

[DOE DEPARTMENT CIRCULAR NO. DC 2010-06-0007, June 23, 2010]

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