RULES CHANGE COMMITTEE

Proposed Urgent Amendments to WESM Rules and WESM Manual on Constraint Violation Coefficients and Pricing Re-runs, Issue 6 to Harmonize with ERC Directives on Automatic Pricing Re-runs for Under-generation and Over-generation

Effective Date : 21 May 2021
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WHEREAS, the DOE on 23 October 2015 adopted[1] enhancements to WESM design and operations which includes among others the change from a 1-hour dispatch interval to a 5-minute dispatch interval;

WHEREAS, the DOE on 20 March 2017 approved provisions on automatic pricing re-run under the WESM Rules and WESM Manual on Constraint Violation Coefficients and Pricing Re-runs ("CVC Manual"), which provide that such re-pricing assumes shortage pricing at the offer price cap (i.e. currently at PhP32,000 per MWh) during under-generation and excess pricing at offer price floor (i.e. currently at PhP -10,000 per MWh) during over-generation;

WHEREAS, among the preparations made for the implementation of the enhanced market design, on 29 December 2020, the ERC promulgated its decision dated 29 August 2020 on ERC Case No. 2017-042RC ("Decision") approving the Price Determination Methodology (PDM) for the enhanced WESM design and operations;

WHEREAS, the ERC, in its Decision, while acknowledging the importance of having the correct pricing signals and settlement-ready prices in real-time for efficiency and transparency in prices, deemed that prices during under-generation should reflect the cost that the consumers are willing to pay for a continuous supply of electricity, which price is not necessarily the offer price cap (PhP32,000/MWh);

WHEREAS, the ERC directed that the existing pricing mechanisms during under-generation and over-generation should be maintained;

WHEREAS, on 18 May 2021, PEMC submitted the proposed urgent amendment on automatic pricing re-runs seeking to harmonize provisions on automatic pricing re-runs in the WESM Rules and CVC Manual for the enhanced WESM design and operations (EWDO) with the ERC directives to be effective on the commencement of the EWDO on 26 June 2021 ("Go-Live Date");

WHEREAS, following the procedures for processing proposed urgent amendments specified in Section 7.2 of the WESM Manual on Procedures for Changes to the WESM and Retail Rules and Market Manuals ("Rules Change Manual"), the RCC convened on 21 May 2021, coincidentally its 179th (Regular) Meeting, to determine if the proposal is urgent based on the criteria set forth in Section 3.1 of the Rules Change Manual, and if so, deliberate on the proposal for endorsement to the PEM Board;

WHEREAS, the PEMC presented to the RCC a summary of the proposed changes, as follows:

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[1] Department Circular No. 2015-10-0015 dated 23 October 2015

RCC-RESO-21-05
Proposed Urgent Amendments to the WESM Manual on Billing and Settlement to Harmonize with ERC Directives on
Automatic Pricing Re-runs for Under-generation and Over-generation

Affected Clauses	Proposed Amendment	Rationale
WESM Rules (EWDO): • 3.6.7.2 • 3.6.7.3 • 3.10.5.5	Deletion of shortage pricing (for under-generation) and excess pricing (for over-generation)	Existing pricing mechanisms during under-generation and over-generation should be maintained. Such that, these events shall be treated just like other constraint violations
WESM Manual on CVC-PR (Issue 6): • 5.1.3 • 5.2.2. to 5.2.5 • 5.3.1	Deletion of shortage pricing (for under-generation) and excess pricing (for over-generation)	For consistency with WESM Rules

WHEREAS, following initial discussions, the RCC certified the proposal as urgent since it satisfies the criteria for urgent proposals per Section 3.1 of the Rules Change Manual to facilitate the implementation of any regulation, circular, order or issuance of the DOE or ERC pursuant to the EPIRA;
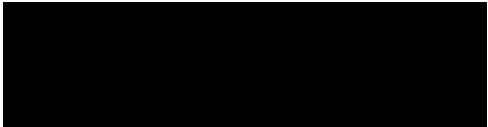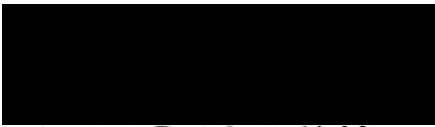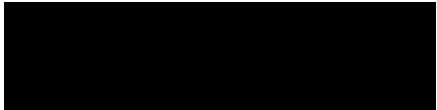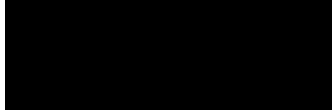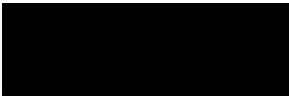
WHEREAS, the RCC approved the proposal, and its endorsement to the PEM Board, providing Proposed Urgent Amendments to the WESM Rules and WESM Manual on Constraint Violation Coefficients and Pricing Re-runs, Issue 6 (CVC-PR);

NOW THEREFORE, we, the undersigned, on behalf of the sectors we represent, hereby resolve via electronic communication platforms, as follows:

RESOLVED, that the RCC approves the Proposed Urgent Amendments to the WESM Rules and WESM Manual on Constraint Violation Coefficients and Pricing Re-runs, Issue 6 (CVC-PR), attached as Annex A;

RESOLVED FURTHER, that the said Proposed Urgent Amendments to the WESM Rules and WESM Manual on Constraint Violation Coefficients and Pricing Re-runs, Issue 6 (CVC-PR), are hereby endorsed to the PEM Board for approval and transmitted to the DOE and ERC for information.

