

**WHOLESALE ELECTRICITY SPOT MARKET
RULES CHANGE COMMITTEE****RESOLUTION NO. 2019-01****Proposed Urgent Amendments to the WESM Rules and WESM Manual on
Billing and Settlement for Enhancements to the Determination of Initial
Prudential Requirements**

WHEREAS, the DOE directed the Independent Electricity Market Operator of the Philippines (IEMOP) to “initiate and spearhead urgent amendments to the WESM Rules and relevant Market Manuals to introduce an appropriate formula for the computation of the initial prudential requirement...in line with the June 2019 target for the commercial operation of the WESM in Mindanao”¹;

WHEREAS, in compliance with the DOE’s directive, the IEMOP submitted to the Rules Change Committee (RCC) on 12 February 2019 the Proposed Amendments to the WESM Rules and WESM Manual on Billing and Settlement for Enhancements to the Determination of Initial Prudential Requirements (*see Annex A for the discussion paper*);

WHEREAS, the proponent requested the RCC to consider the proposal as an urgent amendment during the body’s 149th meeting on 22 February 2019, to which the RCC applied the rules change process for urgent proposals set forth in Section 7 of the WESM Manual on Procedures for Changes to the WESM Rules, Retail Rules and Market Manuals Issue 3.0 (“Rules Change Manual”);

WHEREAS, the RCC determined that the proposal is urgent as it satisfies the following particular criteria for urgent proposed amendments set forth under Clause 8.4.1.1 (a) of the WESM Rules and Section 3.1 of the Rules Change Manual²:

¹ DOE letter to IEMOP dated 17 January 2019, “*Computation of Initial Prudential Requirements*”

² 3.1 URGENT AMENDMENTS

Urgent Amendments are those which are needed:

- a) *To avoid, reduce the risk of or mitigate the adverse effects of certain conditions on the ability of the power system to function normally;*
- b) *To avoid, reduce the risk of or mitigate the effects of the abuse of market power or anti-competitive behavior;*
- c) *To avoid, reduce the risk of or mitigate the unintended adverse effect of the WESM Rules, Retail Rules and Market Manuals (or any of its amendments); and*
- d) *To facilitate the implementation of any regulation, circular, order or issuance of the DOE or ERC pursuant to the EPIRA.*

Provided further that the urgent amendments shall be implementable on the affected WESM/Retail operations and/or transactions within the period of six (6) months subject to the confirmation of the Market Operator.

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- c) *To avoid, reduce the risk of or mitigate the unintended adverse effect of the WESM Rules, Retail Rules and Market Manuals (or any of its amendments); and*
- d) *To facilitate the implementation of any regulation, circular, order or issuance of the DOE or ERC pursuant to the EPIRA.*

Provided further that the urgent amendments shall be implementable on the affected WESM/Retail operations and/or transactions within the period of six (6) months subject to the confirmation of the Market Operator.

WHEREAS, having certified that the proposal is urgent, the RCC immediately proceeded to deliberate on the proposal during the same meeting;

WHEREAS, per Clause 3.15.1 of the WESM Rules, prudential requirements are imposed in the WESM "to ensure the effective operation of the spot market by providing a level of comfort that WESM Members will meet their obligations to make payments as required in the WESM Rules";

WHEREAS, pursuant to Clause 3.15.4 of the WESM Rules, the initial prudential requirement for a new WESM Member corresponds to the "portion of its demand not covered by bilateral contracts, or ten percent (10%) of its total demand if fully covered by bilateral contracts, multiplied by the average actual market price of the previous twelve (12) billing periods";

WHEREAS, the RCC recognized the following justifications for amending the foregoing formula for determining initial prudential requirements:

