

Europe closer to enforcing ESG rules on foreign firms

EUROPEAN lawmakers have agreed to force roughly 28,000 foreign subsidiaries to comply with the bloc's ESG rules, marking a blow to representatives for US corporations who had lobbied for the opposite outcome.

In a wide-reaching revamp of the EU's reporting requirements for non-financial firms, the bloc's parliament has dropped a planned exemption that had been backed by the American Chamber of Commerce to the European Union (EU), according to draft documents seen by Bloomberg. An announcement is expected on Wednesday, as part of a wider package of corporate reporting proposals.

Europe has been working for years to ensure its rules for environmental, social and governance standards become a global benchmark. The latest proposal means the local operations of giant corporations such as McDonald's Corp. and General Motors Co. would all be required to live up to the same ESG reporting requirements as their European peers.

The plan put forward by EU lawmakers, which will now be negotiated with member states, seeks to make it impossible for foreign companies to gain any competitive advantage via less rigorous ESG standards, according to Pascal Durand, the lawmaker overseeing the introduction of the EU's Corporate Sustainability Reporting Directive.

Allowing foreign companies to apply potentially laxer ESG standards "was politically impossible," Mr. Durand, who represents the Renew Europe party in the EU parliament, told Bloomberg.

The development comes as the Securities and Exchange Commission (SEC) sets its own ESG requirements for companies operating in the US. The SEC will require firms to provide detailed information on greenhouse gas emissions; corporations with big indirect carbon footprints will be expected to disclose so-called Scope 3 emissions, which is the broadest and most challenging gauge.

New ESG demands across jurisdictions are part of a global response to increasingly alarming reports from scientists that climate change is accelerating at a dangerous pace. The United Nations'

Intergovernmental Panel on Climate Change provided its bleakest assessment yet last month, and warned that the private sector isn't doing enough to avert a climate catastrophe.

European lawmakers say they're trying to redirect the flow of capital in ways that shield the environment and promote social justice. The EU's toolbox is based on a so-called taxonomy, which is a multi-year undertaking that's still finalizing rules intended to define sustainable businesses. Lawmakers in the bloc worry that they can't rely on other jurisdictions to come up with adequate rules.

"The European Union is not the only power involved in drawing up new non-financial standards," Mr. Durand said. But if others prevail, "then sustainable development would be defined by a non-European vision, making it more difficult for European values to be effectively taken into account."

A key feature of Europe's ESG rules that is largely absent in other parts of the world hinges on the concept of double-materiality, whereby a company takes into account not only the impact of the outside world on its business, but also the impact of the company on the outside world. That includes elements such as biodiversity and social and human rights, "which are values important for European policy makers," Mr. Durand said.

The American Chamber of Commerce to the European Union has warned requiring subsidiaries to report risks creating a "misleading picture of a group's sustainability profile." It says that consolidated ESG reports, based on similar requirements set in home markets, are more comprehensive.

EU lawmakers behind the proposal cited what they referred to as "ample evidence" that stakeholders in the bloc aren't getting the information they need to support sustainable investing. Much of the EU's focus relies on disclosure, and the new directive will require companies to report how strategies and business models align with a climate-neutral economy, restore biodiversity and provide greater transparency around their supply chains and workers' rights. — **Bloomberg**

Sanctions pushing Russia towards economic catastrophe, US says

THE UK government should press ahead with its sanctions against Russia as they are inflicting pain on Vladimir Putin's regime, but should also help lower income families cope with the knock-on effect of higher energy and other living costs, a group of lawmakers said Wednesday.

Sanctions mooted by the US, European Union and UK against Russian energy imports could have a "catastrophic and long-lasting" effect if fully implemented, while the existing restrictions placed on Russia's central bank is particularly effective, a report on the measures by the cross-party Treasury Committee said. "Russia faces both a significant hit to the size of its economy and significant inflation," it said.

However, the parliamentarians also warned that the UK isn't protected from the economic consequences of sanctions on oil and gas. The government should in-

roduce support for those who are particularly vulnerable to such price rises, the report said.

"The Committee will continue to investigate what additional tools we have in our armory to bear down on Putin's aggression and to further damage the Russian economy and its ability to fund this war," Chair Mel Stride said in a statement. "This war will also have economic consequences here at home, and while these are worth bearing to support Ukraine in their fight for freedom, it's becoming increasingly clear that the Government will need to support those who are hit hardest."

