon

Plant Name	Percent of Time											
	2012						2013					
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
LUZON												
AMBUKLAO HEP	6.5	9.1	4.3	6.1	7.1		3.0	7.5	6.4	3.5	3.9	5.8
ANGAT HEP	1.9	4.4	0.3			1.4	4.7	0.5		0.3		
APEC	0.3	0.5	0.1	0.8					4.2	1.9	6.0	17.2
BAKUN HEP				0.4	0.1	0.3	0.1	0.1			0.7	0.3
BAUANG DPP				0.1						0.1	0.1	
BATANGAS CFTPP		0.3				0.1						
BAUANG DPP						0.3						
BINGA HEP	2.1	8.9	0.1		0.3	1.1			3.9	3.5	4.9	1.6
CALIRAYA HEP		0.8	0.1				0.1					
CBK (KPSPP)	0.8	7.1				1.4	2.0	0.5	0.1	0.3	0.1	
CE CASECNAN	1.9	8.9	0.3			0.3	1.1	0.4				
HEDCOR	1.9	8.9	0.3			1.4	4.6	0.5		0.3		
KEPCO ILIJAN	5.1	6.7	13.3	13.9	11.8	2.1	9.4	20.8	13.1	10.8	8.9	6.7
LIMAY CCGT									1.0	0.4	0.1	
MAGAT HEP	4.3	9.3	0.8	1.7	7.9	0.3	0.3		0.3	0.3	0.4	8.3
MAKBAN GPP	0.4	2.2	0.5			0.3	5.4	0.8	0.6	1.3	1.4	11.0
MARIVELES CFTPP											4.6	28.0
MASINLOC CFTPP	28.6	51.3	32.9	28.2	25.4	29.9	23.7	34.5	13.8	13.2	33.8	37.6
MASIWAY HEP	1.9	0.9				0.1	0.1	0.5		0.3		
PAGBILAO CFTPP	27.9	38.6	40.6	24.3	24.5	35.1	59.5	68.1	44.6	34.1	43.1	57.3
PANTABANGAN HEP			0.1				0.8	0.4				
QUEZON POWER	2.6	11.3	7.9	3.6	3.8	3.6	6.6	0.7	1.0	4.8	4.7	2.0
SAN LORENZO FGPP	2.4	9.1	0.3	0.4	0.8	2.2	6.5	0.9	0.3	0.3	0.7	0.3
SAN ROQUE POWER	1.1	5.8	9.8	3.1			2.0	0.7	0.4			
STA RITA FGPP	2.4	9.5	2.4	3.1	2.3	1.5	6.5	0.9	0.9	0.3	0.7	0.3
SUAL CFTPP	27.2	27.6	19.9	27.8	36.3	29.4	42.7	56.0	47.5	37.8	36.9	47.8
TIWI GPP		0.7	0.1				4.0	0.7		0.4	1.0	7.0





PSFI at Prices Equal to PHP 5,000/MWh and Below

Monthly, Jul 2012 – Jun 2013, Visayas

Plant Name	Percent of Time											
	2012						2013					
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
VISAYAS												
CEBU DPP I				0.1				0.1	0.4	0.3		
CEBU TPP 1	0.1			2.4		1.8	3.6	0.3				
CEBU TPP 2				2.2		1.9	3.6	1.3		0.4	0.1	
CEDC CFTPP	13.5	19.2	10.9	6.1	10.2	10.3	28.0	20.2	14.0	11.7	18.2	19.4
CPPC DPP	0.1	0.3		0.1								
EAUC DPP	0.1		0.3	0.6	0.4	0.3	0.1	0.7	1.6	0.4	0.6	0.3
KSPC CFTPP	7.2	23.3	13.7	6.5		6.3	23.8	20.0	20.8	6.5	23.5	35.2
LEYTE A	11.5	43.1	41.8	42.4	31.6	38.9	37.5	50.0	35.7	26.2	25.4	35.3
PALINPINON GPP I	2.5	9.9	2.6	2.8	0.7	2.1	4.6	0.3	1.0	0.5	0.1	0.1
PALINPINON GPP II	1.9	9.3	2.6	2.2	0.4	1.7	4.7	0.7				
PB 101	0.1					0.1	0.1					
PB 102	0.1					0.1	0.1		0.1			
PB 103							0.1		0.1			
PEDC CFTPP	9.4	13.2	12.2	16.3	11.7	7.4	12.1	12.0	17.0	16.5	22.8	10.5
TONGONAN GPP	1.9	3.6				0.3	0.9	3.5		0.3	0.4	
TPC (CARMEN)						0.1						
TPC (SANGI)	5.3	10.6	9.7	10.6	3.9	15.6	27.3	19.6	14.1	6.6	12.1	14.0

Coal plants Sual, Masinloc, and Pagbilao comprised the top three plants in Luzon which frequently set the spot prices for prices below PHP 5,000/MWh during the period in review. In the Visayas, geothermal plant Leyte A and coal plants CEDC, KSPC, PEDC, and TPC (Sangi) topped the frequent price setters.



PSFI at Prices between PHP 5,000/MWh and PHP 10,000/MWh

Monthly, Jul 2012 – Jun 2013

Plant Name	Percent of Time											
	2012						2013					
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
LUZON												
AMBUKLAO HEP	0.6		0.1	2.9	1.1	5.3	3.6	0.3	0.7	1.5	3.6	3.4
BAUANG DPP	11.3	2.4	5.1	8.2	5.6	9.4	3.9	3.9	8.8	7.1	4.3	3.2
BINGA HEP							0.3	0.1	0.4	1.1	1.4	
CBK (KPSPP)	1.4	0.3	2.4	0.8	1.5	0.7	0.1	0.8	0.7	1.1	0.7	0.9
KEPCO ILIJAN	3.8		0.3									
LIMAY CCGT									0.4			
MAGAT HEP	5.0				2.0		0.3	0.7	0.3	0.1	1.1	0.7
MARIVELES CFTPP											0.1	0.1
MASINLOC CFTPP		0.1								0.1		
PAGBILAO CFTPP										0.1		
SAN LORENZO FGPP	0.7				0.3						0.1	
SAN ROQUE POWER	1.8	0.3	1.1	2.6								
STA RITA FGPP	0.7				0.3						0.1	0.1
SUBIC POWER CORP	8.5	0.8	4.8	5.3	4.3	6.1	0.8	1.1	4.2	6.6	6.5	4.6
TRANS-ASIA	5.1	0.1	1.5	2.4	2.6	1.3	1.2	0.9	2.7	6.9	4.2	4.6
VISAYAS												
CEBU DPP I	0.7		0.1	0.1		0.4	0.3			0.1		
CEBU DPP II	0.7		0.1									
CEBU TPP 1	4.7	1.1	3.4	4.6	2.6	4.4	0.7	0.4				
CEBU TPP 2	4.0		1.3	1.9	2.8	3.6	1.2	0.1	0.7	1.7	3.2	0.8
CEDC CFTPP	0.4							0.3				
CPPC DPP	4.3	3.0	1.9	1.9	3.1	3.5	2.6	2.7	3.7	3.5	1.3	1.9
EAUC DPP	6.7	0.9	4.7	6.9	4.8	3.8	1.1	1.3	7.3	9.4	8.1	6.0
KSPC CFTPP									0.7			
LEYTE A	1.9	0.7	5.0	3.6	2.3	4.2	0.3	0.4	0.3	1.5	0.1	
PANAY DPP III	1.9	0.9	1.9	4.4	3.0	5.8	7.9	13.4	7.6	4.0	8.9	16.7
PB 101	0.1			0.1	0.1	0.1				2.0	1.1	3.1
PB 102	0.4	0.1	0.4	0.4	0.5	1.3				2.7	1.5	2.4
PB 103	0.3	0.1	0.4	0.1			0.1			1.6	1.1	2.3
PEDC CFTPP	11.3	4.7	4.4	6.0	4.3	0.7	0.7	1.2	4.5	2.3	7.2	4.2
TPC (CARMEN)				1.1	0.7	0.3			0.1	0.9		

For prices within the range of PHP 5,000/MWh to PHP10,000/MWh, oil-based plants Bauang, Subic Power Corp., and Trans Asia were the top and consistent price setters in Luzon. In the Visayas, the most frequent price setters included oil-based plants Panay DPP III, EAUC, and CPPC, and coal plant PEDC.

The top frequent price setters during the period in review for prices above PHP 10,000/MWh were oil-based plants Bauang (from Luzon), Panay DPP III, and EAUC (from the Visayas).



PSFI at Prices Equal to PHP 10,000/MWh and Above  
Monthly, Jul 2012 – Jun 2013

Plant Name	Percent of Time											
	2012						2013					
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
LUZON												
AMBUKLAO HEP	0.1				0.5	2.5				1.9	1.9	0.3
ANGAT HEP									0.1			
BACMAN GPP											0.1	
BAUANG DPP	7.4	1.1	3.4	9.7	8.3	11.4	1.3	0.5	5.7	15.6	8.9	4.7
BINGA HEP								0.1	0.6	0.4	0.8	
CBK (KPSPP)	1.4				0.5			0.3	1.3		1.1	0.3
KEPCO ILIJAN					0.1	0.1						
LIMAY CCGT	3.3	0.3	0.3	2.2	0.3	1.5					0.7	
MAGAT HEP					0.7	2.8	0.8	0.3	0.6	0.9	0.4	
MAKBAN GPP									0.1	0.1		
PANTABANGAN HEP	0.1											
SAN ROQUE POWER	5.0		0.4	0.6	0.3	0.6	0.1					
SUBIC POWER CORP	0.8		1.1	0.8	2.0	1.0	0.3	0.1	0.7	0.1	0.3	0.9
TIWI GPP				0.1	0.3	0.4			0.1	0.3		
TRANS-ASIA	0.6		0.5	0.3	0.3	0.1			0.4	0.1	1.4	0.5
VISAYAS												
AVON (NABAS) DPP					3.1	4.4	3.1	0.8	0.7	1.7	1.8	2.3
BOHOL DPP	3.8	0.8	1.3	3.3	1.1	2.8	1.5	0.3	3.3	3.0	2.4	0.9
CEBU DPP I	0.1			0.8		0.6			0.1	0.9	0.3	
CEBU DPP II	0.3											
CEBU TPP 1	1.5	0.3	0.1					0.1		0.8	1.1	0.1
CEBU TPP 2	1.5	0.1	1.2	2.1	2.7	3.1	0.8		0.3	1.1	0.8	0.5
CPPC DPP	2.1	0.5										
EAUC DPP	3.6	0.8	2.2	6.1	6.2	7.9	1.6	0.3	2.2	0.8	1.5	1.3
LEYTE A	0.6		0.1	1.3	0.8	2.2						
PANAY DPP I	1.5	0.4	1.2	1.9	1.3	2.1	0.5		1.9	2.2	0.4	0.7
PANAY DPP III	10.0	1.7	5.9	8.3	6.9	10.0	5.6	2.0	3.0	7.9	2.8	0.1
PB 101	1.0		0.3	0.4	0.7	0.8	0.1	0.5	0.1	2.0	1.3	1.7
PB 102	0.7		0.5	0.4	1.1	1.3	0.8	0.8	0.6	2.7	1.4	2.0
PB 103	1.0	0.1	0.4	1.0	0.1	0.1	0.9	1.3	0.7	2.4	0.8	2.7
TPC (CARMEN)	7.1	0.5	2.7	2.2	2.6	2.2	0.1		1.8	6.7	6.4	2.2
TPC (SANGI)					0.1	0.1				0.5		

# MARKET GOVERNANCE

## WESM GOVERNANCE UPDATES

The WESM Rules provide for the creation of PEM Committees where each of the Committees has its responsibilities to oversee the activities of the electricity market. The PEM Committees are composed of working groups and appointed qualified personnel as follows: the Market Surveillance Committee (MSC), Rules Change Committee (RCC), PEM Audit Committee (PAC), Technical Committee (TC), and Dispute Resolution Administrator (DRA).

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 may either be stakeholder representatives or independent of the electric power industry (Independent), are appointed by the Philippine Electricity Market Board of Directors (PEM Board).

## WESM Governance Committees’ Accomplishments:

### A. Rules Change Updates

The Department of Energy (DOE) approved and promulgated the following changes to the WESM Rules:

1. Proposed Changes to the WESM Rules on Notice of Non-Approval of Application for Registration as WESM Members

The proposed revisions pertain to WESM Rules Clauses 2.5.6.1 and 2.5.6.2, which state that in case of denial of an application for registration as a WESM Member, whether due to the applicant’s failure to meet the requirements for the WESM membership category applied for or for any other reason, the Market Operator must send written notice to the applicant and the same shall always be provided to the Energy Regulatory Commission (ERC), irrespective of the reason.

Changes in this specific aspect of the WESM Rules were approved on 13 August 2012 and promulgated through Department Circular (DC) DC2012-08-0008.

2. Proposed WESM Rules Change on Minimum Bid Block

The proposed revision for the reduction of the minimum energy offer block size and contingency reserve offer block size from 5 MW to 1 MW intends to encourage the development of smaller generating units, enabling them to have the capability or option to register as scheduled generating units, which can actively compete in the WESM. This proposal was approved on 22 March 2013 and promulgated through DC2013-03-0004.

3. Proposed Amendments to the Registration and Settlement Provisions of the WESM Rules

The proposed amendments sought to qualify the use of the term “business day” in relation to: (a) the process for registration, such that the Market Operator (MO) and the applicant have “working days” instead of “business days” within which to process or submit additional information and to inform the applicant of the approval or non-approval of the same; (b) the billing and settlement timetables such, that when the deadline for issuing a preliminary or final statement falls on a holiday, the deadline is moved to the next working day; and (c) the period for reflecting corrections in the final statement, and providing for a cut-off period. The proposal further sought to enhance the procedure formulation of certain clauses of the WESM Rules on Settlement Quantities and Amounts for clarity, to address the second market audit findings. The DOE approved the proposal on 22 March 2013 and promulgated the same through DC2013-03-0005.

4. Proposed Revision of the Definition of “Financial Year” in the WESM Rules

Approved and promulgated through DOE Circular No. DC2013-06-0010 dated 31 May 2013, the proposal sought to define financial year in the WESM Rules similar to calendar year for the following reasons:

- calendar year is the period followed by PEMC in respect to its financial statements; and
- to align the deadlines for the preparation and submission of reports specified in the WESM Rules with the actual period of reporting of PEMC of its financial statements and budget.

The PEM Board approved the following amendments to the WESM Rules and various WESM Manuals:

1. Proposed Corrections to Section 9.8.3 of the WESM Metering Standards and Procedures Manual

The proposed corrections addressed the audit recommendation to reflect the correct mathematical equation on the Site-Specific Loss Adjustment (SSLA). The proposal aimed to make the resulting units in the equations of the line quantities “active loss along the line” (LinekW-Loss), and “reactive loss along the line” (LinekVar-Loss) consistent with their quantity subscripts kilowatt (kW) and kilo-Volt-ampere-reactive (kVar), respectively. To reflect the correction, the subject equations, namely: (a) the product of the square of the line current and total line resistance; and (b) the product of the square of the line current and the total inductive line reactance, to be consistent with their quantity subscripts in the said formula, have to be divided by a constant of 1,000. The proposed amendments took effect on 10 April 2013.

2. Proposed Revisions to the WESM Dispute Resolution Market Manual

The DRA submitted proposed amendments to the Dispute Resolution Market Manual (DRMM) Issue 2.0 to conform with DOE Circular 2012-02-0001 “Adopting Further Amendments to the WESM Rules on Dispute Resolution Provisions,” which incorporated changes to the framework and structure of the WESM dispute resolution process and implement the same through the proposed amendments in the Manual. In summary, the proposed changes to the DRMM involve the following: (a) Replacement of the Dispute Resolution Group (DRG) with a WESM-accredited pool of arbitrators and mediators; (b) Adoption of agreement-based arbitration instead of regulatory adjudication as a mode of dispute resolution; (c) Establishment of the Dispute Management Protocol (DMP) which will govern the processes in the requests for







information and negotiation stage; (d) Accreditation of WESM ADR Support Service Centers; and (e) Setting fees and costs to defray the material and professional service requirements of dispute resolution. The proposed revisions by the DRA took effect on 10 April 2013.

### 3. Proposed Revisions to the Manual of Procedures for Changes to the WESM Rules

The RCC reviewed the Rules Change Manual consistent with the following audit observations of the PEMC-Internal Audit Department (IAD), which conducted the Market Governance Administration Process Review on the RCC for year 2011: (a) That no advisories on amendments were published on a regular basis in one newspaper of general circulation which per IAD is provided for under Section 10 of the Rules Change Manual, and (b) That “publish” as defined in Section 2 of the Manual is inconsistent with the provision in Section 10 where it appears that publication in the newspaper is mandatory.

Pursuant to the above review, the RCC recommended to the PEM Board to remove from Section 10 the requirement on the publication of Advisories on Amendments, since approved amendments, specifically on the WESM Rules, are already embodied in DOE Circulars. The approved revisions took effect on 17 April 2013.

### 4. New Market Manual on WESM Technical Committee

Submitted by the TC, the new Manual establishes, among others, the role of the TC in the performance of its functions and responsibilities pursuant to its mandate as provided for in the WESM Rules, the scope and procedures in providing technical assistance to the PEM Board, the PEM Board Committees and market participants in relation to power plant and transmission technical matters, metering technology and data, information technology, and such other spot market-related matters that are technical in nature. The TC Manual took effect on 10 April.

### 5. Proposed Amendments to the Dispatch Protocol Manual

The proposal includes new provisions in the WESM Dispatch Protocol Manual to define the Merit Order Table (MOT) and the manner of its implementation, with the end view of ensuring consistency of generating units’ dispatch with the ex-post results of the Market Dispatch Optimization Model (MDOM).

The proposal was originally submitted by the Generators composed of 1590 Energy Corporation, Aboitiz Power Inc., AES Philippines-Masinloc Power Partners Co. Ltd., SN Aboitiz Power, and San Miguel Energy Corporation. The amendments as approved took effect on 10 April 2013.

### 6. Proposed Amendments to the WESM Rules and the WESM Manual on Market Operator Information Disclosure and Confidentiality Issue 2.0

The proposed amendments to the WESM Rules and the WESM Manual on Market Operator (MO) Information Disclosure and Confidentiality (IDC) Issue 2.0 aim to extend the exception on confidential information to enable affected WESM net sellers to obtain/gain access to the relevant information regarding their uncollected spot sales from the WESM.

The proposal was originally submitted to the RCC by Aboitiz Power Corporation, Inc. The proposed amendments were approved by the PEM Board on 20 June 2013. The proposed changes to the WESM Rules have been endorsed to the DOE for approval.

### 7. Proposed Amendments to the WESM Rules on the Registration of Metering Services Provider

Approved on 20 June 2013, the proposed changes to the WESM Rules on the Registration of Metering Services Provider address the scenario when there is only one Metering Service Provider (MSP) registered with the MO, but is also required to register as a Trading Participant. Proposed amendments were submitted in view of the following:

- The National Grid Corporation of the Philippines (NGCP) is currently the only MSP

registered in PEMC with a Certificate of Authority from the ERC for its Grid System Network.

- On 26 February 2012, the NGCP registered as a Customer Trading Participant in the WESM, trading its facilities at Itogon and Talavera Stations. Both facilities were formerly under the Default Wholesale Supplier (DWS) account of the National Power Corporation (NPC). The NPC has stopped trading for the said facilities of NGCP.

The above proposals have been endorsed by the PEM Board to the DOE for approval.

### 8. Proposed Amendments to the WESM Manual on Metering Standards and Procedures Subsection 9.7

The proposal delves on the responsibilities in carrying out the SSLA and aims to ensure the timely, complete, accurate, and updated submission by the Trading Participants (TPs) and the Network Service Provider (NSP) of the conductor and power transformer data to the Market Operator, which is the basis for the latter’s computation of the amount of losses between the metering point and the market trading node (MTN). The proposal was approved by the PEM Board on 20 June 2013.

### 9. Proposed Amendments to Clause 3.13.6 of the WESM Rules on Defining the Gross Ex-Post Energy Settlement Quantity for Market Trading Nodes

The proposed amendments were aimed to: (a) Introduce a more solid basis for the netting of bidirectional energy flows in a trading interval recorded in the meter; (b) Discourage meter tampering and other forms of pilferage in connection with RA 7832; and (c) Address the requirement that all embedded generators should register with the ERC and secure the corresponding Certificate of Compliance. The proposal will require all customers to inform the MO of any embedded generator facility and provide evidence of the embedded generator registration with the ERC to provide the MO with legal basis in settling the energy injected. Amendments to Clause 3.13.6 of the WESM Rules were approved by the PEM Board on 20 June 2013 and have been endorsed to the DOE for approval.

Final action to amend certain provisions of the WESM Rules and market manuals is still pending for the following proposals:

#### 1. Proposed Amendments to the WESM Manual on the Management of Must-Run Units

The proposal involves the definition of Nominated Price, a new provision which would consider all other costs of the generator instead of basing it only on fixed, variable, and fuel cost as stated in the initial proposed definition. Aside from this, it introduced new definitions of Must-Run Units (MRUs) and Must-Stop Units (MSUs) based on the concept that designations outside of the WESM Merit Order Table would be considered as either an MRU or MSU, whichever is applicable.

The PEM Board Review Committee (BRC) in its meeting on 19 July 2012, deferred the said proposal subject to the DOE’s facilitation of consultative meetings to discuss the proposal.

The DOE, in its letter of 04 April 2013 provided directions to the RCC regarding the matter.

The RCC is addressing the DOE directives through its assigned Working Group tasked to properly reflect the directives in the proposed amendments.

#### 2. Proposed Amendments to the Manual on the Criteria and Guidelines for the Issuance of Pricing Error Notices (PEN) and Conduct of Market Re-Run (MRR)

The proposed amendments introduced a price substitution methodology using the weighted average locational marginal price (LMP) of the five nearest customer nodes as substitute to reduce pricing errors brought about by contingency constraint violation manifesting on a load-end transformer.

On 24 January 2012, the PEM Board deferred approval on the proposed amendments, subject to the DOE’s review on issues affecting PENs and conduct of MRR.

The DOE, in its letter of 04 April 2013 provided directions to the RCC regarding the matter.

The RCC is addressing the DOE directives through several Working Groups, each of which were tasked to ensure the RCC’s substantive yet speedy compliance with the said directions.

### 3. Proposed Amendments to the WESM Rules and Registration Manual on the Registration of Ramp Rates

The proposal intends to require all generators to submit minimum ramp up and ramp down rates (on top of the maximum ramp up and ramp down rates) together with the ramp rate capability curve of each generation unit or aggregated generation units.

During the BRC meeting held on 17 April 2013, the BRC agreed to refer the matter to the Tripartite Committee, composed of the DOE, ERC and PEMC.

### 4. Proposed Amendments to the Registration Manual on the Provisional Approval of Request for Change in Generator’s Maximum Available Capacity

The proposal seeks to allow the provisional approval by the Market Operator of the request for change in generator’s maximum available capacity within a prescribed timetable, in order to immediately integrate the added capacity into the grid and address the lengthy process attached to usual requests for change in the generator’s data on the ERC-issued Certificate of Compliance (COC).

Above amendments were referred to the Tripartite Committee during the BRC Meeting held on 17 April 2013.

### 5. Proposed Cancellation of Offers

## B. Market Audits

#### • 3rd Market Operations Audit

PA Consulting Group of New Zealand, the External Consultant, concluded the conduct of the 3rd Market Operations (MO) audit on 12 December 2012. In accordance with the Statement of Work, PA Consulting reviewed and assessed the processes of the market management systems, market models, software, billing and settlement system, from the submission of generation offers/bids up to dispatching, and publication of market information under the WESM Rules for the period 26 June 2011 to 25 June 2012. Considering that this is the 3rd MO Audit, PA Consulting focused on key changes and developments since the 2011 audit.

Copies of the audit reports were submitted to the Department of Energy (DOE) and Energy Regulatory Commission (ERC) and published in the WESM website.

As a continuing activity, the PAC, through PEMC’s Market Assessment Group (MAG), monitors the progress of PEMC’s action plans addressing the market operations audit findings and recommendations. Updates on the said action plans are provided in the Monthly Audit Assessment Report (MAAR).

#### • First Metering Arrangements Review

The first metering arrangements review was concluded with the PAC and Technical Working Group’s acceptance on 21 March 2013 of the final deliverables of the External Auditor, namely Isla Lipana & Co. (a PwC Member Firm) in partnership with PwC India, Intelligent Energy System Pty Ltd. (IES) Australia, and Alliance of Power & Energy Xponents Inc. (APEX).



The proposal seeks to amend Appendix A.1 of the Dispatch Protocol Manual on Bids & Offers Submission & Processing to allow trading participants to cancel their daily or “converted” standing bids/offers for a particular trading interval if the following conditions are met: (1) total generation offers is 10% above hourly demand (“Supply Threshold”) for all trading intervals for the specific day; (2) the generation units are the most expensive units, following the Merit Order Table (MOT) results of 1200H DAP; and (3) after deducting Pmin of the generating units, total offer is still more than demand.

The RCC agreed to put on hold its deliberation on the proposal, in deference to the ongoing WESM Design Study.

### 6. Proposed Further Amendments to the WESM Dispatch Protocol Manual on Re-Dispatch Procedures based on the WESM Merit Order Table

The proposed amendments to the Dispatch Protocol (DP) Manual set out the procedures that the System Operator should follow during a re-dispatch process using the WESM MOT. The proposed procedures cover the following conditions:

- Forecast Error and Ramping Limitations
- Non-Compliance to RTD Schedule
- HVDC Schedule Deviation
- Insufficient Reserve
- Under-generation

The proposal was originally submitted by SN Aboitiz Power (SNAP) and was adopted by the RCC as a Committee proposal on 05 September 2012.

The proposal is currently pending, contingent on the DOE’s final action on the proposed amendments to the WESM Manual on the Management of Must Run Units which the DOE has instructed the RCC to further review.

In accordance with Section 11.2.2 of the PEM Audit Manual, the general objective of the metering review is to assess the adequacy of the metering standards and security systems and processes in the WESM. Further, the metering review is conducted to confirm that the metering arrangements comply with the WESM Rules, relevant provisions of the Philippine Grid Code, and associated manuals and to identify and report any non-compliance. Further, pursuant to the PEM Audit Manual Section 11.4.2., the External Auditor physically inspected a total of 216 metering sites in Luzon and the Visayas.

The External Auditors presented their key findings and observations of the review during the 81st PEM Board Meeting held on 30 April 2013. Copies of the reports were submitted to the DOE, National Grid Corporation of the Philippines (NGCP), and ERC and were published in the WESM website.

In view of the results, the PAC, in consultation with PEMC, has developed an action plan to monitor the PEMC’s compliance to the findings and recommendations raised by the review team. On the other hand, the PAC requested the assistance of the ERC, being the regulatory/oversight agency over NGCP, in ensuring the commitment of NGCP to address the findings and observations concerning the latter’s compliance to the WESM Rules, Philippine Grid Code (PGC), and other relevant market manuals.



C. Dispute Resolution

Pursuant to DOE Circular No. 2012-0001 dated 15 February 2012, which set-out the new framework of the WESM dispute resolution process, the DRA presented before the RCC the proposed amendments to the Dispute Resolution Market Manual (DRMM). The proposed Manual was deliberated upon by the RCC in its several meetings and thereafter by the PEM Board, with the DRA acting as resource person.

