



Republic of the Philippines
DEPARTMENT OF ENERGY

DEPARTMENT CIRCULAR NO. DC2022-03-0003

**ADOPTING FURTHER AMENDMENTS TO THE WHOLESALE ELECTRICITY
SPOT MARKET (WESM) RULES AND ITS 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 including its Market Manuals shall be undertaken in accordance with the provisions of Chapter 8 thereof;

WHEREAS, the WESM Rules and WESM Manual on Billing and Settlement provide for covered and exempted WESM Members from prudential requirements, the acceptable forms of prudential security, the formula for computing maximum exposure, and the process for refunding prudential security;

WHEREAS, on 02 June 2020, the DOE issued DC2020-06-0014 amending the WESM Rules regarding the amount of prudential requirements;

WHEREAS, on 17 July 2020, the Rules Change Committee (RCC) received from the Independent Electricity Market Corporation of the Philippines (IEMOP) its proposed general amendments to the WESM Rules and WESM Market Manual on Billing and Settlement, in particular to the versions for current market and the implementation of the enhanced WESM design and operations;

WHEREAS, the proposal aims to incorporate the following:

- a. Addition of assessment by request of prudential requirements;
- b. Inclusion of force majeure events and large reduction in load served as considerations for replacement month in the computation of maximum exposure;
- c. Revision for the basis of security amount from average price and monthly quantities to hourly price and hourly quantities;

- d. Revision for the grounds for exempting a WESM Member from prudential requirement;
- e. Revision on the allowed forms of security; and
- f. Clarification on the process of refund.

WHEREAS, on 14 August 2020, the RCC during its 168th RCC Meeting discussed the abovementioned proposals and thereafter approved the publication of the proposed amendments in the WESM market information website to solicit comments from market participants and other interested parties;

WHEREAS, on 16 October 2020, the RCC during its 170th RCC Meeting deliberated on and finalized the proposed amendments giving due course to the comments and recommendations received from the Governance Arm and AC Energy, and thereafter approved for endorsement to the PEM Board;

WHEREAS, after due evaluation and deliberation, the PEM Board approved for endorsement to the DOE the above stated RCC proposal;

WHEREAS, on 01 December 2020, 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 29 September 2021, the DOE posted the Draft Department Circular on the abovementioned proposed amendments to solicit further comments from the market participants and other interested parties;

WHEREAS, the DOE to ensure transparency and consistency with the objectives of the EPIRA and the WESM, conducted virtual public consultations on the said proposed amendments on various dates as follows;

Date	Leg	Platform
16 November 2021	Luzon	Microsoft Teams
17 November 2021	Visayas	Microsoft Teams
17 November 2021	Mindanao	Microsoft Teams

WHEREAS, the DOE reviewed and finalized the said PEM Board-approved proposal, made revisions thereto taking into consideration the comments and recommendations received from the public consultations and subsequent discussions with the Market Operator;

NOW THEREFORE, after careful review of the PEM Board-approved 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 various Market Manuals:

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

- a. Clause 3.15.2.4 (Provision of Security) under Prudential Requirements is amended to read as –

“3.15.2.4 Provision of Security

A *WESM Member* who is exempt from providing a security deposit under Clause 3.15.2.2 shall be required to pay in cleared funds the total negative settlement amount due, if any, on the due date as provided under Clause 3.14.6.”

- b. Clause 3.15.3 (Form of Security) under Prudential Requirements is amended to read as –

“3.15.3 Form of Security

The security provided by the *WESM Member* shall be in either of the following forms of security:

xxx xxx xxx

- b) Other forms of security payable upon demand, irrevocable and unconditional commitment in a form and from a bank or other financial institutions acceptable to the *Market Operator*, or
- c) Surety bond issued by a surety or insurance company duly accredited and authorized by the Office of the Insurance Commissioner of the Philippines;

xxx xxx xxx

xxx xxx xxx

xxx xxx xxx

All forms of security must be payable to the *Market Operator*. Its validity must be in accordance with the requirements as stated in the relevant rules and manuals.”

- c. Clause 3.15.4.1 (Amount of Security) under Prudential Requirements is amended to read as –

“3.15.4.1 xxx xxx xxx

The *Market Operator* shall consider a replacement month in the computation of *Maximum Exposure* within the 26th March to 25th September billing periods, having the same number of calendar days if:

xxx xxx xxx

xxx xxx xxx; or

- c) There is a force majeure event that affected at least 50% of the settlement intervals within a billing period.

If there is a change or expected change in the settlement quantities of a *WESM Member* due to a change in bilateral contract, reduction in load served, or occurrence of force majeure events, the *WESM Member* may, at any time, request the *Market Operator* to determine its maximum exposure corresponding to its 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.

xxx xxx xxx "

- d. Clause 3.15.7 (Refund of Security) under Prudential Requirements is amended to read as –

"xxx xxx xxx

- a) if the *Market Operator* has exempted the *WESM Member* under Clause 3.15.12.2 or lifted the cancellation of exemption after the *WESM member* complied with its obligations under Clause 3.15.2.5; or
- b) xxx xxx xxx; or
- c) if the calculated *Maximum Exposure* of the *WESM Member* under Section 3.15.4.1 is lower than the amount of security it has provided to the *Market Operator*.

xxx xxx xxx

Section 2. Amendments to the WESM Market Manual on Billing and Settlement.

The following provisions in the WESM Manual on Billing and Settlement are hereby amended:

- a. Section 7.2.2 (Provisions of Security) under Prudential Requirements is amended to read as –

"7.2.2 In reference to WESM Rules Clause 3.15.2.2, the Market Operator may exempt a WESM Member from the requirement to provide a security, if:

- a) the *WESM Member* is registered or registering as a *Generation Company* under commercial operations; and
- b) for a registering *Generation Company*, its projected volume sales to the *WESM* is greater than its projected contracted quantities and, if any, the projected volume purchases of its *Indirect WESM Members*; or, for a registered *Generation Company*, its *WESM settlement amount* is positive for the past three (3) billing periods.

