IEMOP
INDEPENDENT ELECTRICITY MARKET OPERATOR
PHILIPPINES

Item No.: 09
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03 November 2026
OP- RPD-2026-1184

MS. FLORINDA JILL S. UYVICO
Secretary to the Sanggunian
Office of the Sangguniang Panlalawigan
Province of Leyte

SUBJECT: **Resolution No. 2026-1011**

Dear **Ms. Uyvico**:

We acknowledge receipt of a copy of Resolution No. 2026-1011 entitled "A Resolution Urgently Requesting the Regional Development Council (RDC) Regional VIII to Formally Petition the Energy Regulatory Commission (ERC), the Department of Energy (DOE), and the Independent Electricity Market Operator of the Philippines (IEMOP) to Review, Revise, and Accelerate the Net Settlement Surplus Allocation (NSSA) Mechanisms and Revenue Computations for Line Loss and Congestion Costs (LLCC) Burdening Eastern Visayas Electric Consumers".

We take note of the Sanggunian's call for the DOE, ERC, and IEMOP to expedite NSSA refunds, review LLCC pricing formulas, and audit transmission grid and market congestion to identify the root causes of recurring congestion and ensure prompt infrastructure remediation.

As Market Operator, we highly value the Sanggunian's proactive stance on the matters raised in the subject Resolution. Please be assured that we share your urgency and are fully committed to addressing each point raised in the Resolution with transparency and diligence.

To provide immediate clarity, we have attached herein **Annex "A"**, which outlines our initial assessments and framework, which we believe addresses the concerns raised by the Sanggunian.

We trust that this letter and the attached documentation herein sufficiently addresses your concerns and we remain available to discuss these points further at a mutually convenient time for both parties. For this purpose, you may contact our Legal Manager, Atty. Lilibeth Grace L. Vetus-Magtalas at grace.vetus@iemop.ph.

Thank you very much.

Sincerely yours,

ROBINSON P. DESCANZO
President and CEO

cc: Senator Erwin T. Tulfo, Chairperson, Senate Committee on Energy
Hon. Jose C. Alvarez, Chairperson, House Committee on Energy
Cong. Marcelino C. Libanan, House of Representatives
Hon. Sharon S. Garin, Secretary, Department of Energy
Hon. Francis Saturnino C. Juan, Chairman, Energy Regulatory Commission
Atty. Edson G. Piczon, Secretary, Federation of Rural Electric Cooperatives in Region 8 (FRECOR-8)

Annex "A"

ACRONYM	DEFINITION
BCQ	Bilateral Contract Quantity
BLLCC	Bilateral Line Loss and Congestion Costs
DOE	Department of Energy
EC	Electric Cooperative
ERC	Energy Regulatory Commission
ETA	Energy Trading Amount
HVDC	High-Voltage Direct Current
IEMOP	Independent Electricity Market Operator of the Philippines
LMP	Locational Marginal Pricing
LRTA	Line Rental Trading Amount
MO	Market Operator
NSD	Net Settlement Deficit
NSS	Net Settlement Surplus
NSSA	Net Settlement Surplus Allocation
PDM	Price Determination Methodology
RDC	Regional Development Council
SMP	System Marginal Price
WESM	Wholesale Electricity Spot Market

A DISCUSSION ON THE NET SETTLEMENT SURPLUS (NSS) FLOWBACK AND BILATERAL LINE LOSS AND CONGESTION COSTS (BLLCC)

The Office of the Sangguniang Panlalawigan of the Province of Leyte, through Resolution No. 2026-1011, expressed its concerns on the soaring electricity rates driven primarily by exorbitant line loss and congestion charges (LLCC) which has reached up to PhP5 per kilowatt-hour (kWh), pushing power rates in electric cooperatives (EC) across Region VIII to levels as high as PhP24 per kWh. It further resolved to urgently request the Regional Development Council (RDC) VIII to adopt a regional position and issue a formal resolution urging the DOE, ERC, and IEMOP to:

1. Fast-track the immediate and real-time flow-back/refund of Net Settlement Surplus Allocation (NSSA) directly against monthly LLCC charges to prevent electricity consumers from bearing upfront over-collections;
2. Amend the pricing mechanism governing LLCC so that end-use consumers are billed solely based on actual delivered energy rather than contracted capacities affected by transmission bottlenecks; and
3. To order a comprehensive regulatory and technical audit of transmission bottlenecks in the Visayas grid to identify root causes of recurring congestion and ensure prompt infrastructure remediation.

As consumers face the burden of soaring electricity bills, certain foundational costs of delivering power could not easily be avoided. Physical realities such as the bilateral line loss and congestion costs (BLLCC) naturally forms a structural price gap in the energy market. It is important to note that the BLLCC is not an additional fee, nor is it a rental imposed by the Market Operator (MO). Rather, it is the settlement representation of the transmission losses and congestion associated with the delivery of electricity pursuant to a bilateral contract.

As MO, we recognize our responsibility to maintain a fair and transparent electricity spot market. By aligning our institutional duties with the Sanggunian's call, which we fully support, we also wish to address the areas of concern raised in the subject Resolution through this document.

I. EXPEDITING NSS FLOWBACK

As regards the Sanggunian's request for real-time NSS flowback, we wish to note that the current settlement process calculates and allocates the NSS or Net Settlement Deficit (NSD) on a monthly basis, which is aligned with the corresponding monthly settlement billing outside the market. The allocation is incorporated into the preliminary and final settlement statements for the same billing period. Since NSS/NSD arises from the difference between the aggregate amounts payable by and receivable by market participants, the applicable settlement quantities, bilateral contract quantities, and market prices must first be consolidated and processed. Accordingly, NSS flowback is determined after the close of the billing period and reflected in the corresponding monthly settlement statements.