Upon approval by the PEM Board of the revised DRMM, the DRA, to administratively set into motion the new WESM dispute resolution process, recommended the following: (a) accreditation and selection of the first batch of Mediators and Arbitrators and (b) designation of the Philippine Institute of Arbitrators (PIArb) as the “PEM Board-approved third party provider”, which shall administer the accreditation exam for all aspirants.

The WESM-accredited arbitrators and mediators completed their Basic WESM Training Course

D. Technical Review

• Report on Metering Arrangements Review

The TC completed its study and submitted to the PAC its Review of the External Auditors’ Metering Arrangements Report. In the report, the TC provided its inputs and suggestions on the Terms of Reference (TOR) for the next Metering Arrangements Review, as well as other recommendations for the conduct of subsequent Metering Arrangements Reviews by the PAC.

• Review of Certificate of Compliance (COC) Rules

Upon the request of the ERC to provide comments on the draft revised rules for the issuance of COCs for generation companies and entities with generation facilities, the TC deliberated and subsequently commented on the same. The TC submitted its matrix of comments and recommendations on the draft revised rules to the ERC on 25 July 2012.

• Study/Review on Geothermal Plants

Following the MSC’s request for technical assistance, the TC conducted a review/study on the technical operation of geothermal power plants to assess the validity of technical reasons, i.e. low steam supply pressure, cited by Trading Participants with geothermal power plants in submitting offers below their maximum available capacity. The TC, after meetings with concerned generator power plants, submitted its report on the study on Geothermal Plants to the MSC on 16 August 2012.

• Review of System Security and Reliability Guidelines (SSRG)

In response to the DOE’s request for the TC to prioritize in its activities the review of the WESM Manual on System Security and Reliability in order to help the DOE formulate sound policies for the electric power sector, the TC gathered comments/recommendations from different entities such as the NGCP-SO, Grid Management Committee (GMC), and Distribution Management Committee (DMC) as inputs to the review of the manual, taking into consideration the responsibilities of these entities in the power industry. After thorough review and discussions, the TC finalized its matrix of consolidated comments and recommendations on the SSRG Manual and submitted the same to the DOE and the NGCP for its consideration.

• Review of Load Forecasting Methodology

The TC reviewed the MO’s Load Forecasting Methodology as part of its Work Plan for 2012. After a thorough review and discussion, the TC submitted its comments and recommendations on Load Forecasting Methodology to the PEMC-TWG for consideration on 06 February 2013. In general, the TC agreed with the recommendation of the PA Consulting

on 29 and 30 April 2013. It is noteworthy that they will also serve as lecturers in the Basic (WESM) Arbitration Course for aspiring WESM arbitrators and mediators. The DRA, on other hand, conducted a Basic WESM Arbitration Course for the two power industry experts on 01 July 2013.

The first batch of accredited mediators and arbitrators are composed of known “pillars” in the arbitration industry and power industry experts to ensure that the composition of the mediator/arbitrator pool is “*from a wide array of experts and professionals from the private sector who have the education, training, and experience to mediate or arbitrate WESM disputes on an on-call basis*”.

Group and also recommended as follows –

- For the Luzon load forecast to be aggregated into a number of areas such as regional area;
- For the Visayas load forecast to be on an island basis; and
- For the MO to explore the possibility of using extended weather forecast of PAGASA on selected local government units on both the Luzon and Visayas.

• Review of Proposed Changes to WESM Rules/Manuals

In response to the request of both the RCC and the DOE for comments on the proposed Rules Changes, the TC reviewed the same and submitted comments to the proposed amendments on the following –

- Management of Must-Run Unit (MRU) Manual;
- Cancellation of Offers;
- Dispatch Protocol Manual;
- Registration and Settlement Provisions of the WESM Rules;
- Manual on Metering Standards and Procedures;
- Rules Change Manual; and
- WESM Manual on the Registration, Suspension and De-Registration Criteria and Procedures Issue 1.0 relating to the additional data requirement of Minimum Ramp Up/Down Rates and on the grant of Provisional Authority to the MO for the Change of Maximum Available Capacity (Pmax)

• Seminar on Power System

The TC conducted a seminar for PEMC employees and Independent Members of the WESM Governance Committees on power systems: “Introduction to Power System Engineering – Power System Engineering for Non-Engineers.”

The seminar was conducted to expand the fundamental knowledge of the non-electrical engineer PEMC personnel and independent members of WESM Committees on matters concerning electricity. The course objective of the seminar is to facilitate the understanding of the participant on the planning, development, operation and control of the electric power system generation, transmission, and distribution.

The first part of the seminar held last 21 December 2012 covered topics on the Organization of the Electric Power Industry; and Electricity Production, Transportation and Distribution. The second part held on 06 February 2013 covered the topics on Electricity Consumption Characteristics; Common Power System Engineering Terminology; Power System Operation and Control; and Power System Planning.

E. Market Surveillance

As part of its monitoring, the MSC performed a continuing review of the market behavior of TPs. The MSC assessed the price trend and offer pattern of plants, and the supply and demand condition and the significant events affecting the market, such as the shutdown of certain plants. In this regard, the MSC submitted to the PEM Board its Monthly Monitoring Report for the covered period regarding its accomplishments for each month. As part of its report, the MSC reviewed the monthly Market Assessment Reports prepared by the Market Assessment Group (MAG) and adopted the same as Part II of its report submitted to the PEM Board.

Consistent with its mandate to identify acts or omissions which constitute breach, the MSC also conducted a monthly review and assessment of compliances by individual TPs with the must-offer rule (MOR) and with the real-time dispatch (RTD) schedules and instructions. The MSC reviewed and discussed the non-compliances of individual plants during specific trading intervals within the period covered. Following the Committee-approved process, the TPs are required to submit an explanation, together with supporting documents in respect to observed discrepancies in their offered capacities, and the observed deviations from their RTD schedules.

During the covered period, the MSC’s periodic review and monitoring of non-compliances resulted in the submission of five Requests for Investigation (RFI) for possible breach of the WESM Rules in relation to the MOR and RTD. These RFIs were approved by the PEM Board, which endorsed the same to the Enforcement and Compliance Office (ECO) for the conduct of further investigation.

On the basis of the PEM Board’s directive to conduct investigations over all MO- and SO-initiated market intervention (MI) events, the MSC reviewed and concluded its investigation of a market intervention event occurring in October 2011, which involved three TPs and the Visayas SO. Upon conclusion of its review of the same, the MSC submitted its report to the PEM Board, together with RFIs of the concerned TPs for possible breach of the WESM Rules. Following the MSC’s conduct of investigation of the MI event, the MSC submitted on 05 November 2012 and presented on 12 November 2012 MI Report No. 2012-001 to the PEM Board.

As part of its mandate, the MSC deliberated on the 41 ECO Investigation Reports involving possible non-compliances to the WESM Rules on RTD Schedules and Instructions and the Submission of Offers and established that the ECO substantially complied with the procedural requirements provided in the Market Surveillance Compliance and Enforcement Market Manual, and that the data and documents upon which the ECO based its factual findings are valid and complete. The MSC submitted the result of its Review to the PEM Board on 25 February and 23 March 2013.

The MSC deliberated on the proposed automatic Financial Penalty Scheme for non-compliances with the WESM Rules and Manuals. In relation to this, the MSC developed a procedural framework of the Automatic Penalty Scheme (APS) which was presented to PEMC for inputs/comments.

The MSC also proposed enhancements to the Market Participants Interface (MPI) to have the MPI send a prompt/notice to TPs that cancellations and offers less than maximum available capacity without providing any valid reason will subject the TP to an investigation.

In response to the RCC’s invitation to comment on certain proposed amendments to the WESM Rules and Manuals, the MSC reviewed and discussed the following and submitted its comments on the same to the RCC –

1. Publication of Suspension of Notices;
2. Reduction of Minimum Offer Block Size from 5 MW to 1 MW;
3. Dispatch Protocol Manual;
4. Cancellation of Offers; and
5. Management of Must-Run Unit (MRU) Manual

In addition, the MSC likewise submitted comments to the Draft Revised COC Rules in response to the ERC’s call for comments.





ENFORCEMENT AND COMPLIANCE

The mandate of the Enforcement and Compliance Office (ECO) is to promote good governance in the WESM through programs that would encourage compliance with the WESM Rules and Market Manuals, and through effective enforcement of the said Rules. The ECO gets directives from the Philippine Electricity Market Board of Directors (PEM Board) to investigate possible breaches by the trading participants. Much has been achieved by the ECO in terms of closing pending investigation cases starting the second semester of 2012 until the second quarter of 2013. The ECO also received the annual reports from the designated WESM Compliance Officers (WCOs) of the WESM Members.

Requests for Investigation

Two types of violations of the WESM Rules have been referred by the PEM Board to the ECO for investigation: noncompliance with the must-offer rule (WESM Rule 3.5.5.1, 3.5.5.2, and Appendix A1.1); and noncompliance with the real-time schedule/dispatch instructions (WESM Rule 3.8.4 and 3.8.8).

For the period 26 June 2012 to 25 June 2013, the ECO was directed by the PEM Board to investigate four new cases for noncompliance with the must-offer rule and nine for noncompliance with the real-time schedule/dispatch instructions. All of the 13 Requests for Investigations (RFI) referred to the ECO were filed by the Market Surveillance Committee (MSC).

The additional 13 new cases bring the total investigations directed by the PEM Board during the period to 59 cases.

The following summarizes the status of the investigation cases from 26 June 2012 to 25 June 2013:

Type of Cases	Referred by PEM Board (Number of Pending Cases)	Investigation Completed and Report Submitted to Market Surveillance Committee (Number of Cases)	Investigation Completed and Report Submitted by the MSC to the PEM Board T(Number of Cases)
Possible Violation of Must Offer Rule	36	34	18
Possible Non-Compliance with RTD Schedule/ Dispatch Instructions	23	23	23
TOTAL	59	57	41

Culture of Compliance in the WESM

Creating a culture of compliance in the WESM and introducing compliance roles have been successful for many of the WESM Participants. By the end of January of this year, the ECO received Annual Reports from the designated WCOs of electric cooperatives, private distribution utilities, generation companies, supplier/aggregator, bulk user, the National Grid Corporation of the Philippines (NGCP), and the Philippine Electricity Market Corporation (PEMC) concerning their respective organization's compliance with the WESM Rules and WESM Market Manuals. Their reports highlight their compliance activities for calendar year 2012,

Investigation Reports

The ECO's investigation reports are submitted to the MSC for purposes of reviewing whether the ECO complied with the procedures provided in the Market Surveillance Compliance and Enforcement Market (MSCEM) Manual and to review the validity and completeness of the data upon which the factual findings of the ECO are based. After which, the MSC prepares its report and submits the same to the PEM Board.

As of 17 April 2013, the ECO has completed its investigation for 57 out of the 59 cases and submitted the investigation report to the MSC.

The MSC has completed its review of 41 cases and submitted its report to the PEM Board. In its reports, the MSC confirmed that the ECO has substantially complied with procedural requirements provided in the MSCEM Manual and that the credibility of the data and documents upon which the ECO based its factual findings are valid and complete.

In its meetings held on 21 March 2013 and 24 May 2013, the PEM Board approved the investigation reports submitted by the MSC in said 41 cases, and thus, these cases are considered closed.

such as, participation in WESM trainings and conferences, prompt settlement of obligations, updating of prudential requirements, development and implementation of WESM compliance protocols within their organizations, participation in the preparation for the implementation retail competition and open access, and conduct of audit activities. Proposals by the Market Participants on possible rules or manual changes were also noted. These WCO Reports were also provided to the Department of Energy (DOE) for its consideration in its policy studies.

REGULATORY UPDATES

“In the Matter of the Application for the Approval of the Level of Market Transaction Fees for Calendar Years 2010-2011 for the Philippine Wholesale Electricity Spot Market (WESM) with Prayer for Issuance Ex-Parte of Provisional Authority,” ERC Case No. 2010-079 RC

In an Order dated 04 June 2012, the Energy Regulatory Commission (ERC) approved the level of Market Fees (MF) for CY 2011 in the amount of PHP 833,864,119.09. PEMC was directed to submit a mechanism for the recovery of the Business-to-Business (B2B) Project costs from retail market participants to be refunded to the wholesale market generators/sellers.

On 01 August 2012, the Philippine Electricity Market Corporation (PEMC) manifested that the study of the recovery mechanism has been included among the tasks of the PEMC Technical Working Group (TWG) on RCOA Integration in the WESM.

In an Order dated 11 February 2013, the ERC gave PEMC four months or until 19 June 2013 to submit its proposed mechanism. PEMC was further directed to include in its proposal, the additional amount of PHP 53.723 Million (the Year 2 budget for the B2B Project) as approved in PEMC's CY 2012 MF Application.

PEMC filed its Compliance on 19 June 2013, and proposed to recover the entire B2B project cost (PHP 226.33 Million) from Suppliers, without deducting incidental costs attributed to enhancements in the wholesale market processes as a result of the integration of the wholesale and retail markets. Recovery shall be for three years beginning CY 2014 and shall be levelised, i.e. equal amounts shall be collected for each year of the recovery period. Generators will then be refunded over a period of three years. Generator flow back shall also be levelised.

“In the Matter of the Application for the Approval of the Level of Market Transaction Fees for the Calendar Year 2012 for the Philippine Wholesale Electricity Spot Market (WESM),” ERC Case No. 2011-111 RC

In a Decision dated 03 December 2012 and received by PEMC on 11 January 2013, the ERC approved the level of MF for CY 2012 in the amount of PHP 737,887,097.00. In the Decision, PEMC was further: (1) authorized to collect the said MF from WESM Participants in the Luzon and Visayas WESM; (2) directed to comply with the reportorial requirements as required under clause 2.11.1.2 of the WESM Rules; and (3) directed to continue to implement the approved MF for CY 2012 pending the resolution of its CY 2013 MF Application.

On 28 January 2013, PEMC filed a Motion for Reconsideration of the above-mentioned ERC Decision, where it prayed for: (1) the grant of the proposed budget of PHP 32.751 Million to hire 24 additional personnel in support of PEMC's operations; (2) the grant of the proposed budget of PHP 4.304 Million for Lease Improvements; and (3) approval of the remainder (80%) of the Year 1 budget for the Market Research and Development Platform (MRDP) and Forwards Markets projects in the amount of PHP 18.505 Million.

A hearing was conducted on 26 March 2013 where PEMC was directed to submit additional documents in support of its Motion for Reconsideration. PEMC filed its Compliance and Supplemental Motion on 02 April 2013. On 28 May 2013, PEMC filed a Manifestation and Omnibus Motion, where it reiterated the need for the approval of the cost items specified in PEMC's Motion for Reconsideration.

The ERC issued an Order on 03 June 2013, resolving PEMC's Motion for Reconsideration,

as follows: (1) deny the proposed PHP 32.751 Million to cover the cost of hiring additional personnel; (2) grant PHP 4.304 Million for Lease Improvement subject to the conduct of a bidding and submission of the contract with the winning bidder, within 30 days from its execution; and (3) direct PEMC to include in its application for the approval of its 2014 budget the remaining 80% budget for the MRDP and Forwards Market projects.

“In the Matter of the Application for the Approval of the Level of Market Transaction Fees for the Calendar Year 2013 for the Philippine Wholesale Electricity Spot Market (WESM),” ERC Case No. 2012-084 RC

In this Application, PEMC sought the approval of the level of MF for CY 2013 for the Philippine WESM in the total amount of PHP 798,880,000.00.

Public hearings were conducted on 16 and 23 August 2012 in Pasig City and Cebu, respectively. Thereafter, PEMC filed its Formal Offer of Evidence on 01 October 2012 and a Manifestation dated 05 October 2012 that it is submitting the Application for resolution on the basis of the pleadings and other documents on file with the ERC.

“In the Matter of the Application for the Approval of the Level of Market Transaction Fees for the Repayment of the Market Management System (MMS) Loan for the Philippine Wholesale Electricity Spot Market (WESM),” ERC Case No. 2012-097 RC

In this Application, PEMC sought authority to enter into a Facility Agreement to re-finance the MMS Loan in the amount of PHP 863,341,185.60. This is in compliance with the General Policies set in the 30 January 2008 Decision of the ERC in PEMC's Application for the approval of the level of MF for CY 2007. This Application was also filed pursuant to the ERC Order in PEMC's CY 2009-2011 MF Application, which provided that “[t]he additional budget by PEMC for the MMS Loan Repayments... must be made in a separate and independent application.”

After hearings were conducted, PEMC filed its Formal Offer of Evidence with Motion for Marking of Documents on 23 October 2012.

“In the Matter of the Application for the Approval of Additional Market Fees for the New Market Management System (NMMS) for the Wholesale Electricity Sport Market (WESM),” ERC Case No. 2011-127 RC

In this Application, PEMC sought the approval of additional Market Transaction Fees (AMF) in the amount of PHP 841.05 Million, to be imposed on all transactions in the Philippine WESM for the purpose of covering the full cost of the NMMS that is urgently needed by the WESM. The AMF is intended to be imposed on top of the prevailing market fee rate at the time of the ERC's approval.

After the conduct of public hearings and PEMC's submission of its Formal Offer of Evidence, the case is now submitted for resolution.



“In the Matter of the Application for the Approval of the Pricing and Cost Recovery Mechanism (PCRM) for Reserves in the Philippine Wholesale Electricity Spot Market (WESM),” ERC Case No. 2007-004 RC

In an Order dated 28 May 2012 and received by PEMC on 21 June 2012, the ERC reiterated its 17 October 2011 Order relative to the need for PEMC, in coordination with the National Grid Corporation of the Philippines (NGCP), to comply with its directive to introduce operational enhancements to the reserve market and for PEMC to submit relevant information and/or best practices of other markets for the purpose of establishing appropriate mitigating measures in the energy and reserve markets. In particular, PEMC was directed to submit within six months from receipt of the 28 May 2012 Order, or the completion of the Market Dispatch Optimization Model (MDOM) Project, whichever comes earlier, the following:

- 1. Implementation of ex-ante partial effectiveness factors to allow broader competition in Reserve Market categories;
- 2. Realignment of the specification of reserve prices to create a fast contingency service;
- 3. Setting up new lower reserve service;
- 4. Introduction of Interruptible Load Dropping (ILD) as a fully functioning reserve service;
- 5. Setting up an interim arrangement for ILD;
- 6. Setting up appropriate changes for the Philippine Grid Code (PGC); and
- 7. Submission of plans for future enhancements and development of interim plans.

The NGCP and PEMC Coordinating Committee has been tasked to, among others, formulate the various mechanisms with which to comply with the ERC Order, and draft the appropriate manuals for submission to the ERC.

On 26 February 2013, PEMC filed its Compliance with Omnibus Motion, which provided for a two-stage approach for the implementation of its Ex-Ante Reserve Effectiveness Factor (REF) proposal and work plan.

In general, Stage 1 implementation will involve the following major aspects:

- 1. Operation of the Reserves Market based on the current design;
- 2. Joint ramping of energy and reserves;
- 3. Integration of the REF in the settlement process;
- 4. Modification of the MDOM to ensure a single reserve schedule for a generating unit submitting offers for multiple reserve categories;
- 5. Accounting for contracted reserve capacities for reserve types;
- 6. Operation of Visayas reserve market as a single reserve zone;
- 7. Revisions in Pricing Error Notices / Market Re-run / Price Substitution Mechanism (PEN/ MRR/PSM) Table;
- 8. Registration of reserve facilities on a per generating unit basis;
- 9. Training of Reserves Market Trading Participants; and
- 10. Reserve Market Dry-run

In general, Stage 2 implementation (Completion Stage) will involve the following:

- 1. REF incorporated in the pricing and scheduling process;
- 2. Re-alignment of specification of reserve services to include fast and slow contingency, introduction of new lower reserve service and ILD as a fully functioning reserve service;
- 3. Changes in the PGC and Ancillary Services Procurement Plan (ASPP);
- 4. Implementation of automatic market power mitigation measure;
- 5. Changes in the Price Determination Methodology (PDM);
- 6. Incorporation of the revised design in the New Market Management System (NMMS); and
- 7. Inclusion of reserve provider capacity cap.

“In Re: Petition for Dispute Resolution, Manila Electric Company (MERALCO) vs. Philippine Electricity Market Corporation (PEMC), National Transmission Corporation (TransCo), National Power Corporation (NPC), and Power Sector Assets and Liabilities Management Corporation (PSALM),” ERC Case No. 2008-083 MC

In an Order dated 21 June 2012, the ERC directed MERALCO to submit its computation of the amount of the double charging of line losses on a per month basis from 26 June 2006 up to present, with supporting invoices. In a Manifestation with Motion to Admit Attached Compliance dated 04 July 2012, MERALCO complied with said directive and submitted its computation of the double charging of line losses using the 2.98% loss factor, which amounts to PHP 9.088 Billion.

PSALM and NPC filed their respective Comments to MERALCO’s Compliance and MERALCO filed its Reply to said Comments. Hearings were conducted on 02 and 16 October and on 13 November 2012.

During the hearing held on 13 November 2012, MERALCO, PEMC, PSALM, and TransCo were directed to file their respective memoranda within 15 days. PEMC filed its Memorandum on 10 December 2012.

In an Order dated 04 March 2013 and received by PEMC on 15 April 2013, the ERC resolved MERALCO’s Motion to Implement its Decision dated 10 March 2010 as follows:

- 1. The methodology proposed by MERALCO and PEMC in computing the double charged amount of line losses by deducting 2.98% from the NPC Time-of-Use (TOU) amount covering the period November 2006 to August 2012 is APPROVED.
- 2. The computed double charged amount to be recovered by MERALCO from NPC is PHP 5,176,147,098.73, and such additional payments received by NPC from MERALCO for the period subsequent to August 2012 until actual cessation of the collection of the 2.98% line loss charged in the NPC-TOU rates imposed on MERALCO.
- 3. NPC is directed to refund to MERALCO the over-recovered line losses by remitting to MERALCO per month the equivalent amount of PHP 73,944,958.55 until the over-recoveries are fully refunded.
- 4. MERALCO is directed to refund to its consumers the amount it received from NPC until such time that the said over-recoveries are fully refunded by way of automatic deduction of the amount of refund from the computed monthly Generation Rate.

- 5. NPC is directed, if applicable, to provide a discount to MERALCO equivalent to 2.98% line loss embedded in the NPC-TOU rates prospectively.
- 6. MERALCO is directed to settle the line loss cost of the Line Rental Trading Amounts (LRTA) with PEMC prospectively.
- 7. PEMC’s “WESM Manual on the Segregation of Line Rental Trading Amounts” is acceptable since the components of the LRTA may be identified. PEMC is directed to conduct an information dissemination pertaining to the said Manual to all the WESM registered participants, particularly the Visayas participants.
- 8. MERALCO is directed to file a petition against Masinloc Power Partners Co. Ltd. (MPPCL), AP Renewables Inc. (APRI), Therma Luzon, Inc. (TLI), San Miguel Energy Corporation (SMEC), and SEM-Calaca Power Corporation (SCPC) within 30 days from its receipt of the foregoing Order, to recover the line loss collected by them. Otherwise, it shall be the one liable to refund the said amount to its consumers.

PSALM and NPC filed their respective Motions for Reconsideration of the 04 March 2013 Order. MERALCO filed a Motion for Clarification with regard to the ERC’s directive to file a petition against Successor Generating Companies (SGCs). MERALCO and PEMC respectively filed a Comment and Opposition to the Motions for Reconsideration filed by NPC and PSALM.

“In the Matter of the Application for the Approval of the Level of Market Transaction Fees for the Establishment of an Interim Mindanao Energy Market for the Philippine Wholesale Electricity Spot Market (WESM),” ERC Case No. 2013-011 RC

On 21 January 2013, PEMC filed an Application for the approval of the proposed budget of PHP 34.26 Million for the Interim Mindanao Electricity Market (IMEM) to be recovered from the WESM MTF. In this Application, PEMC further prayed for: (1) the authority to allocate the PHP 34.26 Million to the IMEM from unutilized MFs in CY 2012 subject to reimbursement of Luzon and Visayas WESM Participants upon approval by the ERC of the appropriate cost recovery mechanism; and (2) the issuance of provisional authority to allocate said amount during the pendency of the proceedings. Public hearings were held on 20 and 27 February and 06 March 2013 in Cebu, Davao, and Pasig City, respectively.

On 01 April 2013, the ERC issued a Decision approving the level of MF for the establishment of the IMEM in the amount of PHP 34.252 Million, broken down as follows:

Particulars	Approved Budget (PHP Million)
Pre-Operating Expenses	5.98
Technical Assistance	19.992
CAPEX	8.28
TOTAL	34.252



“In the Matter of the Application for the Approval of the Pricing and Cost Recovery Methodology with Prayer for the Issuance of Provisional Authority for the Interim Mindanao Electricity Market (IMEM),” ERC Case No. 2013-116 RC

On 31 May 2013, PEMC filed an Application for the approval of the IMEM Price Determination Methodology (PDM). The PDM sets forth the formula and processes for the determination of prices and settlement amounts in accordance with the IMEM Implementing Rules promulgated by the DOE through DOE DC No. 2013-05-0008.

The general features of the IMEM PDM are as follows:

- 1. The IMEM price for energy supply (“IMEM Day-Ahead Price”) shall be determined day-ahead to provide certainty in pricing for the participants joining the market;
- 2. The IMEM Day-Ahead Price for an IMEM Trading Interval shall correspond to the highest Offer Price fully or partially scheduled for that IMEM Trading Interval;
- 3. While the IMEM Day-Ahead Price is market driven, offers in the market will be subject to an offer cap to be agreed upon by the DOE and the ERC;
- 4. Changes in dispatch from the Day-Ahead IMEM Schedule shall entail a small premium for IMEM Resources;
- 5. Trading participants who deviate from the schedule or dispatch instructions of the Mindanao System Operator shall incur penalties; and
- 6. Trading participants are compensated for their actual delivery, subject however to premiums and penalties.

On 19 June 2013, PEMC received the 10 June 2013 Order of the ERC, setting the case for hearing on 09 July 2013 at the ERC Mindanao Field Office, Davao City.





# PEM BOARD

The Interim Board of the Philippine Electricity Market Board of Directors (PEM Board) is a 15-man body with a composition designed to ensure that the different sectors of the electric power industry, the generation, distribution, supply, and transmission are well-represented in the Board. There are four seats allotted to independent members to balance the number of directors representing the Philippine power industry.

The PEM Board regularly conducts meetings and convenes for special meetings when the need arises. As of June 2013, the PEM Board had 12 board meetings and passed 64 board resolutions.

## PEMC Advisory Board

The PEMC Advisory Board sits as resource persons in the PEMC Board Meetings with no voting rights. The current Advisory Board is composed of the Administrator of the National Electrification Administration (NEA), the President of the National Transmission Corporation of the Philippines (TransCo), and Director of Electric Power Industry Management Bureau of the Department of Energy (DOE).