- a) it is deemed that the current calculation does not accurately reflect the projected exposure of new Trading Participants in the market;
- b) particularly for new WESM Members in Mindanao who are mostly fully contracted, the said current calculation (i.e., must be based on no less than 10% of total projected consumption) would result to high initial prudential requirement that they would have to put up in order to participate in the WESM; and
- c) the current calculation is provided in Rule 11 Section 6 of the EPIRA-IRR, which was intended to be effective only during the first five years of WESM implementation or only up to 2011;

WHEREAS, the calculation for initial prudential requirement is proposed to be amended such that it will be based on a Market Participant's average projected settlement amount, which is considered to be a more accurate estimate of its market exposure;

WHEREAS, the RCC provided revisions to the proposed amendments for clarity;


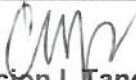




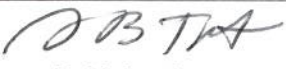
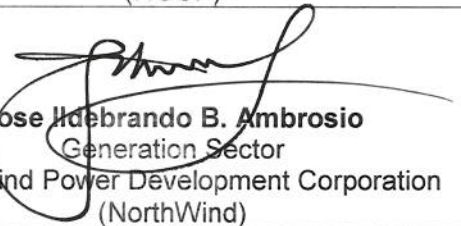

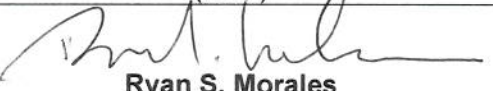
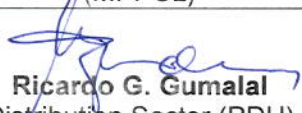

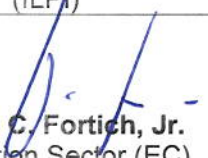
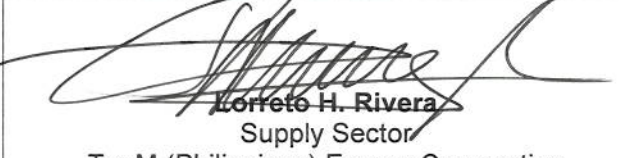
WHEREAS, there being no other matters left for deliberation, the RCC approved the endorsement of the proposal to the PEM Board;

NOW THEREFORE, we, the undersigned in behalf of the sector we represent, hereby resolve as follows:

RESOLVED, that the Proposed Urgent Amendments to the WESM Rules and WESM Manual on Billing and Settlement for Enhancements to the Determination of Initial Prudential Requirements are hereby approved by the RCC;

RESOLVED FURTHER, that the Proposed Urgent Amendments to the WESM Rules (Annex B) and WESM Manual on Billing and Settlement (Annex C) are hereby endorsed to the PEM Board for approval and endorsement to the DOE.

Done this 22 February 2019, Pasig City.

<p>Approved by:</p> <p>RULES CHANGE COMMITTEE</p> <p></p> <p>Maila Lourdes G. de Castro Chairperson Independent</p>	
Members:	
<p></p> <p>Concepcion I. Tanglao Independent</p>	<p></p> <p>Francisco L.R. Castro, Jr. Independent</p>
<p></p> <p>Allan C. Nerves Independent</p>	<p></p> <p>Isidro E. Cacho, Jr. Market Operator Independent Market Operator of the Philippines (IEMOP)</p>
<p></p> <p>Ambrocio R. Rosales Transmission Sector National Grid Corporation of the Philippines (NGCP)</p>	<p></p> <p>Abner B. Tolentino Generation Sector Power Sector Assets and Liabilities Management Corporation (PSALM)</p>
<p></p> <p>Jose Idebrando B. Ambrosio Generation Sector NorthWind Power Development Corporation (NorthWind)</p>	<p></p> <p>Cherry A. Javier Generation Sector Aboitiz Power Corp. (APC)</p>
<p>Dixie Anthony R. Banzon Generation Sector Masinloc Power Partners Co. Ltd. (MPPCL)</p>	<p></p> <p>Ryan S. Morales Alternate Member – Distribution Sector (PDU) Manila Electric Company (MERALCO)</p>
<p></p> <p>Ricardo G. Gumalal Distribution Sector (PDU) Iligan Light and Power, Inc. (ILPI)</p>	<p></p> <p>Jose P. Santos Distribution Sector (EC) Ilocos Norte Electric Cooperative, Inc. (INEC)</p>
<p></p> <p>Virgilio C. Fortich, Jr. Distribution Sector (EC) Cebu III Electric Cooperative, Inc. (CEBECO3)</p>	<p></p> <p>Loretto H. Rivera Supply Sector TeaM (Philippines) Energy Corporation (TPEC)</p>

