



DEPARTMENT CIRCULAR NO. DC2023-_____

**DECLARING THE COMMERCIAL OPERATIONS OF THE RESERVE MARKET
AND PROVIDING FURTHER POLICIES**

WHEREAS, Section 37 of the Electric Power Industry Reform Act of 2001 ("EPIRA") mandates the Department of Energy ("DOE") to (a) supervise the restructuring of the electricity industry by formulating policies for the planning and implementation of a comprehensive program for the efficient supply and economical use of energy consistent with the approved national economic plan and with the policies on environmental protection and conservation and maintenance of ecological balance; (b) ensure the reliability, quality, and security of supply of electric power; and (c) jointly with the electric power industry participants, establish the Wholesale Electricity Spot Market ("WESM") and formulate the detailed rules governing the operations thereof;

WHEREAS, the EPIRA mandates the System Operator ("SO") to ensure and maintain the reliability, adequacy, security, stability, and integrity of the Grid in accordance with the performance standards for the operations and maintenance of the Grid, as set forth in a Grid Code;

WHEREAS, the DOE, on 28 June 2002, pursuant to its mandate, in consultation with the electric power industry participants, promulgated Department Circular ("DC") 2002-06-0003 or the WESM Rules and established the WESM;

WHEREAS, Ancillary Services ("AS"), as defined in the EPIRA, are services that are necessary to support the transmission of capacity and energy from resources to loads while maintaining reliable operation of the transmission system in accordance with good utility practice and the Grid Code;

WHEREAS, Clause 3.3.3.2 of the WESM Rules mandates the SO to provide adequate AS for each region by entering into contracts with AS Provider and/or purchasing from competitive spot market trading;

WHEREAS, on 23 June 2010, the DOE promulgated DC No. DC2010-06-0007, entitled, "Directing the Preparations for the Trading of AS in the Philippine WESM," establishing the conditions, roles, and responsibilities of concerned agencies and entities in the preparations for the establishment and commencement of the Reserve Market;

WHEREAS, on 02 December 2014, the DOE promulgated DC No. DC2014-0022, entitled, "Promulgating the Protocol for the Central Scheduling and Dispatch of Energy and Contracted Reserves in Preparation for the Commercial Operation of the WESM Reserve Market," approving and adopting the WESM Manual on the Protocol for the Central Scheduling and Dispatch of Energy and Contracted Reserves in preparation for the commercial operations of the Reserve Market;

WHEREAS, on 23 October 2015, the DOE promulgated DC No. DC2015-10-0015, entitled "Providing Policies for Further Enhancement of the WESM Design and Operations", providing policies for the enhancements to WESM design and operations which includes among others the change from a 1-hour dispatch interval to a 5-minute dispatch interval and the implementation of the co-optimized Energy and Reserve Market;

WHEREAS, on 12 November 2015, the DOE promulgated DC No. DC2015-11-0018, entitled "Declaring the Commercial Operations of the Central Scheduling and Dispatch of Energy and Contracted Reserve in the WESM and Providing Further Amendments to its Protocol in Preparation for the Eventual Operation of the WESM Reserve Market";

WHEREAS, on 08 February 2019, the DOE promulgated DC No. DC2019-02-0003, entitled "Providing for the Framework Governing the Operations of Embedded Generators," encouraging the provision of AS from Embedded Generators subject to the criteria provided in relevant rules and regulations;

WHEREAS, on 04 December 2019, the DOE promulgated DC No. DC2019-12-0018 entitled, "Adopting a General Framework Governing the Provision and Utilization of AS in the Grid", providing the general policy framework governing the provision and utilization of AS in the Grid which specified among others, the criteria for the commercial operation of the WESM Reserve Market;

WHEREAS, on 04 December 2019, the DOE promulgated DC No. DC2019-12-0018 providing the creation of the AS-Technical Working Group (AS-TWG) to render technical assistance to DOE in developing further policies, among other responsibilities, which may include the co-optimized market design;

WHEREAS, on 23 June 2020, the DOE promulgated Department Order No. DO2020-06-0009, entitled "Organizing the Creation and Composition of the AS-TWG," formalizing the composition and representations in the AS-TWG;

WHEREAS, on 28 October 2020, the AS-TWG promulgated the AS-TWG Resolution No. 2020-01 providing recommendations to the DOE and ERC on further implementation of the general framework governing the provision and utilization of AS in the Grid;

WHEREAS, on 13 May 2021, the DOE promulgated DC No. DC2021-03-0009, entitled "Adopting a General Framework Governing the Operationalization of the Reserve Market in the WESM and Providing Further Policies to Supplement DC2019-0018," providing the policy framework for the operationalization of the Reserve Market and mandating the Market Operator to submit rules changes necessary for the co-optimized Energy and Reserve Market;

WHEREAS, on 26 October 2022, the Independent Electricity Market Operator of the Philippines (IEMOP) and the Philippine Electricity Market Corporation (PEMC) filed a joint application to the Energy Regulatory Commission (ERC) for the Price Determination Methodology (PDM) for the Implementation of the co-optimized Energy and Reserve Market in the WESM;

WHEREAS, on 07 November 2022, the DOE promulgated DC No. DC2022-11-0032 entitled, "Adopting Further Amendments to the WESM Rules and Market Manuals for the Implementation of Reserve Market," providing the information required for registration of AS Providers, monitoring of effective provision of AS through Reserve Effectiveness Factor, including reserve settlement quantities and amounts, and reinforcing the designation of the System Operator as the single buyer of reserves;

WHEREAS, on 26 June 2023, the DOE issued an Advisory declaring the Implementation of the Trial Operations Program (TOP) of the Reserve Market in preparation for the commercial operations of the Reserve Market. The successful conduct of the TOP is one of the prerequisites for the commercial operations of the Reserve Market.