Through this monthly allocation, the NSS flowback helps alleviate the amounts payable by eligible market participants, including distribution utilities and electric cooperatives serving end-use consumers. It is not intended to provide a peso-for-peso refund of the Line Rental Trading Amount (LRTA), now referred to as the BLLCC, as each participant's allocation depends on the resulting settlement surplus and the applicable allocation factors.

To improve the allocation of this surplus to affected participants, IEMOP is expediting the retroactive implementation of Solution 2, or the single System Marginal Price (SMP) approach, in accordance with the ERC Order in Case No. 2025-009 RM. Under this approach, price differences attributable to congestion at the High-Voltage Direct Current (HVDC) interconnections will be reflected in the congestion cost component rather than in the SMP, while the total Locational Marginal Price (LMP) remains unchanged. This treatment allows the effects of HVDC congestion to be recognized in the NSS allocation factors for congestion and is expected to improve the allocation to affected market participants.

The retroactive application of this approach will determine the corresponding adjustments to previously allocated NSS/NSD, providing the basis for the subsequent settlement of these adjustments with affected market participants.

II. REVIEW OF THE BLLCC PRICING FORMULAS

On the proposal to base the BLLCC solely on *actual delivered energy* rather than *contracted capacities*, we respectfully clarify that the BLLCC is computed using the Bilateral Contract Quantity (BCQ) and the difference between the

nodal prices of the contracting parties. Its computation is therefore based on contracted energy declared for settlement, rather than contracted capacity.

This treatment arises from the Energy Trading Amount (ETA) formulation under the ERC-approved Price Determination Methodology (PDM). The formulation accounts for the participant's actual energy injection or withdrawal at its nodal price and adjusts the resulting amount to recognize its bilateral transactions.

$$ETA_{L1} = (GESQ_L)*(P_L) - (BCQ)*(P_G)$$

When mathematically separated into spot and bilateral components, the bilateral component is equivalent to the BCQ multiplied by the applicable nodal price difference. BLLCC is thus an integral component of energy settlement that recognizes the locational value of contracted energy.

$$ETA_{L1} = (GESQ_L)*(P_L) - (BCQ)*(P_G) + \overbrace{[(BCQ)*(P_L) - (BCQ)*(P_L)]}^{0}$$

Rearranging Terms:

$$ETA_{L1} = (GESQ_L)*(P_L) - (BCQ)*(P_L) + (BCQ)*(P_L) - (BCQ)*(P_G)$$

$$ETA_{L1} = \underbrace{(GESQ_L - BCQ)*(P_L)}_{\text{Spot Trading Amount}} + \underbrace{(BCQ)*(P_L - P_G)}_{\text{Bilateral LLCC}}$$

The use of BCQ does not imply that the entire contracted quantity physically passed through a congested transmission line. Electricity is supplied through an interconnected network, where power flows are governed by system conditions and cannot be uniquely attributed to individual bilateral contracts.

Using only the quantity "*actually affected by congestion*" would require the grid to trace individual contractual energy through the transmission network and determine which specific megawatts of the EC's contract used each constrained facility. Implementing such mechanism would require transaction-specific information which is not available under the current settlement agreements and metering facilities. Moreover, electricity flows as part of the integrated network and cannot be assigned to a particular contract path in a unique and verifiable manner. Accordingly, the use of the total BCQ is not an assumption that the entire contract physically experienced congestion. It is the application of the locational price difference to the full contractual quantity subject to bilateral settlement.

In summary, the current methodology uses the BCQ because it is the defined and measurable financial quantity under the bilateral contract, while congestion is captured through the locational price difference. This provides a consistent and objective settlement approach without attempting to physically trace electricity on a contract-by-contract basis.

In this context, while the proposal raises a meaningful perspective on cost allocation, it has to be carefully considered in light of the current Wholesale Electricity Spot Market (WESM) Rules and the PDM especially since adopting the proposal would require a fundamental overhaul of the existing market design, including substantial revisions to the PDM, dispatch processes, and settlement systems, as well as careful consideration of the broader implications on pricing consistency and overall market operations.

III. AUDIT OF THE TRANSMISSION GRID AND MARKET CONGESTION

IEMOP recognizes the importance of examining recurring transmission congestion in the Visayas grid and its impact on electricity prices and settlement outcomes. A coordinated technical and regulatory review would help establish the causes of these constraints and identify appropriate measures to address their impact consumers.

As MO, we can support this review by providing relevant market data and analyses, including the affected trading intervals and locations, binding transmission constraints reflected in market dispatch, nodal price differences, and the corresponding settlement impacts. These data can help distinguish the effects of local transmission congestion from those arising from limitations at the HVDC interconnections and establish when and where significant price differences occur.

The assessment of the underlying transmission facilities, however, would require close coordination with the System Operator (SO). The conduct of the same would enable the involved stakeholders to examine supply and demand conditions, facility availability, outages, operating limits, and the status of transmission reinforcement projects to determine the causes of recurring constraints and identify the necessary corrective actions.

Regardless, we remain ready to coordinate with the concerned agencies and provide technical support as provided under our mandate. The results and findings of the said review can guide both operational measures and infrastructure improvements, alongside market and settlement

enhancements, to address recurring congestion and mitigate its impact on consumers.