



Republic of the Philippines
DEPARTMENT OF ENERGY

DEPARTMENT CIRCULAR NO. _____

**ADOPTING FURTHER AMENDMENTS TO THE WHOLESALE ELECTRICITY
SPOT MARKET (WESM) RULES AND MARKET MANUALS FOR
ENHANCEMENTS TO THE DETERMINATION OF INITIAL 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 12 February 2019, the Market Operator submitted to the Rules Change Committee (RCC) its proposed urgent amendments to the WESM Rules and Market Manual on Billing and Settlement for the enhancements to the determination of initial prudential requirements;

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, as well as for new applications in the WESM;

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

WHEREAS, in response to the RCC's call for comments, written submissions were received from the Manila Electric Company (MERALCO) and Hedcor Incorporated;

WHEREAS, on 16 August 2019, the RCC deliberated on the proposal giving due consideration to the submitted comments and the corresponding responses of the proponent;

WHEREAS, the RCC finalized the proposed amendments of the Market Operator and NGCP, and thereafter approved for endorsement to the PEM Board on 16 August 2019;

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

WHEREAS, on __November 2019, the DOE posted the said proposed amendments on the DOE website to solicit further comments from the market participants and other interested parties;

WHEREAS, the DOE reviewed the said PEM Board-approved proposal and the comments and recommendations received, made further revisions on the proposed amendments for consistency with the objectives of the WESM such as transparency and efficiency;

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 various 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 is amended to read as –

“3.15.4 Amount of Security

The *Market Operator* shall determine the initial *Prudential Requirements* of a new *WESM member* corresponding to the projected *maximum exposure* of the new *WESM member* calculated as the average of the projected *settlement amount* for each complete *billing period* covered in the relevant *Market Manual*.

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* in respect of a billing period in the following *Financial Year*. The amount of security to be provided by each *WESM member* pursuant to Clause 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.

Section 2. Amendments to the WESM Manual on Billing and Settlement Issue 5.0 . The following provisions in the WESM Manual on Billing and Settlement Issue 5.0 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 using projected data for *trading intervals*:
 - (i) if the *WESM Member* aims to begin trading in the *WESM* before August 26, from complete *billing periods* within March 26 to September 25 of the same year; or
 - (ii) if the *WESM Member* aims to begin trading in the *WESM* on or after August 26, from March 26 to September 25 of the succeeding year.
- b) The initial *prudential requirement* of a *WESM Member* shall be calculated as the average of the projected *settlement amount* for each complete *billing period* covered in the period defined in Section 7.4.1(a).
- c) The projected *settlement amount* for each *billing period* of a *WESM Member* shall be calculated using the following formula:

$$PSA = \sum_{i \in I} (PGEPESQ_i \times PEPESP_i) - \sum_{i \in I} \sum_{c \in C} (PBCQ_{c,i} \times PEPESP_{c,i})$$

Where:

PSA	projected <i>settlement amount</i> in PhP
PGEPESQ _i	projected <i>gross ex-post energy settlement quantity</i> , in MWh, for <i>trading interval i</i>
PEPESP _i	projected <i>ex-post energy settlement price</i> , in PhP/MWh, for <i>trading interval i</i>
PBCQ _{c,i}	projected <i>bilateral contract quantity</i> , in MWh, from counterparty <i>c</i> for <i>trading interval i</i>
PEPESP _{c,i}	projected <i>ex-post energy settlement price</i> , in PhP/MWh, of the <i>market trading node</i> of the <i>trading participant</i> responsible for the payment of <i>line rental trading amounts</i> specified by the <i>WESM member</i> during the enrollment of its <i>bilateral contract</i> with counterparty <i>c</i> for <i>trading interval i</i>
i	set of <i>trading intervals</i> within the billing period
C	set of counterparties

- d) The *WESM Member* shall submit the following information to the *Market Operator* for each *trading interval* in the period defined in Section 7.4.1(a):
 - (i) Projected *gross ex-post energy settlement quantities*
 - (ii) Projected *bilateral contract* quantities from each *trading participant* counterparty
- e) The *WESM Member* shall submit to the *Market Operator* its assumptions for determining its projected *gross ex-post 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 ex-post energy settlement quantities*.
- f) 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*.
- g) The projected *ex-post energy settlement price* of a *WESM Member* for a *trading interval* shall be equal to the *ex-post energy settlement price* of the geographically nearest *market trading node* from the *connection point* of the *WESM Member* at the same *trading interval* and most recent same date.
- h) The projected *ex-post energy settlement price* associated with a *bilateral contract* quantity from a counterparty for a *trading interval* shall be equal to the *ex-post energy settlement price* of the *market trading node* of the counterparty identified during enrollment of the *bilateral contract* at the same *trading interval* and most recent same date.
- i) 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.⁴⁸

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*.⁴⁹

footnotes: 48 – WESM Rules Clause 3.15.9.1
 49 – WESM Rules Clause 3.15.9.3

- j) The *Market Operator* shall notify the *WESM Member*, of the required security based on the established Trading Limit as soon as practicable.
- k) 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.

- l) The *Market Operator* shall confirm receipt of the security deposit provided by the *WESM Member* as soon as practicable.”

Section 3. Amendments to the WESM Manual on Billing and Settlement Issue 6.0 . The following provisions in the WESM 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 using projected data for *dispatch intervals*:
- (i) if the *WESM Member* aims to begin trading in the *WESM* before August 26, from complete *billing periods* within March 26 to September 25 of the same year; or
- (ii) if the *WESM Member* aims to begin trading in the *WESM* after August 25, from March 26 to September 25 of the succeeding year.
- b) The initial *prudential requirement* of a *WESM Member* shall be calculated as the average of the projected *settlement amount* for each complete *billing period* covered in the period defined in Section 7.4.1(a).
- c) 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

- d) 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*
 - (ii) Projected *bilateral contract* quantities from each *trading participant* counterparty
- e) 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*.
- f) 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*.
- g) 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.
- h) 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.
- i) For new regions integrated to the *WESM*, the *Market Operator* shall simulate and publish projected *final energy dispatch prices* for reference nodes in the new region. The *Market Operator* shall publish the assumptions used in determining the projected *final energy dispatch prices*, subject to approval of the *PEM Board*.

The reference prices shall be applied to *trading participants* that are registered prior to the commercial operations of the *WESM* in that region; for new *trading participants* in the new region applying for registration one (1) year after the commercial operations of the *WESM* in that region, Section 7.4.1(g) and Section 7.4.1(h) shall apply.

- j) 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.⁴⁷

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.⁴⁸

- k) The Market Operator shall notify the WESM Member, of the required security based on the established Trading Limit as soon as practicable.
- l) 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.
- m) The Market Operator shall confirm receipt of the security deposit provided by the WESM Member as soon as practicable.
- n) For a period of one year from the start of commercial operations of the enhancements to *WESM* design and operations under DC2015-01-0015, the *initial prudential requirements* of a *WESM Member* shall be calculated 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 _____ November 2019 at the Energy Center, Rizal Drive, Bonifacio Global City, Taguig City.

ALFONSO G. CUSI
Secretary