

**WHOLESALE ELECTRICITY SPOT MARKET
RULES CHANGE COMMITTEE****RESOLUTION NO. 2018-01****Proposed Amendments to the WESM Rules and WESM Manuals regarding
Transitory Provisions for the Pre-integration of WESM Mindanao**

WHEREAS, the Philippine Electricity Market Corporation (PEMC) submitted to the Rules Change Committee (RCC) on March 05, 2018 the Proposed Amendments to the WESM Rules and WESM Manuals regarding Transitory Provisions for the Pre-integration of WESM Mindanao;

WHEREAS, pursuant to DOE Department Circular No. DC2017-05-0009¹ which provides that the WESM Rules and Manuals be uniformly applied to the WESM in Mindanao, the subject proposal aims to reflect and combine under the WESM Rules the actual physical and market transactions in the Luzon, Visayas, and Mindanao grids;

WHEREAS, considering that the target implementation of the WESM in Mindanao is within the 4th quarter of 2018 while the project to interconnect the Visayas and Mindanao grids is expected to be completed in December 2020² at the earliest, there will be no physical transfer of electricity between the two grids (i.e., Luzon-Visayas and Mindanao) for approximately two (2) years;

WHEREAS, the proposal, thus, intends to add transitory provisions specifying that Luzon-Visayas and Mindanao will be treated as independent settlement regions, which means that the settlement, payment and collection process for each grid shall be independently performed, until the Luzon-Visayas and Mindanao grids are physically interconnected;

WHEREAS, the same settlement formula shall be applied to both Luzon-Visayas and Mindanao settlement regions based on WESM Rules Clause 3.14.7;

WHEREAS, amendments to the WESM Rules and Manuals were proposed particularly as regards bilateral contract quantities, administered pricing, net settlement surplus allocation and default allocation;

WHEREAS, the documents affected by the proposed amendments are:

- (i) WESM Rules (As amended by DOE DC No. 2016-10-0014 and DOE DC No. 2017-03-0001)

¹ DOE Department Circular No. DC2017-05-0009 (04 May 2017)– *Declaring the Launch of the Wholesale Electricity Spot Market (WESM) in Mindanao and Providing for Transition Guidelines*

² Per NGCP filing with the Energy Regulatory Commission – ERC Case No. 2017-034RC

- (ii) WESM Billing and Settlement Manual Issue 5.0 (As amended under RCC Resolution No. 2017-05 and PEM Board Resolution No. 2017-16)
- (iii) Price Determination Methodology Issue 1.0

WHEREAS, PEMC presented the proposal to the RCC during the latter's 137th Meeting on February 02, 2018 and thereafter submitted to the RCC the documents of the proposal on March 05, 2018;

WHEREAS, the proposal was published in the market information website on March 05, 2018 to allow for a 30-working day commenting period (i.e., until April 19, 2018) for Market Participants and stakeholders;

WHEREAS, the RCC began deliberations on the proposal during its 139th Meeting on April 06, 2018 considering the comments thus far received from the DOE and Green Innovations for Tomorrow, Inc. (GIFT) and further clarifications from PEMC;

WHEREAS, the RCC adopted the DOE and GIFT's suggested minor edits, and likewise modified the proposed transitory provision regarding default allocation in the WESM Rules for clarity;

WHEREAS, during the same meeting, the RCC provisionally approved the proposal as amended and agreed to convene a special meeting should more comments be received until the last day of the commenting period on April 19, 2018;

WHEREAS, having received no additional comments, the proposed amendments as adopted during the April 06 RCC meeting is deemed approved;

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

RESOLVED, that the Proposed Amendments to the WESM Rules and WESM Manuals regarding Transitory Provisions for the Pre-integration of WESM Mindanao is hereby approved by the RCC;

RESOLVED FURTHER, that the attached Annex of the Proposed Amendments to the WESM Rules and WESM Manuals regarding Transitory Provisions for the Pre-integration of WESM Mindanao is hereby endorsed to the PEM Board for approval and endorsement to the DOE.

