Republic of the Philippines
DEPARTMENT OF ENERGY
(Kagawaran ng Enerhiya)

DEPARTMENT CIRCULAR NO. DC2023-09-0026

DECLARING THE COMMERCIAL OPERATIONS OF THE RESERVE MARKET AND PROVIDING FURTHER POLICIES

WHEREAS, Section 37 of the Electric Power Industry Reform Act of 2001 (EPIRA) mandates the Department of Energy (DOE) to: (a) supervise the restructuring of the electric power industry by formulating policies for the planning and implementation of a comprehensive program for the efficient supply and economical use of energy consistent with the approved national economic plan and with the policies on environmental protection and conservation and maintenance of ecological balance; (b) ensure the reliability, quality, and security of supply of electric power; and (c) jointly with the electric power industry participants, establish the Wholesale Electricity Spot Market (WESM) and formulate the detailed rules governing the operations thereof;

WHEREAS, the EPIRA mandates the System Operator (SO) to ensure and maintain the reliability, adequacy, security, stability, and integrity of the Grid in accordance with the performance standards for the operations and maintenance of the Grid, as set forth in the Grid Code;

WHEREAS, on 28 June 2002, the DOE promulgated Department Circular (DC) No. DC2002-06-0003 for the WESM Rules and established the WESM in consultation with the electric power industry participants;

WHEREAS, Ancillary Services (AS), as defined in the EPIRA, are services that are necessary to support the transmission of capacity and energy from resources to loads while maintaining reliable operation of the transmission system in accordance with good utility practice and the Grid Code;

WHEREAS, Clause 3.3.3.2 of the WESM Rules mandates the SO to provide adequate AS for each region by entering into contracts with AS Providers and/or by competitive spot market trading;

WHEREAS, on 23 June 2010, the DOE promulgated DC No. DC2010-06-0007 titled, "Directing the Preparations for the Trading of AS in the Philippine WESM", establishing the conditions, roles, and responsibilities of concerned agencies and entities in the preparations for the establishment and commencement of the Reserve Market;

WHEREAS, on 02 December 2014, the DOE promulgated DC No. DC2014-12-0022 titled, "Promulgating the Protocol for the Central Scheduling and Dispatch of Energy and Contracted Reserves in Preparation for the Commercial Operation of the WESM Reserve Market", approving and adopting the WESM Manual on the Protocol for the Central Scheduling and Dispatch of Energy and Contracted Reserves in preparation for the commercial operations of the Reserve Market;

WHEREAS, on 23 October 2015, the DOE promulgated DC No. DC2015-10-0015 titled, "Providing Policies for Further Enhancement of the WESM Design and Operations", providing policies for the enhancements to WESM design and operations which includes among others the change from a 1-hour dispatch interval to a 5-minute dispatch interval and the implementation of the co-optimized Energy and Reserve dispatch schedule and pricing in the WESM;

WHEREAS, on 12 November 2015, the DOE promulgated DC No. DC2015-11-0018 titled, "Declaring the Commercial Operations of the Central Scheduling and Dispatch of Energy and Contracted Reserve in the WESM and Providing Further Amendments to its Protocol in Preparation for the Eventual Operation of the WESM Reserve Market";

WHEREAS, on 08 February 2019, the DOE promulgated DC No. DC2019-02-0003 titled, "Providing for the Framework Governing the Operations of Embedded Generators", encouraging the provision of AS from Embedded Generators subject to the criteria provided in relevant rules and regulations;

WHEREAS, on 04 December 2019, the DOE promulgated DC No. DC2019-12-0018 titled, "Adopting a General Framework Governing the Provision and Utilization of AS in the Grid", providing the general policy framework governing the provision and utilization of AS in the Grid which specified among others, the criteria for the commercial operation of the Reserve Market in the WESM, and the creation of the AS-Technical Working Group (AS-TWG) to render technical assistance to DOE in developing further policies, among other responsibilities;