Proposed Amendments to the (1) WESM Rules and (2) WESM Manual on Billing and Settlement for Enhancements to the Determination of Initial Prudential Requirements

Independent Electricity Market Operator of the
Philippines

February 2019

I. SUMMARY OF THE PROPOSED RULES CHANGE

The amendments to the WESM Rules and Manual are proposed to improve the accuracy of initial prudential requirements of new trading participants. Accurate estimation of prudential requirements would better ensure the ability of trading participants to meet their obligations and, in some cases, result in lower WESM participation costs.

The affected documents are:

- WESM Rules
- Billing and Settlement Issue 5.0

II. BACKGROUND

As provided under Clause 3.15.1 of the WESM Rules, prudential requirements are imposed in the WESM to provide “a level of comfort that WESM Members will meet their obligations to make payments as required under the WESM Rules”. In general, security is required by the Market Operator from each trading participant that reflects the Market Operator’s maximum exposure to that trading participant.

For new WESM members, Clause 3.15.4 of the WESM Rules provides that its prudential requirement (“initial prudential requirement”) will correspond to the portion of its demand not covered by bilateral contracts or ten percent (10%) of its total demand if fully covered by bilateral contracts, multiplied by the average actual market price of the previous twelve (12) billing periods. From this provision, it may be observed that the WESM Rules impose a minimum prudential requirement (10%). According to the minutes of the 79th meeting of the Rules Change Committee (RCC), the 10% minimum requirement is based on Rule 11 Section 6 of the EPIRA-IRR, which states that, “for the first five (5) years from the establishment of the WESM, no distribution utility shall source more than ninety percent (90%) of its total demand from bilateral supply contracts”. Since the WESM started in 2006, the provision would have expired in 2011.

Although a minimum prudential requirement provides the Market Operator more security to address possible higher exposure of new trading participants, it would result in higher WESM participation cost, in the form of additional interest or bank fees, to the new trading participants if its maximum exposure is below the 10% threshold. In view of the ongoing preparations for the commercial operations of the WESM in Mindanao and the high level of contracting in the region, imposing the 10% minimum prudential requirement may result in unnecessary costs to the trading participants in the region. Based on a rough estimate, removal of the 10% minimum requirement would save the region around P 5 M.

III. THE PROPOSED RULES CHANGE

To rationalize WESM participation costs, it is proposed that initial prudential requirements be determined more accurately based on quantity projections and use of the WESM settlement amount formula. In addition, determination of the initial prudential requirement is proposed to be harmonized with the determination of

maximum exposure with regard to the coverage period. The table below provides a summary of the changes.

Parameter	Current	Proposed	Rationale
Settlement Amount Formula	Spot quantity x Average price	Energy settlement amount formula	More accurate estimate
Reference Period	Previous twelve (12) billing periods	April to September billing periods	Consistent with maximum exposure determination
Minimum exposure	10% of demand	None	EPIRA-IRR requirement has expired

IV. BACKGROUND AND DESCRIPTION OF THE PROPONENT

The proponent is the Independent Electricity Market Operator of the Philippines. IEMOP acts as the independent market operator of the WESM.