From left to right:

**LUIS MIGUEL ABOITIZ**  
Senior Vice President for Power Marketing and Sales, SN Aboitiz Power  
Member, Generation

**JOSEPH FERDINAND M. DECHAVEZ**  
Sr. Adviser to the President, National Grid Corporation of the Philippines (NGCP)  
Member, System Operations

**NIXON G. HAO**  
Vice President for Energy Management, Manila Electric Company (MERALCO)  
Member, Distribution Utility

**JESUS L. ARRANZA**  
Chairman, Federation of Philippine Industries (FPI)  
Member, Independent

**EMMANUEL R. LEDESMA, JR.**  
President, Power Sector Assets Liabilities Management Corporation (PSALM)  
Member, Generation

**DEON JAMES**  
Chief Executive Officer, Dagupan Electric Corporation (DECORP)  
Member, Distribution Utility

From left to right:

**HON. CARLOS JERICO L. PETILLA**  
Secretary, Department of Energy (DOE)  
Chairman

**FROILAN A. TAMPINCO**  
President, National Power Corporation (NPC)  
Member, Generation

**MYLENE C. CAPONGCOL**  
Director, Electric Power Industry Management Bureau, DOE  
PEMC Advisory Board

**MELINDA L. OCAMPO**  
President, Philippine Electricity Market Corporation (PEMC)  
Member, Market Operations

**GERARDO P. VERZOSA**  
General Manager, Benguet Electric Cooperative, Inc. (BENECO)  
Member Distribution Utility

**PETER G. NEPOMUCENO**  
President, Angeles Power, Inc.  
Member, Supply

**ROLANDO T. BACANI**  
President, National Transmission Corporation (TransCo)  
PEMC Advisory Board

**VICTOR EMANUEL B. SANTOS**  
Senior Vice President for Legal, Regulatory, and Power Marketing, First Gen Corporation  
Member, Generation

**EDITA S. BUENO**  
Administrator, National Electrification Administration (NEA)  
PEMC Advisory Board

**Not in photo:**  
**RENATO A. BALINTEC** General Manager, Ilocos Norte Electric Cooperative, Inc. (INEC)  
Member, Distribution Utility

**ANTONIO AGBAYANI VER** President, H&BW Corporation  
Member, Independent







## Office of the Corporate Secretary's function vis-à-vis the PEM Board

The Office of the Corporate Secretary (OCS) organizes and manages the PEM Board Meetings and other related PEM Board activities. The OCS likewise provides information to the Board to ensure that all of the Board's decisions and actions are in compliance with statutory and regulatory requirements, as well as the Philippine Electricity Market Corporation's (PEMC) By-laws.

The OCS serves as repository of information concerning the initiatives, policies, decisions, and activities of the PEM Board.



From left to right:

MARY GRACE L. BENTOR-CIRUELOS

CLAUDETTE G. UBALDO-DEMA  
*Corporate Secretary*

SHERWIN T. CASIDSID

## WESM GOVERNANCE COMMITTEES

### Market Surveillance Committee

The Market Surveillance Committee (MSC) primarily monitors and assesses trading activities in the 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 MSC is composed of four out of the prescribed five independent members:



From left to right:

ATTY. BERNARDA C. LAVISOIRES

ENGR. FRANCIS V. MAPILE  
*Chair*

MS. EULINIA M. VALDEZCO

DR. PETER LEE U

### Dispute Resolution Administrator

The Dispute Resolution Administrator (DRA) is tasked to facilitate the resolution of disputes between or among the parties in accordance with the WESM dispute resolution process. The WESM alternative dispute resolution is a process which follows the stages of negotiation, mediation, and arbitration.

Atty. Jesusito G. Morillos serves as the DRA under the new dispute resolution framework. He is a Managing Partner at the Follosco Morillos and Herce Law Offices.



ATTY. JESUSITO G. MORILLOS



## Rules Change Committee

The Rules Change Committee (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 are aimed at enhancing market design, as well as refining market processes and operations appropriate for the current environment.

The RCC, which mirrors the sectoral representation of the Philippine Electricity Market Board of Directors (PEM Board), is currently composed of the following: four members representing the Generator Sector; four members representing the Distribution Sector; one member representing the System Operator (SO); one member representing the Market Operator (MO); one member from the Supply Sector; and four independent members. The members of the RCC during the covered period are shown below:



From left to right:

DR. EPICTETUS E. PATALINGHUG  
MS. CYNTHIA R. ENCARNACION

MR. FRANCISCO L.R. CASTRO, JR.  
DR. ROWENA L. GUEVARA  
*Chairperson*

ATTY. MAILA G. DE CASTRO

ATTY. LIBERTY Z. DURLAO



From left to right:

ENGR. JOSE P. SANTOS

ENGR. CONRADO D. PECJO

ENGR. AUGUSTO D. SARMIENTO

ENGR. RAUL JOSEPH G. SELUDO

ENGR. CIPRINILO C. MENESES

ENGR. ROBINSON P. DESCANZO

MR. SULPICIO C. LAGARDE, JR.

Not in photo:  
ENGR. RALPH T. CRISOLOGO  
MS. CHERRY AQUINO-JAVIER



## Technical Committee

The Technical Committee (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.

The TC is currently composed of the following: two independent members and one member from the Distribution Management Committee (DMC), one member from the Grid Management Committee (GMC) and one member from the NGCP-SO. Three of the members of the TC during the covered period are shown below:



From left to right:

ENGR. JAIME V. MENDOZA

ENGR. MELEUSIPO E. FONOLLERA, SR.  
*Chairman*

ENGR. JOSEPH ALLAN C. BALTAZAR

Not in photo:  
ENGR. SANTIAGO A. DIMALIWAT IV



## PEM Audit Committee

The PEM Audit Committee (PAC), in order to reinforce the Trading Participants' confidence in the transparency and adequacy of the operation of the WESM, is tasked to conduct, coordinate and supervise the following activities:

- Annual independent audits of the operations, systems, and relevant processes and procedures of the spot market and of the Market Operator (WESM Rules 1.5.2) ; and
- Annual review of the security arrangements and requirements of metering installations (WESM Rules 4.5.5.4)

The PAC is currently composed of three independent members. The members of the PAC during the covered period are shown below:



From left to right:

ENGR. CHRISTIAN M. ORIAS

DR. FELIXBERTO U. BUSTOS, JR.  
*Chairman*

MR. EDUARDO ALEJANDRO O. SANTOS





WESM MEMBERS

(as of 25 June 2013)

DIRECT – GENERATION COMPANIES

Member	Registered Facility	Effective Date
LUZON		
1590 Energy Corporation	Bauang Diesel Power Plant	06 Sep 2010
AP Renewables, Inc.	Makban Geothermal Power Plant Tiwi Geothermal Power Plant	26 May 2009
Asia Pacific Energy Corporation	APEC Co-Generation Power Plant	26 Mar 2012
Bac-Man Geothermal, Inc.	Bacman Geothermal Power Plant	26 May 2011
CIP II Power Corporation	CIP II Bunker C Fired Diesel Power Plant	17 Jan 2013
FGP Corporation	San Lorenzo Natural Gas Power Plant	26 Jun 2006
First Gas Power Corporation	Sta. Rita Natural Gas Power Plant	26 Jun 2006
First Gen Hydro Power Corporation	Pantabangan Hydro Electric Power Plant Masiway Hydro Electric Power Plant	18 Nov 2006
GNPower Mariveles Coal Plant Ltd. Co.	Mariveles Coal-Fired Power Plant Unit 1 Mariveles Coal-Fired Power Plant Unit 2	07 Aug 2012 06 Dec 2012
Green Future Innovations, Inc.	Isabela Bioethanol and Cogeneration Plant	26 Jul 2012
HEDCOR, Inc.	Irisan 3 Hydro Electric Power Plant Sal-angan Hydro Electric Power Plant	26 Aug 2010 13 Sep 2010
Masinloc Power Partners Co. Ltd.	Masinloc Coal Fired Thermal Power Plant	17 Apr 2008
National Irrigation Administration	NIA-Baligatan Hydro Electric Power Plant	26 Oct 2008
National Power Corporation	Angat Hydro Electric Power Plant	26 Jun 2006
Northwind Power Development Corporation	NWPDC Wind Power Plant	26 Nov 2006
PANASIA Energy Holdings, Inc.	Limay Combined Cycle-Gas Turbine Power Plant	19 Jan 2010
People's Energy Services, Inc.	Barit Hydro Electric Power Plant	26 Feb 2011
Petron Corporation	Circulating Fluidized Bed Power Plant	13 Mar 2013
Power Sector Assets & Liabilities Management Corporation	Casecnan Hydro Electric Power Plant Hedcor Hydro Electric Power Plant Malaya Oil Thermal Power Plant Caliraya Hydro Electric Power Plant Botocan Hydro Electric Power Plant Kalayaan Hydro Electric Power Plant	26 Jun 2006
Quezon Power (Philippines), Limited Co.	QPPL Coal-Fired Power Plant	26 Jun 2006
San Miguel Energy Corporation	Sual Coal-Fired Thermal Power Plant	06 Nov 2009
SEM-Calaca Power Corporation	Batangas Coal Fired Thermal Power Plant	04 Dec 2009

Member	Registered Facility	Effective Date
LUZON		
SN Aboitiz Power-Benguet, Inc.	Binga Hydro Electric Power Plant Ambuklao Hydro Electric Power Plant	11 Jul 2008 01 Jun 2011
SN Aboitiz Power-Magat, Inc.	Magat Hydro Electric Power Plant	26 Apr 2007
South Premier Power Corporation	Ilijan Natural Gas Power Plant	26 Jun 2010
Strategic Power Development Corporation	San Roque Hydro Electric Power Plant	26 Jan 2010
Therma Luzon, Inc.	Pagbilao Coal-Fired Power Plant	01 Oct 2009
Therma Mobile, Inc.	Navotas Bunker C-Fired Diesel Power Plant – Barge 1 "Mobile 3"	12 Apr 2013
	Navotas Bunker C-Fired Diesel Power Plant – Barge 2 "Mobile 4"	12 Apr 2013
	Navotas Bunker C-Fired Diesel Power Plant – Barge 3 "Mobile 5"	12 Apr 2013
	Navotas Bunker C-Fired Diesel Power Plant – Barge 4 "Mobile 6"	20 May 2013
Trans-Asia Power Generation Corporation	TAPGC Diesel Power Plant	05 Jan 2007
Udenna Management & Resources Corporation	Subic Diesel Power Plant	17 Feb 2011
Vivant Sta. Clara Northern Renewables Generation Corporation	Bakun Hydro Electric Power Plant	23 Feb 2010

Member	Registered Facility	Effective Date
VISAYAS		
Bohol I Electric Cooperative, Inc.–JanopolMini Hydro Power Coporation	Janopol Hydro Electric Power Plant	26 Dec 2010
Cebu Energy Development Corporation	CEDC Coal-Fired Thermal Power Plant	26 Dec 2010
Central Azucarera de San Antonio	CASA Biomass Co-Generation Power Plant	26 Feb 2011
East Asia Utilities Corporation	EAUC Diesel Power Plant	26 Dec 2011
Energy Development Corporation	Northern Negros Geothermal Power Plant	26 Mar 2011
First Farmers Holding Corporation	FFHC Biomass Co-Generation Power Plant	26 Dec 2010
Green Core Geothermal, Inc.	Tongonan Geothermal Power Plant Palinpinon Geothermal Power Plant I Palinpinon Geothermal Power Plant II	26 Dec 2010
ICS Renewables Inc.	Amlan Hydro Electric Power Plant	26 Mar 2011
KEPCO SPC Power Corporation	KSPC Coal Fired Thermal Power Plant Unit 1 KSPC Coal Fired Thermal Power Plant Unit 2	28 Feb 2011 31 May 2011
National Power Corporation	Power Barge 101 Power Barge 102 Power Barge 103	26 Dec 2010
Panay Energy Development Corporation	PEDC Coal-Fired Thermal Power Plant	19 Mar 2011
Panay Power Corporation	PPC Nabas Diesel Power Plant	26 Dec 2010
Power Sector Assets & Liabilities Management Corporation	Leyte A (HVDC) Cebu Diesel Power Plant 1 Cebu Diesel Power Plant 2 Cebu Coal Fired Thermal Power Plant 1 Cebu Coal Fired Thermal Power Plant 2	26 Dec 2010
San Carlos Bioenergy, Inc.	SCBI Biodiesel Power Plant	26 Feb 2012

Member	Registered Facility	Effective Date
VISAYAS		
SPC Island Power Corporation	Bohol Diesel Power Plant Panay Diesel Power Plant I Panay Diesel Power Plant III	26 Dec 2010
Sta. Clara Power Corporation	Loboc Hydro Electric Power Plant	26 Dec 2010
Toledo Power Corporation	TPC Diesel Power Plant TPC Coal Fired Thermal Power Plant	26 Dec 2010
Trans-Asia Oil Development Corporation	Guimaras Diesel Power Plant	26 Feb 2011

DIRECT – PRIVATE DISTRIBUTION UTILITIES

Member	Effective Date	Member	Effective Date
LUZON		VISAYAS	
Cabanatuan Electric Corporation	26 Jan 2010	Bohol Light Company, Inc.	26 Dec 2010
Clark Electric Distribution Corporation	16 May 2013	Mactan Electric Company	26 Dec 2010
Dagupan Electric Corporation	26 Nov 2009	Visayan Electric Company	26 Dec 2010
Manila Electric Company	26 Jun 2006		



DIRECT – ELECTRIC COOPERATIVES

Member	Effective Date	Member	Effective Date
LUZON		VISAYAS	
Albay Electric Cooperative, Inc.	26 Aug 2007	Aklan Electric Cooperative, Inc.	26 Dec 2010
Batangas I Electric Cooperative, Inc.	26 Dec 2009	Antique Electric Cooperative, Inc.	26 Dec 2010
Batangas II Electric Cooperative, Inc.	05 Mar 2010	Biliran Electric Cooperative, Inc.	26 Dec 2010
Benguet Electric Cooperative, Inc.	26 Apr 2008	Bohol I Electric Cooperative, Inc.	26 Dec 2010
Cagayan I Electric Cooperative, Inc.	26 Dec 2011	Bohol II Electric Cooperative, Inc.	26 Dec 2010
Cagayan II Electric Cooperative, Inc.	26 Dec 2011	Capiz Electric Cooperative, Inc.	26 Dec 2010
Camarines Norte Electric Cooperative, Inc.	26 May 2010	Cebu I Electric Cooperative, Inc.	26 Dec 2010
Camarines Sur I Electric Cooperative, Inc.	26 Nov 2011	Cebu II Electric Cooperative, Inc.	26 Dec 2010
Camarines Sur II Electric Cooperative, Inc.	06 Dec 2006	Cebu III Electric Cooperative, Inc.	26 Dec 2010
Camarines Sur IV Electric Cooperative, Inc.	25 Jun 2010	Central Negros Electric Cooperative, Inc.	26 Dec 2010
First Laguna Electric Cooperative, Inc.	26 Dec 2010	Don Orestes Romualdez Cooperative, Inc.	26 Dec 2010
Ilocos Norte Electric Cooperative, Inc.	26 Nov 2006	Guimaras Electric Cooperative, Inc.	26 Dec 2010
Ilocos Sur Electric Cooperative, Inc.	26 Oct 2010	Iloilo I Electric Cooperative, Inc.	26 Apr 2011
Isabela I Electric Cooperative, Inc.	26 Jul 2009	Iloilo II Electric Cooperative, Inc.	26 Dec 2010
Kalinga-Apayao Electric Cooperative, Inc.	26 Mar 2009	Iloilo III Electric Cooperative, Inc.	26 Dec 2010
Mountain Province Electric Cooperative, Inc.	26 Dec 2009	Leyte II Electric Cooperative, Inc.	26 Dec 2010
Nueva Ecija II Area 1 Electric Cooperative, Inc.	26 Aug 2009	Leyte III Electric Cooperative, Inc.	21 Sep 2012
Nueva Ecija II Electric Cooperative, Inc. – Area 2	26 Jul 2010	Leyte IV Electric Cooperative, Inc.	26 Dec 2010
Pangasinan III Electric Cooperative, Inc.	26 Nov 2011	Leyte V Electric Cooperative, Inc.	26 Dec 2010
Peninsula Electric Cooperative, Inc.	26 Nov 2009	Negros Occidental Electric Cooperative, Inc.	26 Dec 2010

Member	Effective Date	Member	Effective Date
LUZON		VISAYAS	
Quezon I Electric Cooperative, Inc.	26 Nov 2011	Negros Oriental I Electric Cooperative, Inc.	26 Dec 2010
Quezon II Electric Cooperative, Inc.	26 Nov 2011	Negros Oriental II Electric Cooperative, Inc.	26 Dec 2010
Sorsogon I Electric Cooperative, Inc.	26 Jun 2008	Samar II Electric Cooperative, Inc.	26 Dec 2010
Sorsogon II Electric Cooperative, Inc.	26 Nov 2010	Southern Leyte Electric Cooperative, Inc.	26 Mar 2012
Tarlac I Electric Cooperative, Inc.	26 May 2008	V-M-C Rural Electric Cooperative, Inc.	26 Dec 2010
Tarlac II Electric Cooperative, Inc.	26 Jul 2009		

DIRECT – BULK USERS

Member	Effective Date	Member	Effective Date
LUZON		VISAYAS	
First Gen Hydro Power Corporation (Pantabangan Housing)	26 Feb 2011	Alturas Group of Companies, Inc.	26 Jan 2012
Linde Philippines Inc.	26 Dec 2011	Balamban Enerzone Corporation	26 Dec 2010
Pilipinas Shell Petroleum Corporation	26 Oct 2010	Mactan Enerzone Corporation	26 Dec 2010
Subic Enerzone Corporation	26 Dec 2011	Marcela Farms, Inc.	26 Jan 2012
Team Energy Corporation (Pagbilao Reserve Auxiliary Transformer)	26 Sep 2010	Philippine Associated Smelting and Refining Corporation	10 May 2013
United Pulp and Paper Company, Inc.	26 Nov 2011	Philippine Phosphate Fertilizer Corporation	26 Dec 2011
		Waterfront Mactan Casino Hotel, Inc.	14 Mar 2013

DIRECT – WHOLESALE AGGREGATORS

Member	Effective Date	Member	Effective Date
Aboitiz Energy Solution, Inc.	04 Jun 2007	Manta Energy, Inc.	15 Nov 2010
AES Philippines Inc.	13 Apr 2008	Team (Philippines) Energy Corporation	02 Jan 2008
Angeles Power Inc.	08 Apr 2008	Trans-Asia Oil and Development Corporation	20 Sep 2007
First Gen Energy Solutions	26 Jan 2010		

INDIRECT WESM MEMBERS – PRIVATE DISTRIBUTION UTILITIES

Member	Effective Date
LUZON	
Angeles Electric Corporation	05 Sep 2006
Ibaan Electric and Engineering Corporation	07 Nov 2011
La Union Electric Company, Inc.	25 Sep 2009
San Fernando Electric Light & Power Company, Inc.	26 Oct 2010
Tarlac Electric, Inc.	20 Sep 2010

INDIRECT WESM MEMBERS – ELECTRIC COOPERATIVES

Member	Effective Date	Member	Effective Date
LUZON		VISAYAS	
Abra Electric Cooperative, Inc.	31 Oct 2006	Eastern Samar Electric Cooperative, Inc.	26 Dec 2010
Aurora Electric Cooperative, Inc.	26 Aug 2010	Northern Samar Electric Cooperative, Inc.	26 Dec 2010
Camarines Sur III Electric Cooperative, Inc.	26 Sep 2012	Samar I Electric Cooperative, Inc.	26 Dec 2010
Central Pangasinan Electric Cooperative	22 Sep 2006		
Ifugao Electric Cooperative, Inc.	26 Nov 2010		
Isabela I Electric Cooperative, Inc.	26 Sep 2012		
Isabela II Electric Cooperative, Inc.	26 May 2012		
Nueva Ecija I Electric Cooperative, Inc.	04 Aug 2011		
Nueva Viscaya Electric Cooperative, Inc.	14 Oct 2011		
Pampanga I Electric Cooperative, Inc.	20 Sep 2010		
Pampanga Rural Electric Service Cooperative	26 Aug 2010		
Pangasinan I Electric Cooperative	04 Oct 2006		
Quirino Electric Cooperative, Inc.	26 Nov 2010		
San Jose City Electric Cooperative, Inc.	15 Oct 2010		
Zambales I Electric Cooperative, Inc.	26 Jul 2010		
Zambales II Electric Cooperative, Inc.	26 Nov 2010		







INDIRECT WESM MEMBERS – BULK USERS

Member	Effective Date	Member	Effective Date
LUZON		VISAYAS	
Albay Agro-Industrial Development Corporation	08 Nov 2010	Carmen Copper Corporation	26 Dec 2010
Atlantic Gulf and Pacific Co.	26 Oct 2010	Bohol Enterprises, Inc.	26 Dec 2010
The Authority of the Freeport Area of Bataan	08 Nov 2010	Dumaguete Coconut Mills	26 Dec 2010
Babcock-Hitachi Philippines, Inc.	15 Oct 2010	Dynasty Management & Development Corporation	26 Dec 2010
Batangas Bay Terminal, Inc.	14 Feb 2011	Lide Management Corporation	26 Dec 2010
Bicol Ice Incorporated	26 Oct 2010	Orica Nitrates Philippines, Inc.	26 Dec 2010
Cenon Cordero & Sons Enterprises Inc.	04 Aug 2011	Philippine Economic Zone Authority – Mactan Economic Zone 1	26 Dec 2010
Central Luzon State University	14 Oct 2011	Philippine Foremost Milling Corporation	26 Dec 2010
Coastal Bay Chemicals, Inc.	15 Oct 2010	Philippine Mining Service Corporation – Alcoy Plant	26 Dec 2010
Cocochem Agro-Industrial Park, Inc.	26 Jul 2012	Philippine Mining Service Corporation – Bohol Plant	26 Dec 2010
Conserbest Ice Manufacturing, Inc.	26 Sep 2012	San Miguel Corporation	26 Dec 2010
Consort Land, Inc.	09 Aug 2011	SC Global Coco Products	26 Dec 2010
Currimao Aluminum Corporation	08 Nov 2010	Specialty Pulp Manufacturing, Inc.	26 Dec 2010
Ecosystem Research and Development Bureau	04 Aug 2011	Taiheiyo Cement Philippines, Inc.	26 Dec 2010
ECSCO, Inc.	15 Nov 2010	Visayan Oil Mills, Inc.	26 Dec 2010
Edong Cold Storage and Ice Plant	15 Nov 2010		
EEL Corporation	21 Mar 2011		
Embarcadero Land Ventures, Inc.	26 Nov 2011		
Formosa Ceramic Tiles MFG. Corporation	15 Nov 2010		
Gapan Ice Plant / Oscar Tinio	18 Jul 2011		
Goodfound Cement Corporation	15 Nov 2010		
High Street (SPV-AMC), Inc.	26 Sep 2010		
Holcim Philippines, Inc.	12 Mar 2007		
INGASCO, Inc.	15 Oct 2010		
International Rice Research Institute	26 Sep 2010		

Member	Effective Date	Member	Effective Date
LUZON		VISAYAS	
Itogon-Suyoc Resources, Inc.	26 Mar 2012		
JORAM, Inc.	26 Nov 2010		
Keppel Philippines Marine, Inc.	20 Jul 2011		
Lepanto Consolidated Mining Company	11 Nov 2011		
Lima Utilities Corporation	05 Aug 2011		
Melters Steel Corporation	26 Oct 2010		
National Power Corporation	26 May 2012		
Northern Cement Corporation	17 Aug 2012		
Oliver Enterprises	15 Mar 2011		
Orica Philippines, Inc.	26 Jun 2012		
Pacific Mall Corporation	09 Aug 2011		
Partido Rice Mill Corporation	20 Sep 2010		
Petron Corporation	26 Oct 2010		
Philippine Economic Zone Authority - Baguio City Economic Processing Zone	11 Nov 2011		
Philippine Hydro (PH), Inc.	26 Oct 2010		
Philippine Polypropylene, Inc.	05 Aug 2011		
Purity Ice Plant & Cold Storage	15 Oct 2010		
Puyat Steel Corporation	07 Mar 2011		
Republic Cement Corporation	11 Apr 2011		
San Miguel Mills, Inc.	11 Jun 2013		
San Miguel Yamamura Packaging Corporation	11 Nov 2011		
SKK Steel Corporation	15 Oct 2010		
Steel Corporation of the Philippines	13 Mar 2013		
Stronghold Steel Corporation	15 Feb 2011		

The National Grid Corporation of the Philippines (NGCP) is a registered WESM Member, particularly as System Operator, Metering Services Provider, and Network Services Provider. Its registration as such is pursuant to the WESM Rules which requires such registration.