Done this 25 April 2018, Pasig City.

<p>Approved by:</p> <p>RULES CHANGE COMMITTEE</p> <p>[REDACTED]</p> <p>Maila Lourdes G. de Castro Chairperson Independent</p>	
Members:	
<p>[REDACTED]</p> <p>Concepcion T. Tangiao Independent</p>	<p>[REDACTED]</p> <p>Francisco L.R. Castro, Jr. Independent</p>
<p>[REDACTED]</p> <p>Allan C. Nerves Independent</p>	<p>[REDACTED]</p> <p>Isidro E. Cacho, Jr. Market Operator Philippine Electricity Market Corporation (PEMC)</p>
<p>[REDACTED]</p> <p>Ambrosio R. Rosales Transmission Sector National Grid Corporation of the Philippines (NGCP)</p>	<p>[REDACTED]</p> <p>Abner B. Tolentino Generation Sector Power Sector Assets and Liabilities Management Corporation (PSALM)</p>
<p>[REDACTED]</p> <p>Jose Ambrosio B. Ambrosio Generation Sector NorthWind Power Development Corporation</p>	<p>(Vacant) Generation Sector</p>
<p>[REDACTED]</p> <p>Ciprinilo C. Meneses Distribution Sector (PDU) Manila Electric Company (MERALCO)</p>	<p>[REDACTED]</p> <p>Jose P. Santos Distribution Sector (EC) Ilocos Norte Electric Cooperative, Inc. (INEC)</p>
<p>Juanito Tolentino Distribution Sector Mactan Electric Company (MECO)</p>	<p>[REDACTED]</p> <p>Ludovico D. Lim Distribution Sector Antique Electric Cooperative, Inc. (ANTECO)</p>
<p>[REDACTED]</p> <p>Rommel H. Rivera Supply Sector Team (Philippines) Energy Corporation (TPEC)</p>	<p>Noted by:</p> <p>[REDACTED]</p> <p>Elaine D. Gonzales Manager – Market Data and Analysis</p>

Proposed Amendments to the WESM Rules and WESM Manuals regarding Transitory Provisions for the Pre-integration of WESM Mindanao

A. WESM Rules

WESM Rules				
Title	Clause	Original Provision	Proposed Amendment	Rationale
CHAPTER 10 TRANSITORY PROVISIONS				
<u>PRIOR TO INTERCONNECTION OF MINDANAO</u>	<u>10.5</u> (new)	N/A	<p><u>PRIOR TO INTERCONNECTION OF MINDANAO</u></p> <p><u>The following provisions shall be applicable until the Mindanao grid has been interconnected with the Luzon and Visayas grids as declared by the Department of Energy.</u></p> <p><u>For this chapter, the Luzon and Visayas grids shall be considered as one settlement region and the Mindanao grid as another settlement region.</u></p>	<p>To add provisions in the WESM Rules to clarify the pricing and settlement calculations prior to the interconnection of Mindanao to Luzon/Visayas.</p> <p>The clause also introduces terms referring to the combined Luzon-Visayas grids and the Mindanao grid applicable for the whole chapter only.</p>

WESM Rules				
Title	Clause	Original Provision	Proposed Amendment	Rationale
<u>Submission of Bilateral Contract Data for Energy</u>	<u>10.5.1</u> (new)	N/A	<u>When submitting bilateral contract data in accordance with WESM Rules Clause 3.13.1, a selling Trading Participant may only submit data for buying Trading Participants with market trading nodes in the same settlement region.</u>	Since there is no physical flow of electricity between Luzon-Visayas and Mindanao until interconnection, it is proposed that participants only be allowed to declare bilateral contract quantities within the same settlement region.
<u>Treatment of Remaining Settlement Surplus</u>	<u>10.5.2</u> (new)	N/A	<u>Treatment of Remaining Settlement Surplus</u>	Since there is no physical flow of electricity between Luzon-Visayas and Mindanao until interconnection, Net Settlement Surplus of settlement amounts from Mindanao would only result from transactions within Mindanao. The same case is presented with Luzon-Visayas.
<u>Treatment of Remaining Settlement Surplus</u>	<u>10.5.2.1</u> (new)	N/A	<u>The Market Operator shall calculate the net settlement surplus provided under WESM Rules Clause 3.13.12.1 separately for each settlement region.</u>	Since there is no physical flow of electricity between Luzon-Visayas and Mindanao until interconnection, it is proposed that Net Settlement Surplus from each settlement region (Luzon-Visayas, Mindanao) be separately accounted for and flowed back to each settlement region.