Top Officers:

Francis Saturnino C. Juan – President and CEO

Jose Mari T. Bigornia – Chief Operating Officer

Rachel Angela P. Anosan – Chief Legal Officer

Isidro E. Cacho Jr. – Chief Corporate Strategy and Communications Officer

Robinson P. Descanzo – Trading Operations Head

Celina R. Encarnacion – Chief Corporate Services Officer

Arthur P. Pintado – Internal Audit Head

Salvador D. Subaran – Chief Information Systems and Technology Officer

V. CONCLUSIONS AND RECOMMENDATIONS

The amendments to the WESM Rules and Manual are proposed to improve the accuracy of initial prudential requirements of new trading participants. By revising the WESM Rules and Manual, capability of new trading participants to meet their obligations in the WESM are better ensured and, in some cases, WESM participation costs are reduced. Thus, it is recommended that the proposed changes be adopted.

VI. REFERENCES

1. WESM Rules
2. WESM Manual Billing and Settlement Issue 5.0

ANNEX B

Proposed Urgent Amendments to the WESM Rules for Enhancements to the Determination of Initial Prudential Requirements

WESM Rules				
Title	Clause	Provision	Proposed Amendment	Rationale
Amount of Security	3.15.4	Using available historical data, the <i>Market Operator</i> shall determine the initial <i>Prudential Requirements</i> of a new <i>WESM member</i> corresponding to the portion of its demand that is not covered by <i>bilateral contracts</i> , or ten percent (10%) of its total demand if fully covered by <i>bilateral contracts</i> , multiplied by the average actual market price of the previous twelve (12) billing periods.	The <i>Market Operator</i> shall determine the initial <i>Prudential Requirements</i> of a new <i>WESM member</i> corresponding to the <u>projected Maximum Exposure of the new WESM member calculated as the average of the projected settlement amount for each complete billing period covered in the relevant Market Manual.</u> portion of its demand that is not covered by <i>bilateral contracts</i>, or ten percent (10%) of its total demand if fully covered by <i>bilateral contracts</i>, multiplied by the average actual market price of the previous twelve (12) billing periods.	To ensure the ability of new participants to meet their obligations, it is proposed that calculation of initial prudential requirements be calculated in more detail in order to increase the accuracy of projecting the maximum exposure of the Market Operator to the new participant. The Projected Maximum Exposure includes the projected load increase by the customer. The detailed calculation is proposed to be provided in the Billing and Settlement Manual.

ANNEX B

WESM Rules				
Title	Clause	Provision	Proposed Amendment	Rationale
Amount of Security	3.15.4.1	XXX	XXX	With the expiration in 2011 of the requirement under the EPIRA-IRR for distribution utilities to source at least 10% of their supply from the WESM, it is proposed that the minimum prudential requirement be removed to reduce participation costs in the WESM for participants with exposure below 10% of their demand.
		<p>If there is a change in the <i>bilateral contract</i> of a <i>WESM Member</i>, the <i>maximum exposure</i> shall be computed based on the <i>settlement amounts</i> estimated by the <i>Market Operator</i> using the average actual <i>market price</i> based on the <i>billing period</i> of 26th March to 25th September. In no case shall the maximum exposure be less than ten percent (10%) of the total demand. Average actual <i>market price</i> shall refer to the ratio of the total <i>spot market</i> payment of a <i>WESM Member</i>, which may include <i>spot market energy</i> and <i>reserve</i> transactions, to the total <i>metered quantities</i> net of <i>bilateral contract</i> quantities for each billing month.</p>	<p>If there is a change in the <i>bilateral contract</i> of a <i>WESM Member</i>, the <i>maximum exposure</i> shall be computed based on the <i>settlement amounts</i> estimated by the <i>Market Operator</i> using the average actual <i>market price</i> based on the <i>billing period</i> of 26th March to 25th September. In no case shall the maximum exposure be less than ten percent (10%) of the total demand. Average actual <i>market price</i> shall refer to the ratio of the total <i>spot market</i> payment of a <i>WESM Member</i>, which may include <i>spot market energy</i> and <i>reserve</i> transactions, to the total <i>metered quantities</i> net of <i>bilateral contract</i> quantities for each billing month.</p>	
		XXX	XXX	