RETAIL REGISTRATION

RETAIL ELECTRICITY SUPPLIERS

Organization Name	Short Name	Effective Date
Aboitiz Energy Solutions, Inc.	AESIRES	15 Mar 13
AdventEnergy, Inc.	ADVENTRES	15 Mar 13
DirectPower Services, Inc.	DIRPOWRES	08 Jun 13
Ecozone Power Management, Inc.	EPMIRES	17 Jun 13
First Gen Energy Solutions, Inc.	FGESRES	08 Jun 13
Global Energy Supply Corporation	GESCRES	17 Jun 13
GNPower Mariveles Coal Plant Ltd. Co.	GNPRES	08 Jun 13
Kratos RES, Inc.	KRATOSRES	27 Feb 13
Masinloc Power Partners Company Limited	MPPCLRES	27 Feb 13
Premiere Energy Resources Corporation	PERCRES	14 Feb 13
Prism Energy, Inc.	PRISMRES	15 Mar 13
San Miguel Electric Corporation	SMELCRES	08 Jun 13
SN Aboitiz Power-RES, Inc.	SNAPRES	08 Jun 13
TeaM (Philippines) Energy Corporation	TPECRES	14 Feb 13
Trans-Asia Oil & Energy Development Corporation	TAORES	19 Feb 13

LOCAL REGISTERED ELECTRICITY SUPPLIERS

Organization Name	Short Name	Effective Date
Manila Electric Company	MRLCOLRE	27 Mar 13
Subic Enerzone Corporation	SEZLRE	23 Apr 13
Visayan Electric Company, Inc.	VECOLRE	19 Jun 13



RETAIL METERING SERVICES PROVIDERS

Organization Name	Short Name	Effective Date
Aklan Electric Cooperative, Inc.	AKELCOMSP	30 May 13
Batangas II Electric Cooperative, Inc.	BTLC2MSP	08 Mar 13
Benguet Electric Cooperative, Inc.	BENECOMSP	14 Feb 13
Bohol Light Company, Inc.	BLCIMSP	17 Jun 13
Cabanatuan Electric Corporation	CELCORMSP	22 Feb 13
Camarines Sur II Electric Cooperative, Inc.	CASUR2MSP	17 Jun 13
Cebu I Electric Cooperative, Inc.	CEBEC1MSP	11 Apr 13
Cebu II Electric Cooperative, Inc.	CEBEC2MSP	03 Jun 13
Dagupan Electric Corporation	DECORPMSP	03 Jun 13
La Union Electric Cooperative, Inc.	LUELCOMSP	14 Feb 13
Manila Electric Company	MRLCOMSP	19 Jun 13
Nueva Ecija I Electric Cooperative, Inc.	NEECO1MSP	03 Jun 13
Pangasinan III Electric Cooperative, Inc.	PNLCO3MSP	15 Mar 13
San Fernando Electric Light & Power Co., Inc.	SFELAPMSP	21 Mar 13
Subic Enerzone Corporation	SEZMSP	11 Apr 13
Tarlac Electric, Inc.	TEIMSP	14 Feb 13
Tarlac II Electric Cooperative, Inc.	TRLCO2MSP	21 Mar 13
Visayan Electric Company, Inc.	VECOMSP	03 Jun 13



CONTESTABLE CUSTOMERS

Organization Name	Short Name	Effective Date
14-678 Property Holdings, Inc.	146PH1R	25 Jun 13
18-2 Property Holdings, Inc.	182PH1R	25 Jun 13
19-1 Property Holdings, Inc.	191RC1R	25 Jun 13
6-24 Property Holdings, Inc.	624PH1R	25 Jun 13
6-3 Property Holdings, Inc.	63PHI1R	25 Jun 13
ABS-CBN Corporation	ABSCB1R ABSCB2R	25 Jun 13
Acesite (Phils.) Hotel Corporation	APHC01R	25 Jun 13
ACP Test Company, Inc.	ATCI01R	25 Jun 13
Adriatico Consortium, Inc.	ACI001R	25 Jun 13
AGC Flat Glass Philippines, Inc.	AFGP01R	25 Jun 13
Air Liquide Philippines, Inc.	ALPI01R	25 Jun 13
Air Liquide Pipeline Utilities Services, Inc.	ALPI02R	25 Jun 13
Alabang Commercial Corporation	ACC001R ACC002R	25 Jun 13
ALASKA Milk Corporation	AMC001R	25 Jun 13
Ali Makati Hotel Property, Inc.	AMHP01R	25 Jun 13
ALI-CII Development Corporation	ALDC01R	25 Jun 13
Allegro MicroSystems Philippines, Inc.	AMPI01R	25 Jun 13
American Wire & Cable	AWC001R	25 Jun 13
Amkor Technology Philippines, Inc.	AAAP01R AAPI01R	25 Jun 13
Analog Devices Gen. Trias, Inc.	ADGT01R ADGT02R	25 Jun 13

Organization Name	Short Name	Effective Date
Anglo Watsons Glass, Inc.	AWGI01R	25 Jun 13
Araneta Center, Inc.	ARAI01R ARAI02R	25 Jun 13
Ascott Makati The Residence	ATMK01R	25 Jun 13
Asia Brewery Incorporated	ABI001R	25 Jun 13
Asia Paper Industrial Corporation	APIC01R	25 Jun 13
Asian Hospital and Medical Center	ASHI01R	25 Jun 13
Asian Transmission Corporation	ATCO01R	25 Jun 13
Astec Power Philippines, Inc.	APPC01R	25 Jun 13
Avon Products Manufacturing Inc.	APMI01R	25 Jun 13
Ayala Land, Inc. (6750 Office Tower)	ALI101R	25 Jun 13
Ayala Land, Inc. (Convergys One)	ALI801R	25 Jun 13
Ayala Land, Inc. (Glorietta 3)	ALI501R	25 Jun 13
Ayala Land, Inc. (Glorietta 4)	ALI701R	25 Jun 13
Ayala Land, Inc. (Glorietta 5 BPO)	ALI401R	25 Jun 13
Ayala Land, Inc. (Glorietta 5 Retail)	ALI601R	25 Jun 13
Ayala Land, Inc. (Greenbelt 3)	ALI901R	25 Jun 13
Ayala Land, Inc. (Greenbelt 5)	ALI301R	25 Jun 13
Ayala Land, Inc. (Makati Stock Exchange)	ALI201R	25 Jun 13
Ayala Land, Inc. (Vertex One Building)	ALI111R	25 Jun 13
Bank of the Philippine Islands	BPI001R BPI002R	25 Jun 13
Bataan 2020, Inc.	B2020IR	25 Jun 13

Organization Name	Short Name	Effective Date
Best Chemicals and Plastics, Inc.	BCP001R	25 Jun 13
Biñan Steel Corporation	BSCO01R	25 Jun 13
Cascades Enterprises, Inc.	CEI001R	25 Jun 13
Cayon Holdings, Inc.	CHI001R	25 Jun 13
Chinese General Hospital and Medical Center	CGH001R	25 Jun 13
Cirtek Electronics Corporation	CECO01R	25 Jun 13
COFTA Mouldings Corporation	CMI001R	25 Jun 13
Container Corporation of the Philippines	CNCP01R	25 Jun 13
Continental Steel Mfg. Corp.	CSMC01R	25 Jun 13
Continental Temic Electronics	CTE001R CTE002R	25 Jun 13
Cypress Manufacturing Ltd (PH)	CML001R	25 Jun 13
Dowell Container & Packaging Corporation	DCPC01R	25 Jun 13
Dragon Asia Rolling Mill, Inc.	DARM01R	25 Jun 13
EDSA Shangrila-La Hotel & Resort, Inc.	ESHR01R	25 Jun 13
ePLDT, Incorporated	EPLDT1R	25 Jun 13
Euro-Med Laboratories Phil. Inc.	EMLP01R	25 Jun 13
Everest Plastic Containers Industry, Inc.	EPCI01R	25 Jun 13
Evergreen Environmental Resources, Inc.	EER001R	25 Jun 13

Organization Name	Short Name	Effective Date
Fedco Paper Corporation	FPCO01R	25 Jun 13
Feedmix Specialist, Inc. II	FSI001R	25 Jun 13
First Gateway Real Estate Corp.	FGRE01R	25 Jun 13
First Sumiden Circuits, Inc.	FSCI01R	25 Jun 13
Flexible Packaging Products Corporation	FPPC01R	25 Jun 13
Fort Bonifacio Development Corp.	FBDC01R	25 Jun 13
Fresh N' Famous Corporation (Chowking)	CFCO01R	25 Jun 13
Fujitsu Ten Corporation of the Philippines	FTCP01R	25 Jun 13
Furukawa Electric Autoparts Phils. Inc.	FEAP01R	25 Jun 13
Futaba Corporation of the Philippines	FCP001R	25 Jun 13
Gardenia Bakeries (Philippines), Inc.	GRNB01R	25 Jun 13
Glades International Corporation	GINC01R	25 Jun 13
Goldilocks Bakeshop, Inc.	GBI001R	25 Jun 13
Grand Plaza Hotel Corporation	GPHC01R	25 Jun 13
Hansson Paper Phils. Corporation	HPPC01R	25 Jun 13
HGST Philippines Corp.	HGST01R	25 Jun 13
Hotel Enterprises of the Phils., Inc.	HEP001R	25 Jun 13
Hoya Glass Disk Phils., Inc. – P2	HGDP01R	25 Jun 13
Hoya Lens Manufacturing Philippines, Inc.	HLMP01R	25 Jun 13

Organization Name	Short Name	Effective Date
Indo Phil Textile Mills, Inc	IPTM01R	25 Jun 13
Integrated Micro-Electronics, Inc.	IMI101R IMI201R IMI301R	25 Jun 13
IONICS EMS, INC.	IEI001R	25 Jun 13
Isuzu Autoparts Manufacturing Corporation	IAMC01R	25 Jun 13
JAE Philippines, Inc.	JPI001R	25 Jun 13
Joya Loft and Towers Condominium Corporation	JLTC01R	25 Jun 13
JX Nippon Mining & Metals Phils. Inc.	JXNMP1R	25 Jun 13
Kraft Foods Philippines, Inc.	KRFP01R	25 Jun 13
Lagoon Development Corporation	LDEV01R	25 Jun 13
Liberty Flour Mills, Inc.	LFMI01R	25 Jun 13
Lucky Nine Properties, Inc.	LNPI01R	25 Jun 13
Lufthansa Technik Philippines	LTPI01R	25 Jun 13
Mackay Industrial Corporation	MICO01R	25 Jun 13
Magnolia Inc.	MGI001R	25 Jun 13
Makati Shangri-La Hotel & Resorts, Inc.	MKSR01R	25 Jun 13
Malabon Soap and Oil Company, Inc.	MSOIC1R	25 Jun 13
Manila Bulletin Publishing Corporation	BPC001R	25 Jun 13
Manila Cordage Company	MNCC01R	25 Jun 13
Manila Hotel Corporation	MHC001R	25 Jun 13

Organization Name	Short Name	Effective Date
Manila Mandarin Hotel	MMHI01R	25 Jun 13
Manila Peninsula Hotel, Inc.	MPHI01R	25 Jun 13
Manila Water Company, Inc.	MWCI01R MWCI02R MWCI03R MWCI04R MWCI05R	25 Jun 13
Manly Plastics, Inc.	MNPI01R	25 Jun 13
Maranaw Hotels & Resort Corporation	MHRC01R	25 Jun 13
Marina Square Properties, Inc.	MSPI01R	25 Jun 13
Maxim Philippine Operating Corporation	MPOC01R MPPC01R	25 Jun 13
Maxima Steel Mills Corporation	MXSM01R	25 Jun 13
Mayer Steel Corporation (formerly MKK Steel Corporation)	MKKSC1R	25 Jun 13
Maynilad Water Services, Inc.	MWSI01R MWSI02R MWSI03R MWSI04R MWSI05R	25 Jun 13
Medical Doctors, Inc.	MDI001R MKMED1R	25 Jun 13
Metrodragon Steel Corporation	MSC003R	25 Jun 13
Midland Steel Corporation	MSC002R	25 Jun 13
Mighty Corporation	MYC001R	25 Jun 13
Monde Nissin Corporation	MNCO01R	25 Jun 13
Multirich Foods Corporation	MFC001R	25 Jun 13
NEC Toppan Circuit Solution Philippines, Inc.	NTCS01R	25 Jun 13







CONTESTABLE CUSTOMERS

Organization Name	Short Name	Effective Date
Nestle' Philippines, Inc.	NSTP01R NSTP02R	25 Jun 13
New World International Development Philippines, Inc.	NWID01R	25 Jun 13
Nidec Copal Philippines Corp.	NCPC01R	25 Jun 13
Nidec Philippines Corporation	NDPC01R NPC002R	25 Jun 13
North Triangle Depot Commercial Corporation	NTDC01R	25 Jun 13
NorthBeacon Commercial Corporation	NBCC01R	24 Jun 13
NXP Semiconductors Cabuyao, Inc.	NSCI01R	25 Jun 13
Oakridge Properties, Inc.	OKPI01R	25 Jun 13
On Semiconductor Philippines, Inc.	OSP001R OSP002R	25 Jun 13
One Dela Rosa Property Development, Inc.	ODRPD1R	25 Jun 13
One Rockwell Condominium Corp.	ORC001R	25 Jun 13
OPTODEV, Inc.	ODEV02R	25 Jun 13
Pacific Plaza Towers Condominium Corp. (North)	PPTC01R	25 Jun 13
Pacific Plaza Towers Condominium Corp. (South)	PPTC02R	25 Jun 13
Pepsi Cola Products Philippines, Inc.	PCPP01R	25 Jun 13
Philip Morris Philippines Manufacturing, Inc.	PMPM01R	25 Jun 13
Philippine Auto Components	PACI01R	25 Jun 13
Philippine Batteries Inc.	PBI001R	25 Jun 13

Organization Name	Short Name	Effective Date
Philippine Diamond Hotel & Resort, Inc. (Diamond Hotel Philippines)	PDHR01R	25 Jun 13
Philippine Hoteliers Inc.	PHI001R	25 Jun 13
Philippine Integrated Energy Solutions, Inc.	PIES01R PIES02R	25 Jun 13
Philippine Long Distance Telephone Company	PLDT01R PLDT02R PLDT03R	25 Jun 13
Philippine Plaza Holdings, Inc.	PPHI01R	25 Jun 13
Pioneer Highlands North Condominium Corporation	PHNC01R	25 Jun 13
Pioneer Highlands South Condominium Corporation	PHCC01R	25 Jun 13
PMFTC, Inc.	PMFTC1R	25 Jun 13
Procter & Gamble Phils. Inc.	PGPI01R	25 Jun 13
PSi Technologies, Inc.	PSIT01R	25 Jun 13
R & B Ice Plant, Inc.	RBIPC1R	25 Jun 13
RCBC Realty Corporation	RRCO01R	25 Jun 13
Remec Broadband Wireless International Inc.	RBWI01R	25 Jun 13
REMS Synthetic Polymer MFG / Beneto Ng Sy	BNSY01R	25 Jun 13
RHL Properties & Development Corporation	RPDC01R	25 Jun 13

Organization Name	Short Name	Effective Date
Robinsons Land Corporation	RLC101R RLC201R RLC301R RLC401R RLC501R RLC601R	25 Jun 13
Rockwell Land Corporation	RLLC01R RMBPO1R	25 Jun 13
ROHM Electronics Philippines, Inc.	REPI01R	25 Jun 13
Saffron Philippines, Inc.	SFPI01R	25 Jun 13
Sagara Metro Plastics Industrial Corporation	SMPI01R	25 Jun 13
Samsung Electronic-Mechanics Phils. Corporation	SEMP01R SEMP02R	25 Jun 13
San Miguel Brewery, Inc.	SMC401R	24 Jun 13
San Miguel Corporation	SMC101R SMC201R SMC301R	25 Jun 13
San Miguel Properties Philippines, Inc.	SMPP01R	25 Jun 13
Serendra, Inc.	SRND01R	25 Jun 13
Shindengen Philippines Corporation	SPC001R	25 Jun 13
ShinEtsu Magnetic Philippines, Inc.	SETM01R SETM02R	25 Jun 13
Smart Communications, Inc.	SMCI01R SMCI03R	25 Jun 13
Solid Cement Corporation	SCCO01R	25 Jun 13
Solid Development Corporation	TESDC1R	25 Jun 13
Somico Steel Mill Corporation	SSMC01R	25 Jun 13

Organization Name	Short Name	Effective Date
Sonic Steel Industries Incorporated	SSII01R	25 Jun 13
SPI Corporation	SPIC01R	25 Jun 13
Station Square East Commercial Corporation	SSEC01R	25 Jun 13
STMicroelectronics, Inc.	STM001R	25 Jun 13
Styrotech Corporation	STYR01R	25 Jun 13
Supreme Steel Pipe Corporation	SSPC01R	25 Jun 13
TDK Philippines Corporation	TDKP01R	25 Jun 13
Temic Automotive (Phils.), Inc.	TAI001R	25 Jun 13
Terumo Philippines Corporation	TRMP01R	25 Jun 13
Tong Hsing Electronics Philippines, Inc.	THEP01R THEP02R	25 Jun 13
Toyota Autoparts Phils. Inc.	TAPI01R	25 Jun 13
Toyota Motor Philippines Corporation	TMPC01R	25 Jun 13
Transitions Optical Philippines, Incorporated	TOPI01R	25 Jun 13
Travellers International Hotel Group, Inc.	TIHG01R TIHG02R TIHG03R	25 Jun 13
Tsukiden Electronics Philippines, Inc.	TKEP01R	25 Jun 13
U.S.Embassy Manila	USE001R USG001R	25 Jun 13
Unilever Philippines, Inc.	ULPI01R ULPI02R	25 Jun 13

Organization Name	Short Name	Effective Date
Unilever RFM Ice Cream, Inc.	URIC01R	25 Jun 13
United Laboratories, Inc.	UNLI01R	25 Jun 13
Universal Robina	UCPI01R URC101R URC201R URC301R URC401R URC701R	25 Jun 13
UP North Property Holdings, Inc.	UPNH01R UPNH02R	25 Jun 13
Vifel Ice Plant & Cold Storage Inc.	VIPCS1R	25 Jun 13
Vishay (Phils), Inc.	VSHPO1R	25 Jun 13
Wellington Investment & Manufacturing Corporation	WIMC01R	25 Jun 13
Wrigley Philippines Inc.	WPI001R	25 Jun 13
Wyeth Philippines, Inc.	WHPI01R	25 Jun 13
Yazaki Torres Manufacturing, Inc.	YTMIO1R	25 Jun 13
YTM Component	YTMC01R	25 Jun 13





**Philippine Electricity  
Market Corporation**

# **Corporate Report**

**January - December 2012**



74

INTRODUCTION/  
PRESIDENT'S  
MESSAGE

76

THE YEAR IN  
REVIEW 2012

TABLE  
OF  
CONTENTS

85

FUTURE  
DIRECTIONS

118

AUDITED  
FINANCIAL  
STATEMENTS

86

THE PEMC  
STAFF

171

NOTICES

Credits  
Disclaimer  
Copyright Notice  
Our Business Locations

Market Operations  
Performance Monitoring  
Operational Upgrades  
In the Pipeline  
New WESM Public Website  
Audit And Compliance  
Strengthened Coordination with NGCP  
Participant Engagement

Market Governance  
Market Watchdogs  
Process and Tools Enhancement

Organizational Excellence  
Thinking Ahead  
Business Continuity and Process Improvement  
PEMC's Best Assets  
Giving Back

Appointment as Central Registration Body for RCOA

Future Directions  
Integration of Retail Competition in the Wholesale Electricity Spot Market  
Establishment of the Interim Mindanao Electricity Market  
Trading of Reserves  
Establishment of the Renewable Energy (RE) Market  
Risk Management Program  
Quality Management System

Overview

Executive Committee

Management Committee

PEMC Departments

ISMS Organization  
ISMS Committee  
ISMS Core Team  
ISMS Internal Auditor Team  
ISMS Document Controller Team  
Information Security Incident Management Team

Mission

We provide a fair and transparent trading environment responsive to the needs of the electricity industry stakeholders.

We promote the sustainability of the industry by fostering healthy competition, contributing to the economic development of the country.

We will do this by maintaining professionalism, integrity, and dedication to excellence.

Vision

To achieve the highest standard of self governance and market operations in the competitive electricity market.

Corporate Values

Excellence in Professionalism

We adhere to corporate business ethics and a deep sense of dedication to efficiency, quality consciousness, and achievement-orientation.

Excellence in Integrity

We value honesty, trustworthiness, and steadfastness to our principles.

Excellence in Fairness

We demonstrate even-handedness and fair judgment in relating with our colleagues and stakeholders.

Excellence in Teamwork

We believe in selflessness and cooperation to achieve our corporate goals.

Excellence in Service

We tailor our efforts and solutions to identify and exceed the demands and needs of our internal and external customers.

Excellence in Innovation

We strive to be creative and to “think out of the box” to deliver cutting edge solutions.





# President's Report

**Synthesis**, our theme for this year's annual report, succinctly captures the spirit of integration and collaboration that has been so essential in driving reforms and developments in the Wholesale Electricity Spot Market (WESM). The road to the Philippine Electricity Market Corporation's (PEMC) market and corporate achievements in the past several years was paved by an amalgam of combined efforts that has led to a strengthened and sustainable electricity market.



**G**uided by our mission and vision, PEMC's various teams continue to vigilantly work together to attain the corporation's goals and objectives. Our accomplishments in 2012 were the product of close Board supervision, consultative decision-making by Management, invaluable customer input, and the hard work of our team of dedicated employees.

The programs, services, and market developments that were introduced in the past year are also the fruits of the successful alignment of our strategic plans with the policy directives of the Department of Energy in relation to the further development of the market, including the integration of retail competition and open access in the WESM.

PEMC's appointment as the Central Registration Body for Retail Competition and Open Access (RCOA) necessitated the careful integration of a considerable number of existing and new processes to come up with a harmonized framework for transitioning into the competitive retail environment. RCOA integration in the WESM is just the beginning of many more things to come for PEMC and for the market. In one section of this report, we highlight our future directions and plans for the next few years.

The WESM is an unceasing work in progress, and PEMC, as the Market Operator, must constantly be an agent in stimulating its further growth and expansion. Synthesis is an indispensable part of market development, which, though often complex and challenging to design and implement, is necessary towards forging a progressive future for the power industry, ultimately contributing to societal and economic growth in our country.



MELINDA L. OCAMPO  
President  
Philippine Electricity Market Corporation

**T**he Wholesale Electrical Spot Market is an evolving system, and regulations are constantly being developed to improve the power industry and its policies. Each year brings new challenges and each year we find ourselves equal to the task of operating both the WESM and the PEMC efficiently.

The integration of the Visayas grid with the Luzon grid is an example of synthesis which improved the total system. While all involved can take pride in this feat, our work is still far from done. In the near to long term, Retail Competition and Open Access must be integrated into the WESM. Another top priority is the establishment of the Interim Mindanao Electricity Market. Also underway is the expansion of the market through the inclusion of the trading of reserves. The future of our nation's energy security also relies on swift and decisive moves we do today. The Renewable Energy act is a landmark piece of legislation which increases the usage of energy from greener sources. Life is often full of surprises and in order to have a greater sense of security we must be able to institutionalize corporate-wide risk management programs to better deal with risk-related activities and to better prepare for unavoidable threats in the operations.





# Market Operations

## Performance Monitoring

Last year, PEMC officially began monitoring the PEM Board-approved Market Operator Performance Standards (MOPS), which covers performance with respect to IT systems, market reports and data publication, forecast accuracy, dispatch scheduling and pricing, billing and settlement, accounts management, registration, and customer relations.

Very satisfactory results were achieved during the first monitoring year including solid performance in IT systems availability, success of real-time dispatch scheduling work flows, minimization of MO-initiated market intervention, timeliness of pricing error correction, timeliness in execution of settlement processes, and handling of participant queries and data requests. These positive results have renewed our drive to continuously improve our performance in the next coming years.

As part of the monitoring process, MO performance status reports were regularly provided to the PEM Board, including an annual report covering the first year of monitoring. These reports will also be published in the market website for the information of all participants and the public.

## Operational Upgrades

PEMC successfully implemented a number of key operational upgrades to support enhanced market performance.

Various patches were introduced to the Market Management System (MMS) with the goal of addressing audit recommendations on the formulation and performance of the market clearing software.

In October 2012, an enhancement was introduced to address previously unforeseen congestion scenarios in the Visayas. Implementation has since improved scheduling and pricing in the region and has resulted in the reduction of pricing errors.

Within the same month, PEMC also started working closely with the Manila Electric Company (MERALCO) and the National Grid Corporation of the Philippines (NGCP) to conduct a study on the integration of MERALCO's sub-transmission network in the Market Network Model (MNM). This is pursuant to a requirement under the WESM Rules for the MNM to fairly represent aspects of the power system that are capable of materially affecting dispatch scheduling and/or pricing in the market.

Aside from the introduction of software patches, a medium-term plan of PEMC is the implementation of the Market Dispatch Optimization Model (MDOM) Modification Project, which also aims to address audit findings and recommendations. The project will also incorporate requirements in preparation for the implementation of the Reserve Market in accordance with Energy Regulatory Commission (ERC) directives. As a long-term plan to upgrade the MMS and address other additional requirements, PEMC is currently awaiting the regulatory go-signal to commence with the procurement of a new MMS.

## In the Pipeline

Also underway, PEMC's other initiatives promote improvements in the services to both internal and external customers.

In the works is a project to enhance data provision services to WESM participants, the DOE, the ERC, and other external clients. The platform, called the Business Development and External Services (BDES) system, has an interim version that is currently facilitating basic data provision and market reporting functions. Once launched, the BDES shall be an optimized central repository of market data and central platform for market reporting, analysis, and monitoring.

In the pipeline is the enhancement of a number of settlement programs, load forecasting tools and parameters, as well as the enhancement of our market query/incident management system. We are also planning the automation of several operational functions involving such areas as demand forecasting and power flow analysis. In addition, we are in the process of strengthening linkages between market systems to improve data feeding from one system to another.

## New WESM Public Website

This year we launched the improved WESM public website, which introduced new sections and functionalities to facilitate better data access and the provision of a more user-friendly interface for our market participants. Through the improved website, we have made available new types of market data and information in an effort to promote transparency and responsiveness to participant needs.

## Audit and Compliance

Strict observance of the WESM Rules and the adoption of industry and international best practices are two things that are crucial in safeguarding the efficiency, transparency, and reliability of market operations.

For the last three years, the conduct of annual operational audits has been an effective platform to facilitate this. The third independent audit was successfully completed with no significant findings on market operations. Implementation of PEMC's action plans to address the auditor's recommendations is a continuing process and is being closely monitored to achieve full compliance.

PEMC also participated in the first ever conduct of the Metering Arrangements Review. Although it gave focus on the security arrangements and requirements of metering installations in the WESM, a number of related MO processes were also successfully reviewed, including the process for the validation, estimation, and editing of WESM metering data for settlement purposes, and the process for Site Specific Loss Adjustment (SSLA).

As required under the WESM Rules, PEMC, as Market Operator, recently submitted the annual report of its WESM Compliance Officer (WCO) to the Enforcement Compliance Office (ECO), providing a summary of its compliance activities in CY 2012. As an update on our compliance initiatives, we reported last year the development of an internal program, pursuant to the WCO's mandate under the WESM Rules, for procedures to monitor compliance with the EPIRA and the WESM Rules and manuals.

Once implemented, the program shall institutionalize mechanisms for prevention, detection, and management of compliance risks and gaps. It also promotes PEMC's observance of the WESM Rules, not only as MO, but also as the entity tasked with governance functions with respect to market monitoring and investigation.



## Strengthened Coordination with NGCP

One of the corporate strategies adopted by PEMC in 2012 in order to ensure the efficient operation of the market in accordance with the WESM Rules was to strengthen coordination with NGCP, as both the System Operator and the wholesale Metering Services Provider, by initiating the establishment of operating protocols.

Aside from the signing of the Memorandum of Understanding between the two organizations, the PEMC-NGCP Coordinating Committee was revived to ensure strong mutual cooperation in order to comply with operational obligations and responsibilities. Several working groups were also formed to handle and coordinate on specific operational areas and concerns. The groups involved are the Metering Working Group, Standards and Communications Working Group, Reserve Market Working Group, and MO-SO Working Group.





# PARTICIPANT ENGAGEMENT

As the operator of the power market, PEMC serves more than 200 participants and customers, hence, our thrust to continuously improve on participant engagement and customer relations. Last year, we broke ground with the WESM Participant Satisfaction Survey project. The survey, conducted by an independent market research firm, allowed participant evaluation of the WESM's performance. The resulting inputs provided PEMC with cues on which areas it could improve its services.

We conducted Annual Participants' Meeting which we have been holding since 2006. These meetings keep stakeholders abreast of the latest developments in the market, and are effective venues for raising participant concerns. The International Conference on Retail Markets, graced by His Excellency Benigno S. Aquino III as the keynote Speaker, was another major milestone. It was a successful event that served as both an information campaign on RCOA and a rich source of information on retail market experiences in other jurisdictions.

In keeping with our goals to increase awareness about the market and what we do, PEMC released the WESM Exchange. The rebranded market newsletter has, for four quarters now, been a vital medium in making information about the WESM and the market available to the public.

“annual participant meetings keep stakeholders abreast of the latest developments in the market, and are an effective venue for raising participant concerns.”



# Market Governance

“we provide timely guidance to the MSC, the DOE, and the ERC in monitoring the market and in formulating policies.”

## Market Watchdog

We provide timely guidance to the Market Surveillance Committee (MSC), the DOE, and the ERC in monitoring the market and in formulating policies. We do this by issuing and publishing our monthly market assessment reports and indices in accordance with established timelines. Last year, we institutionalized regular coordination meetings between the Market Assessment Group (MAG), Enforcement and Compliance Office (ECO), the DOE, and the ERC to align the efforts meant to strengthen market governance.

## Process and Tools Enhancement

One of PEMC MAG's core tasks is to provide relevant reports and analyses to support the various governance committees in their respective functions. We do this by regularly auditing and enhancing the performance of the main data platform (for data processing and report generation), the Market Assessment System.

The PEMC's ECO is strengthening its investigation processes by developing a comprehensive compliance database and by enhancing its data management tools and resources.







# Organizational Excellence

*“we developed and updated business continuity documents, and we conducted simulation drills to ensure the reliability and uninterrupted delivery of PEMC’s services”*

## Thinking Ahead

Last year, the PEMC Management adopted a three-year corporate strategic planning framework. This future-oriented approach encouraged forward planning and has enabled PEMC to harmonize various market development initiatives in compliance with the DOE’s policy directives.

