



Republic of the Philippines
DEPARTMENT OF ENERGY

DEPARTMENT CIRCULAR NO. DC 2010-06 - 0007

**DIRECTING THE PREPARATIONS FOR THE TRADING OF ANCILLARY SERVICES IN
THE PHILIPPINE WHOLESALE ELECTRICITY SPOT MARKET ("WESM")**

WHEREAS, Section 37 of EPIRA Republic Act No. 9136, otherwise known as the "Electric Power Industry Reform Act of 2001" or "EPIRA", provides the mandate of the Department of Energy ("DOE") to "ensure the reliability, quality and security of supply of electric power, encourage private sector investments in the electricity sector and promote development of indigenous and renewable energy sources and develop policies and procedures and, as appropriate, promote a system of energy development incentives to enable and encourage electric power industry participants to provide adequate capacity to meet demand including, among others, reserve requirements;

WHEREAS, the DOE is also mandated under Section 30 of the EPIRA to establish the Wholesale Electricity Spot Market ("WESM") that would facilitate a transparent, competitive, and reliable market for electricity;

WHEREAS, the DOE, jointly with the electric power industry participants, is tasked to formulate the detailed rules for the WESM and, pursuant to this, the DOE upon the joint endorsement of electric power industry participants promulgated the Wholesale Electricity Spot Market Rules ("WESM Rules") on 28 June 2002 through Department Circular No. DC-2002-06-003;

WHEREAS, the Philippine Electricity Market Corporation was constituted as the autonomous group market operator of the WESM;

WHEREAS, upon declaration by the DOE through Department Circular No. DC-2006-06-0008, the WESM commenced commercial operations in Luzon on 26 June 2006;

WHEREAS, the WESM Rules in Section 10.3 provided that, initially, only energy shall be traded upon commencement of the WESM;

WHEREAS, for ancillary services, the WESM Rules Section 10.3.2.3 provides that when applicable and reasonably feasible, the Market Operator of the WESM shall establish a spot market mechanism for competitive spot market trading in the purchase of certain reserve categories and that the DOE shall declare the commencement of the spot market for ancillary services;

WHEREAS, the WESM Price Determination Methodology as approved by the Energy Regulatory Commission in its Decision dated 20 June 2006 in ERC Case No. 2006-007 RC embodies the principle of the co-optimization of reserve and energy in the pricing and scheduling processes of the WESM;

WHEREAS, there is a need to establish the conditions and the roles and responsibilities of concerned agencies and entities in the preparations for the establishment and commencement of the spot market for ancillary services;

NOW, premises considered, the DOE hereby declares as follows -

SECTION 1. Scope and Application. This Circular shall apply to the agencies and entities named in this Circular and to all electric power industry participants.

SECTION 2. Spot Market Mechanism for Ancillary Services. The spot market for ancillary services shall be made an integral part of the WESM and shall cover the reserve categories as prescribed in the WESM Rules and as may be proposed by the Market Operator in consultation with the System Operator and approved by the Philippine Electricity Market Board in accordance with the WESM Rules. For this purpose, the principle of the co-optimization of reserve and energy as provided for in the WESM Rules and the approved WESM Price Determination Methodology shall always be followed.

SECTION 3. Responsibilities. Pursuant to their respective mandates and functions under the EPIRA and its Implementing Rules and Regulations, the WESM Rules and other relevant laws and issuances, the following agencies and entities are enjoined to extend their full cooperation toward the preparations for the establishment and commencement of the trading of reserves in the WESM ("reserve market" for brevity).

