

**[ DEPARTMENT CIRCULAR NO. DC2015-10-0015,  
November 12, 2015 ]**

**PROVIDING POLICIES FOR FURTHER ENHANCEMENT OF THE  
WHOLESALE ELECTRICITY SPOT MARKET (WESM) DESIGN AND  
OPERATIONS**

*Adopted: 23 October 2015  
Date Filed: 12 November 2015*

**WHEREAS,** Sections 37 and 30 of the Electric Power Industry Reform Act of 2001 (EPIRA) mandates the Department of Energy (DOE) to supervise the restructuring of the electricity industry and to establish the Wholesale Electricity Spot Market (WESM), respectively;

**WHEREAS,** Section 3(a), Rule 9 of the EPIRA Implementing Rules and Regulations (EPIRA IRR), further mandates the DOE to organize and establish the appropriate market design and governance structure of the WESM;

**WHEREAS,** the DOE, jointly with the electric power industry participants, formulated the detailed rules governing the operations of the WESM and subsequently, the DOE promulgated the WESM Rules on 28 June 2002 through Department Circular No. 2002-06-003;

**WHEREAS,** on 18 November 2003, through the initiative of the DOE, the Philippine Electricity Market Corporation (PEMC) was incorporated to manage, govern, and administer an efficient, competitive, transparent and reliable market for the wholesale and purchase of electricity and ancillary services in the Philippines, in accordance with the EPIRA;

**WHEREAS,** in March 2008, the DOE created the Special WESM Rules Review Committee, tasked to review the WESM Rules and identify the weaknesses and operational concerns of the WESM that require enhancements in the areas of market design and systems upgrading to include removal of Pmin constraints, immediate conduct of market re-runs, minimize workflow stoppages in the Market Management System (MMS) or software failures, and rationalize dispatch of must-run units among others;

**WHEREAS,** in accordance with the WESM Rules, the reports of the Independent Market Operations Audit undertaken in 2010, 2011 and 2012 identified several market design and implementation issues, undermining the efficiency of the WESM;

**WHEREAS,** the PEMC, to address the issues identified in the said Audits, commissioned an independent consultant in April 2013 to undertake a WESM Design Study with reports submitted to the DOE comprising of three phases,

namely: Phase 1 WESM issues and recommendations: Phase 2 Specific issues on the trading and dispatch interval; and Phase 3 Advise on the Day-Ahead Market;

**WHEREAS**, on 18 November 2013, the results of the WESM Design Study were subjected to public consultation with the electric power industry participants and other concerned stakeholders to discuss the recommendations and to solicit the suggestions and comments;

**WHEREAS**, the WESM Design Study was finalized in January 2014, incorporating the comments of the various stakeholders and was submitted to the DOE for consideration:

**WHEREAS**, the Technical Working Group (TWG) on the MMS Migration and Enhancement Project that was created by the DOE on 15 January 2010, recommended the procurement of a new MMS to ensure the reliability of the WESM operations and to implement the recommendations specified in the WESM Design Study:

**WHEREAS**, the DOE, after thorough review of the WESM Design Study and the recommendations and proposed changes to market operations, deemed that appropriate and reasonable changes be implemented consistent with the objectives of the WESM Rules as well as to incorporate the said changes to the new MMS;

**NOW, THEREFORE**, for and in consideration of the foregoing premises, the DOE, consistent with its mandate under the EPIRA, hereby declares the following:

**Section 1. Guiding Principles.** Any changes in the WESM design and operations shall be in accordance with the following principles:

- a) Gross pool market, where generator trading participants offer their maximum available capacity for central scheduling and dispatch, ensures system security and a level-playing field among generators;
- b) Net settlement, where bilateral contract quantities are settled outside the WESM;
- c) Co-optimized energy and reserves, where the provision of energy and reserves are jointly optimized in the Market Dispatch Optimization Model (MDOM);
- d) Self-commitment, where trading participants are responsible for the management of their technical operations, unit commitment decisions and other market risks through submission of offers to the WESM;
- e) Prices are governed, as far as practicable, by commercial and market forces, and pricing errors and extremely high and low prices are mitigated;