ANNEX C

Proposed Urgent Amendments to the WESM Manual on Billing and Settlement for Enhancements to the Determination of Initial Prudential Requirements

WESM Manual on Billing and Settlement				
Title	Section	Provision	Proposed Amendment	Rationale
Initial Assessment of Prudential Requirement	7.4.1	a. XXX b. XXX c. XXX d. XXX e. XXX f. XXX	a. XXX b. XXX c. XXX d. XXX e. XXX f. XXX	Re-number items c-f to j-m to insert proposed procedures for calculating the initial prudential requirement
Initial Assessment of Prudential Requirement	7.4.1 (a)	The intending WESM Member shall submit the information of its expected trading transactions in the WESM based on the total demand and bilateral contract.	The intending WESM Member shall submit the information of its expected trading transactions in the WESM based on the total demand and bilateral contract. <u>The initial prudential requirement of a WESM Member shall be calculated using projected data for dispatch intervals:</u> <u>i. if the WESM Member aims to begin trading in the WESM before August 26, from complete billing periods within March 26 to September 25 of the same year; or</u>	Consistent with current procedures for calculating actual prudential requirements, initial prudential requirements are proposed to be based on 26 March to 25 September transactions. Provision on submission of information is transferred to items d-f.

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WESM Manual on Billing and Settlement				
Title	Section	Provision	Proposed Amendment	Rationale
			<u>ii. if the WESM Member aims to begin trading in the WESM after August 25, from March 26 to September 25 of the succeeding year.</u>	
Initial Assessment of Prudential Requirement	7.4.1 (b)	Using available historical data, the Market Operator shall determine the initial Prudential Requirement of a new WESM Member corresponding to the portion of its demand that is not covered by its bilateral contracts, or ten percent (10%) of its total demand, whichever is higher, multiplied by the Average Actual Market Price of the previous twelve (12) billing periods.	<p>Using available historical data, the Market Operator shall determine the initial Prudential Requirement of a new WESM Member corresponding to the portion of its demand that is not covered by its bilateral contracts, or ten percent (10%) of its total demand, whichever is higher, multiplied by the Average Actual Market Price of the previous twelve (12) billing periods.</p> <p><u>The initial prudential requirement of a WESM Member shall be calculated as the average of the projected settlement amount for each complete billing period covered in the period defined in Section 7.4.1(a).</u></p>	Consistent with current procedures for calculating actual prudential requirements, initial prudential requirements are proposed to be based on average billing period settlement amounts.
Initial Assessment of	<u>7.4.1 (c)</u> (new)	N / A	<u>The projected settlement amount for each billing period of a WESM Member</u>	For better accuracy, it is proposed that initial prudential requirements

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WESM Manual on Billing and Settlement				
Title	Section	Provision	Proposed Amendment	Rationale
Prudential Requirement			<p><u>shall be calculated using the following formula:</u></p> $PSA = \sum_{i \in I} (PGESQ_i \times PFEDP_i) - \sum_{i \in I} \sum_{c \in C} (PBCQ_{c,i} \times PFEDP_{c,i})$ <p><u>Where:</u></p> <p><u>PSA</u> projected settlement amount in PhP</p> <p><u>PGESQ_i</u> projected gross energy settlement quantity, in MWh, for dispatch interval <i>i</i></p> <p><u>PFEDP_i</u> projected final energy dispatch price, in PhP/MWh, for dispatch interval <i>i</i></p> <p><u>PBCQ_{c,i}</u> projected bilateral contract quantity, in MWh, from counterparty <i>c</i> for dispatch interval <i>i</i></p>	be determined using the formula for calculating the settlement amount but with projected inputs.

