



Republic of the Philippines
DEPARTMENT OF ENERGY

DEPARTMENT CIRCULAR No. DC2017-05-0009

**DECLARING THE LAUNCH OF THE WHOLESALE ELECTRICITY SPOT
MARKET (WESM) IN MINDANAO AND PROVIDING FOR TRANSITION
GUIDELINES**

WHEREAS, Section 2 of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 ("EPIRA"), declared the Policy of the State among others:

"xxx xxx

- b) To ensure the quality, reliability, security and affordability of the supply of electric power;*
- c) To ensure transparent and reasonable prices of electricity in a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency and enhance the competitiveness of Philippine products in the global market;*

xxx xxx

- f) To protect the public interest as it is affected by the rates and services of electric utilities and other providers of electric power;*

xxx xxx

- j) To establish a strong and purely independent regulatory body and system to ensure consumer protection and enhance the competitive operation of the electricity market;*

xxx xxx"

WHEREAS, Section 37 of the EPIRA further mandates the Department of Energy (DOE) to supervise the restructuring of the electricity industry, and in addition thereto:

"xxx xxx

- f) Jointly with the electric power industry participants, establish the wholesale electricity spot market and formulate the detailed rules governing the operations thereof;*

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- l) *Formulate such rules and regulations as may be necessary to implement the objectives of the EPIRA;*

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- q) *Exercise such other powers as may be necessary or incidental to attain the objectives of the EPIRA;*

xxx xxx²

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

WHEREAS, pursuant to Section 30 of the EPIRA, the DOE is mandated to constitute a market operator which shall be an autonomous group with equitable representation from electric power industry participants;

WHEREAS, the Philippine Electricity Market Corporation ("PEMC"), on 18 November 2003, was incorporated as a non-stock, non-profit corporation currently comprising of an equitable representation from electric power industry participants and currently designated as the Autonomous Group Market Operator ("AGMO") of the WESM;

WHEREAS, PEMC, as the AGMO, has been tasked to undertake the preparatory work for the establishment of the WESM, pursuant to Section 30 of the EPIRA;

WHEREAS, the Energy Regulatory Commission ("ERC") approved the Price Determination Methodology ("PDM") for the WESM on 20 June 2006, and the Administered Price Determination Methodology ("APDM") and the Structure and Level of the Market Fees for the WESM on 22 June 2006;

WHEREAS, the DOE, on 21 June 2006, issued DC 2006-06-0008 declaring the start of commercial operations of the WESM in the Luzon Grid;

WHEREAS, the DOE, on 26 November 2010, issued DC 2010-11-0012 declaring the start of commercial operations of the WESM in the Visayas Grid and its integration with the Luzon Grid;

WHEREAS, the DOE adopted and promulgated enhancements to the WESM design and operations through the following: (a) on 23 October 2015, DC 2015-10-0015¹;

¹ Department Circular DC2015-10-0015 "Providing Policies for Further Enhancement of the Wholesale Electricity Spot Market (WESM) Design and Operations"

(b) on 14 October 2016, DC 2016-10-0014²; and (c) on 20 March 2017, DC 2017-03-0001³;

WHEREAS, Mindanao has experienced excess generation supply in 2016 with the entry of 748 MW of new generation capacity and expected to increase further by 1,260 MW until 2018;

WHEREAS, the WESM will provide a venue for efficient scheduling, dispatch and settlement of energy withdrawal and injections in the Mindanao Grid;

WHEREAS, in preparation for the launch of WESM in Mindanao, the DOE has conducted various activities⁴;

WHEREAS, there is a need for additional preparations for the launch of the WESM in Mindanao and provide for transition guidelines until its commercial operations;

NOW, THEREFORE, pursuant to its authority and mandate under the EPIRA and its Implementing Rules and Regulations, the DOE hereby declares the following:

Section 1. Guiding Principles. The establishment of the WESM in Mindanao shall be guided by the following principles:

- 1.1 Uniform application of the WESM Rules and Market Manuals to the WESM in Mindanao;
- 1.2 Support representation of Mindanao stakeholders through the establishment of a Mindanao WESM Transition Committee to be attached as one of the committees under the Philippine Electricity Market ("PEM") Board, and representations in the PEM Board and other working committees as may be applicable;
- 1.3 Promotion of greater transparency through continuing Information, Education and Communication ("IEC") campaigns to the stakeholders.