The *Market Operator* shall not exempt *Generation Companies* that are not yet in commercial operations and *Customers* from the *prudential requirements* even if their calculated amount of security is zero."

- b. Section 7.2.3 (Provisions of Security) under Prudential Requirements is amended to read as –

"7.2.3 If the *WESM Member* has been deemed exempted by the *Market Operator* under Section 7.2.2 and *WESM Rules* Clause 3.15.2.2, the *Market Operator* shall send a written notice to the *WESM Member*. The *Market Operator* may vary or cancel the exemption given pursuant to Sections 7.2.1 and 7.2.2 of this Manual, at any time, by giving written notice of the variation or cancellation of the exemption to the *WESM member*.

- c. Section 7.2.5 (Provisions of Security) under Prudential Requirements is amended to read as –

"7.2.5. A *WESM Member* who is exempt from providing a security deposit shall be required to pay in cleared funds the total negative settlement amount due, if any, on the due date as provided under Section 5.3.1 of this Manual."

- d) Section 7.3.1 (Provisions of Security) under Prudential Requirements is amended to read as –

"7.3.1 The security provided by a *WESM Member* shall be in either of the following forms of security:

- a) xxx xxx xxx
- b) Other forms of security payable upon demand, irrevocable and unconditional commitment in a form and from a bank or other financial institutions acceptable to the *Market Operator*, or
- c) Surety bond issued by a surety or insurance company duly accredited and authorized by the Office of the Insurance Commissioner of the Philippines.

For items b and c, the instrument must indicate that it is payable upon demand, irrevocable, and unconditional.

All forms of security must be payable to the *Market Operator*. Its validity must be in accordance to the requirements of relevant rules and manuals."

- e) Section 7.4.3(h) (Assessment of Maximum Exposure) under Prudential Requirements is amended to read as –

"7.4.3(h) xxx xxx xxx

i. xxx xxx xxx

ii. xxx xxx xxx; or

iii. There is a force majeure event that affected at least 50% of the settlement intervals within a billing period.

- f) Section 7.4.3(i) (Assessment of Maximum Exposure) under Prudential Requirements is amended to read as –

"7.4.3(i) If there is a change or expected change in the settlement quantities of a *WESM Member* due to a change in bilateral contract, reduction in load served, or occurrence of force majeure events, the *WESM Member* may, at any time, request the *Market Operator* to determine its *Maximum Exposure* based on its average estimated settlement amount.

The estimated settlement amount for each billing period of a *WESM Member* shall be calculated using the following formula:

$$ESA = \sum_{i \in I} (EGESQ_i \times EFEDP_i) - \sum_{i \in I} \sum_{c \in C} (EBCQ_{c,i} \times EFEDP_{c,i})$$

Where:

ESA estimated *settlement amount* in PhP

EGESQ_i estimated *gross energy settlement quantity*, in MWh, for *dispatch interval i*

EFEDP_i estimated final energy dispatch price, in PhP/MWh, for *dispatch interval i*

EBCQ_{c,i} estimated *bilateral contract quantity*, in MWh, from counterparty *c* for *dispatch interval i*

EFEDP_{c,i} estimated 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

- i. if the request is due to a change in *bilateral contract*, the *WESM Member* shall submit to the *Market Operator* its estimated *bilateral contract* quantities from each *Trading Participant* counterparty for each *dispatch interval* in the immediate complete 26 March to 25 September period; the estimated *gross energy settlement quantity* and *estimated final energy dispatch prices* of the *WESM Member* for a dispatch interval shall be equal to its *gross energy settlement quantity* and *final energy dispatch prices*, respectively, at the same *dispatch interval* and most recent same date.
 - ii. if the request is due to a reduction in load served, the *WESM Member* shall submit to the *Market Operator* its estimated *gross energy settlement quantities* and estimated *bilateral contract* quantities from each *trading participant* counterparty for each dispatch interval in the immediate complete 26 March to 25 September period; the estimated *final energy dispatch prices* of the *WESM Member* for a *dispatch interval* shall be equal to its *final energy dispatch prices* at the same *dispatch interval* and most recent same date.
 - iii. if the request is due to a force majeure, the *WESM Member* shall submit to the *Market Operator* its estimated *gross energy settlement quantities* and estimated *bilateral contract quantities* from each *trading participant* counterparty for each *dispatch interval* in the immediate complete 26 March to 25 September period; the estimated *final energy dispatch prices* of the *WESM Member* for a *dispatch interval* shall be equal to its *final energy dispatch prices* at the same *dispatch interval* and most recent same date, or from the replacement date in accordance with Section 4.7.3(h).
 - iv. The estimated *bilateral contract quantity* shall not exceed the estimated *gross energy settlement quantity* for each *dispatch interval*.
- g) Section 7.4.6(a) (Refund of Security) under Prudential Requirements is amended to read as –

“7.4.6(a) xxx xxx xxx

- i. If the *Market Operator* has exempted the *WESM Member* under Section 7.2.2 or lifted the cancellation of exemption after the *WESM Member* complied with its obligations under Section 7.2.6 of this Manual; or
- ii. xxx xxx xxx; or

- iii. if the calculated *Maximum Exposure* of the *WESM Member* under Section 7.4.3 is lower than the amount of security it has provided to the *Market Operator*.

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. Effectivity. This Circular shall take effect immediately 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 MARU 1 2022 at the Energy Center, Rizal Drive, Bonifacio Global City, Taguig City.


ALFONSO G. CUSI
Secretary

