



**Proposed Amendments to the (1) WESM
Rules and (2) WESM Manual on
Registration, Suspension and De-
Registration Criteria and Procedures for an
Additional Trading Participant Category:
Wholesale Electricity Market Trader
(WEMT)**

Philippine Electricity Market Corporation

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I. SUMMARY OF THE PROPOSED RULES CHANGE

The amendments to the WESM Rules and Manual are proposed to introduce a new trading participant category – Wholesale Electricity Market Trader. The addition of the proposed trading participant category would enable entities without facilities but with commercial rights or obligations to sell or purchase electricity to also participate in the WESM, thus, enhancing transparency and competition while, at the same time, protecting confidential information in the WESM. The affected documents are:

- WESM Rules
- Registration, Suspension and De-Registration Criteria and Procedures Issue 3.0

II. BACKGROUND

Clause 2.3.3.1 of the WESM Rules specifies two (2) registration categories for trading participants in the market – customers and generation companies. Customers and generation companies are registered as trading participants in the WESM since they manage physical assets (e.g., generation facilities, loads) connected to the transmission system or a distribution system that need to be scheduled and settled in the WESM. It has been observed, however, that there are entities with commercial arrangements to sell or purchase electricity but partially own or do not own or operate the physical asset that inject or withdraw the electricity. Examples of these entities are independent power producers (e.g., Team Sual Corporation) having facilities with excess capacities that are already managed by its IPP administrator, and organizations operating assets of trading participants through management contracts (e.g., Albay Power and Energy Corporation).

Traditionally, the WESM only recognizes entities that are designated as administrators of physical assets as trading participants, while entities that partially own capacities of generating facilities or have commercial arrangements are unable to register and transact in the WESM. In order to account for their WESM transactions, the said entities are subjected to the control and administration of the incumbent trading participant (i.e., the organization owning or controlling the physical asset). This is true notwithstanding instances where the entity has the legal right to participate in the WESM. Moreover, in view of the residual rights of the incumbent WESM member, information needs to be coursed through their associated trading participants. In doing so, commercially sensitive information are accessed or inevitably shared with these associated trading participants to the disadvantage of the unregistered entity. Moreover, since market and contractual data are submitted by the registered trading participants, the transactions of the non-registered entities would be attributed to them. This results in a less than accurate reflection of actual commercial arrangements of trading participants in the WESM.

III. THE PROPOSED RULES CHANGE

With the existing agreements and the expected continuous evolution of the physical trading of electricity and of energy contracts, the WESM should also evolve in terms of market participation. In this regard, it is proposed that entities with commercial arrangements but which do not manage physical assets be registered in the WESM

under a new trading participant category – Wholesale Electricity Market Trader or WEMT. By registering WEMTs in the market, the following will be achieved:

- commercially sensitive information would not be needed to be passed through their associated trading participants, which preserves and protects the confidentiality of commercially sensitive information of participants in the market;
- market data would better reflect actual commercial arrangements of trading participants, thus, enhancing the accuracy of information and promoting greater transparency; and
- the market will be able to foster greater competition by recognizing a new set of trading participants.

Although the WEMT category would address the recognition of existing arrangements in the WESM (e.g., multiple owners of a single capacity), it is also envisioned to be a flexible category that could cater new commercial arrangements in the future and is proposed not to be limited to the current context.

Since a WEMT will not manage physical assets in the market, it would primarily participate through submission or confirmation of bilateral contract quantities, receipt of billing statements, and settlement of payables or receivables. Participation of WEMTs in the scheduling, pricing and dispatch processes of the market is not proposed in this amendment; trading participants administering physical assets in the WESM (i.e., generation companies, customers) will still participate in those processes. Refer to the Appendix for an example on the participation of a WEMT in the WESM.