SECTION 3.1. Philippine Electricity Market Corporation ("PEMC"). Pursuant to its mandate as the autonomous group market operator of the WESM, the PEMC shall complete its preparations for the establishment of the reserve market. Its preparatory activities shall include, but shall not be limited to:

- a) Securing regulatory approval of the pricing and cost recovery methodology for reserves, provided that the methodology shall be consistent with the relevant provisions of the WESM Rules and the duly approved WESM Price Determination Methodology;
- b) Ensuring that the WESM Market Management System and other market infrastructure, both hardware, software and necessary interfaces, are in place to support the operations of the trading of reserves in the WESM;
- c) Ensuring readiness of all WESM members and trading participants as well as WESM service providers by conducting training, stakeholder consultations and other information dissemination activities to fully inform the WESM members and participants of the relevant methodologies and processes for the trading of reserve;
- d) Review the existing WESM Rules, manuals and its internal business processes relevant to the trading of reserve and provision of ancillary services and, if warranted, propose and secure approval for changes to said rules, manuals, and business processes; and
- e) Comply with all directives from the DOE pertaining to the establishment of the reserve market.

SECTION 3.2. National Grid Corporation of the Philippines. The NGCP shall ensure that its performance of its functions and obligations pursuant to its mandate on the provision of ancillary services are in compliance with the EPIRA and its Implementing Rules and Regulations, the WESM Rules, the Philippine Grid Code, the Open Access Transmission Service Rules ("OATS Rules"), and other relevant rules and regulatory issuances. Toward this end, it shall closely coordinate with PEMC and the DOE to ensure that all pre-requisites and conditions for the establishment of the reserve market are complied with and completed in a timely manner.

SECTION 3.3. National Electrification Administration. The NEA shall render appropriate assistance to electric cooperatives ("ECs") in ensuring their readiness for the commencement of the WESM reserve market. It shall submit

regular reports to the DOE on the status of the activities undertaken together with the ECs in performing their responsibilities under this Circular.

SECTION 3.4. WESM Members and Electric Power Industry Participants.

All WESM Members and Trading Participants, as well as non-registered WESM electric power industry participants are hereby directed to undertake their own preparations to ensure their readiness for the commencement of the WESM reserve market. All qualified participants intending to participate in the WESM reserve market as ancillary services providers shall obtain the necessary regulatory approvals as such and shall ensure compliance with the requirements set forth in the WESM Rules and other requirements as may be set by the PEMC and NGCP for the registration and accreditation of ancillary services providers in the WESM.

SECTION 4. Criteria and Conditions for Declaration of Commencement of Spot Market for Ancillary Services. Pursuant to its mandate, the DOE shall determine the feasibility and reasonability of the commencement of the commercial operations of the reserve market in the WESM. Towards this end, it shall establish appropriate criteria for assessment of the readiness of all electric power industry participants to participate in and of the NGCP and PEMC to operate the reserve market. The DOE shall declare commencement of the commercial operations of the reserve market upon its determination that the conditions and criteria it has set have been substantially complied with.

SECTION 5. Reportorial Requirements. For purposes of monitoring compliance with the directives under this Circular, the PEMC, NGCP, NEA, and other relevant agencies shall be required to submit reports on the progress and status of their preparations and readiness to the DOE from time to time.

SECTION 6. Supervision by the DOE. The DOE shall continue to oversee the development of the WESM which includes, among other things, the trading of reserves. Toward this end, it shall undertake such actions as provided in the EPIRA, its Implementing Rules and Regulations, and the WESM Rules in connection with the establishment of the WESM.

SECTION 7. No amendment or repeal of existing laws. Nothing in this Circular shall be construed as to amend, supplant, or repeal any of the mechanisms or institutions already existing or responsibilities already allocated and provided for under any existing law, rule or contract.

SECTION 8. Effectivity and Publication. This Circular shall be effective immediately upon its publication in two (2) newspapers of general circulation. The PEMC is also hereby directed to publish this Circular in the WESM Market Information Website.

This Circular shall remain in effect until otherwise revoked.

Taguig City, Metro Manila, Philippines, JUNE 23, 2010

JOSE C. IBAZETA
Acting Secretary



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IN REPLYING PLS CITE:
SDOE10-000765