The UK should improve the clarity of its guidance on sanctions to help the private sector implement them, the report said. It should also consider increasing the funding and staff numbers of the Office of Financial Sanctions Implementation, which is part of H.M. Treasury, the report said. — **Bloomberg**



Republic of the Philippines
DEPARTMENT OF ENERGY

DEPARTMENT CIRCULAR NO. DC2022-03-0003

ADOPTING FURTHER AMENDMENTS TO THE WHOLESALE ELECTRICITY SPOT MARKET (WESM) RULES AND ITS MARKET MANUAL ON BILLING AND SETTLEMENT FOR THE IMPLEMENTATION OF ENHANCEMENTS TO WESM DESIGN AND OPERATIONS (Provisions for Prudential Requirements)

WHEREAS, Sections 30 and 37(f) of the Electric Power Industry Reform Act (EPIRA) provides that the DOE, jointly with the electric power industry participants, shall establish the Wholesale Electricity Spot Market (WESM) and formulate the detailed rules governing the operations thereof;

WHEREAS, on 28 June 2002, the DOE, with the endorsement of the electric power industry participants, promulgated the WESM Rules through Department Circular No. DC2002-06-003;

WHEREAS, any changes, amendments, and modifications to the WESM Rules including its Market Manuals shall be undertaken in accordance with the provisions of Chapter 8 thereof;

WHEREAS, the WESM Rules and WESM Manual on Billing and Settlement provide for covered and exempted WESM Members from prudential requirements, the acceptable forms of prudential security, the formula for computing maximum exposure, and the process for refunding prudential security;

WHEREAS, on 02 June 2020, the DOE issued DC2020-06-0014 amending the WESM Rules regarding the amount of prudential requirements;

WHEREAS, on 17 July 2020, the Rules Change Committee (RCC) received from the Independent Electricity Market Corporation of the Philippines (IEMOP) its proposed general amendments to the WESM Rules and WESM Market Manual on Billing and Settlement, in particular to the versions for current market and the implementation of the enhanced WESM design and operations;

WHEREAS, the proposal aims to incorporate the following:

- Addition of assessment by request of prudential requirements;
- Inclusion of force majeure events and large reduction in load served as considerations for replacement month in the computation of maximum exposure;
- Revision for the basis of security amount from average price and monthly quantities to hourly price and hourly quantities;
- Revision for the grounds for exempting a WESM Member from prudential requirement;
- Revision on the allowed forms of security; and
- Clarification on the process of refund.

WHEREAS, on 14 August 2020, the RCC during its 168th RCC Meeting discussed the abovementioned proposals and thereafter approved the publication of the proposed amendments in the WESM market information website to solicit comments from market participants and other interested parties;

WHEREAS, on 16 October 2020, the RCC during its 170th RCC Meeting deliberated on and finalized the proposed amendments giving due course to the comments and recommendations received from the Governance Arm and AC Energy, and thereafter approved for endorsement to the PEM Board;

WHEREAS, after due evaluation and deliberation, the PEM Board approved for endorsement to the DOE the above stated RCC proposal;

WHEREAS, on 01 December 2020, the PEM Board-approved amendments to the WESM Rules and Market Manual on Billing and Settlement were submitted to the DOE for final approval, in compliance with Chapter 8 of the WESM Rules;

WHEREAS, on 29 September 2021, the DOE posted the Draft Department Circular on the abovementioned proposed amendments to solicit further comments from the market participants and other interested parties;

WHEREAS, the DOE to ensure transparency and consistency with the objectives of the EPIRA and the WESM, conducted virtual public consultations on the said proposed amendments on various dates as follows;

Date	Leg	Platform
16 November 2021	Luzon	Microsoft Teams
17 November 2021	Visayas	Microsoft Teams
17 November 2021	Mindanao	Microsoft Teams

WHEREAS, the DOE reviewed and finalized the said PEM Board-approved proposal, made revisions thereto taking into consideration the comments and recommendations received from the public consultations and subsequent discussions with the Market Operator;

NOW THEREFORE, after careful review of the PEM Board-approved proposal and the comments and recommendations received on the same, the DOE, pursuant to its authority under the EPIRA and the WESM Rules, hereby adopts, issues, and promulgates the following amendments to the WESM Rules and various Market Manuals:

Section 1. Amendments to the WESM Rules. The following provisions in the WESM Rules are hereby amended:

a. Clause 3.15.2.4 (Provision of Security) under Prudential Requirements is amended to read as –

"3.15.2.4 Provision of Security

A WESM Member who is exempt from providing a security deposit under Clause 3.15.2.2 shall be required to pay in cleared funds the total negative settlement amount due, if any, on the due date as provided under Clause 3.14.6."

b. Clause 3.15.3 (Form of Security) under Prudential Requirements is amended to read as –

"3.15.3 Form of Security

The security provided by the WESM Member shall be in either of the following forms of security:

xxx xxx xxx

b) Other forms of security payable upon demand, irrevocable and unconditional commitment in a form and from a bank or other financial institutions acceptable to the Market Operator; or

c) Surety bond issued by a surety or insurance company duly accredited and authorized by the Office of the Insurance Commissioner of the Philippines;

xxx xxx xxx

xxx xxx xxx

xxx xxx xxx

All forms of security must be payable to the Market Operator. Its validity must be in accordance with the requirements as stated in the relevant rules and manuals."

c. Clause 3.15.4.1 (Amount of Security) under Prudential Requirements is amended to read as –

"3.15.4.1 xxx xxx xxx

The Market Operator shall consider a replacement month in the computation of Maximum Exposure within the 26th March to 25th September billing periods, having the same number of calendar days if:

xxx xxx xxx

xxx xxx xxx; or

c) There is a force majeure event that affected at least 50% of the settlement intervals within a billing period.

If there is a change or expected change in the settlement quantities of a WESM Member due to a change in bilateral contract, reduction in load served, or occurrence of force majeure events, the WESM Member may, at any time, request the Market Operator to determine its maximum exposure corresponding to its projected settlement amount in respect of the portion of its demand that is not covered by bilateral contracts and the line rental resulting from its bilateral contracts.

xxx xxx xxx "

d. Clause 3.15.7 (Refund of Security) under Prudential Requirements is amended to read as –

"xxx xxx xxx

a) if the Market Operator has exempted the WESM Member under Clause 3.15.12.2 or lifted the cancellation of exemption after the WESM member complied with its obligations under Clause 3.15.2.5; or

b) xxx xxx xxx; or

c) if the calculated Maximum Exposure of the WESM Member under Section 3.15.4.1 is lower than the amount of security it has provided to the Market Operator.

xxx xxx xxx

Section 2. Amendments to the WESM Market Manual on Billing and Settlement. The following provisions in the WESM Manual on Billing and Settlement are hereby amended:

a. Section 7.2.2 (Provisions of Security) under Prudential Requirements is amended to read as –

"7.2.2 In reference to WESM Rules Clause 3.15.2.2, the Market Operator may exempt a WESM Member from the requirement to provide a security, if:

a) the WESM Member is registered or registering as a Generation Company under commercial operations; and

b) for a registering Generation Company, its projected volume sales to the WESM is greater than its projected contracted quantities and, if any, the projected volume purchases of its Indirect WESM Members; or, for a registered Generation Company, its WESM settlement amount is positive for the past three (3) billing periods.

The Market Operator shall not exempt Generation Companies that are not yet in commercial operations and Customers from the prudential requirements even if their calculated amount of security is zero."

b. Section 7.2.3 (Provisions of Security) under Prudential Requirements is amended to read as –

"7.2.3 If the WESM Member has been deemed exempted by the Market Operator under Section 7.2.2 and WESM Rules Clause 3.15.2.2, the Market Operator shall send a written notice to the WESM Member. The Market Operator may vary or cancel the exemption given pursuant to Sections 7.2.1 and 7.2.2 of this Manual, at any time, by giving written notice of the variation or cancellation of the exemption to the WESM member.

c. Section 7.2.5 (Provisions of Security) under Prudential Requirements is amended to read as –

"7.2.5 A WESM Member who is exempt from providing a security deposit shall be required to pay in cleared funds the total negative settlement amount due, if any, on the due date as provided under Section 5.3.1 of this Manual."

d) Section 7.3.1 (Provisions of Security) under Prudential Requirements is amended to read as –

"7.3.1 The security provided by a WESM Member shall be in either of the following forms of security:

a) xxx xxx xxx

b) Other forms of security payable upon demand, irrevocable and unconditional commitment in a form and from a bank or other financial institutions acceptable to the Market Operator; or

c) Surety bond issued by a surety or insurance company duly accredited and authorized by the Office of the Insurance Commissioner of the Philippines.