The goal was also to ensure the continuity of the company’s long-term programs through a sustained roadmap that will allow PEMC to plan and allocate resources more efficiently.

Complementing the monitoring of both the strategic plan’s implementation and the MOPS, a set of corporate performance measures were approved to quantitatively gauge PEMC’s corporate accomplishments. Monitoring of these performance measures began late last year.

## Business Continuity and Process Improvement

Last year we developed and updated business continuity documents, and we conducted simulation drills to ensure the reliability and uninterrupted delivery of PEMC’s services to its customers and stakeholders. Parallel to this, PEMC successfully completed a corporate-wide project to strengthen and reinforce all business processes through better documentation and streamlining of procedures and workflows.

PEMC is proud to maintain its ISO Certification on information security management. It successfully underwent its first surveillance audit in October 2012 without incurring major non-conformances to the ISO 27000 standards.



17th Annual Conference of APEX

# PEMC’s Best Assets

*“A service-oriented organization, it recognizes that its employees are its most valuable assets.”*

PEMC pulls all the stops to promote employee development. A service-oriented organization, it recognizes that its employees are its most valuable assets. PEMC advances programs geared towards the growth, engagement, and betterment of its personnel in order to support high performance, talent-honing, and retention. These programs include an employee learning and development plan and a wellness and engagement program.

Our wellness and engagement activities focused on encouraging better working relationships, stress management, and physical well-being. We completed our training implementation targets through our engagement in many training programs to develop technical, management, and people skills, as well as attendance to global conferences and workshops.

Plans are underway to introduce an internal exchange program in 2013, with the objective of developing versatile employees with all-around knowledge on different aspects of operations.



The 5th Asia-Pacific Regional Meeting of APEX







# Giving Back

PEMC conducted corporate social responsibility (CSR) activities, proving its commitment to give back to the community and environment. PEMC kicked things off with a school rehabilitation project in Mandaluyong. Volunteer employees took part in restoring the classrooms, library, and other facilities at the Nueve de Febrero Elementary School. Other CSR initiatives included our annual tree-planting project held in Lipa, Batangas and a repeat of our Adopt-A-Child program as part of our Christmas activities. PEMC also revived its "ONE PEMC" campaign, a fundraising activity launched in partnership with the Philippine Red Cross, to provide aid to the victims of Typhoon Pablo in Mindanao.

Volunteerism is a major theme that we try to integrate in all of our CSR activities. PEMC is proud of its leaders and employees who continue to step up to the plate and support PEMC's social and community programs.

*"PEMC conducted CSR activities proving its commitment to give back to the community and environment."*







## Appointment as Central Registration Body for RCOA

Last year's highlight was PEMC's appointment as the Central Registration Body (CRB) responsible for several key functions in the implementation of retail competition in the Philippines. These include: (1) registration of retail participants and service providers, and the maintenance of the registry of participants; (2) customer switching, covering the receipt, processing, and approval of customer requests to switch from one supplier to another; and finally, (3) maintenance of the central repository of the metering information of all customers under the contestable market and all other relevant retail information.

The PEMC was designated to develop and continuously update an integration plan based on DOE-prescribed policies to ensure the seamless harmonization of CRB and MO processes. This includes a review of relevant WESM Rules, market manuals, and ERC resolutions and issuances. PEMC also maintains regular coordination with the ERC, DOE, and RCOA Steering Committee on aspects of RCOA affecting WESM operations. Lastly, as part of our coordination efforts, PEMC participated in the RCOA workshops, information and education campaign (IEC), and public consultations organized by the DOE.

Assisted by a third party consultant, we drafted the Retail Rules and market manuals that will govern the integration of retail competition in the spot market, including CRB operations. Internally, RCOA-specific procedures were successfully implemented by the different PEMC process owners to ensure the alignment of their business processes with the retail rules and manuals.

The ERC issued a joint statement with the DOE, declaring 26 December 2012 as open access date, marking a six-month transition period towards commercial operations on 26 June 2013. Starting December 2012, the PEMC initiated the registration and training of retail market participants.

With the passing of the open access date, PEMC is conducting more participant trainings in light of the increasing number of retail participants registering in the WESM, and the conduct of tabletop exercises in preparation for RCOA trial operations. Parallel to these activities, we are also undertaking the necessary preparations for the development of the centralized system that will handle retail transactions.



Commissioner Gloria Victoria C. Yap-Taruc of the Energy Regulatory Commission, Philippine Electric Market Corporation President Melinda L. Ocampo and DOE Electric Industry Power Management Bureau Director Mylene C. Capongol receive registration documents of Suppliers marking the commencement of the integration of retail competition in the Wholesale Electricity Spot Market in simple rites held at the PEMC offices on 26 December 2012, ushering in the completion of the restructuring of the electric power industry as mandated by RA 9136, also known as the Electric Power Industry Reform Act (EPIRA).

## Future Directions

**Our focus during the previous year was on laying the groundwork for Retail Competition and Open Access. This year and in the years to come, the crucial work of bringing Retail Competition to the electric power industry through the introduction of Suppliers and the creation of policy to ensure a competitive environment are our top priorities. Simultaneous to that task, we must also ensure that the proper steps are undertaken to move along the progress of our other key initiatives.**

### The Integration of Retail Competition in the Wholesale Electricity Spot Market

PEMC, acting as the Central Registration Body, prepares for the commercial operations of Retail Competition and Open Access (RCOA), which was originally slated for 26 June 2013. On 26 December 2012, we started the retail registration with some preparatory activities such as a series of participant trainings, system development, and trial operations. Upon the implementation of the initial phase of the RCOA, the electricity end-users with an average demand of one MW will be allowed to be part of the Contestable Market and may now choose their own supplier. PEMC looks forward to the second phase which will accommodate customers with an average demand of 750 kW.

### The Establishment of the Interim Mindanao Electricity Market (IMEM)

PEMC pushes for the Interim Mindanao Electricity Market (IMEM) scheduled to start commercial operations on 26 September 2013. The IMEM will centralize trading of available untapped capacities in Mindanao to address its supply deficiency. On-going market development activities for the IMEM include rules and manuals writing, regulatory applications, system development, stakeholder capacity building, and consultations.

### The Trading of Reserves

PEMC envisions expanding the wholesale market to include the trading of reserves co-optimized with the existing energy market. In order to realize market expansion, PEMC continuously submits its compliances to the Energy Regulatory Commission's directives on the necessary market mechanisms for the trading of reserves. Furthermore, the existing Market Management System (MMS) is being continuously enhanced to incorporate the system requirements for the trading of reserves.



### Establishment of the Renewable Energy (RE) Market

Mandated by the RE Act, PEMC seeks to establish the Philippine Renewable Energy Market. PEMC is gearing towards rules development of the RE Market and is designing the Market's IT systems. PEMC continuously works with the National Renewable Energy Board and the Department of Energy on the formulation of necessary policy instruments to implement the Renewable Portfolio Standards and the Feed-in-Tariff, a policy instrument which induces investments in this field.

### Risk Management Program

PEMC is institutionalizing a corporate-wide risk management program to harmonize the existing risk-related activities of the company and to contain the impact of unavoidable threats/risks in the operations and the governance of the spot market. In order to implement the program, PEMC has planned activities such as; capacity building and development of the risk management framework, risk assessment, and development of the risk management plan.

### Quality Management System

PEMC is proud to be ISO27000 certified for Information Security Management System (ISMS). Inspired by the goal of continuous improvement PEMC pushes for ISO9000 certification for Quality Management System. Similar to ISMS, PEMC stringently prepares to obtain an ISO9000 certification. Preparations include capacity building, process review, documentation, and streamlining.



# THE PEMC STAFF

## Overview

Behind every accomplishment of the Philippine Electricity Market Corporation (PEMC) are hardworking and competent professionals. They are all technically adept in their field, such as engineering, economics, finance, legal, and information systems and technology. PEMC employees are highly dependable and service-oriented individuals who overcome challenges through their innovation, teamwork, and dedication.



## Executive Committee

The PEMC Executive Committee is composed of the President and all Vice Presidents. They are responsible for the over-all management of the Corporation, and are admired for their strategic thinking, business knowledge, and skills.



From left to right:

**CARLITO C. CLAUDIO**  
Vice President  
Information Systems and Technology

**MELINDA L. OCAMPO**  
President

**CRISELDA S. MARTIN-FUNELAS**  
Vice President  
Legal

**CHRYSANTHUS S. HERUELA**  
Vice President  
Market Assessment

**MEDARDO T. NUÑEZ**  
Vice President  
Corporate Services and Corporate Treasurer

**CLAUDETTE G. UBALDO-DEMA**  
Corporate Secretary

**ROBINSON P. DESCANZO**  
Vice President  
Corporate Planning and Communications

**RACHEL ANGELA P. ANOSAN**  
Enforcement and Compliance Officer

**Not in photo:**  
**SHEILA P. INGCO**  
Enforcement and Compliance Officer (January - August 2012)

**JESUSITO H. SULIT**  
Vice President  
Trading Operations (January - August 2012)



## Management Committee

The Management Committee is composed of the President, Vice Presidents, and Managers. They are leaders and experts in their respective areas, and are tasked to oversee the activities/operations of their departments/divisions.



From left to right:

CLAUDETTE G. UBALDO-DEMA  
CRISELDA S. MARTIN-FUNELAS  
CELINA R. ENCARNACION

MEDARDO T. NUÑEZ  
CARLITO C. CLAUDIO  
ZIGFRED NIÑO C. VIRAY

RACHEL ANGELA P. ANOSAN  
CHRYSANTHUS S. HERUELA

ROBINSON P. DESCANZO  
PHILLIP C. ADVIENTO



From left to right:

MELINDA L. OCAMPO  
MILLAN H. LIBONGCO  
SALVADOR D. SUBARAN

EDWIN N. MOSA  
MARISSA P. GANDIA  
PATRICK S. FERNANDEZ

CARYL MIRIAM Y. LOPEZ-MATEO  
ALDWIN ARIS C. GREGORIO

ISIDRO E. CACHO, JR.  
ELAINE D. GONZALES

## Office of the President

The Office of the President is responsible for the execution and implementation of plans, programs, policies, and procedures approved by the PEM Board, and the over-all management, operation, and administration of PEMC and its integral units.



From left to right:

CRISELDA S. MARTIN-FUNELAS  
ANA FE MONICA C. AGUILA

IMELDA B. AMOROSO  
CAMILLE C. SOLIVEN

MELINDA L. OCAMPO  
*President*

## Office of the Corporate Secretary

The Office of the Corporate Secretary is responsible for the preparation of the meetings of the PEM Board and general membership, and sends notices and agenda as specified in the by-laws.



From left to right:

SHERWIN T. CASIDSID

CLAUDETTE G. UBALDO-DEMA  
*Corporate Secretary*

MARY GRACE L. BENTOR-CIRUELOS



## Enforcement and Compliance Office

The Enforcement and Compliance Office is responsible for the conduct of investigations of possible breaches of WESM Rules and WESM Manuals as directed by the PEM Board. The ECO leads in fostering a culture of compliance in the WESM.



From left to right:

ARNEL N. ALMADEN

RACHEL ANGELA P. ANOSAN  
*Enforcement and Compliance Officer*

MA. HAZEL M. GUBATON-LOPEZ

MARK ANTHONY C. ANDRADA

MARIA CRISTINA T. SURALVO

HILARY ROMELI C. FLORENDO

## Legal

The Legal Department provides over-all legal assistance to various PEMC internal business units and stakeholders.



From left to right:

CELINA R. ENCARNACION

GLADYS EVETTE G. NEBAB-ZAMORA

CARYL MIRIAM Y. LOPEZ-MATEO

MARIA LOURDES S. SAN ANDRES

CRISELDA S. MARTIN-FUNELAS  
*Vice President*

CLEMENTE T. PEREZ, JR.

## Corporate Planning and Communications

The Corporate Planning and Communications Department develops, manages, and monitors the over-all business and annual operational plans of the corporation, ensuring synergy across the corporation's performance measures and alignment of corporate goals and activities with regulatory compliance and policies set by the DOE. CPC also manages the over-all market participant training, registration and membership in the WESM, and public relations of PEMC.



From left to right:

PHILLIP C. ADVIENTO

CERISE M. CABACTULAN

JUANITA C. STA. MARIA

ARNESH Y. INOSTRO

KATRINA A. GARCIA-AMUYOT

DAISY JANE C. ALFAFARA

JOSEPHINE C. CABILLO- CORPUZ

JONATHAN B. DE LA VIÑA

ROBINSON P. DESCANZO  
*Vice President*



From left to right:

CHUCKIE O. TOQUE

JAYSON A. FRANCISCO

ZIGFRED NIÑO C. VIRAY

CLARES LOREN C. JALOCON

JERIC KIM N. SALCEDO

JULIUS ELEAZAR A. BUNYI

ERIC NIÑO U. LOUIS

ZACHARY C. GUTIERREZ

EHFRAIM Q. NOVENARIO



## Information Systems and Technology

The Information Systems and Technology Department is responsible for the development and management of the over-all IS/IT business goals and objectives and determining the appropriate strategies both for the Market Management System (MMS), IS/IT Infrastructure-related operations, and the corporate office.



From left to right:

PATRICK S. FERNANDEZ

ALEJANDRO H. DE GUZMAN, JR.

JOE ALLAN M. DUDANG

SALVADOR D. SUBARAN

MAILA C. UBALDE

CHRISTOPER V. RAMOS

ORLANDO C. NINON

PRICILLANO JESUS G. DELA CRUZ, JR.

CARLITO C. CLAUDIO  
*Vice President*

From left to right:

JADE B. ENRIQUEZ

JANETH A. CENIZA

JULIUS PATRICK O. APUD

RESTY S. HONG

MA. VICTORIA B. QUE

ELDIN PAULO S. REYES

GILBERT R. OMBAO

RONALDO S. RONQUILLO

GILBERT M. AYANGCO II

## Market Assessment Group

The Market Assessment Group is responsible for the monitoring and assessment of the performance of the Philippine WESM and the activities of the market participants, Market Operator, and System Operator with the end view of ensuring the effective functioning and over-all efficiency of the electricity market. The MAG also serves as the primary support unit of the various governance committees.



From left to right:

BIENVENIDO C. MENDOZA, JR.  
RHEINHART O. BANOON

SHALOM GRACE T. LIAMZON  
MARIA DELIA B. ARENOS

GERALDINE A. RODRIGUEZ  
CHRYSANTUS S. HERUELA  
*Vice President*

From left to right:

KAREN A. VARQUEZ  
JOHN MARK S. CATRIZ

DECE MARWIL M. BONGCAWEL  
JOCELYN Q. SABILE

JIMMY D. CHARALAMBIDES  
ELAINE D. GONZALES



## Corporate Services

The Corporate Services Department is responsible for the development of policies, administrative support and guidance, and the implementation of programs at the corporate level in the areas of Finance, Human Resources and Administration, and Billing, Settlement, and Metering, ensuring consistency of implementation across the different units in the organization.



From left to right:

PAULA BIANCA R. REYES  
YVES CELINE R. FAELNAR

ALDWIN ARIS C. GREGORIO  
ROBELYN R. VIDALLON

MICHELLE MABELLE E. DONES  
RICHARD GLENN C. ARAULLIO

GETULIO D. SANTOS  
MEDARDO T. NUÑEZ  
*Vice President*

From left to right:

ARISTON P. MARTINEZ  
IRENE D. DE GUZMAN

HELEN JOY E. LOON  
CYRIL RECTO S. CALUB

MARY JANE A. ANDRADE  
JACQUELINE LEE V. PAZ

MARIE EMMANUELLE T. DELARMENTE

## Corporate Services (cont'd)



From left to right:

YHARDLEE G. DELOS SANTOS-CENTENO  
RENATO B. AFURONG

MILLAN H. LIBONGCO  
VINCENT M. SULIVA

MARISSA P. GANDIA  
MARJORIE ANN F. CALIBOSO

MAICA G. MOLINA  
MARICAR D. MAGADIA

From left to right:

MARY ANNE T. SANTIAGO  
CAROLINA S. MAGSAMBOL

VICTORIA S. SANTOS  
FERNANDO G. DIZON

LOUIE ANGELO G. ALINDOGAN  
KATHLEEN O. DEL ROSARIO

MON ALBERT B. SANTOS  
OLIVIA J. GABRIEL



## Trading Operations

The Trading Operations Department manages, directs, and coordinates the real-time operations of the WESM 24 hours a day. They are responsible for the daily trading operations, development of market operating systems, procedures and business processes, market documentation, market report publication, participant and client support, market forecast and projections, dispatch scheduling and pricing, analysis of market outcome, facilitation of market re-run, and interface with the System Operator.



From left to right:

MARIA ANITA E. BAUTISTA	GADDY B. DE LEON	MARCIAL BRUMMEL J. JIMENEZ	MICHAEL DAN B. USMAN
AMADOR C. MANGOSING, JR.	MARCO N. ACCAD	EDWIN N. MOSA <i>OIC 01 September to 07 October 2012</i>	



From left to right:

ISIDRO E. CACHO, JR. <i>OIC 08 October 2012 to 31 January 2013</i>	ARJAY M. TOLENTINO	LUIS ANGELO T. CANICON	APRIL JOY C. FELIZARDO
ERVIN M. SANTOS	JAMES RENE S. MANIMTIM	JENNY I. JALANDONI	VIDA JOAN G. GUMERA

## Trading Operations (cont'd)



From left to right:

EDWARD I. OLMEDO

ANTONIO M. ARANA

VALFIA S. UY

ROBERT C. LACERNA

EDSEL Y. EVASCO

ARTHUR P. PINTADO

EMMANUEL A. NAVARRO

Not in photo:  
MATT JESTER B. DE CASTRO

HENRY E. MARASIGAN

## ISMS Committee

Oversees the implementation and improvement of the Information Security Management System (ISMS) in the Philippine Electricity Market Corporation (PEMC) and ensures that ISO 27001 certification is sustained and maintained.



From left to right:

MEDARDO T. NUÑEZ

CRISELDA S. MARTIN-FUNELAS

RACHEL ANGELA P. ANOSAN

MELINDA L. OCAMPO  
*ISMS Adviser*

CARLITO C. CLAUDIO  
*ISMS Management Representative*

CLAUDETTE G. UBALDO-DEMA

CHRYSANTHUS S. HERUELA

ROBINSON P. DESCANZO



## ISMS Management Representative

Represents the Management during ISMS certification/surveillance audits and reports to the PEM Board, the PEMC President, and the ISMS Committee on the performance of the Information Security Management System (ISMS) and any need for improvement. The Management Representative also ensures that processes needed for the ISMS are established, implemented, and maintained.



CARLITO C. CLAUDIO

## ISMS Secretariat

Facilitates the regular Management Review Meeting (MRM), and acts as a guide during ISMS certification/surveillance audits. The Secretariat also provides administrative and technical support to the Management Representative and other ISMS team leads in all ISMS endeavors.



MAILA C. UBALDE

## ISMS CORE Team

Provides administrative and technical support to the ISMS Committee, and facilitates the development, implementation, and sustenance of the ISMS. The Core Team also undertakes regular risk assessment of the ISMS and implements the necessary risk mitigation measures and risk treatment plans.



From left to right:

ANA FE MONICA C. AGUILA

GLADYS EVETTE G. NEBAB-ZAMORA  
*ISMS Assistant Core Team Lead*

ARIS ALDWIN C. GREGORIO

CAROLINA S. MAGSAMBOL

BIENVENIDO C. MENDOZA, JR.

CLARES LOREN C. JALOCON

PATRICK S. FERNANDEZ  
*ISMS Core Team Lead*

## ISMS Core Team (cont'd)



From left to right:

EDWIN N. MOSA  
ERIC NIÑO U. LOUIS

HILARY ROMELI C. FLORENDO  
FERNANDO G. DIZON

KAREN A. VARQUEZ  
ISIDRO E. CACHO, JR.

MAILA C. UBALDE



From left to right:

MARCIAL BRUMMEL J. JIMENEZ  
MA. HAZEL M. GUBATON-LOPEZ

SHERWIN T. CASIDSID  
MARISSA P. GANDIA

YHARDLEE G. DELOS SANTOS-CENTENO  
SALVADOR D. SUBARAN



## ISMS Internal Audit Team

Conducts ISMS internal audits at planned intervals to determine whether the control objectives, controls, processes, and procedures of PEMC ISMS implementation conform to the requirements of ISO 27001 and are effectively maintained and performed.



From left to right:

CERISE M. CABACTULAN  
CLEMENTE T. PEREZ, JR.

KATRINA A. GARCIA-AMUYOT  
ARTHUR P. PINTADO  
*ISMS Internal Lead Auditor*

RHEINHART O. BANOON  
ORLANDO C. NINON  
*ISMS Internal Lead Auditor*

ALEJANDRO H. DE GUZMAN, JR.



From left to right:

MARY ANNE T. SANTIAGO  
*ISMS Internal Lead Auditor*  
MARICAR D. MAGADIA

ANTONIO M. ARANA  
RICHARD GLENN C. ARAULLO

MAICA G. MOLINA  
MARK ANTHONY C. ANDRADA

IRENE D. DE GUZMAN

## ISMS Document Controller Team

Maintains the documents and records in the document control area under safe custody and with easy traceability. The DCT works with the ISMS Core Team to develop documentation systems, policies, procedures, and work instructions for the ISO 27001 certification. They are also tasked to establish a process to protect ISMS-related documents and records of PEMC.



From left to right:

YVES CELINE R. FAELNAR  
ANA FE MONICA C. AGUILA  
*Assistant DCT Team Lead*

MA. HAZEL M. GUBATON-LOPEZ  
MARIA ANITA E. BAUTISTA

MAILA C. UBALDE  
MARICAR D. MAGADIA

HELEN JOY E. LOON  
*DCT Team Lead*



From left to right:

CLEMENTE T. PEREZ, JR.

YHARDLEE G. DELOS SANTOS-CENTENO

CAROLINA S. MAGSAMBOL

SHERWIN T. CASIDSID

JUANITA C. STA. MARIA

MARK ANTHONY C. ANDRADA

KAREN A. VARQUEZ

Not in photo: ELEAZAR V. TABIGUE



## ISMS Special Audit Team

Conducts audit of the ISMS Internal Audit processes at planned intervals to ensure that the ISMS Internal Audit Team continually operates in accordance with the policies, procedures, and requirements of ISO 27001 standard Clause 6. The ISMS Special Audit Team ensures that the conduct of internal audit is clear and transparent without any conflicts of interest.



From left to right:

ANA FE MONICA C. AGUILA  
KAREN A. VARQUEZ

MA. HAZEL M. GUBATON-LOPEZ  
MAILA C. UBALDE

PATRICK S. FERNANDEZ  
*ISMS Special Audit Team Lead Auditor*

## Information Security Incident Management Team

Ensures that information security events and weaknesses associated with information systems are recorded and timely responded upon.



From left to right:

ALEJANDRO H. DE GUZMAN, JR.  
RONALDO S. RONQUILLO

JANETH A. CENIZA  
MARCIAL BRUMMEL J. JIMENEZ

RESTY S. HONG  
MARICAR. D. MAGADIA

PRICILLIANO JESUS G. DELA CRUZ, JR.  
*ISIMT Team Lead*



**Philippine Electricity Market Corporation**  
(A Nonstock, Nonprofit Corporation)

**Financial Statements**  
**December 31, 2012**  
**(With Comparative Figures for 2011)**  
**and**  
**Independent Auditors' Report**  
SyCip Gorres Velayo & Co.

**SGV&Co**  
ERNST & YOUNG

- 2 -

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the assets, liabilities and fund balance of Philippine Electricity Market Corporation as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

*Other Matter*

The financial statements of Philippine Electricity Market Corporation as at December 31, 2011 and for the year then ended were audited by other auditors whose report dated March 29, 2012, expressed an unqualified opinion on those statements.

**Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Notes 22 and 23 to the financial statements, respectively, is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine Electricity Market Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

*Ladislao Z. Avila, Jr.*

Ladislao Z. Avila, Jr.

Partner

CPA Certificate No. 69099

SEC Accreditation No. 0111-AR-3 (Group A),

January 18, 2013, valid until January 17, 2016

Tax Identification No. 109-247-891

BIR Accreditation No. 08-001998-43-2012,

April 11, 2012, valid until April 10, 2015

PTR No. 3669660, January 2, 2013, Makati City

March 21, 2013





- 2 -

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the assets, liabilities and fund balance of Philippine Electricity Market Corporation as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

*Other Matter*

The financial statements of Philippine Electricity Market Corporation as at December 31, 2011 and for the year then ended were audited by other auditors whose report dated March 29, 2012, expressed an unqualified opinion on those statements.

**Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Notes 22 and 23 to the financial statements, respectively, is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine Electricity Market Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ladislao Z. Avila, Jr.

Partner

CPA Certificate No. 69099

SEC Accreditation No. 0111-AR-3 (Group A),

January 18, 2013, valid until January 17, 2016

Tax Identification No. 109-247-891

BIR Accreditation No. 08-001998-43-2012,

April 11, 2012, valid until April 10, 2015

PTR No. 3669660, January 2, 2013, Makati City

March 21, 2013

- 2 -

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the assets, liabilities and fund balance of Philippine Electricity Market Corporation as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

*Other Matter*

The financial statements of Philippine Electricity Market Corporation as at December 31, 2011 and for the year then ended were audited by other auditors whose report dated March 29, 2012, expressed an unqualified opinion on those statements.

**Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Notes 22 and 23 to the financial statements, respectively, is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine Electricity Market Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ladislao Z. Avila, Jr.

Partner

CPA Certificate No. 69099

SEC Accreditation No. 0111-AR-3 (Group A),

January 18, 2013, valid until January 17, 2016

Tax Identification No. 109-247-891

BIR Accreditation No. 08-001998-43-2012,

April 11, 2012, valid until April 10, 2015

PTR No. 3669660, January 2, 2013, Makati City

March 21, 2013



**PHILIPPINE ELECTRICITY MARKET CORPORATION**  
**(A Nonstock, Nonprofit Corporation)**

**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
**(With Comparative Figures for the Year Ended December 31, 2011)**

	Years Ended December 31	
	2012	2011
<b>REVENUES</b> (Note 13)		
Market fees	<b>₱886,210,168</b>	₱688,736,157
Less prior year unutilized market fees	—	(252,565,325)
	<b>886,210,168</b>	436,170,832
Interest (Note 4)	<b>26,920,540</b>	19,529,670
Fair value gain (Note 12)	—	30,573,854
Other income (Note 14)	<b>14,621,213</b>	3,442,524
	<b>927,751,921</b>	489,716,880
<b>EXPENSES</b>		
Personnel (Note 15)	<b>285,259,539</b>	230,320,890
Depreciation and amortization (Notes 8 and 9)	<b>123,875,591</b>	136,610,358
Outside services (Note 18)	<b>73,258,025</b>	42,482,654
Interest (Note 12)	<b>40,781,087</b>	55,602,101
Honorarium and allowances	<b>27,750,152</b>	23,225,000
Rental (Note 18)	<b>25,686,801</b>	24,292,507
Repairs and maintenance	<b>21,581,836</b>	24,539,279
Utilities	<b>20,055,971</b>	18,991,959
Transportation and travel	<b>20,033,593</b>	19,468,362
Supplies	<b>13,970,613</b>	10,310,566
Provision for impairment loss (Notes 10 and 18)	—	3,311,126
Other expenses (Note 17)	<b>41,824,326</b>	36,054,418
	<b>694,077,534</b>	625,209,220
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	<b>233,674,387</b>	(135,492,340)
<b>OTHER COMPREHENSIVE INCOME</b>	—	—
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>₱233,674,387</b>	(₱135,492,340)

See accompanying Notes to Financial Statements.