WHEREAS, the Energy Regulatory Commission (ERC), on _____, promulgated the interim Price Determination Methodology for the Implementation of the co-optimized Energy and Reserve Market in the WESM; and

WHEREAS, the DOE, upon consultation with the relevant entities and in consideration of the above ERC's Order on the interim implementation of the Reserve Market deemed it necessary to declare the start of commercial operation of the Reserve Market in the recommended phases set by the Market Operator;

NOW, THEREFORE, from the foregoing premises and pursuant to its authority under the EPIRA and the WESM Rules, the DOE hereby adopts, issues, and promulgates the following:

Section 1. Declaration of Commercial Operations of the Reserve Market. The DOE hereby declares the commercial operation of the Reserve Market effective 26 September 2023 in the following manner:

1.1 Final Preparations Stage

The Market Operator is mandated to start the Final Preparations and the Limited Live Dispatch Operations of the Reserve Market, starting 26 September 2023 until 25 December 2023, unless otherwise lifted for subsequent full commercial operations. During this period, the Market Operator shall conduct live parallel operations involving end-to-end testing among the Market Operator, System Operator, and registered Ancillary Service Providers using a non-production system, thus, transactions shall not be binding for purposes of settlement. During this period, the Market Operator, in coordination with the Governance Arm and the System Operator, and all Trading Participants, shall ensure the completion of readiness requirements. The Governance Arm shall ensure the audit's completion and certify the readiness and completeness of all requirements for the full commercial operations. The Market Operator shall ensure compliance with the requirements of the ERC on the approval of the Price Determination Methodology.

1.2 Full Commercial Operations

Starting 26 December 2023, the Market Operator shall implement the full commercial operation of the Reserve Market, wherein the co-optimized energy and reserve schedules, including their associated prices, generated by the Market Dispatch

Optimization Model shall be financially binding. For this purpose, the following shall be observed:

1.2.1 Relaxation of Reserve Offer Capacity Compliance (ROCC) and Reserve Conformance Standards (RCS)

From 26 December 2023 until 25 March 2024, the imposition of sanctions and penalties for non-compliance with the ROCC and RCS shall be relaxed. The Reserve Market Trading Participants in Luzon, Visayas, and Mindanao shall be exempted from sanctions and penalties in case of breach of the ROCC and/or RCS provided under the WESM Dispatch Protocol during the three (3) month relaxation period as provided under Section 2 hereof. Notwithstanding, the Enforcement and Compliance Office (ECO) shall continue to monitor the observance of the ROCC and RCS by the Trading Participants for the purpose of evaluating the initial commercial operation of the Reserve Market.

1.2.2 System Operator's Posting of Prudential Requirements (PR)

The System Operator (SO) shall comply with the posting of the PR in accordance with the relevant provision of the WESM Rules and Market Manuals not later than 25 March 2024. The SO shall ensure the timely settlement of its monthly bills with the Market Operator in accordance with the Reserve Market billing and settlement timetable. Further, the SO shall seek the Energy Regulatory Commission's (ERC) approval of the required changes and support to its compliance with the PR that may be needed in its settlement system.

Section 2. Compliance with the Reserve Market Registration Requirements. All Generation Companies, duly certified and accredited by the System Operator as AS Providers, shall ensure completion of their registration on the Reserve Market before 26 September 2023. Otherwise, applicable sanctions and/or penalties shall be imposed in accordance with the applicable provisions of WESM Rules and Market Manuals and other relevant issuances of the DOE.

Section 3. Full Imposition of the ROCC and RCS. Starting 26 March 2024, all Trading Participants shall ensure full compliance with the ROCC and RCS in accordance with the applicable provisions of the WESM Rules and Market Manuals. Otherwise, the ECO, upon determination of a breach, shall impose applicable sanctions and/or penalties in accordance with the relevant provisions of the WESM Rules and Market Manuals.

Section 4. Regulatory Support. The ERC shall ensure the timely provision of support to the regulatory requirements and approvals consistent with the policies set forth under this Circular in accordance with existing laws and procedures.

Section 5. Separability. If any provision of this Circular is declared invalid or unconstitutional, the other provisions not affected shall remain valid and subsisting.

Section 6. 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 7. Effectivity and Publication. This Circular shall take effect immediately upon 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 _____2023 at the DOE, Energy Center, Rizal Drive, Bonifacio Global City, Taguig City.

RAPHAEL P. M. LOTILLA
Secretary