



DEPARTMENT CIRCULAR NO. \_\_\_\_\_

**ADOPTING FURTHER AMENDMENTS TO THE WHOLESALE ELECTRICITY SPOT MARKET (WESM) RULES AND MARKET MANUAL ON CONSTRAINT VIOLATION COEFFICIENTS (CVC) AND PRICING RE-RUNS (PR) TO HARMONIZE WITH THE ENERGY REGULATORY COMMISSION (ERC) DIRECTIVES ON AUTOMATIC PRICING RE-RUNS FOR UNDER-GENERATION AND OVER-GENERATION**

**WHEREAS**, Sections 30 and 37(f) of the Electric Power Industry Reform Act (EPIRA) provides that the Department of Energy (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. DC2002-06-0003;

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

**WHEREAS**, on 19 May 2021, the Philippine Electricity Market Corporation (PEMC) submitted the proposed urgent amendments seeking to harmonize provisions on automatic pricing re-runs in the WESM Rules and Manual on CVC-PR for the Enhanced WESM Design and Operations (EWDO) with the ERC directives in order to be effective on the commencement of the EWDO on 26 June 2021 (“Go-Live Date”);

**WHEREAS**, the said proposal generally aims to make changes as follows:

Affected Clauses	Proposed Amendment	Rationale
WESM Rules (EWDO): <ul style="list-style-type: none"><li>• 3.6.7.2</li><li>• 3.6.7.3</li><li>• 3.10.5.5</li></ul>	Deletion of shortage pricing (for under-generation) and excess pricing (for over-generation)	Existing pricing mechanisms during under-generation and over-generation should be maintained. Such that, these events shall be treated just like other constraint violations
WESM Manual on CVC-PR (Issue 6.0): <ul style="list-style-type: none"><li>• 5.1.3</li><li>• 5.2.2. to 5.2.5</li><li>• 5.3.1</li></ul>	Deletion of shortage pricing (for under-generation) and excess pricing (for over-generation)	For consistency with WESM Rules

**WHEREAS**, on 21 May 2021, during the 179<sup>th</sup> Rules Change Committee (RCC) Regular Meeting, the abovementioned urgent proposal was immediately deliberated and endorsed the same to the PEM Board for further deliberation and approval;

**WHEREAS**, on 26 May 2021, the PEM Board deliberated the urgent amendments and approved the same as submitted by the RCC, after which, the revised WESM Rules and WESM Manual reflecting the urgent amendments were posted in the PEMC website and took effect on 27 May 2021 for provisional implementation within a period of no more than six (6) months;

**WHEREAS**, on 12 August 2021, following the process for urgent proposals, the PEMC re-submitted to the RCC the PEM Board-approved urgent proposed amendments as general amendments, for the DOE's final approval and promulgation;

**WHEREAS**, on 20 August 2021, during the 183<sup>rd</sup> RCC Regular Meeting, the RCC initially took up the proposal and approved the same for publication to solicit comments from the stakeholders;

**WHEREAS**, following the 30-working day commenting period from 25 August to 07 October 2021, no comments were received from the WESM Members and stakeholders;

**WHEREAS**, on 15 October 2021 and 19 November 2021, during the 185<sup>th</sup> and 186<sup>th</sup> RCC Regular Meeting, the RCC deliberated and finalized the proposal for endorsement to PEM Board;

**WHEREAS**, on 26 January 2022, after due evaluation and deliberation, the PEM Board approved for endorsement to the DOE the above stated general proposal;

**WHEREAS**, in a letter dated 28 January 2022, the PEM Board formally endorsed the proposal to the DOE for final approval;

**NOW THEREFORE**, after careful review of the PEM Board-approved general 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 Market Manual on Constraint Violation Coefficients and Pricing Re-runs:

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

a. Clauses 3.6.7.2 and 3.6.7.3 under Clause 3.6.7 (Automatic Pricing Re-runs) is hereby amended to read as:

“3.6.7.2 The purpose of the automatic market pricing re-runs is to ensure that the *energy* and *reserve* prices reflect:

(a) the marginal costs of supplying *energy* at each *node*; and

(b) the marginal costs of supplying *reserves*;

3.6.7.3 The automatic re-run of the *dispatch* optimization shall relax the soft *constraints* that was violated by a value corresponding to the resulting non-zero violation variable, including a very small value, to allow the *market dispatch optimization model* to find a feasible price.”

b. Clause 3.10.5.5 under Clause 3.10.5 (Pricing Error Notice) is hereby deleted.