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WESM Manual on Billing and Settlement				
Title	Section	Provision	Proposed Amendment	Rationale
			<p><u>PFEDP_{c,i} projected final energy dispatch price, in PhP/MWh, associated with the bilateral contract with counterparty c for dispatch interval i</u></p> <p><u>I set of dispatch intervals within the billing period</u></p> <p><u>C set of counterparties</u></p>	
Initial Assessment of Prudential Requirement	<u>7.4.1 (d)</u> (new)	N / A	<p><u>The WESM Member shall submit the following information to the Market Operator for each dispatch interval in the period defined in Section 7.4.1(a):</u></p> <p>i. <u>Projected gross energy settlement quantities</u></p> <p>ii. <u>Projected bilateral contract quantities from each trading participant counterparty</u></p>	It is proposed that the WESM Members provide the projections for quantities since they have a better understanding of their operations.
Initial Assessment of Prudential Requirement	<u>7.4.1 (e)</u> (new)	N / A	<p><u>The WESM Member shall submit to the Market Operator its assumptions for determining its projected gross energy settlement quantities. The Market</u></p>	To ensure the accuracy of submitted projected gross energy settlement quantities, it is proposed that WESM Members

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WESM Manual on Billing and Settlement				
Title	Section	Provision	Proposed Amendment	Rationale
			<u>Operator may require the WESM Member to submit supporting documents if necessary. The Market Operator shall assist the WESM Member in determining the projected gross energy settlement quantities.</u>	submit the assumptions used in their projection. This would allow the Market Operator the ability to assess the accuracy of the submitted projections and revise if necessary.
Initial Assessment of Prudential Requirement	<u>7.4.1 (f)</u> (new)	N / A	<u>To be considered in the determination of the initial prudential requirement, the bilateral contract quantities submitted under Section 7.4.1(d)(ii) shall have a corresponding contract enrolled with the Market Operator.</u>	To ensure that the bilateral contract quantities submitted are valid and realistic, it is proposed that the contract should be confirmed by the counterparty of the new Trading Participant through the contract enrollment procedure under the WESM Registration Manual.
Initial Assessment of Prudential Requirement	<u>7.4.1 (g)</u> (new)	N / A	<u>The projected final energy dispatch price of a WESM Member for a dispatch interval shall be equal to the final energy dispatch price of the geographically nearest market trading node from the connection point of the WESM Member at the same dispatch interval and most recent same date.</u>	Estimating the prices of the new Trading Participant based on the historical prices of the nearest node aims to increase the accuracy of the projected exposure.

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WESM Manual on Billing and Settlement				
Title	Section	Provision	Proposed Amendment	Rationale
Initial Assessment of Prudential Requirement	<u>7.4.1 (h)</u> (new)	N / A	<u>The projected final energy dispatch price associated with a bilateral contract quantity from a counterparty for a dispatch interval shall be equal to the final energy dispatch price of the customer node of the contract identified during enrollment of the bilateral contract at the same dispatch interval and most recent same date.</u>	Estimating the prices associated with bilateral contract quantities based on the historical prices of the nearest node aims to increase the accuracy of the projected exposure.
Initial Assessment of Prudential Requirement	<u>7.4.1 (i)</u> (new)	N / A	<u>For new regions integrated to the WESM, the Market Operator shall simulate and publish projected final energy dispatch prices for reference nodes in the new region. The Market Operator shall publish the assumptions used in determining the projected final energy dispatch prices, subject to approval of the PEM Board</u> <u>The reference prices shall be applied to Trading Participants that are registered prior to the commercial operations of the WESM in that region; for new Trading Participants in the new</u>	Since historical prices may not be available when new regions (e.g., Mindanao, Mindoro) are integrated to the WESM, it is proposed that simulated prices be used in estimating the initial prudential requirements. The simulated prices are only proposed to be applied for the start of commercial operations in the region; afterwards, historical prices would be used.

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WESM Manual on Billing and Settlement				
Title	Section	Provision	Proposed Amendment	Rationale
			<u>region applying for registration one (1) year after the commercial operations of the WESM in that region, Section 7.4.1(g) and Section 7.4.1(h) shall apply.</u>	