WESM Rules				
Title	Clause	Original Provision	Proposed Amendment	Rationale
<u>Treatment of Remaining Settlement Surplus</u>	<u>10.5.2.2</u> (new)	N/A	<u>The <i>net settlement surplus</i> of each settlement region shall be utilized for or flowed back to the Trading Participants from each settlement region in accordance with the approved relevant Market Manuals and regulatory issuances.</u>	Since there is no physical flow of electricity between Luzon-Visayas and Mindanao until interconnection, it is proposed that Net Settlement Surplus from each settlement region (Luzon-Visayas, Mindanao) be separately accounted for and flowed back to each settlement region.
<u>Payment to Trading Participants</u>	<u>10.5.3</u> (new)	N/A	<u>Payment to Trading Participants</u>	Since there is no physical flow of electricity between Luzon-Visayas and Mindanao until interconnection, payments from grid withdrawals will correspond to the payments to grid injections; hence, it is proposed that payment allocation be performed per settlement region.
<u>Payment to Trading Participants</u>	<u>10.5.3.1</u> (new)	N/A	<u>The <i>Market Operator</i> shall calculate the maximum total payment provided under Clause 3.14.7 separately for each settlement region.</u>	Since there is no physical flow of electricity between Luzon-Visayas and Mindanao until interconnection, payments from grid withdrawals will correspond to the payments to grid injections; hence, it is proposed that payment allocation be performed per settlement region.

WESM Rules				
Title	Clause	Original Provision	Proposed Amendment	Rationale
<u>Payment to Trading Participants</u>	<u>10.5.3.2</u> (new)	N/A	<u>If the maximum total payment by the Market Operator for a particular billing period for a settlement region is insufficient to pay for the total amounts payable to the Trading Participants in the same settlement region due to Trading Participant default, the total payments received and drawn shall be distributed and paid to the Trading Participants from the same settlement region in proportion to the amount payable to them for that billing period. The shortfall shall be paid upon collection from the defaulting Trading Participant but not later than the date specified in the billing and settlement time table.</u>	Since there is no physical flow of electricity between Luzon-Visayas and Mindanao until interconnection, payments from grid withdrawals will correspond to the payments to grid injections; hence, it is proposed that payment allocation be performed per settlement region.

WESM Rules				
Title	Clause	Original Provision	Proposed Amendment	Rationale
<u>Administered Price</u>	<u>10.5.4</u> (new)	N/A	<u>During instances when <i>market suspension</i> or <i>market intervention</i> is declared for the whole system, the <i>Market Operator</i> shall calculate <i>administered prices</i> provided under <i>WESM Rules</i> Clause 6.2.3 for each settlement region separately in accordance with the <i>ERC</i>-approved methodology.</u>	Since there is no physical flow of electricity between Luzon-Visayas and Mindanao until interconnection, administered prices in Mindanao should not be affected by prices in Luzon and Visayas and vice versa.

