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ENERGY REGULATORY COMMISSION

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HON. LEONARDO M. JAVIER, JR.
Vice Governor/Presiding Officer
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Sangguniang Panlalawigan
Province of Leyte
RECEIVED
Date: NOV 23 2026
By:

SUBJECT: Response to Resolution No. 2026-1011 – Request for Review of Net Settlement Surplus Allocation and Line Rental Charges

Dear **Hon. Javier:**

This refers to Resolution No. 2026-1011 of the Sangguniang Panlalawigan of the Province of Leyte, received by the Commission on 07 October 2026, requesting a review of the Net Settlement Surplus (NSS) Allocation mechanisms and the computations for Line Loss and Congestion Costs (LLCC), particularly in view of the impact of elevated Line Rental charges on electricity consumers in Eastern Visayas.

The Commission recognizes the importance of ensuring that Line Rental charges and settlement surpluses are computed and allocated appropriately, and that electricity consumers are protected from the effects of identified market-pricing distortions. In this regard, the Commission has already taken regulatory action through its *Order* dated 13 August 2026 in ERC Case No. 2025-009 RM[1], which provides interim and long-term corrective measures to address the identified issues involving Line Rental charges and NSS allocation arising from transmission congestion and differences in System Marginal Prices (SMPs) across pricing regions.

Specifically, the Commission adopted the following measures under the said *Order*:

1. **Interim Solution: Suspension of Line Rental Trading Amount in Specified Circumstances**

   As an interim corrective measure, the Commission directed the suspension of the collection or payment of the Line Rental Trading Amount (LRTA) in cases where different SMPs arise due to constraints at a High-Voltage Direct

[1] *In the Matter of the Petition for the Approval of Proposed Amendments to the Rules for the Distribution of Net Settlement Surplus (NSS)*

Current (HVDC) interconnection or between pricing regions, pending the implementation of the necessary technical and system enhancements. This measure applies only to the specific circumstances identified in the *Order* and does not constitute a blanket suspension of all Line Rental charges. Any resulting Net Settlement Deficit (NSD) shall be recovered from customers in the higher-priced region in proportion to their actual energy consumption, without prejudice to the Commission's final determination of amounts previously collected or allocated under the existing settlement framework.

2. **Long-Term Solution: Correction of Market-Pricing Components and System Enhancements**

   For the long-term solution, the Commission directed the recalibration of the market-pricing methodology to ensure that the SMP, Cost of Losses, and Cost of Congestion are appropriately reflected in the Locational Marginal Prices (LMPs) under the circumstances covered by the *Order*. This measure requires the development of an interim settlement module within the Central Registration and Settlement System (CRSS), together with corresponding amendments to the applicable market manuals and procedures. These measures are intended to address the identified pricing distortions, improve the accuracy of Line Rental computations, and promote a more equitable allocation of the NSS, while maintaining the existing market-pricing framework.

3. **Independent Audit and Recalculation of Historical Settlements**

   The Commission likewise directed the Independent Electricity Market Operator of the Philippines (IEMOP) to engage an independent auditor and recalculate the relevant NSS and NSD allocations beginning 26 June 2021, as specified in the *Order*, to determine the financial impact of the identified pricing and allocation issues on affected market participants and consumers. Based on the comparative schedule of the actual and recalculated allocations, including the resulting adjustment amounts, and the findings of the independent audit, IEMOP is required to submit to the Commission the proposed methodology, guidelines, and timeline for the collection and/or refund of the resulting adjustment amounts to the affected market participants. The proposal shall include arrangements for implementing such collections and/or refunds in installment across several billing months, as appropriate, to minimize the financial impact on market participants, subject to the Commission's evaluation and approval.

In view of the foregoing, the Commission informs the Sangguniang Panlalawigan of the Province of Leyte that the concerns raised in Resolution No. 2026-1011 are being addressed through the corrective measures adopted under the *Order* dated 13 August 2026. The interim measure is intended to mitigate the effects of the identified Line Rental pricing distortions, while the long-term measures seeks to correct the underlying technical market-pricing and settlement issues and establish an appropriate basis for the recalculation and adjustment of affected historical settlements.

The Commission appreciates the Sangguniang Panlalawigan of the Province of Leyte for bringing these concerns to its attention and for its efforts to safeguard the interests of electricity consumers. The Commission remains committed to ensuring the proper implementation of its regulatory directives and promoting a fair, transparent, and reliable electricity market, consistent with applicable laws, rules, and regulations governing the Wholesale Electricity Spot Market (WESM).

Very truly yours,

FRANCIS SATURNINO C. JUAN
Chairperson and CEO

ncbe/smcl/amb/SOM
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