

**Proposed Amendments to the WESM
Rules to Implement the Approved Plan for
Transition to the Independent Market
Operator of the WESM & Related
Amendments**

Philippine Electricity Market Corporation

06 March 2018

I. SUMMARY OF THE PROPOSED RULES CHANGE

The amendments to the WESM Rules are proposed to implement the directives under Department Circular No. 2018-01-0002 entitled *“Adopting Policies for the Effective and Efficient Transition to the Independent Market Operator for the Wholesale Electricity Spot Market”* and the approved *“Plan for Transition to the Independent Market Operator of the Philippine Wholesale Electricity Spot Market”*, principally on the separation of the governance and market operations function to PEMC and the IMO, changes in the composition of the PEM Board, and the realignment of the functions of the WESM governance committees and units to reflect the resultant structure of PEMC.

II. BACKGROUND

PEMC is currently the autonomous group market operator and governing body of the Philippine Wholesale Electricity Spot Market (WESM). It will, however, be transferring its functions as market operator to the IMO while retaining its role as the WESM governing body. Such transition is pursuant to the mandates of the Philippines Electric Power Industry Reform Act of 2001 (EPIRA), which mandated the formation of an independent entity to which the market operator functions, assets, and liabilities will be transferred, upon joint endorsement by the Philippines Department of Energy (DOE) and the electric power industry market participants.

The DOE endorsed the transition upon issuance of its Department Circular No. 2018-01-0002 entitled *“Adopting Policies for the Effective and Efficient Transition to the Independent Market Operator for the Wholesale Electricity Spot Market”*. Endorsement by the industry participants, meanwhile, was obtained through ratification by the members of the PEMC during its membership meeting held on 06 February 2018. The members ratified the transition to the IMO as embodied in the *“Plan for Transition to the Independent Market Operator of the Philippine Wholesale Electricity Spot Market”*.

Section 8.2 of Department Circular No. 2018-01-0002 entitled *“Adopting Policies for the Effective and Efficient Transition to the Independent Market Operator for the Wholesale Electricity Spot Market”* directs PEMC to submit the necessary amendments to the Rules Change Committee within 30 calendar days from effectivity. Under the same provision, the amendment of the WESM Rules and Market Manuals in accordance with the Circular is a condition for the transition to the IMO.

III. THE PROPOSED RULES CHANGE

The proposed changes to the WESM Rules will include amendments and additional provisions to implement the Transition Plan which affects both PEMC as the governance arm of the WESM and the IMO as the market operator.

A. WESM Governing Board and Governance Structure

Under the approved Transition Plan and DOE Department Circular No. 2018-01-0002, PEMC shall remain to be the governance arm of the WESM. For this purpose, the PEM Board shall be supported by WESM governance committees that will perform, among other things, market surveillance, compliances, audit, technical support, and rules change functions. The PEM Board and the WESM governance committees shall be supported by a manpower complement that will perform secretariat support functions, market assessment, market governance administration, and enforcement and compliance functions. Moreover, the members of the PEM Board shall no longer be appointed by the Secretary of the DOE and will instead be elected by the PEMC

members in accordance with its By-Laws. The PEM Board is also tasked to monitor and supervise the IMO by enforcing operational and financial performance standards, as may be approved by the DOE.

B. Formation of the IMO

Under the approved Transition Plan and DOE Department Circular No. 2018-01-0002, the IMO shall be an independent entity, formed separate from PEMC, and incorporated as a private corporation under the Corporation Code and shall assume all the functions of the Market Operator. It shall be incorporated by individuals that are independent from the electric power industry participants and from the government. The IMO shall be composed of five (5) members, and the detailed nomination and selection process for the election of the initial and subsequent members of the IMO Board shall be provided by the PEM Board, subject to the approval of the DOE.

The proposal shall include provisions for the IMO's compliance with performance standards by way of the operating agreement between PEMC and the IMO, as well as the prescription of a separate set of performance standards for the System Operator.

C. Proposed Changes

The proposed amendments to implement the IMO Transition Plan are in Chapter 1 and Chapter 11 of the WESM Rules, and are summarized as follows:

- a) PEMC as governing body of the WESM – include reference to PEMC as the WESM governing body.
- b) PEM Board –
 - Replacement of Transco representative with System Operator representative.
 - Remove requirement that the Chairperson shall be elected from among the independent members. Amendment is for the Chairperson to be elected by the PEM Board members from among themselves.
 - Election of the PEMC President, from among the independent directors of the PEM Board.
 - Election of the PEM Board directors by the PEMC members, and not appointed by the DOE.
 - Include additional functions, set out in the DOE Circular.
- c) Market Operator Board – provide for composition and qualifications of the Market Operator Board, adopting in full the qualifications set out in the DOE Circular.
- d) Alignment of provisions relating to Market Operator performance standards and inclusion of similar provisions relating to System Operator performance standards;
- e) Creation of a Compliance Committee, and provision of a transitory arrangement pending appointment and organization of said committee;
- f) Realignment of the functions of the WESM Governance Committees; and
- g) Re-statement of functions of the PEMC governance units to align with the re-organization of PEMC.

Additionally, the proposal also includes amendments to enhance the audit-related provisions of the WESM Rules.

IV. BACKGROUND AND DESCRIPTION OF THE PROPONENT

The proponent is the Philippine Electricity Market Corporation. PEMC currently acts as both the governance arm and market operator of the WESM.

Officers:

Oscar E. Ala – CEO and Chairman, Transition Committee
Francis Saturnino C. Juan – COO and Member, Transition Committee
Jose M. Layug Jr. – Member, Transition Committee
Rauf A. Tan – Member, Transition Committee
Jose Mari T. Bigornia – Member, Transition Committee
Rachel Angela P. Anosan – VP, Legal / Corporate Secretary
Isidro E. Cacho Jr. – Officer-in-Charge, Corporate Planning and Communications
Carlito C. Claudio – VP, Market Assessment Group
Robinson P. Descanzo – VP, Trading Operations
Celina R. Encarnacion – Officer-in-Charge, Corporate Services
Salvador D. Subaran – VP, Information Systems and Technology
Hazel Gubaton-Lopez – OIC, Enforcement and Compliance Office

V. CONCLUSIONS AND RECOMMENDATIONS

The amendments to the WESM Rules are proposed to implement the directives under Department Circular No. 2018-01-0002 entitled *“Adopting Policies for the Effective and Efficient Transition to the Independent Market Operator for the Wholesale Electricity Spot Market”* and the approved *“Plan for Transition to the Independent Market Operator of the Philippine Wholesale Electricity Spot Market”*. Thus, it is recommended that the proposed changes be adopted.

VI. REFERENCES

1. WESM Rules
2. DOE Department Circular No. 2018-01-0002 entitled *“Adopting Policies for the Effective and Efficient Transition to the Independent Market Operator for the Wholesale Electricity Spot Market”*
3. Approved *“Plan for Transition to the Independent Market Operator of the Philippine Wholesale Electricity Spot Market”*