Section 2. Launch of the WESM in Mindanao. The DOE hereby declares the launch of the WESM in the Mindanao Grid effective 26 June 2017 ("Launch Date") to provide sufficient time for the Market Operator ("MO"), System Operator ("SO") and WESM Participants to prepare and familiarize themselves in WESM operations.

Upon the Effectivity of this DC, all Electric Power Industry Participants in Mindanao Grid shall be considered WESM Participants and shall submit and comply with the registration requirements as prescribed in the WESM Rules and Market Manuals, no

² Department Circular DC2016-10-0014 "Adopting Further Amendments to the WESM Rules (Enhancements to WESM Design and Operations)"

³ Department Circular DC2017-03-0001 "Adopting Further Amendments to the Wholesale Electricity Spot Market (WESM) Rules and Market Manuals for the Implementation of Enhancements to WESM Design and Operations (Provisions for Price Determination Methodology and Constraint Violation Coefficients and Pricing Re-run)"

⁴ Annex "A"

later than the Launch Date. For this purpose, PEMC shall consider the documents submitted during the registration in the Interim Mindanao Electricity Market ("IMEM").

All Embedded Generators (a) with installed capacity of at least 5 MW; (b) with installed capacity below 5 MW that have a contract outside its host distribution utility, or intends to sell to the WESM, or inject power to the Grid; and (c) all Feed-in-Tariff ("FIT") eligible Renewable Energy ("RE") plants shall be registered in the WESM. Embedded Generators with installed capacity below 5 MW and do not fall under (b) or (c) may register in the WESM on a voluntary basis.

For purposes of testing all market systems for scheduling, dispatch, pricing, metering, and settlements, including the interfaces between PEMC and National Grid Corporation of the Philippines ("NGCP"), PEMC as the MO shall conduct Trial Operations ("TOP") consistent with Section 3 hereof.

Section 3. Trial Operations Program. The PEMC, as the MO, shall conduct TOP with the Mindanao WESM Trading Participants and SO to ensure readiness for the WESM commercial operations. Such TOP shall include a Limited Live Dispatch Operation ("LLDO") prior to Commercial Operations Date ("COD"), which shall involve the implementation by the SO of the dispatch schedules generated by MO but without financial settlement. For this purpose:

- 3.1 PEMC shall, within 15 days from the Effectivity of this DC, prepare the detailed guidelines for the TOP, subject to DOE's approval;
- 3.2 SO shall coordinate with the MO for the preparation and completion of procedures necessary for the successful conduct of the TOP;
- 3.3 Trading Participants are mandated to participate in the TOP including LLDO; and
- 3.4 PEMC shall submit weekly reports to the DOE of the results of the TOP.

Section 4. Criteria for Commencement of Full Commercial Operations. The DOE shall declare the COD of the WESM in Mindanao, upon compliance with the following:

- 4.1 All systems and procedures including all interfaces between and among the WESM Participants necessary for the operation of the WESM in the Mindanao Grid are in place and in conformity with the requirements set under the WESM Rules and Market Manuals;
- 4.2 The TOP has been successfully implemented;
- 4.3 The forecasting, scheduling, dispatch, pricing, metering, and settlement processes of the WESM are fully operational in the Mindanao Grid;
- 4.4 Training programs shall have been conducted for the Mindanao WESM Participants;

- 4.5 The PDM for the enhanced WESM design has been approved by the ERC and duly published; and
- 4.6 The New Market Management System ("NMMS") has been certified as compliant with the WESM Rules and Market Manuals by an independent auditor.

PEMC shall submit a certification to the DOE on the compliance to the criteria within three (3) months from the Launch Date.

Section 5. Additional Responsibilities of the Market Operator. The PEMC, as the MO for the WESM in Mindanao, shall:

- 5.1 Ensure completion of the NMMS for the timely commercial operation of the WESM in Mindanao;
- 5.2 Coordinate with the SO and other WESM Participants for the preparation and completion of procedures necessary for the efficient operation of the WESM;
- 5.3 Secure relevant information and data needed from the SO and WESM Participants for the development of the Market Network Model ("MNM");
- 5.4 Ensure readiness and availability of the necessary interfaces with the SO and WESM Participants;
- 5.5 Seek recovery with the ERC of just and prudent costs incurred in the implementation of WESM in Mindanao;
- 5.6 Participate in all fora, conduct of trainings and other activities for the smooth implementation of the WESM in Mindanao; and
- 5.7 Assist in all activities relating to the implementation of the WESM in Mindanao, as may be necessary, or, as may be directed by the DOE.