**PHILIPPINE ELECTRICITY MARKET CORPORATION**  
**(A Nonstock, Nonprofit Corporation)**

**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
**(With Comparative Figures for the Year Ended December 31, 2011)**

	Years Ended December 31	
	2012	2011
<b>REVENUES</b> (Note 13)		
Market fees	<b>₱886,210,168</b>	₱688,736,157
Less prior year unutilized market fees	—	(252,565,325)
	<b>886,210,168</b>	436,170,832
Interest (Note 4)	<b>26,920,540</b>	19,529,670
Fair value gain (Note 12)	—	30,573,854
Other income (Note 14)	<b>14,621,213</b>	3,442,524
	<b>927,751,921</b>	489,716,880
<b>EXPENSES</b>		
Personnel (Note 15)	<b>285,259,539</b>	230,320,890
Depreciation and amortization (Notes 8 and 9)	<b>123,875,591</b>	136,610,358
Outside services (Note 18)	<b>73,258,025</b>	42,482,654
Interest (Note 12)	<b>40,781,087</b>	55,602,101
Honorarium and allowances	<b>27,750,152</b>	23,225,000
Rental (Note 18)	<b>25,686,801</b>	24,292,507
Repairs and maintenance	<b>21,581,836</b>	24,539,279
Utilities	<b>20,055,971</b>	18,991,959
Transportation and travel	<b>20,033,593</b>	19,468,362
Supplies	<b>13,970,613</b>	10,310,566
Provision for impairment loss (Notes 10 and 18)	—	3,311,126
Other expenses (Note 17)	<b>41,824,326</b>	36,054,418
	<b>694,077,534</b>	625,209,220
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	<b>233,674,387</b>	(135,492,340)
<b>OTHER COMPREHENSIVE INCOME</b>	—	—
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>₱233,674,387</b>	(₱135,492,340)

See accompanying Notes to Financial Statements.





**PHILIPPINE ELECTRICITY MARKET CORPORATION**  
**(A Nonstock, Nonprofit Corporation)**

**STATEMENT OF CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
**(With Comparative Figures for the year ended December 31, 2011)**

	Contributed Capital	Accumulated Excess of Revenues (Deficiency) Over (Against) Expenses	Total
Balances at January 1, 2011	₱10,000	₱220,743,944	₱220,753,944
Total comprehensive loss for the year	—	(135,492,340)	(135,492,340)
Balances at December 31, 2011	10,000	85,251,604	85,261,604
Total comprehensive income for the year	—	233,674,387	233,674,387
Balances at December 31, 2012	₱10,000	₱318,925,991	₱318,935,991

See accompanying Notes to Financial Statements.



**PHILIPPINE ELECTRICITY MARKET CORPORATION**  
**(A Nonstock, Nonprofit Corporation)**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
**(With Comparative Figures for the Year Ended December 31, 2011)**

	Years Ended December 31	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess (deficiency) of revenues over expenses	<b>₱233,674,387</b>	(₱135,492,340)
Adjustments for:		
Depreciation and amortization (Notes 8 and 9)	<b>123,875,591</b>	136,610,358
Interest expense (Note 12)	<b>40,781,087</b>	55,602,101
Retirement benefit expense (Note 16)	<b>16,548,322</b>	25,061,151
Interest income (Note 4)	<b>(26,920,540)</b>	(19,529,670)
Gain on sale of property and equipment (Notes 8 and 14)	<b>(3,334,821)</b>	—
Fair value gain (Note 12)	<b>—</b>	(30,573,854)
Excess of revenues over expenses before working capital changes	<b>384,624,026</b>	31,677,746
Decrease (increase) in:		
Market fees and other receivables	<b>62,359,667</b>	(116,960,014)
Prepayments and other current assets	<b>(6,946,182)</b>	(16,254,040)
Increase (decrease) in accounts payable and accrued expenses	<b>(44,707,537)</b>	121,345,953
Net cash generated from operations	<b>395,329,974</b>	19,809,645
Interest received	<b>26,858,994</b>	19,500,478
Contributions paid (Note 16)	<b>(35,132,853)</b>	(42,745,789)
Net cash flows from (used in) operating activities	<b>387,056,115</b>	(3,435,666)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of property and equipment (Notes 8 and 14)	<b>3,334,821</b>	—
Acquisitions of:		
Property and equipment (Note 8)	<b>(32,240,901)</b>	(16,763,700)
Intangible asset (Note 9)	<b>(6,247,267)</b>	(1,216,677)
Increase in other noncurrent assets	<b>(5,225,432)</b>	—
Net cash flows used in investing activities	<b>(40,378,779)</b>	(17,980,377)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>346,677,336</b>	(21,416,043)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>701,321,469</b>	722,737,512
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>₱1,047,998,805</b>	₱701,321,469

See accompanying Notes to Financial Statements.



The Company’s registered office, which is also its principal place of business, is located at the 9th Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City.

The financial statements of the Company as of and for the year ended December 31, 2012 was authorized for issue by the PEM Board on March 21, 2013.

2. **Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies**

Basis of Preparation

The financial statements of the Company have been prepared using the historical cost basis. The financial statements are presented in Philippine Peso (Peso), which is the Company’s functional currency. All values are rounded to the nearest peso, except when otherwise indicated.

Statement of Compliance

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended PFRS which were adopted as of January 1, 2012. The following standards are applicable to the Company but determined to have no significant impact on the Company’s assets, liabilities and fund balance or performance:

- PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets* (Amendment)  
The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity’s continuing involvement in those derecognized assets. The amendments affect disclosures only and have no impact on the Company’s assets, liabilities and fund balance or performance.
- PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (Amendment)  
This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a ‘sale’ basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time (‘use’ basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The amendments are effective for periods beginning on or after January 1, 2012. The Company does not have investment property measured at fair value. The amendment has no impact on the Company’s assets, liabilities and fund balance and financial performance.



The Company’s registered office, which is also its principal place of business, is located at the 9th Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City.

The financial statements of the Company as of and for the year ended December 31, 2012 was authorized for issue by the PEM Board on March 21, 2013.

2. **Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies**

Basis of Preparation

The financial statements of the Company have been prepared using the historical cost basis. The financial statements are presented in Philippine Peso (Peso), which is the Company’s functional currency. All values are rounded to the nearest peso, except when otherwise indicated.

Statement of Compliance

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended PFRS which were adopted as of January 1, 2012. The following standards are applicable to the Company but determined to have no significant impact on the Company’s assets, liabilities and fund balance or performance:

- PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets* (Amendment)  
The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity’s continuing involvement in those derecognized assets. The amendments affect disclosures only and have no impact on the Company’s assets, liabilities and fund balance or performance.
- PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (Amendment)  
This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a ‘sale’ basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time (‘use’ basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The amendments are effective for periods beginning on or after January 1, 2012. The Company does not have investment property measured at fair value. The amendment has no impact on the Company’s assets, liabilities and fund balance and financial performance.





Standards Issued but not yet Effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The Company intends to adopt these standards when they become effective. Except as otherwise indicated, the adoption of the following standards and improvements has no significant impact on the assets, liabilities and fund assets or performance of the Company.

▪ PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32, *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a. The gross amounts of those recognized financial assets and recognized financial liabilities;
- b. The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of assets, liabilities and fund balance;
- c. The net amounts presented in the statement of assets, liabilities and fund balance;
- d. The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
  - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
  - ii. Amounts related to financial collateral (including cash collateral); and
- e. The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments to PFRS 7 are to be retrospectively applied and are effective for annual periods beginning on or after January 1, 2013. The amendments affect disclosures only and have no impact on the Company's assets, liabilities and fund balance or performance.

▪ PFRS 10, *Consolidated Financial Statements*

PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The standard becomes effective for annual periods beginning on or after January 1, 2013.

▪ PFRS 11, *Joint Arrangements*

PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The standard becomes effective for annual periods beginning on or after January 1, 2013.



▪ PFRS 12, *Disclosure of Interests in Other Entities*

PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31, and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard becomes effective for annual periods beginning on or after January 1, 2013. The adoption of PFRS 12 will affect disclosures only and have no impact on the Company's assets, liabilities and fund balance or performance.

▪ PFRS 13, *Fair Value Measurement*

PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes effective for annual periods beginning on or after January 1, 2013. The Company does not anticipate that the adoption of this standard will have a significant impact on the Company's assets, liabilities and fund balance and performance.

▪ PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)

The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Company's assets, liabilities and fund balance or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI.

▪ PAS 19, *Employee Benefits* (Revised)

Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendments become effective for annual periods beginning on or after January 1, 2013. Once effective, the Company has to apply the amendments retroactively to the earliest period presented.

The Company reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The effects are detailed below:

	As at December 31, 2012	As at January 1, 2012
Increase (decrease) in:		
<u>Statements of assets, liabilities and fund balance</u>		
Retirement benefit liability	(₱11,063,605)	(₱22,968,011)
Fund balance	11,063,605	22,968,011



	2012
Statement of comprehensive income	
Retirement benefit expense	₱4,344,222
Excess of revenue over expenses	(4,344,222)
<div><div>▪ PAS 27, <i>Separate Financial Statements</i> (as revised in 2011) As a consequence of the issuance of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the entities in the Company. The amendment becomes effective for annual periods beginning on or after January 1, 2013.</div><div>▪ PAS 28, <i>Investments in Associates and Joint Ventures</i> (as revised in 2011) As a consequence of the issuance of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, <i>Investments in Associates and Joint Ventures</i>, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.</div><div>▪ Philippine Interpretation IFRIC 20, <i>Stripping Costs in the Production Phase of a Surface Mine</i> This interpretation applies to waste removal costs (“stripping costs”) that are incurred in surface mining activity during the production phase of the mine (“production stripping costs”). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met (“stripping activity asset”). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. The Company expects that this interpretation will not have any impact on the Company’s assets, liabilities and fund balance or performance. This interpretation becomes effective for annual periods beginning on or after January 1, 2013.</div><div>▪ PAS 32, <i>Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities</i> (Amendments) The amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Company’s assets, liabilities and fund balance or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.</div><div>▪ PFRS 9, <i>Financial Instruments</i> PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, <i>Financial Instruments: Recognition and Measurement</i>. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.</div></div>	

All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability’s credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company’s financial assets, but will potentially have no impact on the classification and measurement of financial liabilities. PFRS 9 is effective for annual periods beginning on or after January 1, 2015.
<div>▪ Philippine Interpretation IFRIC 15, <i>Agreements for the Construction of Real Estate</i> This interpretation 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 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. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.</div>
Annual Improvements to PFRSs (2009-2011 cycle)
The <i>Annual Improvements to PFRSs</i> (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.
<div>▪ PFRS 1, <i>First-time Adoption of PFRS - Borrowing Costs</i> The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of assets, liabilities and fund balance at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, <i>Borrowing Costs</i>. The amendment does not apply to the Company as it is not a first-time adopter of PFRS.</div> <div>▪ PAS 1, <i>Presentation of Financial Statements - Clarification of the Requirements for Comparative Information</i> The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements.</div>





Excess of Standard over Actual Input Value-added Tax (VAT)

The excess of standard over actual input VAT pertains to the difference between the 7% standard input VAT for sales of goods or services to government or any of its political subdivisions, instrumentalities or agencies including government-owned or controlled corporations (GOCCs) and the 12% actual input VAT per return. As provided for under Republic Act (RA) No. 9337 and its implementing Bureau of Internal Revenue (BIR) Revenue Regulations (RR) No. 16-2005 and Revenue Memorandum No. 62-2005, starting November 2005, should standard input VAT exceed actual input VAT, the excess forms part of the Company’s “Other income” in the statement of comprehensive income.

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.

Financial Instruments

Financial assets and liabilities are recognized initially at fair value. Transaction costs, if any, are included in the initial measurement, except for financial instruments measured at FVPL. The Company recognizes financial assets or financial liabilities in the statement of assets, liabilities and fund balance when it becomes a party to the contractual provisions of the instrument. Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

Financial assets and financial liabilities are further classified into the following categories: financial asset or financial liability at FVPL, loans and receivables, held-to-maturity (HTM) investments, available-for-sale (AFS) investments and other financial liabilities. The Company determines the classification at initial recognition and re-evaluates this designation at every reporting date, where appropriate.

The Company’s financial assets are of the nature of loans and receivables. The Company has no outstanding financial assets at FVPL, AFS investments and HTM investments. As of December 31, 2012, 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”, “Funds held for WESM trading participants”, “Market fees and other receivables” and “Guaranty deposits” under Prepayments and other current assets.

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 (EIR) 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.



Excess of Standard over Actual Input Value-added Tax (VAT)

The excess of standard over actual input VAT pertains to the difference between the 7% standard input VAT for sales of goods or services to government or any of its political subdivisions, instrumentalities or agencies including government-owned or controlled corporations (GOCCs) and the 12% actual input VAT per return. As provided for under Republic Act (RA) No. 9337 and its implementing Bureau of Internal Revenue (BIR) Revenue Regulations (RR) No. 16-2005 and Revenue Memorandum No. 62-2005, starting November 2005, should standard input VAT exceed actual input VAT, the excess forms part of the Company’s “Other income” in the statement of comprehensive income.

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.

Financial Instruments

Financial assets and liabilities are recognized initially at fair value. Transaction costs, if any, are included in the initial measurement, except for financial instruments measured at FVPL. The Company recognizes financial assets or financial liabilities in the statement of assets, liabilities and fund balance when it becomes a party to the contractual provisions of the instrument. Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

Financial assets and financial liabilities are further classified into the following categories: financial asset or financial liability at FVPL, loans and receivables, held-to-maturity (HTM) investments, available-for-sale (AFS) investments and other financial liabilities. The Company determines the classification at initial recognition and re-evaluates this designation at every reporting date, where appropriate.

The Company’s financial assets are of the nature of loans and receivables. The Company has no outstanding financial assets at FVPL, AFS investments and HTM investments. As of December 31, 2012, 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”, “Funds held for WESM trading participants”, “Market fees and other receivables” and “Guaranty deposits” under Prepayments and other current assets.

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 (EIR) 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 collectability 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 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 EIR 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 EIR.

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.

This accounting policy applies primarily to the Company’s “Due to WESM trading participants”, “Loans payable” and “Accounts payable and accrued expenses” in the statement of assets, liabilities and fund balance.

*Day 1 difference*

Where the transaction price in a non-active market is different from the fair value from 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’ difference) in profit or loss 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 recognized in profit or loss only 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’ difference 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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of assets, liabilities and fund balance.



Impairment of Financial Assets Carried at Amortized Cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost 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 (excluding future credit losses that have not been incurred) discounted at the financial asset’s original EIR (i.e., the EIR computed at initial recognition). Time value is generally not considered when the effect of the discounting is not material. The carrying amount of the asset is reduced through the 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 impairment loss shall be recognized in profit or loss.

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. 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 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 profit or loss, 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 profit or loss.

Funds held for and Due to WESM trading participants

Funds held for WESM trading participants pertain to cash collected by the Company from WESM participants for their prudential security deposits, market settlements and net settlement surplus retained as required by WESM rules. The “Funds held for WESM trading participants” includes the related interest income earned from these funds. The interest is also subsequently remitted to the WESM trading participants and as such, does not flow through the Company’s results of operations. These funds are deposited in bank accounts in the name of the Company and whose signatories are officers of the Company.

Accordingly, the Company recognizes the corresponding obligation to the WESM participants, which is presented as “Due to WESM trading participants” in the statement of assets, liabilities and fund balance.

*Settlement Fund*

Under the WESM settlement process described in Section 3.14.6 and Section 3.14.7 of 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 as reflected in the WESM member’s final statement, regardless of whether the amount is disputed or not. The market operator shall then pay to each WESM member in cleared funds the settlement amount (if any) stated to be payable to that WESM member in the latter’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 12 months of the relevant billing period.

*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 participation in the spot market. 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.

Majority of the registered WESM trading participants delivered Letters of Credit serving as their prudential security requirement. Registered participants are required to maintain their prudential requirements with the Company. Prudential fund including its interest is recognized as part of the “Due to WESM trading participants” in the statement of assets, liabilities and fund balance.

*Net Settlement Surplus Fund*

The WESM Rules define net settlement surplus (NSS) 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 NSS is the difference between the collections from the customers and payments to the generators which is assumed to be attributable to economic rentals arising from other binding constraints. Under clause 3.13.16.2 of the WESM Rules, the NSS may be: (i) retained by the market operator to fund deficit settlement as a result of transactions required in clause 3.13.14 of the WESM Rules; (ii) flowed back to the trading participants in accordance with the procedures to be developed and approved by the PEM Board; and, (iii) 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 NSS which provides for the formula and procedures for the allocation and flowback of the NSS to the participants. As approved, the NSS is allocated to WESM customer participants on a monthly basis in proportion to their contribution to the total NSS for each billing month. The Company, however, is allowed to retain 10% of the NSS 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 (the Resolution) regarding the rules for the Distribution of NSS was passed. The Resolution directed that the NSS 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 10% of the NSS for the previous three months. Based on Section 8.1 of the Resolution, should PEMC be unable to return the amount of the NSS due to be returned to WESM recipients and/or the interest incurred in the retained 10% during the specified period under the 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 both in Luzon and Visayas, and will take effect 15 days following its publication in a newspaper of general circulation and will continue until otherwise directed by the ERC. The 10% NSS retained including its interest is recognized as part of the “Due to WESM trading participants” in the statement of assets, liabilities and fund balance.

Unutilized Market Fees

Pursuant to the ERC Case No. 2007-124 RC issued on January 30, 2008, any unutilized market fees in the previous year will be refunded by the Company as a reduction from the total approved market fees for the succeeding year. If the approved budget is not utilized, technically, the participants have been overcharged of there is over-recovery. Thus, any over-recovery or unutilized market fee in any preceding year shall be considered in the determination of the adjusted market fees for the current year. Unutilized market fees are a reduction to market fees in the statement of comprehensive income when the Company is directed by the ERC to return or refund such amount to the market participants.

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. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment. Major maintenance and major overhaul costs that are capitalized as part of property and equipment are depreciated on a straight-line basis over the shorter of the estimated useful lives, typically the period until the next major maintenance or inspection, or the remaining useful lives of the related assets. Each part of an item of property and equipment with a cost that is significant in relation to the cost of the item is depreciated separately.

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	3-5 years
System equipment	3-5 years
Transportation equipment	5 years
Furniture and fixtures	3 years

The useful lives, residual values and depreciation method are reviewed periodically and adjusted if appropriate, at each financial year, to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment. When each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

Intangible Assets

*Market Management System (MMS)*

The MMS which is the enabler of the WESM, is an infrastructure with various hardware, software and interfaces that is made up of several highly advanced applications for market interface, market application that supports real time electricity spot market and Locational Marginal Pricing.

The asset is accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire or develop the MMS. It also includes borrowing costs incurred at the time of its development. Capitalized costs are amortized on a straight-line basis over eight years which is the estimated useful life of the asset.



*Other System Software*

Other 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 for the acquisition of goods and services as required by Philippine taxation laws and regulations. Deferred Input VAT represents Input VAT on purchase of capital goods exceeding one million pesos. The related Input VAT is recognized over five years or the useful life of the capital goods, whichever is shorter.

The input VAT is recognized as an asset and will be used to offset against the Company’s current output VAT liabilities and any excess will be claimed as tax credits. Input VAT is stated at its estimated NRV.

Impairment of Nonfinancial Assets

The Company’s intangible assets, property and equipment and other noncurrent assets 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.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses, if any, are recognized in profit or loss.

Recoverable amounts are estimated for individual assets or, if this is not possible, for the cash-generating unit to which the asset belongs. Reversal 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 reversal is recorded in profit or loss. However, the increase in carrying amount of an asset due to a reversal 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.

Retirement Benefit Asset/Liability

The retirement benefit asset/liability is calculated annually by an independent actuary using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees’ projected salaries. Actuarial valuations are conducted with sufficient regularity with option to accelerate when significant changes to underlying assumptions occur.





Retirement benefit costs include current service cost, interest cost, expected return on any plan assets, actuarial gains and losses, past service cost and the effect of any curtailment or settlement.

The retirement plan asset in respect of the defined benefit retirement plan is the lower of:  
(a) the present values of the defined benefit obligation at the reporting date less the fair value of the plan assets together with adjustments for unrecognized actuarial gains or losses and past service costs that shall be recognized in later periods or (b) the total of any cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. If there is no change or increase in the present value of the economic benefits, the entire net actuarial gains and losses of the current period and past service cost of the current period shall be recognized immediately.

The present value of the retirement benefit liability is determined by discounting the estimated future cash outflows using risk-free interest rates of government bonds that have terms to maturity approximating to the terms of the related liability.

Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting year exceeded 10% of the higher of the retirement benefit liability 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. Actuarial gains or losses represent changes in the amount of either the present value of the obligation or the plan assets resulting from experience difference from that assumed in the valuation and from changes in assumptions.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Fund Balance

Fund balance includes the initial contributions made by the incorporators of the Company and the accumulated excess or deficiency or revenues over or against expenses from current and prior periods as reported in the statement of comprehensive income.

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 determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment 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 an interest expense.

Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any 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. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements.

Events after the Reporting Period

Any post-year-end event that provides additional information about the Company's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

**3. Significant Accounting Judgments And Estimates**

The financial statements prepared in accordance with PFRS require management to make judgments, estimates and assumptions that affect amounts reported in the financial statements and related notes. The judgments, estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements, giving due consideration to materiality. Management believes the following represent a summary of significant estimates and judgments and related impact and associated risk in the financial statements. Actual results could differ from estimates.

Accounting assumptions, estimates and judgments 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 primary economic environment in which the Company operates and it is the currency that mainly influences the underlying transactions, events and conditions relevant to the Company.

*Classification of Financial Instruments*

The Company exercises judgments in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statement of asset, liabilities and fund balance.

In addition, the Company classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.



*Recognition of Funds Held for WESM Trading Participants and Due to WESM Trading Participants*

The Company recognizes the cash received and the related obligation (i.e., to remit such cash to the WESM trading participants) arising from transactions in the WESM of the WESM trading participants in its financial statements. Management believes that the Company's obligation to remit these collections to the WESM trading participants should be recognized in the statement of financial position (see Note 5).

*Classification of the MMS*

The MMS incorporates both intangible and tangible elements, and management has determined that the software component of the asset is more prominent than its hardware component. Accordingly, MMS is classified and presented as Intangible Assets in the statement of assets, liabilities and fund balance (see Note 9).

*Operating Leases - the Company as a Lessee*

The Company has entered into various lease agreements as lessee. These lease agreements are all accounted for as operating leases since the lessor retains all significant risk and rewards of ownership of the leased properties due to the following:

1. the ownership of the asset does not transfer at the end of the lease term;
2. the Company has no option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
3. the lease term is not for the major part of the economic life of the asset even if title is not transferred; and
4. at the inception of the lease, the present value of the minimum lease payments does not amount to at least substantially all of the fair value of the leased asset.

Estimates and Assumptions

*Determination of Fair Value of Financial Instruments*

The Company carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence, (i.e. foreign exchange rates, interest rates, volatility rates), the amount of changes in fair value would differ if the Company utilized different valuation methodologies and assumptions. Any changes in fair value of these financial assets and liabilities would affect statements of comprehensive income.

The fair values and carrying values of the Company's financial instruments are presented in Note 19 to the financial statements.

*Estimating Allowance for Impairment Losses on Market Fees and Other Receivables*

The Company reviews its market fees receivables and other receivables at each reporting date to assess whether an allowance for impairment losses should be recognized in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions on a number of factors and actual results may differ, resulting in future changes to the allowance.

The Company evaluates specific accounts when it has information that certain amount of market fees and other receivables from third parties may not be collected. In these cases, the Company uses judgment, based on the available facts and circumstances, and based on a review of the factors that affect the collectibility of the accounts, including but not limited to, the age and status of the market fees and other receivables, collection experience and past loss experience.



The review is made by management on a continuing basis to identify accounts to be provided with allowance. These specific reserves are re-evaluated and adjusted as additional information received affects the amounts estimated.

The Company determines allowance for each significant market fee receivable and other receivables on an individual basis. Among the items that the Company considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the accounts receivable. In addition to specific allowance against individually significant accounts receivable, the Company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on historical default experience.

Market fee and other receivables amounted to ₱138.8 million and ₱201.1 million as of December 31, 2012 and 2011, respectively. There were no allowance for impairment losses on market fees and other receivables as of December 31, 2012 and 2011 (see Note 6).

*Estimating Useful Lives of Property and Equipment and Intangible Assets*

The Company estimates the useful lives of property and equipment and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and intangible assets 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 Company's assets. There were no changes on the estimated useful lives of property and equipment and intangible assets as of December 31, 2012 and 2011 (see Notes 8 and 9)

*Estimating Impairment of Nonfinancial Assets*

The Company assesses impairment on nonfinancial assets 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 estimated recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value is the amount obtainable from the sale of an asset in an arm's-length transaction less costs to sell 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. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. For impairment loss on specific assets, the estimated recoverable amount represents the fair value. 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 allowance for impairment losses on nonfinancial assets was recognized as of December 31, 2012 and 2011 (see Notes 7, 8, 9 and 10).



**5. Funds held for and Due to WESM trading participants**

Funds held for WESM trading participants consist of the following:

	2012	2011
Prudential fund (see Note 2)	<b>₱364,126,067</b>	₱325,298,998
Net settlement surplus fund (see Note 2)	<b>53,686,109</b>	50,487,218
Settlement fund (see Note 2)	<b>37,565,689</b>	68,366,882
	<b>₱455,377,865</b>	₱444,153,098

**6. Market Fees And Other Receivables**

	2012	2011
Market fees receivables (see Note 13)	<b>₱133,785,051</b>	₱196,904,260
Interest	<b>2,056,766</b>	1,995,220
Receivables from officers and employees	<b>1,487,965</b>	1,146,328
Others (see Note 14)	<b>1,440,226</b>	1,022,321
	<b>₱138,770,008</b>	₱201,068,129

*Market Fees*

Market fees receivables pertain to amounts due from the imposition of market fees on the power generation companies. In 2012, market fees receivables pertain to the remaining market fees to be collected as of December 31, 2012 and 2011 (see Note 13).

As prescribed under Section 3.14.12 of the WESM Rules, if a trading participant fails to pay any amount due under the WESM Rules, such overdue amount shall bear the default interest rate reckoned from the first day such amount is due and payable, up to and including the date on which the payment is made, with interest computed based on 360-day year.

Pursuant to the Decision on ERC Case No. 2011-085 RC on December 5, 2011, the Company was authorized to collect from WESM Visayas the market fees retroactively from the billing month of January 2011. In 2011, as ordered by the ERC, the Company determined the amount of market fees that should have been collected from the WESM Visayas trading participants as well as the amount that was initially collected from the WESM Luzon trading participants and the amount that should be refunded to them. Prior to this ERC directives, the Company has collected market transaction fees solely from the WESM Luzon trading participants basing from the volume of kWh traded in the WESMat a rate of ₱0.0144/kWh.

