



Republic of the Philippines
DEPARTMENT OF ENERGY

DEPARTMENT CIRCULAR NO. DC2020-06-0014

**ADOPTING FURTHER AMENDMENTS TO THE WHOLESALE ELECTRICITY
SPOT MARKET (WESM) RULES AND 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, Retail Rules and their Market Manuals shall be undertaken in accordance with the provisions of Chapter 8 of the WESM Rules;

WHEREAS, on 10 June 2019, the Market Operator submitted to the Rules Change Committee (RCC) its proposed general amendments to the WESM Rules and Market Manual on Billing and Settlement for enhancements to the determination of initial prudential requirements;

WHEREAS, the abovementioned proposal was based on the urgent amendments approved by the RCC and PEM Board on 22 February 2019 and 29 May 2019, respectively;

WHEREAS, the proposal aims to introduce an appropriate formula for the computation of the initial prudential requirements in line with the target commercial operation of WESM in Mindanao and implementation of enhancement to the WESM design and operations;

WHEREAS, 21 June 2019, the RCC during its 153rd RCC Meeting discussed with the Market Operator the abovementioned proposal, and thereafter approved the publication of the proposed amendments in the Philippine Electricity Market Corporation's (PEMC) information website to solicit comments from market participants and other interested parties;

WHEREAS, on 16 August 2019, the RCC deliberated on the proposal giving due course to the comments received from market participants, and thereafter finalized and approved for endorsement to the PEM Board;

WHEREAS, on 28 August 2019, after due evaluation and deliberation, the PEM Board during its 15th Regular PEM Board Meeting, approved for endorsement to the DOE the above stated RCC-approved proposal;

WHEREAS, on 05 September 2019, 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 06 November 2019, the DOE posted the proposed amendments in the DOE website to solicit further comments from the market participants and other interested parties;

WHEREAS, the DOE conducted several meetings with the Market Operator to clarify and harmonize the said proposal;

WHEREAS, the DOE reviewed the said PEM Board-approved proposal, made minor revisions on the proposed amendments for consistency with the objectives of the WESM and the DOE policies on the enhancements of WESM design and operations;

NOW THEREFORE, pursuant to its authority under the EPIRA and the WESM Rules, the DOE hereby adopts, issues, and promulgates the following amendments to the WESM Rules and its Market Manuals:

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

a. Clause 3.15.4 (Amount of Security) and its Subsections under Prudential Requirements are amended to read as –

“3.15.4 Amount of Security

Using available historical data in the *WESM*, the *Market Operator* shall determine the initial *prudential requirements* of a new *WESM Member* corresponding to the 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*.

3.15.4.1 Subject to Clause 3.15.2.2, prior to the end of each *financial year*, the *Market Operator* shall determine and provide written confirmation to each *WESM Member* of its *maximum exposure* to the *Market Operator* with respect of a billing period in the following *financial year*. The amount of security to be provided by each *WESM Member* pursuant to *Clauses* 3.15.2.1 and 3.15.2.2 shall be equivalent to the *maximum exposure*.

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If there is a change in the *bilateral contract* of a *WESM Member*, the *maximum exposure* shall be computed based on the *settlement*

amounts estimated by the Market Operator using the average actual market price based on the billing period of 26th March to 25th September. Average actual market price shall refer to the ratio of the total spot market payment of a WESM Member, which may include spot market energy and reserve transactions, to the total metered quantities net of bilateral contract quantities for each billing month.

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Section 2. Amendments to the WESM Market Manual on Billing and Settlement. The following provisions in the WESM Market Manual on Billing and Settlement Issue 6.0 are hereby amended:

- a. Section 7.4.1 (Initial Assessment of Prudential Requirement) under Procedures is amended to read as –

"7.4.1 Initial Assessment of Prudential Requirement

(a) The initial prudential requirement of a WESM Member shall be calculated as the average of the projected settlement amount for each complete billing period considering the following:

- (i) if the WESM Member aims to begin trading in the WESM before August 26 of the current year, the initial prudential requirement shall be calculated using the data of complete billing periods within March 26 to September 25 of the same year; or
- (ii) otherwise the initial prudential requirement shall be calculated using the data of complete billing periods within March 26 to September 25 of the succeeding year.

(b) The projected settlement amount for each billing period of a WESM Member shall be calculated using the following formula:

$$PSA = \sum_{i \in I} (PGESQ_i \times PFEDP_i) - \sum_{i \in I} \sum_{c \in C} (PBCQ_{c,i} \times PFEDP_{c,i})$$

Where:

- PSA projected settlement amount in PhP
- PGESQ_i projected gross energy settlement quantity, in MWh, for dispatch interval i
- PFEDP_i projected final energy dispatch price, in PhP/MWh, for dispatch interval i
- PBCQ_{c,i} projected bilateral contract quantity, in MWh, from counterparty c for dispatch interval i
- PFEDP_{c,i} projected 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

(c) The *WESM Member* shall submit the following information to the *Market Operator* for each *dispatch interval* in the period defined in Section 7.4.1(a):

- (i) Projected *gross energy settlement quantities*; and
- (ii) Projected *bilateral contract* quantities from each *trading participant* counterparty.