WHEREAS, on 23 June 2020, the DOE promulgated Department Order No. DO2020-06-0009 titled, "Organizing the Creation and Composition of the AS-TWG", formalizing the composition and representations in the AS-TWG;

WHEREAS, on 28 October 2020, the AS-TWG promulgated the AS-TWG Resolution No. 2020-01 providing recommendations to the DOE and Energy Regulatory Commission (ERC) on further implementation of the general framework governing the provision and utilization of AS in the Grid;

WHEREAS, on 13 May 2021, the DOE promulgated DC No. DC2021-03-0009 titled, "Adopting a General Framework Governing the Operationalization of the Reserve Market in the WESM and Providing Further Policies to Supplement DC2019-0018", providing the policy framework for the operationalization of the Reserve Market and mandating the Market Operator (MO) to submit rules changes necessary for the co-optimization of Energy and Reserve in the WESM;

WHEREAS, on 26 October 2022, the Independent Electricity Market Operator of the Philippines (IEMOP) as the MO and the Philippine Electricity Market Corporation (PEMC) as the WESM Governance Arm filed a joint application to the ERC for the Price Determination Methodology (PDM) for the co-optimization of Energy and Reserve dispatch schedules and pricing in the WESM;

WHEREAS, on 07 November 2022, the DOE promulgated DC No. DC2022-11-0032 titled, "Adopting Further Amendments to the WESM Rules and Market Manuals for the Implementation of Reserve Market", providing the information required for registration of AS Providers, monitoring of effective provision of AS through Reserve Effectiveness Factor, including reserve settlement quantities and amounts, and reinforcing the designation of the SO as the single buyer of reserves;

WHEREAS, on 26 June 2023, the DOE issued an Advisory declaring the Implementation of the Trial Operations Program (TOP) of the Reserve Market in preparation for the commercial operations of the Reserve Market;

WHEREAS, the ERC granted an Interim Relief on ERC Case No. 2023-002 RC titled, "Application for the Issuance of Rules on the PDM for the Implementation of the co-optimized Energy and Reserve Market in the WESM", promulgated on 24 August 2023; and

WHEREAS, the DOE, in consideration of the above developments, drafted the proposed policy on the commercial operations of the Reserve Market and posted the corresponding DC on the DOE website on16 September 2023 to solicit comments and recommendations by interested parties;

NOW, THEREFORE, from the foregoing premises and pursuant to its authority under the EPIRA and the WESM Rules, the DOE hereby adopts, issues, and promulgates the following:

Section 1. Declaration of Commercial Operations of the Reserve Market. The DOE hereby declares the commercial operation of the Reserve Market, which shall mark the co-optimization of the energy and reserve in the WESM, in the following manner:

1.1 Final Preparations Stage

The MO is mandated to conduct the Final Preparations Stage and the Limited Live Dispatch Operations of the Reserve Market immediately after the effectivity of this Circular until 25 December 2023, unless otherwise lifted for full commercial operations. During this period, the MO shall conduct live parallel operations involving end-to-end testing among the MO, SO, and registered AS Providers using a non-production system, thus, transactions shall not be binding for purposes of settlement. During this period, the MO, in coordination with the WESM Governance Arm, the SO, and all Trading Participants (TPs) shall ensure the completion of readiness requirements. The MO shall ensure compliance with the requirements of the ERC on the approval of the PDM. The WESM Governance Arm shall ensure the audit's completion and certify the readiness and completeness of all requirements for the full commercial operations.

1.2 Full Commercial Operations Date

Starting 26 December 2023 or such earlier date as may be declared under Section 1.1, the MO shall implement the full commercial operation of the Reserve Market, wherein the co-optimized energy and reserve schedules, including their associated prices generated by the Market Dispatch Optimization Model, shall be financially binding. For this purpose, the following shall be observed:

1.2.1 Monitoring and Compliance to Reserve Offer Capacity Compliance (ROCC) and Reserve Conformance Standards (RCS)

Upon the commercial operations of the Reserve Market, all TPs shall ensure full compliance with the ROCC, RCS, and all other applicable provisions of the WESM Rules and Market Manuals. Towards this end, the WESM Governance Arm, through the Enforcement and Compliance Office (ECO) shall:

a. finalize the guidelines for compliance with the ROCC and RCS by the TPs, to be submitted for DOE's approval, not later than 15 November 2023;

b. monitor, evaluate compliance, and provide recommendations on its findings on compliance with the ROCC and RCS, as applicable. Provided, that, the ECO, in its evaluation of possible incidents of non-compliance, shall consider the transitory nature of the Reserve Market operations;

c. upon determination of a breach, impose applicable sanctions and/or penalties in accordance with the relevant provisions of the WESM Rules and Market Manuals; and

d. recommend as necessary, changes to the WESM Rules and/or Market Manuals, to foster compliance and efficiency among the WESM participants.

1.2.2 System Operator's Posting of Prudential Requirements (PR)

The SO shall comply with the posting of the PR in accordance with the relevant provision of the WESM Rules and Market Manuals not later than 25 March 2024. The SO shall ensure the timely settlement of its monthly bills with the MO in accordance with the Reserve Market billing and settlement timetable, as provided in the WESM Manual on Billing and Settlement. Further, the SO shall be responsible for complying with the applicable requirements of the ERC in implementing the required changes in its settlement system and support to its compliance with the PR.

Section 2. Compliance with the Reserve Market Registration Requirements. All Generation Companies, duly certified and accredited by the SO as AS Providers, shall ensure completion of their registration before the full commercial operations date of the Reserve Market, subject to the evaluation by the MO. Otherwise, non-completion of the requirements for registration shall entail imposition of applicable sanctions and/or penalties, in accordance with the relevant provisions of WESM Rules and Market Manuals and other relevant issuances of the DOE after due process. The registration of AS Providers shall continue beyond 26 October 2023 for those Generation Companies that will receive their AS certificates from the SO after said date.

Section 3. Regulatory Support. The ERC shall ensure the timely provision of support for the regulatory requirements and approvals consistent with the policies set forth under this Circular in accordance with existing laws and procedures. Among others, the ERC shall:

3.1 Approve the PDM for the co-optimization of energy and reserve schedules and prices in the WESM;

3.2 Promulgate as applicable, in coordination with the DOE, the price caps and floors for the reserve products and other price mitigating measures;

3.3 Promote competition and penalize abuse of market power in the co-optimized energy and reserve market;

3.4 Evaluate and act on all applications for approval of the Ancillary Services Procurement Agreement (ASPA) between the SO and the AS Providers, including the provision of guidelines that would allow AS Providers to source replacement of their contracted reserve capacities from the Reserve Market or other AS Providers, in case their capacities are unavailable while ensuring transparency and consistency of the pass-through costs duly approved by the ERC in the respective ASPAs;

3.5 Ensure compliance by the SO and the AS Providers with the provisions of this Circular, the Philippine Grid Code, and other relevant issuances for the sufficient provision and efficient dispatch of AS; and

3.6 Provide support to the MO and the WESM Governance Arm in terms of timely approval of the corresponding application for cost recovery to enable these entities to perform their respective obligations relative to the Reserve Market.

Section 4. Separability. If any provision of this Circular is declared invalid or unconstitutional, the other provisions not affected shall remain valid and subsisting.

Section 5. Repealing Clause. Except insofar as may be manifestly inconsistent herewith, nothing in this Circular shall be construed as to repeal any mechanisms already existing or responsibilities already provided for under existing rules. All other rules and regulations, or any portion thereof, that are inconsistent with this Circular are revised or repealed accordingly.

Section 6. Effectivity and Publication. This Circular shall take effect immediately after its publication in two (2) newspapers of general circulation. A copy of this Circular shall be filed with the University of the Philippines Law Center – Office of National Administrative Register.

Issued this ____ September 2023 at the DOE, Energy Center, Rizal Drive cor. 34th Street, Bonifacio Global City, Taguig City.

RAPHAEL P.M. LOTILLA
Secretary

SEP 26 2023