Accordingly, the Company recognized market fees receivable from WESM Visayas trading participants amounting to ₱123.3 million, inclusive of VAT and market fees payable amounting to ₱108.1 million, inclusive of VAT that are due for refund to the Luzon trading participants (see Note 11).

*Receivable from officers and employees*

Receivables from officers and employees are advances to officer and employees. These advances are liquidated within 15 days from the time they were granted.

*Others*

Others include receivables from training fees conducted to various participants and annual registration fees and are collectible upon demand.

**5. Funds held for and Due to WESM trading participants**

Funds held for WESM trading participants consist of the following:

	2012	2011
Prudential fund (see Note 2)	<b>₱364,126,067</b>	₱325,298,998
Net settlement surplus fund (see Note 2)	<b>53,686,109</b>	50,487,218
Settlement fund (see Note 2)	<b>37,565,689</b>	68,366,882
	<b>₱455,377,865</b>	₱444,153,098

**6. Market Fees And Other Receivables**

	2012	2011
Market fees receivables (see Note 13)	<b>₱133,785,051</b>	₱196,904,260
Interest	<b>2,056,766</b>	1,995,220
Receivables from officers and employees	<b>1,487,965</b>	1,146,328
Others (see Note 14)	<b>1,440,226</b>	1,022,321
	<b>₱138,770,008</b>	₱201,068,129

*Market Fees*

Market fees receivables pertain to amounts due from the imposition of market fees on the power generation companies. In 2012, market fees receivables pertain to the remaining market fees to be collected as of December 31, 2012 and 2011 (see Note 13).

As prescribed under Section 3.14.12 of the WESM Rules, if a trading participant fails to pay any amount due under the WESM Rules, such overdue amount shall bear the default interest rate reckoned from the first day such amount is due and payable, up to and including the date on which the payment is made, with interest computed based on 360-day year.

Pursuant to the Decision on ERC Case No. 2011-085 RC on December 5, 2011, the Company was authorized to collect from WESM Visayas the market fees retroactively from the billing month of January 2011. In 2011, as ordered by the ERC, the Company determined the amount of market fees that should have been collected from the WESM Visayas trading participants as well as the amount that was initially collected from the WESM Luzon trading participants and the amount that should be refunded to them. Prior to this ERC directives, the Company has collected market transaction fees solely from the WESM Luzon trading participants basing from the volume of kWh traded in the WESMat a rate of ₱0.0144/kWh.

Accordingly, the Company recognized market fees receivable from WESM Visayas trading participants amounting to ₱123.3 million, inclusive of VAT and market fees payable amounting to ₱108.1 million, inclusive of VAT that are due for refund to the Luzon trading participants (see Note 11).

*Receivable from officers and employees*

Receivables from officers and employees are advances to officer and employees. These advances are liquidated within 15 days from the time they were granted.

*Others*

Others include receivables from training fees conducted to various participants and annual registration fees and are collectible upon demand.



There were no allowance for impairment losses recognized on market fees and other receivables as of December 31, 2012 and 2011.

#### 7. Prepayments And Other Current Assets

	2012	2011
Creditable withholding tax (see Note 18g)	<b>₱23,290,599</b>	₱12,673,402
Prepayments	<b>8,054,842</b>	7,258,617
Guaranty deposits (see Note 18a)	<b>7,677,475</b>	6,243,962
Withholding VAT	<b>6,454,268</b>	2,626,446
Input VAT (see Note 13)	—	10,056,363
Others	<b>1,238,356</b>	910,568
	<b>₱46,715,540</b>	₱39,769,358

##### *Creditable withholding tax (CWT)*

CWT is the amount withheld by certain customers and lessors from its payment to the Company and is creditable against the income tax due of the Company for each taxable quarter subject to the rules on the Philippine income taxation. (see Note 18g).

##### *Prepayments*

Prepayments pertain significantly to prepaid rent, maintenance and insurance.

##### *Guaranty deposits*

Guaranty deposits are related to various non-cancelable operating leases entered into by the Company for its offices (see Note 18a).

##### *Withholding value added tax (VAT)*

Withholding VAT pertains to the 5% final value added tax withheld on the Company's purchases of goods or services to government or any of its political subdivisions, instrumentalities or agencies including GOCCs.

##### *Others*

Others consist mainly of advances to suppliers and materials and supplies.

#### 8. Property and Equipment

##### 2012

	Office Equipment	System Hardware	Leasehold Improvements	Transportation Equipment	Furniture and Fixtures	Total
Cost:						
Balances at beginning of year	₱92,412,165	₱58,802,570	₱48,901,925	₱18,139,498	₱11,344,371	₱229,600,529
Additions	24,938,208	—	250,045	4,837,500	2,215,148	32,240,901
Disposal	(165,394)	—	—	(7,335,927)	—	(7,501,321)
Balances at end of year	117,184,979	58,802,570	49,151,970	15,641,071	13,559,519	254,340,109
Accumulated depreciation and amortization:						
Balances at beginning of year	81,244,142	41,458,233	45,583,810	10,905,525	11,203,398	190,395,108
Depreciation and amortization	9,991,586	10,033,193	1,516,395	2,538,780	124,015	24,203,969
Disposal	(165,394)	—	—	(7,335,927)	—	(7,501,321)
Balances at end of year	91,070,334	51,491,426	47,100,205	6,108,378	11,327,413	207,097,756
Net book values	₱26,114,645	₱7,311,144	₱2,051,765	₱9,532,693	₱2,232,106	₱47,242,353



##### 2011

	Office Equipment	System Hardware	Leasehold Improvements	Transportation Equipment	Furniture and Fixtures	Total
Cost:						
Balances at beginning of year	₱86,741,513	₱50,888,986	₱48,901,925	₱14,976,105	₱11,328,300	₱212,836,829
Additions	5,670,652	7,913,584	—	3,163,393	16,071	16,763,700
Balances at end of year	92,412,165	58,802,570	48,901,925	18,139,498	11,344,371	229,600,529
Accumulated depreciation and amortization:						
Balances at beginning of year	72,140,121	25,838,554	41,956,013	8,794,004	10,956,197	159,684,889
Depreciation and amortization	9,104,021	15,619,679	3,627,797	2,111,521	247,201	30,710,219
Balances at end of year	81,244,142	41,458,233	45,583,810	10,905,525	11,203,398	190,395,108
Net book values	₱11,168,023	₱17,344,337	₱3,318,115	₱7,233,973	₱140,973	₱39,205,421

##### *Fully depreciated property and equipment*

Fully depreciated property and equipment with a total cost of ₱205.8 million and ₱97.9 million as of December 31, 2012 and 2011, respectively, are still being used in operations and have not yet been derecognized.

##### *Collaterals*

None of these assets were used as collaterals for any of the Company's loans payable as of December 31, 2012 and 2011.

#### 9. Intangible Assets

##### 2012

	Market Management System	Other System Software	Total
Cost			
Balances at beginning	₱681,264,499	₱38,400,385	₱719,664,884
Additions	—	6,247,267	6,247,267
Balances at end of year	681,264,499	44,647,652	725,912,151
Accumulated amortization			
Balances at beginning of year	442,519,206	31,960,795	474,480,001
Amortization	95,498,117	4,173,505	99,671,622
Balances at end of year	538,017,323	36,134,300	574,151,623
Net book values	₱143,247,176	₱8,513,352	₱151,760,528

##### 2011

	Market Management System	Other System Software	Total
Cost			
Balances at beginning of year	₱681,264,498	₱37,183,709	₱718,448,207
Additions	—	1,216,677	1,216,677
Balances at end of year	681,264,498	38,400,386	719,664,884
Accumulated amortization			
Balances at beginning of year	347,021,089	21,558,773	368,579,862
Amortization	95,498,117	10,402,022	105,900,139
Balances at end of year	442,519,206	31,960,795	474,480,001
Net book values	₱238,745,292	₱6,439,591	₱245,184,883



*Collaterals*

None of these assets were used as collaterals for any of the Company's loans payable as of December 31, 2012 and 2011.

*Application for the New MMS*

On July 4, 2011, the PEM Board approved the following:

- allocation of budget amounting to ₱841.05 million for the new MMS Project;
- the recommended payment schedule with three year recovery period subject to adjustment as may be approved by ERC;
- acquisition of bridge financing from lending institution as may necessary; and
- to cause the appropriate filling with the ERC.

Accordingly, on August 18, 2011, the Company filed an application for the approval of additional market fees amounting to ₱841.05 million to cover for the budgetary requirements for the procurement of the new MMS. As of December 31, 2012, the Company has not yet received the approval for the said application.

**10. Other Noncurrent Assets**

	2012	2011
Deferred input VAT	<b>₱10,012,602</b>	₱4,787,169
Income tax refund - (net of accumulated allowance for possible losses of ₱3.31 million as of December 31, 2012 and 2011) (see Note 18g)	<b>5,063,123</b>	5,063,124
	<b>₱15,075,725</b>	₱9,850,293

**11. Accounts Payable and Accrued Expenses**

	2012	2011
Trade	<b>₱69,607,890</b>	₱19,061,382
Accrued expenses (see Note 13)	<b>48,783,184</b>	45,771,526
Withholding taxes payable	<b>15,066,261</b>	16,465,995
Deferred output VAT	<b>14,465,806</b>	9,643,863
Output VAT	<b>5,664,162</b>	—
Market fee payable (see Note 13)	—	108,106,265
Others	<b>1,128,086</b>	373,895
	<b>₱154,715,389</b>	₱199,422,926

*Trade*

Trade payables are noninterest-bearing payables to various suppliers and are normally settled on terms ranging from 15 to 30 days.

*Accrued expenses*

Accrued expenses mainly consist of obligations to the Company's employees, such as accrued sick and vacation leaves, which are expected to be settled within 12 months after the reporting period. Accrued expenses in 2012 and 2011 also include the market fee payable amounting to ₱22.9 million related to the ERC Case No. 2011-085 RC (see Note 13).

*Market fee payable*

Market fee payable includes the accounts payable to WESM Luzon trading participants amounting to ₱108.1 million as of December 31, 2011, which was subsequently refunded in 2012.

*Others*

Others include government payables such as fringe benefits and employee contributions on other government agencies.

**12. Loans Payable**

	2012	2011
Loan payable to Transco (see Note 12a)	<b>₱216,121,151</b>	₱216,121,151
Loan payable to PSALM (see Note 12b)	<b>777,406,994</b>	736,625,907
	<b>993,528,145</b>	952,747,058
Less noncurrent portion on loan payable to PSALM	<b>656,490,753</b>	736,625,907
	<b>₱337,037,392</b>	₱216,121,151

**a. Loan payable to Transco**

Pursuant to the Operating Agreement (OPA) dated May 5, 2004 between National Transmission Corporation (Transco), DOE and the Company, Transco shall provide for the initial operational and capital expenditures of 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 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 WESM trading participants.

In 2004 and 2005, the Company made six drawdowns totaling ₱422.4 million plus compounded interest amounting to ₱85.6 million which formed part of the principal as of the first amortization payment. Also during those years, Transco provided property and equipment for the Company's operations with carrying amount of ₱38.8 million at the time of transfer which was included as part of the loan. Based on the agreement between Transco and the Company, quarterly amortization amounting to ₱36.1 million inclusive of interest will be made. On November 25, 2006, the Company began collecting market fees from the WESM trading participants for the portion attributable to the repayment of the loan from Transco. Consequently, the first quarterly amortization was made in February 2007. The loan was scheduled to be fully settled in November 2011.

In August and September 2010, the Municipality of Labrador, Pangasinan (the Municipality) through the Municipal Treasurer issued a warrant of distraint ordering the Company to seize the loan repayment to Transco and, instead, deliver the amortization payments to the Municipality. Since the Company cannot determine, without a court order, which between Transco and the Municipality is entitled to the loan repayment, the Company did not deliver the payment to the Municipality and also stopped the quarterly principal loan payment to



Transco starting August 2010. However, it continued to accrue interest based on the schedule of amortization of the loan.

The Company was constrained to settle the loan payable to Transco in November 2011. No interest expense was recognized subsequent to November 2011.

Accrued interest on the loans payable to Transco amounted to ₱19.5 million as of December 31, 2012 and 2011 (see Note 12). This accrued interest is also recognized as part of the carrying amount of the loan. Interest expense recognized with respect to this loan amounted to ₱8.2 million in 2011. Though the Company has not yet paid the corresponding interest from August 2010 up to November 2011, the Company has already remitted the corresponding withholding taxes on the interest expense recognized for those inclusive periods.

Management anticipates that the matter described above will be resolved anytime. Accordingly, the balance of the loan is classified as part of current liabilities in the statement of assets, liabilities and fund balance.

b. Loan Payable to PSALM

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

Among the undertakings financed out of the loan proceeds is the cost of the MMS development for the WESM. Transco was the designated project executing agency for the development of the MMS and the Company was assigned as the project administrator.

On March 17, 2004, Transco, for the development of the MMS, entered into a “Contract for the Turnkey Implementation of the MMS” with the 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 OPA dated May 5, 2004 entered into between the Company, Transco and the DOE, capital expenditures from the operation of the WESM shall be recovered from the market fees. The 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 it 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 the contracting party (i.e., whether NPC, Transco in whose accounting books the MMS is still recorded as of the date of the request, 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 among 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.

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

In 2010, the Company and PSALM agreed on the final amount of the loan at ₱728.6 million. However the MOA between PSALM and the Company covering the terms of the loan such as maturity date, interest rate (though the nominal rate of 12% per annum has already been determined) and principal payment terms as at December 31, 2011 has not yet been approved by the ERC. Moreover, the date when the principal payment will commence and when the nominal interest will start accruing on the loan, are also yet to be determined.

Management estimates that it will most likely receive the ERC order setting the date when the principal payment will commence and when the nominal interest will start accruing on the loan, by the first quarter of 2013 and will be effective by July of that same year. This is based on the Company’s experience with the ERC with respect to the timeline and duration for application and approval processes of its market fees, prayers and motions for reconsiderations of other matters to the ERC.

The fair value of the loan payable to PSALM is determined by calculating the present value anticipated on the loan payments until the end of 2016 using the effective interest rate of 5.4% per annum. As the loan does not have an active market, the interest rate was determined with reference to market interest rate of comparable instruments plus a spread that is indicative of the Company’s borrowing capacity. Accordingly, the Company recognized ₱30.6 million reduction in the carrying amount of the loan which is presented as “Fair value gain” in the 2011 statement of comprehensive income.

On June 1, 2012, the MOA was finalized along with the following terms (i) the Company shall pay PSALM the amount of ₱728.6 million representing the principal amount of advances for the MMS project, (ii) with interest at the rate of 12% per annum, (iii) payable monthly for three (3) years and (iv) the first amortization payment shall be due on the 26th day of the third month following the close of the month of the Company’s receipt of the ERC approval. As of December 31, 2012, there were no changes in the estimated receipt of the ERC approval.

Interest expense recognized for loan payable to PSALM in the statement of comprehensive income amounted to ₱40.8 million and ₱38.6 million in 2012 and 2011, respectively.

On August 10, 2012, the Company filed for approval on additional market fees amounting to ₱863.34 million for the repayment of the loan payable to PSALM, recoverable over a period of three (3) years pursuant to the terms of the MOA. The application also include a request for authority for the Company to enter into a Facility Agreement with a commercial bank to refinance the Loan payable to PSALM in an amount not exceeding the additional market fees, the principal and interest payments of which shall be recoverable through market fees over a period of three (3) years.





## 13. Market Fees

	2012	2011
Market transaction fees	<b>₱885,492,012</b>	₱688,288,757
Market registration fees	<b>718,156</b>	447,400
	<b>886,210,168</b>	688,736,157
Less prior year unutilized market fees	—	(252,565,325)
	<b>₱886,210,168</b>	₱436,170,832

As mandated in Section 2.10 of the WESM Rules, the Company will recover all its costs of administering and operating the WESM through the market fees imposed on all WESM members, provided that such market fees are approved by the ERC.

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.

*2012 Market transaction fees*

The ERC issued its decision on ERC Case No. 2011-111 RC dated December 3, 2012 that the revenue requirements of the Company for the Calendar Year (CY) 2012 shall be in the amount of ₱737.9 million. On January 28, 2013, the Company filed for a motion for reconsideration with respect to the abovementioned ERC decision on the disallowed proposed budgetary requirement amounting to ₱55.6 million for the Company's personnel cost, lease improvements and the remaining 80% of the CY2011 budget for market research and development platform and market design and structural feasibility projects.

In addition to the approved market fees for CY2011, on June 4, 2012, the Company was granted a revised revenue requirement of ₱833.9 million principally due to the approval of the ₱132.9 million for the Business to Business (B2B) system from the previously approved revenue requirement amounting to ₱687.6 million with respect to the November 15, 2011 filed motion for reconsideration on ERC Case No. 2010-079 RC.

The total market transaction fees recognized in the 2012 statement of comprehensive income is computed as follows:

Approved ERC budget for CY2012	₱737,887,097
Approved Motion for Reconsideration on the CY2011	146,223,119
Market transaction fee accrual for period December 26 to 31:	
2011	(10,519,609)
2012	11,901,405
	<b>₱885,492,012</b>

*2011 Market transaction fees*

Based on ERC Case No. 2010-079 RC, the approved maximum market transaction fees for CY2011 was ₱661.3 million. However, on February 28, 2012, ERC Case No. 2011-085 RC was issued by the ERC granting the Company the right to collect additional market transaction fees from WESM trading participants amounting to ₱26.4 million, which effectively set and increased the limit of market transaction fees to ₱687.7 million, for 2011, excluding market registration fees.

Refund of Market Fees

In ERC Order dated July 19, 2010 on ERC Case No. 2010-079 RC, a motion for additional market transaction fee (AMF) of ₱0.0075/kWh the incremental amount intended to finance MMS Migration was granted with modification. ERC allowed the Company to collect the ₱331.5 million budgeted capital expenditures that will be spread over a period of 5 years with an annual rate of P0.0015/kWh.

On February 4, 2011, the Company filed a Manifestation and Motion where it was manifested that it has terminated its negotiations with ABB, Inc. relative to the MMS Migration. Nonetheless, the Company requested for the continued collection of the approved budget to fund the purchase of the new MMS. The request was denied in the absence of a concrete basis to justify the same and considering that the acquisition of a new MMS has yet to be approved by the ERC.

Relative to this, the Company was directed to refund to paying market participants market fees amounting to ₱268.2 million inclusive of ₱22.2 million interests computed at Manila Reference Rate plus 3%.

In compliance with the ERC directive, the Company returned to the trading WESM participants the sum of ₱238.4 million inclusive of ₱13.4 million interests which Management believes is the amount collected from the WESM participants. The remaining amount of unutilized market fees amounting to ₱14.1 million and the ₱8.8 million interests remained unreturned as of December 31, 2012 and 2011, awaiting the decision from the Court of Appeals. The total amount of ₱22.9 million was recognized as part of the "Accrued expense" in the "Accounts payable and accrued expenses" (see Note 11).

The Company recognized the unutilized market fees for the refunded ₱238.4 million and the remaining amount of unutilized market fees amounting to ₱14.1 million as a reduction to the 2011 market fees in the statement of comprehensive income.

The prospective amount to be recovered by the Company for CY2011 shall be the total approved revenue requirement for CY2011 less the sum of:

- (a) actual market fees collected from Luzon stakeholders at the rate of ₱0.0144/kWh in 2011; and
- (b) any unutilized market transaction fees in CY2010 intended for MMS Migration.

The total market transaction fees recognized in the 2011 statement of comprehensive income is computed as follows:

Approved ERC budget for CY2011	₱687,640,999
Market transaction fee accrual for period December 26 to 31:	
2010	(9,871,852)
2011	10,519,610
Less unutilized market fees	(252,565,325)
	<b>₱435,723,432</b>



- 30 -

The movements in the present value of the retirement benefit obligation recognized in the statement of assets, liabilities and fund balance follows:

	2012	2011
Balance at beginning of year	<b>₱107,245,735</b>	₱89,069,555
Current service cost	<b>19,712,573</b>	17,246,073
Interest cost	<b>6,670,685</b>	7,223,541
Actuarial gains	<b>(14,215,887)</b>	(6,293,434)
Benefits paid by the plan	<b>(469,732)</b>	–
Balance at end of year	<b>₱118,943,374</b>	₱107,245,735

The movements in the fair value of plan assets are presented below.

	2012	2011
Balance at beginning of year	<b>₱85,309,759</b>	₱40,638,959
Contributions	<b>35,132,853</b>	42,745,789
Expected return on plan assets	<b>4,105,653</b>	3,100,593
Actuarial gains (losses)	<b>3,417,802</b>	(1,175,582)
Benefits paid by the plan	<b>(469,732)</b>	–
Balance at end of year	<b>₱127,496,335</b>	₱85,309,759

The plan asset consists of the following:

	2012	2011
Government securities	<b>₱82,371,896</b>	₱29,711,303
Time deposits	<b>41,030,469</b>	46,693,867
Unit investment trust funds	<b>4,040,283</b>	8,847,283
Mutual funds	<b>53,435</b>	57,120
Cash	<b>252</b>	186
	<b>₱127,496,335</b>	₱85,309,759

Actual return on plan assets was ₱7.5 million and ₱1.9 million in 2012 and 2011, respectively.

Presented below are the historical information related to the present value of the retirement benefit obligation, fair value of plan assets and excess or deficit in the plan (in thousands of Philippine pesos), as well as experience adjustments arising on plan assets and liabilities.

	2012	2011	2010	2009	2008
Present value of the obligation	<b>₱118,943</b>	₱107,246	₱89,070	₱46,226	₱11,244
Fair value of the plan assets	<b>127,496</b>	85,310	40,639	–	–
Deficit in the plan/ unfunded obligation	<b>(8,553)</b>	21,936	48,431	46,226	11,244
Experience adjustments arising on plan liabilities	<b>(14,216)</b>	–	2,413	4,560	(15,074)
Experience adjustments arising on plan assets	<b>3,418</b>	(1,176)	1,151	–	–



- 30 -

The movements in the present value of the retirement benefit obligation recognized in the statement of assets, liabilities and fund balance follows:

	2012	2011
Balance at beginning of year	<b>₱107,245,735</b>	₱89,069,555
Current service cost	<b>19,712,573</b>	17,246,073
Interest cost	<b>6,670,685</b>	7,223,541
Actuarial gains	<b>(14,215,887)</b>	(6,293,434)
Benefits paid by the plan	<b>(469,732)</b>	–
Balance at end of year	<b>₱118,943,374</b>	₱107,245,735

The movements in the fair value of plan assets are presented below.

	2012	2011
Balance at beginning of year	<b>₱85,309,759</b>	₱40,638,959
Contributions	<b>35,132,853</b>	42,745,789
Expected return on plan assets	<b>4,105,653</b>	3,100,593
Actuarial gains (losses)	<b>3,417,802</b>	(1,175,582)
Benefits paid by the plan	<b>(469,732)</b>	–
Balance at end of year	<b>₱127,496,335</b>	₱85,309,759

The plan asset consists of the following:

	2012	2011
Government securities	<b>₱82,371,896</b>	₱29,711,303
Time deposits	<b>41,030,469</b>	46,693,867
Unit investment trust funds	<b>4,040,283</b>	8,847,283
Mutual funds	<b>53,435</b>	57,120
Cash	<b>252</b>	186
	<b>₱127,496,335</b>	₱85,309,759

Actual return on plan assets was ₱7.5 million and ₱1.9 million in 2012 and 2011, respectively.

Presented below are the historical information related to the present value of the retirement benefit obligation, fair value of plan assets and excess or deficit in the plan (in thousands of Philippine pesos), as well as experience adjustments arising on plan assets and liabilities.

	2012	2011	2010	2009	2008
Present value of the obligation	<b>₱118,943</b>	₱107,246	₱89,070	₱46,226	₱11,244
Fair value of the plan assets	<b>127,496</b>	85,310	40,639	–	–
Deficit in the plan/ unfunded obligation	<b>(8,553)</b>	21,936	48,431	46,226	11,244
Experience adjustments arising on plan liabilities	<b>(14,216)</b>	–	2,413	4,560	(15,074)
Experience adjustments arising on plan assets	<b>3,418</b>	(1,176)	1,151	–	–





In determining the retirement benefit obligation (asset), the following actuarial assumptions were used:

	2012	2011
Discount rate	6.40%	6.22%
Expected rate of return on plan assets	3.75%	4.00%
Expected rate of salary increases	10.00%	10.00%

17. Other Expenses

	2012	2011
Conference	₱12,912,210	₱8,590,397
Insurance	10,583,905	10,881,314
Training and education	3,923,613	5,353,691
Taxes and licenses	3,079,308	448,822
Income taxes (see Note 14)	4,386,364	1,032,757
Advertising and promotions	2,697,487	1,621,210
Membership and association dues	2,595,199	2,416,743
Litigations (see Note 18)	1,256,002	4,946,969
Registration cost	148,300	106,541
Subscription	116,073	124,638
Bank charges	58,722	17,084
Miscellaneous	67,143	514,252
	₱41,824,326	₱36,054,418

Income taxes represents the regular corporate income tax on income derived by the Company from activities regarded as for profit or not part of its principal activities (see Note 14).

18. Contracts, Commitments and Contingencies

The following are the significant commitments and contingencies involving the Company:

Contracts and Commitments

a. *Operating Lease Commitments - Company as Lessee*

The Company entered into various non-cancellable lease agreements with third parties for the lease covering offices, warehouses and parking slots. Upon signing of the contract, the Company paid guaranty deposits which shall be refunded to the Company at the end of the lease terms (see Note 7).

The leases have terms ranging from one to three years, with renewal options. The future minimum rentals payable under these non-cancellable operating leases are as follows as of December 31:

	2012	2011
Within one year	₱16,919,150	₱18,134,480
After one year but not more than five years	32,314,203	60,984
	₱49,233,353	₱18,195,464



Total rental expense from these operating leases amounting to ₱25.7 million in 2012 and ₱24.3 million in 2011 is presented as part of Rental in the statement of comprehensive income.

b. *Outside Services*

The Company incurred professional fees paid to its consultants, lawyers and external auditors for its market and metering audit. Outside services amounted to ₱73.3 million and ₱42.5 million in 2012 and 2011, respectively.

Contingencies

c. *Garnishment of Transco Loan Payments*

A warrant of distraint was issued by the Municipality of Labrador (the Municipality) directing the Company to deliver to the Municipality the loan repayments due to Transco, until Transco's alleged tax liability to the Municipality is extinguished (see Note 12).

As the Company refused to deliver the garnished loan repayments, the Municipality filed a complaint with the Regional Trial Court (RTC) of Lingayen, Pangasinan for the delivery of the garnished money and damages against the Company and the individual members of the PEM Board.

The complaint was subsequently dismissed by the RTC for failure to state cause of action. The Municipality filed for a petition for Review on Certiorari with the Supreme Court (SC) to challenge the dismissal of its complaint. On December 14, 2011, the SC dismissed the petition for failure to show any reversible error in the RTC decision. The Municipality was given 15 days from receipt of Notice of the Resolution to file a motion for reconsideration with the SC.