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

(d) The *WESM Member* shall submit to the *Market Operator* its assumptions for determining its projected *gross energy settlement quantities*. The *Market Operator* may require the *WESM Member* to submit supporting documents if necessary. The *Market Operator* shall assist the *WESM Member* in determining the projected *gross energy settlement quantities*.

(e) To be considered in the determination of the initial *prudential requirement*, the *bilateral contract* quantities submitted under Section 7.4.1(d)(ii) should have a corresponding contract enrolled with the *Market Operator*.

(f) The projected *final energy dispatch price* of a *WESM Member* for a *dispatch interval* shall be equal to the *final energy dispatch price* of the geographically nearest *market trading node* from the *connection point* of the *WESM Member* at the same *dispatch interval* and most recent same date.

(g) The projected *final energy dispatch price* associated with a *bilateral contract* quantity from a counterparty for a *dispatch interval* shall be equal to the *final energy dispatch price* of the *market trading node* of the counterparty identified during enrollment of the *bilateral contract* at the same *dispatch interval* and most recent same date.

(h) Subject to 7.2.4 of this *Manual*, the *Market Operator* shall set a trading limit for each *WESM Member* who participates in market transactions.¹

The trading limit for a *WESM Member*, at any time, shall be equal to the total value of the security, including Interest Rate, if any, provided by the *WESM member* to the *Market Operator*.²

1 WESM Rules Clause 3.15.9.1

2 WESM Rules Clause 3.15.9.3

- (i) The *Market Operator* shall notify the *WESM Member*, of the required security based on the established Trading Limit as soon as practicable.
- (j) The *WESM Member* shall provide the required security deposit in the form acceptable to the *Market Operator* as part of the requirements that the *WESM Member* must comply before participating in the Spot Market.
- (k) The *Market Operator* shall confirm receipt of the security deposit provided by the *WESM Member* as soon as practicable.”

Section 3. Transitory Provision. To facilitate effective implementation of WESM in Mindanao and market design enhancements, the Market Operator shall immediately implement these amended WESM Rules and its Market Manuals set forth in this Circular.

Notwithstanding Section 7.4.1 (f) and (g) of the WESM Market Manual on Billing and Settlement, the following assumptions shall be used upon the effectivity of this Circular until one (1) year after the DOE issuance through a Department Circular on the commencement date for the New Market Management System:

- a. For the implementation of *WESM* in Mindanao, the *Market Operator* shall determine the projected *final energy dispatch prices* based on the following parameters:
 - (i) Interval: One set of projected *final energy dispatch prices* for all *dispatch intervals* within an hour based on top-of-the-hour information; all other assumptions shall be on an hourly basis;
 - (ii) Regional demand profile: Latest full calendar year regional demand profile applied with the regional peak demand growth rate published by the *DOE*;
 - (iii) Nodal load profile: Projected regional demand profile distributed based on load distribution during the *dispatch interval* with the highest regional demand from the latest full calendar year;
 - (iv) Offered capacity: *WESM* registered capacity applied with the average derating and outage factor in the *WESM* or, if available, in the region from the last full calendar year for each type of plant for each month;
 - (v) Contracted capacity: Average contracted capacity from the last full calendar year based on best available data;
 - (vi) Offer prices: For minimum stable loading, PhP 0 / MWh; for contracted and uncontracted capacity, average offer price for the second block in the *WESM* of similar fuel type from the same month from the last full calendar year;
 - (vii) Transmissions constraints: Only for transmission lines with projected significant congestion based on *System Operator* information; and
 - (viii) Transmission losses: Based on transmission loss factors simulated using the highest projected regional demand and latest representation of the region's *power system* in the *Market Network Model*.

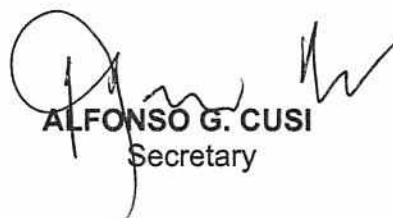
b. For Luzon-Visayas WESM, the *Market Operator* shall determine the projected *final energy dispatch prices* in consideration of the following:

- (i) projections shall be performed per *trading interval* instead of per *dispatch interval*;
- (ii) *gross ex-post energy settlement quantities* shall be projected instead of *gross energy settlement quantities*;
- (iii) *ex-post energy settlement prices* shall be projected instead of *final energy dispatch prices*; and
- (iv) the *market trading node* associated with *bilateral contract* quantities shall be a *market trading node* of the *trading participant* responsible for the payment of *line rental trading amounts* specified by the *WESM member* during the enrollment of its *bilateral contract*.

Section 4. 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 5. Effectivity. This Circular shall take effect fifteen (15) days 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 JUN 02 2020 2020 at the Energy Center, Rizal Drive, Bonifacio Global City, Taguig City.


ALFONSO G. CUSI
Secretary