Section 6. Additional Responsibilities of the National Grid Corporation of the Philippines. The NGCP, as the SO, transmission Network Service Provider ("NSP") and WESM Metering Services Provider ("MSP") shall:

- 6.1 Assist the MO in the preparation and completion of procedures necessary for the efficient operation of the WESM;
- 6.2 Provide to the MO necessary information and data relevant to the development of the MNM for the WESM;
- 6.3 Ensure the readiness and reliability of all its transmission networks and related facilities so as to comply with systems security requirements and other processes to allow non-discriminatory access and optimal dispatch of generating facilities in Mindanao;

- 6.4 Ensure the readiness and complete registration of all metering facilities in accordance with the WESM Rules and Market Manuals;
- 6.5 Ensure readiness and availability of the necessary interfaces with the MO and WESM Participants;
- 6.6 Participate in all fora, conduct of trainings and other activities for the smooth implementation of the WESM in Mindanao; and
- 6.7 Assist in all activities relating to the implementation of the WESM in Mindanao, as may be necessary, or, as may be directed by the DOE.

Section 7. Responsibilities of WESM Participants. All Mindanao WESM Participants shall:

- 7.1 Cooperate and fully comply with the guidelines for TOP, and the instructions of MO and SO relating to the implementation of WESM in Mindanao;
- 7.2 Provide necessary data and information relevant to the development of the MNM for the WESM in Mindanao;
- 7.3 Ensure availability of necessary infrastructure such as Market Participants' Interface ("MPI") and WESM compliant metering installations, among others;
- 7.4 Seek recovery with the ERC of just and prudent costs incurred in their participation in WESM in Mindanao;
- 7.5 Participate in all fora, conduct of trainings and other activities for the smooth implementation of the WESM in Mindanao; and
- 7.6 Assist in all activities relating to the implementation of the WESM in Mindanao, as may be necessary, or, as may be directed by the DOE.

In the case of Electric Cooperatives ("ECs"), ensure compliance to key performance standards and coordinate with the DOE, National Electrification Administration ("NEA") and PEMC, for the conduct of IEC campaign to its member consumers.

Section 8. Responsibility of the National Electrification Administration. The NEA shall render technical, financial, and institutional capacity building to all Mindanao ECs, consistent with its mandate under Section 58 of the EPIRA. Towards this end, the NEA shall:

- 8.1 Assist the ECs in securing sufficient amount of prudential guarantees and filing with the ERC on the recovery of the same;

- 8.2 Provide guidance to ECs in the transition to the new market environment and ensure timely compliance of the ECs to all requisites for their successful registration in the WESM;
- 8.3 In coordination with the DOE and PEMC, conduct IEC campaign to the ECs on the benefits and potential changes the establishment of WESM may brought upon the ECs' operations and the consumers in general; and
- 8.4 Assist in all activities relating to the integration of Mindanao in the WESM, as may be necessary, or, as may be directed by the DOE.

Section 9. Transition Guidelines on the Dispatch of Capacities and Nomination of Demand. Prior to the COD, the NGCP and the WESM Participants shall implement the Interim Mindanao Dispatch Protocol as provided for in Annex B of this DC.

Section 10. Termination of the Interim Mindanao Electricity Market. The IMEM shall automatically terminate upon the Effectivity of this DC.

Section 11. Regulatory Support. The ERC shall ensure the provision of support in the regulatory requirements and approvals consistent with the policies set forth under this DC and in accordance with existing laws and procedures.

Section 12. Repealing Clause. All previous issuances inconsistent with this DC are hereby repealed or amended accordingly.

Section 13. Separability Clause. If for any reason, any section or provision of this DC is declared unconstitutional or invalid, such parts not affected shall remain valid and subsisting.

Section 14. Effectivity. This DC shall take effect 15 days after its publication in at least 2 newspapers of general circulation and shall remain in effect until otherwise revoked.

Issued on _____ at Energy Center, Bonifacio Global City, Taguig City.


ALFONSO G. CUSI
Secretary

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