B. Billing and Settlement Manual Issue 5.0 (As amended under RCC Resolution No. 2017-05 and PEM Board Resolution No. 2017-16)

WESM Billing and Settlement Manual Issue 5.0 (As amended under RCC Resolution No. 2017-05 and PEMB Resolution No. 2017-16)				
Title	Section	Original Provision	Proposed Amendment	Rationale
Payment of Settlement Amount	5.2.4	If the total payments actually received or drawn from the prudential security by the <i>Market Operator</i> for a particular <i>billing period</i> is insufficient to pay for the total amounts payable to the <i>WESM Members</i> , the total payments received and drawn shall be distributed and paid to the relevant <i>WESM Members</i> in proportion to the amount payable to them for that <i>billing period</i> .	If the total payments actually received or drawn from the prudential security by the <i>Market Operator</i> for a particular <i>billing period</i> is insufficient to pay for the total amounts payable to the <i>WESM Members</i> , the total payments received and drawn shall be distributed and paid to the relevant <i>WESM Members</i> in proportion to the amount payable to them for that <i>billing period</i> . <u>Prior to the interconnection of the Mindanao grid with the Luzon and Visayas grids, total payments actually received or drawn from the prudential security shall be determined and distributed separately for each settlement region. For this purpose, the Luzon and Visayas grids shall be considered as one settlement region and the Mindanao grid as another settlement region.</u>	Since there is no physical flow of electricity between Luzon-Visayas and Mindanao until interconnection, payments from grid withdrawals will correspond to the payments to grid injections; hence, it is proposed that payment allocation be performed per settlement region.
BILATERAL CONTRACT DECLARATION – Declaration	9.1.9 (new)	N / A	<u>Prior to the interconnection of the Mindanao grid with the Luzon and Visayas grid, a selling Trading Participant may only declare bilateral contract data for buying Trading</u>	Since there is no physical flow of electricity between Luzon-Visayas and Mindanao until interconnection, it is proposed that participants only be allowed to

WESM Billing and Settlement Manual Issue 5.0 (As amended under RCC Resolution No. 2017-05 and PEMB Resolution No. 2017-16)				
Title	Section	Original Provision	Proposed Amendment	Rationale
for Energy Transactions			<u>Participants from the same settlement region. A selling Trading Participant and a buying Trading Participant shall be deemed to be from the same settlement region if both Trading Participants have market trading nodes from the same settlement region. In addition, the market trading nodes specified under Section 9.1.2(a) and 9.1.2(c) should be in the same settlement region as the selling and buying Trading Participants. For this purpose, the Luzon and Visayas grids shall be considered as one single settlement region and the Mindanao grid as another settlement region.</u>	declare bilateral contract quantities within the same settlement region.

C. Price Determination Methodology Issue 1.0

Price Determination Methodology Issue 1.0				
Title	Section	Original Provision	Proposed Amendment	Rationale
AMENDMENT, PUBLICATION AND EFFECTIVITY – Publication and Effectivity	<u>10.3</u> (new)	N / A	<p><u>10.3 PROVISIONS PRIOR TO INTERCONNECTION OF MINDANAO</u></p> <p><u>For WESM settlements to reflect the actual physical transactions in Luzon, Visayas, and Mindanao, calculations and procedures on administered price determination methodology and net settlement surplus as identified in Appendix D shall be performed per settlement region until the interconnection of Luzon/Visayas and Mindanao.</u></p>	Provide reference to the Appendix specifying the calculations that would be applied per settlement region prior to the interconnection of the Mindanao grid to the Luzon-Visayas grids
APPENDICES	<p><u>APPENDIX D - PROVISIONS PRIOR TO INTERCONNECTION OF MINDANAO</u></p> <p>(new)</p>	N / A	(See Appendix D)	<p>Since there is no physical flow of electricity between Luzon-Visayas and Mindanao grids until interconnection, it is proposed that:</p> <ul style="list-style-type: none"> • Administered prices in Mindanao be not affected by prices in Luzon and Visayas and vice versa; and • Net Settlement Surplus from each settlement

Price Determination Methodology Issue 1.0				
Title	Section	Original Provision	Proposed Amendment	Rationale
				region (i.e., Luzon-Visayas, Mindanao) be separately accounted for and flowed back to each settlement region.