Done this **21ˢᵗ** day of **May 2021**, Pasig City.

RCC-RESO-21-05
Proposed Urgent Amendments to the WESM Manual on Billing and Settlement to Harmonize with ERC Directives on
Automatic Pricing Re-runs for Under-generation and Over-generation

Approved by: **THE RULES CHANGE COMMITTEE**	
Independent Members:	
MAILA LOURDES G. DE CASTRO Chairperson	**FRANCISCO L.R. CASTRO, JR.**
ALLAN C. NERVES	**CONCEPCION I. TANGLAO**
Generation Sector Members:	
DIXIE ANTHONY R. BANZON Masinloc Power Partners Co. Ltd. (MPPCL)	**CHERRY A. JAVIER** Aboitiz Power Corp. (APC)
CARLITO C. CLAUDIO Millennium Energy, Inc./ Panasia Energy, Inc. (MEI/PEI)	**MARK D. HABANA** Vivant Corporation - Philippines (Vivant)
Distribution Sector Members:	
VIRGILIO C. FORTICH, JR. Cebu III Electric Cooperative, Inc. (CEBECO III)	**RYAN S. MORALES** Manila Electric Company (MERALCO)
RICARDO G. GUMALAL Iligan Light and Power, Inc. (ILPI)	**NELSON M. DELA CRUZ** Nueva Ecija II Area 1 Electric Cooperative, Inc. (NEECO II – Area 1)

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Automatic Pricing Re-runs for Under-generation and Over-generation

Supply Sector Member:
LORRETO H. RIVERA TeaM (Philippines) Energy Corporation (TPEC)
Market Operator Member:
ISIDRO B. CACHO, JR. Independent Electricity Market Operator of the Philippines (IEMOP)
System Operator Member:
AMBROCIO R. ROSALES National Grid Corporation of the Philippines (NGCP)

Proposed Urgent Amendments to the WESM Rules and WESM Manual on Constraint Violation Coefficients
and Pricing Re-Run regarding Automatic Pricing Re-runs for Under-generation and Over-generation

A.   WESM Rules (EWDO)

Title	Clause	Provision	Proposed Amendment	Rationale
Automatic Pricing Re-runs	3.6.7.2	The purpose of the automatic market pricing re-runs is to ensure that the energy and reserve prices reflect: (a) the marginal costs of supplying energy at each node; (b) the marginal costs of supplying reserves; (c) shortage pricing when there is a shortage of supply at a node or regional level; and (d) excess pricing when there is an excess of supply at a node or regional level. Such methodology for shortage pricing and excess pricing shall be approved by the DOE and ERC.	The purpose of the automatic market pricing re-runs is to ensure that the energy and reserve prices reflect: (a) the marginal costs of supplying energy at each node; **and** (b) the marginal costs of supplying reserves; ~~(c) shortage pricing when there is a shortage of supply at a node or regional level; and~~ ~~(d) excess pricing when there is an excess of supply at a node or regional level.~~ ~~Such methodology for shortage pricing and excess pricing shall be approved by the DOE and ERC.~~	Consistent with ERC directives* that the existing pricing mechanisms during under-generation and over-generation should be maintained. Such that, these events shall be treated just like other constraint violations. * ERC Decision dated 20 August 2020 (and promulgated on 29 December 2020) on ERC Case No. 2017-042RC
Automatic Pricing Re-runs	3.6.7.3	The automatic re-run of the dispatch optimization shall use the following changes to the soft constraints that was violated: (a) In case of over-generation and under-generation, the soft constraint	The automatic re-run of the dispatch optimization shall **relax** ~~use the following changes to~~ the soft constraints that was violated **by a value**~~:~~	Consistent with ERC directives* that the existing pricing mechanisms during under-generation and over-generation should be maintained. Such that, these events shall be treated just like other constraint violations.

Proposed Urgent Amendments to the WESM Rules and WESM Manual on Constraint Violation Coefficients
and Pricing Re-Run regarding Automatic Pricing Re-runs for Under-generation and Over-generation

Title	Clause	Provision	Proposed Amendment	Rationale
		shall be relaxed by a value to allow the market dispatch optimization model to find a feasible price; and (b) For all other constraints that were violated, each constraint's requirement shall be corresponding to the resulting non-zero violation variable, including a very small value to allow the market dispatch optimization model to find a feasible price.	~~(a) In case of over-generation and under-generation, the soft constraint shall be relaxed by a value to allow the market dispatch optimization model to find a feasible price; and~~ ~~(b) For all other constraints that were violated, each~~ constraint's requirement shall be corresponding to the resulting non-zero violation variable, including a very small value, to allow the market dispatch optimization model to find a feasible price.	* ERC Decision dated 20 August 2020 (and promulgated on 29 December 2020) on ERC Case No. 2017-042RC
Pricing Error Notice	3.10.5.5	3.10.5.5 The procedures developed for the market pricing re-runs shall be designed to produce prices reflecting supply shortages at any nodes where there was load shedding and prices reflecting excess supply where there was excess generation.	~~3.10.5.5 The procedures developed for the market pricing re-runs shall be designed to produce prices reflecting supply shortages at any nodes where there was load shedding and prices reflecting excess supply where there was excess generation.~~	Consistent with ERC directives* that the existing pricing mechanisms during under-generation and over-generation should be maintained. Such that, these events shall be treated just like other constraint violations. * ERC Decision dated 20 August 2020 (and promulgated on 29 December 2020) on ERC Case No. 2017-042RC

