

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**

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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
- WESM Manual on Billing and Settlement ("Billing and Settlement Manual") Issue 5.0 and Issue 6.0 (As revised under DOE DC2018-06-0017)

The proposed revision to Issue 5.0 of the Billing and Settlement Manual is for the application of the proposed enhancements under the current WESM design and operations; the proposed revision to Issue 6.0 is for the application of the proposed enhancements under the enhanced WESM design and operations.

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 × 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

This proposal has been approved as an urgent amendment by the PEM Board on 27 March 2019.

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:

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Robinson P. Descanzo – Acting Chief Operating Officer / Trading Operations Head

Rachel Angela P. Anosan – Chief Legal Officer

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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
3. WESM Manual Billing and Settlement Issue 6.0 (As revised under DOE DC2018-06-0017)