The Company's legal counsel believes that, in the remote event that the SC grants the motion for reconsideration, the Company may be required to pay ₱36.0 million per quarter directly to the Municipality until Transco's alleged tax liability to the Municipality is extinguished or until the Company is deemed to have fully paid its loan repayments to Transco. This amount, however, has already been recorded as part of the Company's Loan payable to Transco (see Note 12). Hence, no further obligation needs to be recorded should a ruling in favor of the Municipality be rendered.

d. *Possible Violation of ERC Orders, Rules and Regulations (ERC Case No. 2010-120 RC)*

In relation to the establishment of the WESM in the Visayas, the ERC directed the Company to submit an explanation under oath why no penalty should be imposed upon the Company and/or its directors and officers for breach of the WESM Rules, particularly for allowing non-registered Visayas industry players to draw and inject power from and into the grid contrary to the WESM Rules. In an Order dated September 12, 2011, the ERC exonerated the Company from any administrative sanction and/or criminal liability in connection with this case.

e. *Case Against Albay Electric Cooperative, Inc. (ALECO)*

The Company, insofar as its capacity to collect on behalf of the trading participants and pursuant to the directive of the ERC to undergo the WESM dispute resolution procedure, facilitated the filing of a case seeking payment by ALECO of its outstanding obligations to the WESM for the billing months of February to June 2010. The matter was eventually brought to arbitration. During the course of arbitration proceedings, ALECO, PEMC, Therma Luzon Inc., Masinloc Power Partners Co., Ltd., Panasia Energy Holdings Inc., San Miguel Energy Corporation and Strategic Power Development Corporation entered into a payment agreement to restructure the indebtedness of ₱963.0 million over a period of 3 years with interest of 2.7% per annum.



This agreement was later amended to move the initial payment date for the principal and was submitted to the arbitration panel as a compromise agreement. On December 1, 2011, the Arbitral Tribunal issued the arbitral award based on the terms of the agreement.

ALECO however defaulted under the terms of the agreement. A second amendment was thereafter executed providing for a 6 month moratorium on the payment of the principal.

Because the Company is not a party to the disputed amounts, management believes that it will not be held liable in case ALECO fails to pay all its obligations to the WESM participants. As of December 31, 2012 and 2011, the total outstanding obligation of ALECO to the WESM participants amounted to ₱1,042 million and ₱1,060 million, respectively, exclusive of VAT and default interest.

f. *Exemption from Income Taxation*

Management took a position that the Company, being a nonstock, nonprofit corporation and as intended under the EPIRA, is exempt from income tax and as such, pending approval by the BIR of its application for a tax ruling on its exemption from income tax, did not recognize any income tax on the excess of its revenues over expenses. Any unfavorable outcome of the pending application for a tax ruling may result in a significant tax obligation. Management, however, believes that there is basis for a favorable ruling from the BIR.

g. *Tax Claims*

The Company is a nonstock, nonprofit corporation which, in the opinion of management, 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 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 a ruling from BIR confirming its exemption from income tax as a nonstock, nonprofit entity (see Note 18f). Pending the issuance of the BIR ruling, market participants continue to withhold portion of the market fees as withholding taxes, which is creditable against the income tax due of the Company should it get an unfavorable response on its request for ruling from the BIR. Since the Company does not have any taxable income against which the withholding tax credits may be applied, the Company has chosen the option of claiming cash refund from the BIR for such credits.

In 2011, the Company recognized provision for impairment loss amounting to ₱3.3 million for the portion of the CWT pertaining to taxable years 2007 and 2008 that has prescribed for application. No impairment loss was recognized in 2012.

As of December 31, 2012 and 2011, the balance of the creditable withholding taxes net of accumulated impairment loss amounted to ₱29.8 million and ₱17.7 million (see Notes 7 and 10).



19. **Financial Instruments**

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

Fair Values of Financial Instruments

The following table shows the carrying values and fair values of the Company’s financial assets and liabilities:

	Carrying Values		Fair Values	
	2012	2011	2012	2011
<b>Financial assets</b>				
Cash and cash equivalents	<b>₱1,047,998,805</b>	₱701,321,469	<b>₱1,047,998,805</b>	₱701,321,469
Funds held for WESM trading participants	<b>455,377,865</b>	444,377,865	<b>455,377,865</b>	444,377,865
Market fees and other receivables	<b>138,770,008</b>	201,068,129	<b>138,770,008</b>	201,068,129
Guaranty deposits under Prepayment and other current assets	<b>7,677,475</b>	6,243,962	<b>7,677,475</b>	6,243,962
	<b>₱1,649,824,153</b>	₱1,353,011,425	<b>₱1,649,824,153</b>	₱1,353,011,425
<b>Financial liabilities</b>				
Accounts and accrued payables*	<b>₱117,047,074</b>	₱164,149,207	<b>₱117,047,074</b>	₱164,149,207
Loans payable	<b>993,528,145</b>	952,747,058	<b>993,528,145</b>	952,747,058
Due to WESM trading participants	<b>455,377,865</b>	444,377,865	<b>455,377,865</b>	444,377,865
	<b>₱1,565,953,084</b>	₱1,561,274,130	<b>₱1,565,953,084</b>	₱1,561,274,130

\*Excluding government payables

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

*Cash and cash equivalents, Funds held for WESM trading participants, Market fees and other receivables, Guaranty deposits under Prepayment and other current assets, Accounts payable and accrued liabilities, Loan payable to Transco and Due to WESM trading participants*

The carrying values approximate the fair values due to the relatively short-term maturity of these financial instruments and receivable from and payable to related parties will be settled on demand and when available funds are obtained.

*Loan payable to PSALM*

The fair value of loan payable to PSALM is computed using the discounted cash flow method with credit adjusted zero coupon rates as discount rate.

Financial Risk Management Objective and Policies

The Company is exposed to certain financial risks in relation to financial instruments. The main types of risks are credit risk and liquidity risk.

The Company’s risk management is coordinated in close cooperation with the PEM Board and focuses on actively securing the Company’s short to medium-term cash flows by minimizing the exposure to financial markets.

The Company does not engage in the trading of financial assets for speculative purposes nor does it write options.



*Credit Risk*

Credit risk is the risk that the Company will incur a loss because the trading participants failed to discharge their contractual obligation. The Company's financial assets which are exposed to credit risk include its cash and cash equivalents, funds held for WESM trading participants, market fees and other receivables and guarantee deposit with a maximum exposure equal to the carrying amount of these assets.

With respect to cash and cash equivalents and funds held for WESM trading participants, credit risk is mitigated by the short-term and/or liquid nature of its cash investments placed with financial institutions of high credit standing.

The following table summarizes the gross maximum exposure to credit risk for the components of the Company statements of asset, liabilities and fund balance as of December 31, 2012 and 2011.

	2012	2011
Cash and cash equivalents*	<b>₱1,047,898,805</b>	₱701,223,679
Funds held for WESM trading participants	<b>455,377,865</b>	444,153,098
Market fees and other receivables	<b>138,770,008</b>	201,068,129
Guaranty deposits under Prepayments and other current assets	<b>7,677,475</b>	6,243,962
	<b>₱1,649,724,153</b>	₱1,352,688,868

\*Excluding cash on hand

The information provided above represents the carrying values of the Company's financial assets categorized as loans and receivables, and none of which are either past due or impaired. Also, none of the other financial assets are secured by collateral or other credit enhancements.

The Company seldom encounters default of counterparties but should it happen, it continuously monitors defaults of such counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Company considers the reputation and financial standing of every bank it does business with as part of its policy. To ensure the effective operation of the spot market by providing a level of comfort that WESM members will meet their obligations to make payments as required under the WESM Rules, each WESM member must satisfy the prudential requirements.

A trading participant wishing to participate in the market transactions shall provide and maintain a security acceptable to the Company which is either:

- A bank guarantee in a form and from a bank;
- Another immediate, irrevocable and unconditional commitment in a form and from a bank or other institution;
- Surety bond issued by a surety or insurance company duly accredited by the Office of the Insurance Commission (c) of the Philippines; or,
- Such other forms of security or guarantee acceptable to the Company.

In respect of market fees and other receivables, the Company is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

*Liquidity Risk*

Considering the nature of its operations, the Company manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities, as well as cash outflows due in the day-to-day operations of the WESM. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-month and one-year period are identified monthly.

The Company maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is invested in time deposits or short-term marketable securities. As at December 31, 2012 and 2011, the Company's financial liabilities have contractual maturities which are summarized below and further compared with financial assets as of December 31, 2012 and 2011.

2012

	On demand	Within 1 year	More than 1 year	Total
<b>Financial assets:</b>				
Cash and cash equivalents	<b>₱1,047,998,805</b>	<b>₱–</b>	<b>₱–</b>	<b>₱1,047,998,805</b>
Funds held for WESM trading participants	<b>455,377,865</b>	–	–	<b>455,377,865</b>
Market fees and other receivables	–	<b>138,770,008</b>	–	<b>138,770,008</b>
Guaranty deposits under Prepayments and other current assets	–	<b>7,677,475</b>	–	<b>7,677,475</b>
	<b>1,503,376,670</b>	<b>146,447,483</b>	–	<b>1,649,824,153</b>
<b>Financial liabilities:</b>				
Accounts and accrued payables*	–	<b>₱117,047,074</b>	–	<b>117,047,074</b>
Loans payable	<b>216,121,151</b>	<b>120,916,241</b>	<b>656,490,753</b>	<b>993,528,145</b>
Due to WESM trading participants	<b>455,377,865</b>	–	–	<b>455,377,865</b>
	<b>671,499,016</b>	<b>237,963,315</b>	<b>656,490,753</b>	<b>1,565,953,084</b>
<b>Net financial assets (liabilities)</b>	<b>₱831,877,654</b>	<b>(₱91,515,832)</b>	<b>(₱656,490,753)</b>	<b>₱83,871,069</b>

\*Excluding government payables

2011

	On demand	Within 1 year	More than 1 year	Total
<b>Financial assets:</b>				
Cash and cash equivalents	<b>₱701,321,469</b>	<b>₱–</b>	<b>₱–</b>	<b>₱701,321,469</b>
Funds held for WESM trading participants	<b>444,377,865</b>	–	–	<b>444,377,865</b>
Market fees and other receivables	–	<b>201,068,129</b>	–	<b>201,068,129</b>
Guaranty deposits under Prepayments and other current assets	–	<b>6,243,962</b>	–	<b>6,243,962</b>
	<b>1,145,699,334</b>	<b>207,312,091</b>	–	<b>1,353,011,425</b>
<b>Financial liabilities:</b>				
Accounts and accrued payables*	–	<b>164,149,207</b>	–	<b>164,149,207</b>
Loans payable	–	<b>216,121,151</b>	<b>736,625,907</b>	<b>952,747,058</b>
Due to WESM trading participants	<b>444,377,865</b>	–	–	<b>444,377,865</b>
	<b>444,377,865</b>	<b>380,270,358</b>	<b>736,625,907</b>	<b>1,561,274,130</b>
<b>Net financial assets (liabilities)</b>	<b>₱701,321,469</b>	<b>(₱172,958,267)</b>	<b>(₱736,625,907)</b>	<b>(₱208,262,705)</b>

\*Excluding government payables

The contractual maturities reflect the gross cash flows, which is equivalent to the carrying values of the liabilities at the end of the reporting periods.



Foreign Currency Risk

The Company no longer has material exposure to foreign currency risks as the final amount of its interest-bearing loan from PSALM has already been determined and agreed between the Company and PSALM (see Note 12b). The original loan obtained by PSALM from a financial institution and passed on to the Company is denominated in foreign currency. The effect of foreign exchange changes on such loan was also passed on to the Company. In 2011, the PEM Board approved the drafting of a MOA that will be executed with PSALM and for submission to the ERC, whereby among others, both parties agreed that the amount of loan together with its interest will be in Philippine pesos. At present, most of the Company’s transactions are carried out in Philippine pesos, its functional currency.

Operational Risk

The Company’s exposure to significant operational risk exposure is related to its primary purpose as the market operator and governing body of the WESM. It oversees the transaction billing and settlement procedures of the WESM in accordance with the WESM Rules (see Note 1). Also, the Company is under the regulation of the ERC. Management is aware that the Company will always have operational risk, but seeks to minimize the probability and impact of such in its operations and financial statements.

The Company manages this risk through applicable controls, processes and procedures, including effective organization structure and good corporate governance. Internal controls ensure compliance with laws and regulations, including the WESM Rules and ERC directives, and the overall protection of the Company’s resources.

Although the Company governs the settlements of market transactions in the WESM, it is not, however, liable for unfulfilled obligations of any trading participants WESM Rules 3.14.7 provides that if total payments actually received or drawn from prudential security by the market operator is insufficient to pay for the total amounts payable to WESM members, then the total payments received and drawn shall be distributed and paid pro rata.

20. Fund Management Objectives, Policies and Procedures

The Company aims to manage operational and strategic objectives. The PEM Board has overall responsibility for monitoring of fund balance in proportion to risks. The primary objective of the Company’s capital management is to ensure that the Company has available funds in order to support its operating activities and pay existing obligations.

The Company manages its fund structure and makes adjustments to it, in the light of changes in economic conditions, approvals of the ERC and the risk characteristics of the underlying assets. No changes were made in the objectives, policies or processes in 2012 and 2011.

21. Other Matters

EPIRA

R.A. No. 9136, the EPIRA, which became effective in 2002, and the related Implementing Rules and Regulations 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.

With respect to the creation of the WESM, the EPIRA mandated the DOE to formulate the WESM Rules jointly with the WESM trading participants and to create a market operator. In the implementation of this mandate, the WESM Rules were promulgated on June 28, 2002 and the Company was incorporated in November 2003 to act as the market operator as well as the governing body for the WESM.

Board of Directors and the Independent Market Operator

The powers and functions of the Company are exercised by its PEM Board. The sectors of the electric power industry are equitably represented in the PEM Board; i.e., the market operator, system operator, independent members and other WESM participants. The WESM trading participants include generation companies, distribution utilities (including electric cooperatives), bulk customers and suppliers or aggregators. 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 and 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

Section 30 of the EPIRA and Provision 10.2 of the WESM Rules mandate that the Company undertake the initial operations of the WESM, and one year from implementation of the WESM (the Interim Period), an Independent Market Operator (IMO) shall be formed and the functions, assets and liabilities of the Company shall be transferred to the IMO upon the joint endorsement of the DOE and the WESM trading participants. The DOE has engaged the services of consultants to study the possible structure and manner of selection or appointment of the IMO. In 2011, the DOE formally presented the creation of the IMO. The Company will be restructured and its by-laws will be amended, converting the Company to become the IMO. An independent transition board (ITB) will be formed chaired by the DOE Secretary. The ITB will be tasked to oversee the orderly transition to the IMO Board which will come into being once all the necessary preparatory steps to fully establish it are completed. As of December 31, 2012, the creation of the IMO as well as the determination of its structure is still subject to deliberations by the Joint Congressional Power Commission (JCPC).

Consistent with the provisions of the EPIRA, the Company’s by-laws provide for expiration of the Interim Period one year from commencement date of the WESM operations. As the IMO has not yet been formed, the PEM BOD remains as the Interim Board with its members being appointed by the Secretary of the DOE, until such time that the IMO has been finally designated.

PEM Audit Committee and Operational Audit of the Market Operations

One of the working groups of the PEM Board includes the PEM Audit Committee. The PEM Audit Committee 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.

In this regard, the PEM Audit Committee shall:

- i. 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;
- ii. test and check any new items or version of software provided by the market operator for use by WESM Members;





- iii. review any procedures and practices which are covered by the WESM Rules at the direction of the PEM Board;
- iv. recommend changes to the WESM Rules where the PEM Audit Committee detects deficiencies as a consequence of an audit, review, test, check or other form of review; and,
- v. 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.

The second operational audit of the Company's market operations was completed in August 2011. The audit was conducted by independent auditors from PA Consulting Group Ltd. 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.

*International Organization for Standardization (ISO)/International - Electrotechnical Commission (IEC) 27001:2005 Certification*

The Company has established an Information Security Management System (ISMS) which is a set of policies concerned with information security management as the Company aims to establish, maintain, operate and govern an efficient, competitive, transparent and reliable market for wholesale purchase of electricity and ancillary services in the Philippines in accordance with applicable laws, rules and regulations.

An audit of the ISMS has been performed in which Report No. 70785938 proved that the requirements according to ISO/IEC27001:2005 were complied with by the Company. As such, on November 16, 2011, the Company has been awarded with Certification No. 12-130-42589 TMS which is valid until February 14, 2015.

*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 ERC on the price adjustments.

On December 6, 2006, the ERC (i) directed the Company to submit the resolution; and, (ii) 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" and directed the formulation of market protocols to put to rest the issues on delineation of functions



exercised by entities within the industry. 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 customer revised settlement statements on January 25, 2007 covering the billing period 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 exist 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. Following the results of investigations of alleged anti-competitive behavior, 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 Supreme Court rule in favor of PSALM, the monetary obligations will be collected from the WESM buyers. The petition is still pending resolution with the Supreme Court as at December 31, 2012.

*Price Substitution Methodology (PSM)*

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 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 directed that PEMC cease the implementation of NPC-TOU rate 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 until September 30, 2008 when the network congestion has determined to have been solved. The mechanism shall thereafter apply in instances where there is network congestion and the 1.2 factor price trigger. 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. In a Compliance filed on May 13, 2009, PEMC manifested that the adjusted settlement amounts have already been computed and that the same will be collected and paid in seven equal monthly installments beginning June 2009.

On February 18, 2011 PEMC filed a Supplemental Application for inclusion of formula determining customer substitute prices that will be used when the ex-ante run is affected with non-congestion pricing error while the ex-post run is affected with congestion pricing. In an order dated October 17, 2011, the ERC approved the application of PEMC.

Designation as Central Registration Body (CRB) and the Retail Competition and Open Access (RCOA)

Section 31 of the EPIRA provides that RCOA shall be implemented no later than three (3) years upon the effectivity of the EPIRA, subject to fulfillment of certain pre-conditions. Through the Energy Regulatory Commission (ERC) Resolution No. 10 Series of 2011, dated June 6, 2011 and pursuant to Section 31 of the EPIRA and Section 3, Rule 12 of its Implementing Rules and Regulations, the ERC has declared fulfillment of the pre-conditions prescribed for the initial implementation of the RCOA.

Retail Competition is the provision of electricity to a contestable market by suppliers through Open Access, which is defined as the system of allowing any qualified person of the use of transmission and/or distribution systems and associated facilities, subject to the payment of transmission and/or distribution retail wheeling rates duly approved by the ERC.



The RCOA Steering Committee (RCOA SC) which was created through the DOE Circular No. DC 2011-06-0006 dated June 17, 2011, recommended policies to enhance and ensure the readiness of the industry participants in the implementation of the RCOA and the deferment of its implementation from December 26, 2011 to a later date. In an order dated October 24, 2011 (ERC Case No. 2011-009 RM) the ERC approved and declared the deferment of implementation of the RCOA in Luzon and Visayas, as recommended by the RCOA SC, while all rules, systems, preparations and infrastructures required have not yet been put in place.

On February 24, 2012, the Company was designated by the DOE through DOE Circular No. DC 2012-02-0002 as the CRB assigned to undertake the development and management of the required systems and processes and information technology system that will be capable of handling customer switching and information exchange among retail electricity market participants, as well as the settlement of their transactions in the WESM.

For purposes of implementing the functions of the CRB under the RCOA regime and under the supervision of the DOE, the Company is directed to undertake the following duties and responsibilities:

- i. Review of WESM Rules and Manuals;
- ii. Develop market infrastructure, systems and processes;
- iii. Conduct training for the electric power industry participants;
- iv. Comply with DOE directives;
- v. Coordinate with relevant stakeholders and other government agencies; and
- vi. Perform such other related functions as may be necessary in the effective and efficient implementation of the RCOA.

**22. Supplementary Tax Information Required Under Revenue Regulations (RR) 19-2011**

On December 9, 2011, the BIR issued RR 19-2011 which prescribes the new form that will be used for income tax filing covering and starting with periods ending December 31, 2011 and onwards. This recent RR requires schedules of taxable revenues and other non-operating income, costs of sales and services, and itemized deductions, to be disclosed in the notes to financial statements.

The amounts of taxable revenues and income, and deductible costs and expenses presented below are based on relevant tax regulations issued by the BIR, hence, may not be the same as the amounts reflected in the 2012 statement of comprehensive income.

- (a) *)Taxable Revenues*  
Management believes that the Company's net market transaction fees for the year ended December 31, 2012 amounting to ₱886.21 million is not subject to income tax because the Company is a nonstock, nonprofit entity, accordingly presented these revenues under the exempt classification.
- (b) *Deductible Cost of Services*  
The Company has no deductible cost of services in 2012 considering the Company's position with respect to the taxability of its market transaction fees.



(c) *Taxable Non-operating and Other Income*

The details of taxable non-operating and other income in 2012 which are subject to regular tax rate are shown below.

Excess of standard over actual input VAT	₱6,952,437
Gain on sale of property and equipment	3,334,821
Training fees	2,989,070
Miscellaneous income	1,344,885
	<u>₱14,621,213</u>

(d) *Itemized Deductions*

The amounts of itemized deductions which are presented under the exempt classification for the year ended December 31, 2012 are as follows:

Salaries and Allowances	₱266,434,882
Amortization	111,221,208
Management and consultancy fee	60,126,627
Director's Fees	27,750,152
Rental	25,023,768
Repairs and Maintenance	21,581,836
Communication, light and water	20,055,971
Transportation and Travel	20,033,593
Office Supplies	13,970,613
Depreciation	12,654,382
Insurance	10,583,905
Janitorial and messenger services	7,169,031
Security Services	5,491,344
Trainings and Seminars	3,923,613
Fringe benefits	2,731,313
Advertising and promotions	2,697,487
SSS, GSIS, Philhealth, HDMF and Other Contributions	2,276,335
Professional Fees	471,022
Taxes and Licenses	347,995
Miscellaneous	67,145
Others	
Conference	12,912,210
Membership and association dues	2,595,199
Litigations	1,256,002
Registration cost	148,300
Subscription	116,073
Bank charges	58,722
	<u>₱631,698,728</u>

23. **Supplementary Tax Information Required Under Revenue Regulations (RR) 15-2010**

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR 15-2010 issued on November 25, 2010 are as follows:

(a) *Output VAT*

In 2012, the Company declared output VAT as follows:

	Tax Base	Output VAT
Market fees	₱844,702,716	₱101,364,326
Other revenues	6,863,098	823,572
	<u>₱851,565,814</u>	<u>₱102,187,898</u>

The Company has no VAT exempt receipts for 2012.

The tax bases for market fees and other revenues are based on the Company's gross receipts for the year, hence, may not be the same with the amounts presented in the 2012 statement of comprehensive income. The VAT related to accruals amounting to ₱14.4 million is recognized as deferred output VAT.

The output VAT in 2012 are as follows:

Output VAT	₱102,187,898
Payments:	
Cash	(60,711,120)
Input VAT applied	(32,462,030)
Creditable tax certificates applied	(3,350,586)
	<u>₱5,664,162</u>

(b) *Input VAT*

The movements in creditable input VAT in 2012 is summarized below.

Balance at the beginning of year	₱10,059,447
Effect of unutilized market fees returned	
Services lodged under other accounts	10,232,253
Input tax on sale to government	6,952,437
Capital goods subject to amortization	3,578,923
Goods other than for resale or manufacture	1,537,151
Capital goods not subject to amortization	101,819
Applied against output VAT	(32,462,030)
Balance at end of year	<u>₱-</u>

The outstanding input VAT is presented as Input VAT under the Prepayments and Other Current Assets account in the 2012 statement of assets, liabilities and fund balance.

(c) *Taxes on Importation*

The Company does not have taxes on importation in 2012 since it did not have any importations for 2012.



- (d) *Excise Tax*  
The Company does not have excise taxes in 2012 since it does not have any transactions which are subject to excise tax.
- (e) *Documentary Stamp Tax (DST)*  
The Company did not incur any DST in 2012, since the counterparties of the Company usually shoulder and pay for the DST.

- (f) *Taxes and Licenses*  
Taxes and licenses are broken down as follows for the year ended December 31, 2012:

Fringe benefit tax	₱2,731,313
Licenses and business tax	342,480
Community tax	5,515
	<u>₱3,079,308</u>

Taxes and licenses are presented as part of “Others” in the 2012 statement of comprehensive income.

- (g) *Withholding Taxes*  
The details of total withholding taxes for the year ended December 31, 2012 are shown below.

Compensation and benefits	₱73,707,351
Expanded withholding tax	7,602,367
	<u>₱81,309,718</u>

The Company has no income payments which are subject to final withholding tax.

- (h) *Deficiency Tax Assessment and Tax Cases*  
As of December 31, 2012, the Company does not have any final deficiency tax assessments from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.

Credits

Market Report Editorial Team

Phillip C. Adviento	Elaine D. Gonzales
Isidro E. Cacho, Jr.	Eric Niño U. Louis
Cerise M. Cabactulan	Criselda S. Martin-Funelas
Josephine C. Cabillo-Corpuz	

Write-ups and data included in these reports were contributed by

• Market Outcome & Highlights

Rheinhardt O. Banogon  
Bienvenido C. Mendoza, Jr.  
Edward I. Olmedo

• Market Governance

Mary Grace C. Bentor-Ciruelos	Gladys Evette G. Nebab-Zamora
Dece Marwil M. Bongcawel	Geraldine A. Rodriguez
Sherwin T. Casidsid	Romellen C. Salazar
Ma. Hazel M. Gubaton-Lopez	Ma. Lourdes S. San Andres
Caryl Miriam Y. Lopez-Mateo	Shalom Grace A. Tomas-Llamzon

• Market Registration List

Daisy Jane C. Alfafara  
Arnesh Y. Inostro  
Dorotea Joy L. Medel

• PEMC Corporate Report

Ana Fe Monica C. Aguila	Mary Anne T. Santiago
Clares Loren C. Jalocon	Robelyn R. Vidallon
Maila C. Ubalde	

Cover artwork

Based on original design by Ma. Victoria B. Que

Photography by

Hubert Gaw Pacheco

Event photographs courtesy of

Mary Jane A. Andrade	Arthur P. Pintado
Luis Angelo T. Canicon	Orlando C. Ninon
Juan Carlo L. Panopio	

Design and production by

Caven Studios, Inc.	www.cavenstudios.com
---------------------	----------------------

Disclaimer

The information contained in this Annual Report is based on the electricity spot market data that are subject to continuous verification by the Philippines Electricity Market Corporation (PEMC). The same information is subject to change as updated figures come in. As such, the PEMC does not make any representations or warranties as to the completeness of this information. The PEMC, likewise, accepts no responsibility or liability whatsoever for any loss or costs incurred by a reader arising from, or in relation to, any conclusions or assumptions derived from the information found herein.

Copyright Notice



Philippine Electricity  
Market Corporation

All rights reserved. Reproduction, transmission, and distribution of this report for reference purposes only are authorized provided that such reproduction, transmission, and distribution are in view of the complete report. This report shall not be reproduced, transmitted, or distributed in parts. Full acknowledgement of the Philippine Electricity Market Corporation (PEMC) as the source of information found in this report must be given at all times.





### **Our Business Locations**

#### **Manila**

9th, 11th, and 18th Floors Robinsons Equitable Tower  
ADB Avenue, Ortigas Center, Pasig City  
1600 Metro Manila  
Philippines  
Tel: +63.2.631.8734  
Fax: +63.2.636.0802  
Email: [info@wesm.ph](mailto:info@wesm.ph)

#### **Cebu**

6th Floor Skyrise I Building  
Asiatown IT Park, Apas, Cebu City  
6000 Cebu  
Philippines  
Tel: +63.32.415.5145  
Fax: +63.32.415.5142  
Email: [visayas@wesm.ph](mailto:visayas@wesm.ph)