Proposed Urgent Amendments to the WESM Rules and WESM Manual on Constraint Violation Coefficients
and Pricing Re-Run regarding Automatic Pricing Re-runs for Under-generation and Over-generation

B. Constraint Violation Coefficients and Pricing Re-runs, Issue 6 (EWDO)

Title	Clause	Provision	Proposed Amendment	Rationale
Rationale for Automatic Pricing Re-Runs	5.1.3.	The purpose of the automatic pricing re-runs is to ensure that the energy and reserve prices reflect: a. the marginal costs of supplying energy at each node; b. the marginal costs of supplying reserves; c. shortage pricing when there is a shortage of supply at a node or regional level; and d. excess pricing when there is an excess of supply at a node or regional level.	The purpose of the automatic pricing re-runs is to ensure that the energy and reserve prices reflect: a. the marginal costs of supplying energy at each node; **and** b. the marginal costs of supplying reserves~~;~~ ~~c. shortage pricing when there is a shortage of supply at a node or regional level; and~~ ~~d. excess pricing when there is an excess of supply at a node or regional level.~~	Consistent with the proposed amendment to WESM Rules Clause 3.6.7.2.
Process for Automatic Pricing Re-Runs	5.2.2. to 5.2.5	5.2.2. In case of over-generation and under-generation, the soft constraint shall be relaxed by a very small value (delta) to allow the market dispatch optimization model to find a feasible price. When the results of the market	~~5.2.2. In case of over-generation and under-generation, the soft constraint shall be relaxed by a very small value (delta) to allow the market dispatch optimization model to find a feasible price. When the results of the market~~	Consistent with the proposed amendment to WESM Rules Clauses 3.6.7.3 and 3.10.5.5.

Proposed Urgent Amendments to the WESM Rules and WESM Manual on Constraint Violation Coefficients
and Pricing Re-Run regarding Automatic Pricing Re-runs for Under-generation and Over-generation

Title	Clause	Provision	Proposed Amendment	Rationale
		dispatch optimization model reflect a violation greater than delta, then the automatic pricing re-run shall reflect the shortage price for under-generation and excess price for over-generation. 5.2.3 xxx 5.2.4 xxx 5.2.5 xxx	~~dispatch optimization model reflect a violation greater than delta, then the automatic pricing re-run shall reflect the shortage price for under-generation and excess price for over-generation.~~ ~~5.2.3~~ **5.2.2** xxx ~~5.2.4~~ **5.2.3** xxx ~~5.2.5~~ **5.2.4** xxx	
Automatic Pricing Re-Run Parameters	5.3.1	The corresponding constraint relaxation formulas for the constraint violation coefficients during pricing re-runs shall be as provided in Table 2 below: *(see next page)*	The corresponding constraint relaxation formulas for the constraint violation coefficients during pricing re-runs shall be as provided in Table 2 below: *(see next page)*	Consistent with the proposed amendment to WESM Rules Clauses 3.6.7.3 and 3.10.5.5.

Proposed Urgent Amendments to the WESM Rules and WESM Manual on Constraint Violation Coefficients
and Pricing Re-Run regarding Automatic Pricing Re-runs for Under-generation and Over-generation

	Provision							Proposed Amendment					
Order	**Constraint Violation Coefficient Name**	**CVC**	**Violation Variable Value**	**Delta**	**Constraint Relaxation during Pricing Re-Run**	**Re-run Price[2]**	**Order**	**Constraint Violation Coefficient Name**	**CVC**	**Violation Variable Value**	**Delta**	**Constraint Relaxation during Pricing Re-Run**	**Re-run Price[3]**
xxx	xxx	xxx	xxx	xxx	xxx	xxx	**x**	xxx	xxx	x	x	xxx	xxx
4	System Energy Balance Constraint	1,300,000	x	0	delta	Excess Price for over-generation	4	System Energy Balance Constraint **(Over-generation and under-generation)**	1,300,000	x	~~0~~ **0.1**	**x+**delta	**EDP AND RP** ~~Excess Price for over-generation~~
						Shortage Price for under-generation							~~Shortage Price for under-generation~~
xxx	xxx	xxx	xxx	xxx	xxx	xxx	**x**	xxx	xxx	x	x	xxx	xxx

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[2] EDP refers to *nodal energy dispatch price;* and RP refers to *reserve price*
[3] EDP refers to *nodal energy dispatch price;* and RP refers to *reserve price*