For items b and c, the instrument must indicate that it is payable upon demand, irrevocable, and unconditional.

All forms of security must be payable to the Market Operator. Its validity must be in accordance to the requirements of relevant rules and manuals."

e) Section 7.4.3(h) (Assessment of Maximum Exposure) under Prudential Requirements is amended to read as –

"7.4.3(h) xxx xxx xxx

i. xxx xxx xxx

ii. xxx xxx xxx; or

iii. There is a force majeure event that affected at least 50% of the settlement intervals within a billing period.

f) Section 7.4.3(i) (Assessment of Maximum Exposure) under Prudential Requirements is amended to read as –

"7.4.3(i) If there is a change or expected change in the settlement quantities of a WESM Member due to a change in bilateral contract, reduction in load served, or occurrence of force majeure events, the WESM Member may, at any time, request the Market Operator to determine its Maximum Exposure based on its average estimated settlement amount.

The estimated settlement amount for each billing period of a WESM Member shall be calculated using the following formula:

$$ESA = \sum_{i \in I} (EGESQ_i \times EFEDP_i) - \sum_{i \in I} \sum_{c \in C} (EBCQ_{c,i} \times EFEDP_{c,i})$$

Where:

ESA estimated settlement amount in PhP

EGESQ_i estimated gross energy settlement quantity, in MWh, for dispatch interval i

EFEDP_i estimated final energy dispatch price, in PhP/MWh, for dispatch interval i

EBCQ_{c,i} estimated bilateral contract quantity, in MWh, from counterparty c for dispatch interval i

EFEDP_{c,i} estimated final energy dispatch price, in PhP/MWh, associated with the bilateral contract with counterparty c for dispatch interval i

I set of dispatch intervals within the billing period

C set of counterparties

i. if the request is due to a change in bilateral contract, the WESM Member shall submit to the Market Operator its estimated bilateral contract quantities from each Trading Participant counterparty for each dispatch interval in the immediate complete 26 March to 25 September period; the estimated gross energy settlement quantity and estimated final energy dispatch prices of the WESM Member for a dispatch interval shall be equal to its gross energy settlement quantity and final energy dispatch prices, respectively, at the same dispatch interval and most recent same date.

ii. if the request is due to a reduction in load served, the WESM Member shall submit to the Market Operator its estimated gross energy settlement quantities and estimated bilateral contract quantities from each trading participant counterparty for each dispatch interval in the immediate complete 26 March to 25 September period; the estimated final energy dispatch prices of the WESM Member for a dispatch interval shall be equal to its final energy dispatch prices at the same dispatch interval and most recent same date.

iii. if the request is due to a force majeure, the WESM Member shall submit to the Market Operator its estimated gross energy settlement quantities and estimated bilateral contract quantities from each trading participant counterparty for each dispatch interval in the immediate complete 26 March to 25 September period; the estimated final energy dispatch prices of the WESM Member for a dispatch interval shall be equal to its final energy dispatch prices at the same dispatch interval and most recent same date, or from the replacement date in accordance with Section 4.7.3(h).

iv. The estimated bilateral contract quantity shall not exceed the estimated gross energy settlement quantity for each dispatch interval.

g) Section 7.4.6(a) (Refund of Security) under Prudential Requirements is amended to read as –

"7.4.6(a) xxx xxx xxx

i. if the Market Operator has exempted the WESM Member under Section 7.2.2 or lifted the cancellation of exemption after the WESM Member complied with its obligations under Section 7.2.6 of this Manual; or

ii. xxx xxx xxx; or

iii. if the calculated Maximum Exposure of the WESM Member under Section 7.4.3 is lower than the amount of security it has provided to the Market Operator.

Section 3. Separability Clause. If for any reason, any section or provision of this Circular is declared unconstitutional or invalid, such parts not affected shall remain valid and subsisting.

Section 4. Effectivity. This Circular shall take effect immediately following its publication in two (2) newspapers of general circulation. Copies thereof shall be filed with the University of the Philippines Law Center – Office of National Administrative Register (UPLC-ONAR).

Issued on MAR 01 2022 at the Energy Center, Rizal Drive, Bonifacio Global City, Taguig City.

ALFONSO G. CUSI
Secretary