**Section 2. Amendments to the Market Manual on Constraint Violation Coefficients and Pricing Re-runs.** The Market Manual on Constraint Violation Coefficients and Pricing Re-run Issue No. 7.0 is hereby amended as follows:

a. Section 5.1.3 under Section 5.1 (Rationale for Automatic Pricing Re-Runs) is hereby amended to read as:

“5.1.3 The purpose of the automatic pricing re-runs is to ensure that the energy and reserve prices reflect:

- (a) the marginal costs of supplying energy at each node; and
- (b) the marginal costs of supplying reserves.”

b. Section 5.2.2 under Section 5.2 (Process for Automatic Pricing Re-Runs) is hereby deleted.

c. Original Sections 5.2.3 to 5.2.5 under Section 5.2 (Process for Automatic Pricing Re-Runs) are hereby renumbered as follows:

“5.2.2 The delta shall be set as small as possible for each *constraint violation coefficient* so that the *automatic pricing re-run* shall be reflective of the most accurate price considering the original *dispatch schedules*.

5.2.3 An example related to Section 5.2.1, is provided below:

Should a thermal contingency *constraint* violation occurs:

$$\text{Contingency Power flow} \leq \text{Thermal contingency limit} + x$$

Where:

- i. Contingency Power flow refers to the power flow through an equipment during an N-1 outage scenario
- ii. x refers to the violation amount in MW
- iii. *Thermal contingency limit* refers to the maximum transmission limit during an N-1 *outage* scenario

Then, its constraint shall be relaxed during the *automatic pricing re-run* similar to the formulation below:

$$\text{Contingency Power flow} \leq \text{Thermal contingency limit} + x + \textit{delta}$$

5.2.4 The resulting prices during an *automatic pricing re-run* shall be produced in the *real time dispatch*, along with the original *real time dispatch* schedules produced prior to the relaxation.”

d. Original Section 5.3.1 under Section 5.3 (Automatic Pricing Re-Run Parameters) are hereby renumbered as follows:

“5.3.1 The corresponding constraint relaxation formulas for the constraint violation coefficients during pricing re-runs shall be as provided in Table 2 below:

Order	Constraint Violation Coefficient Name	CVC	Violation Variable Value	Delta	Constraint Relaxation during Pricing Re-Run	Re-run Price <sup>1</sup>
x	xxx	xxx	x	x	xxx	xxx
4	System Energy Balance Constraint (Over-generation and under-generation)	1,300,000	x	0.1	x+delta	EDP AND RP
x	xxx	xxx	x	x	xxx	xxx

**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. Repealing Clause.** Except insofar as may be manifestly inconsistent herewith, nothing in this Circular shall be construed as to repeal any mechanisms already existing or responsibilities already provided for under existing rules.

**Section 5. Effectivity.** This Circular shall take effect fifteen (15) days following its complete publication in at least two (2) newspapers of general circulation and shall remain in effect until otherwise revoked. Copies thereof shall be filed with the University of the Philippines Law Center – Office of National Administrative Register (UPLC-ONAR).

Issued on \_\_\_\_\_ 2022 at the Energy Center, Rizal Drive, Bonifacio Global City, Taguig City, Metro Manila.

**ALFONSO G. CUSI**  
Secretary

<sup>1</sup> EDP refers to *nodal energy dispatch price*; and RP refers to *reserve price*