The proposed introduction of a financial type of trading participant in the WESM is a common feature in other electricity markets which have “Trader” (Energy Market Company Singapore), “Reallocator” (Australian Energy Market Operator), and “Other Supplier/Supplier” (Independent Electricity System Operator – Ontario) categories, among others. These categories cater to wholesale aggregator arrangements, and market buying and selling on behalf of generation companies and customers similar to the proposed function of the WEMT.

IV. BACKGROUND AND DESCRIPTION OF THE PROPONENT

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

Top Officers:

Atty. Oscar E. Ala – CEO and Chairman, Transition Committee
Atty. Francis Saturnino C. Juan – COO and Member, Transition Committee
Atty. Jose M. Layug Jr. – Member, Transition Committee
Mr. Rauf A. Tan – Member, Transition Committee
Mr. 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

Hazel G. Lopez – Officer-in-Charge, Enforcement and Compliance
Salvador D. Subaran – VP, Information Systems and Technology

V. CONCLUSIONS AND RECOMMENDATIONS

The amendments to the WESM Rules and Manual are proposed to introduce a new trading participant category – Wholesale Electricity Market Trader. By revising the WESM Rules and Manual, participation in the WESM of entities without facilities but with contractual rights or obligations is enabled, confidentiality of commercially sensitive information of trading participants is protected, electricity market transactions are made more transparent, and wider level of competition is ensured. Thus, it is recommended that the proposed changes be adopted.

VI. REFERENCES

1. WESM Rules
2. WESM Manual on Registration, Suspension and De-Registration Criteria and Procedures Issue 3.0

APPENDIX: EXAMPLE ON THE PARTICIPATION OF A WHOLESALE ELECTRICITY MARKET TRADER (WEMT) IN THE WESM

Scenario: A 200 MW generation facility is shared by two companies – Company A and Company B. Company A owns 150 MW of the capacity while Company B owns 50 MW. Both companies enter into bilateral contracts with different customers for both their capacities. Company A and Company B have agreed that Company A will manage the physical asset in the WESM.

A. Registration

Current	Proposed
Since Company A will manage the physical asset, it will register in the WESM as a Generation Company.	Similar to the current set-up, Company A will register as a Generation Company since it will manage the physical asset.
Company B cannot register in the WESM since there is no category pertaining to its status.	Company B may register as a WEMT.

B. Scheduling

Current	Proposed
Company A will submit the offers for the generation facility up to its maximum available capacity.	Same as current set-up
Company B will not submit anything for scheduling.	

C. Dispatch Compliance

Current	Proposed
Company A will receive the schedule of the generation facility and should comply with the schedule. Company A is liable for any non-compliances to the dispatch schedules or instructions.	Same as current set-up
Company B does not have any participation in the dispatch of the generation facility.	

D. Metering

Current	Proposed
The metered quantity of the generation facility will be attributed to Company A. For example, if the generation facility produced 190 MWh then Company A will be settled for that volume in the market.	Same as current set-up

Current	Proposed
Company B does not have any metered quantities in the WESM.	

E. Contract Declaration

Current	Proposed
Company B sends to Company A its bilateral contract declarations (i.e., customer name and volume for each trading interval). Company A submits to the WESM the bilateral contract declarations of Company B along with its own bilateral contract declarations for its customers.	<p>Company A and Company B agrees on the distribution of the actual production of the generation facility. For example, Company A and Company B agreed to split the 190 MWh production as follows: 145 MWh – Company A; 45 MWh – Company B.</p> <p>Since the metered quantity of 190 MWh was attributed to Company A, it should submit a 45 MWh bilateral contract declaration for Company B. At the same time, Company A and Company B will submit to the WESM their bilateral contract declarations for their respective customers.</p> <p><i>Note that, under this arrangement, Company B does not need to divulge its bilateral contract declarations for its individual customers to Company A.</i></p>

F. Billing and Settlement

Current	Proposed
<p>Settlement amounts are calculated for Company A and it will receive the settlement statements and all amounts relative to the generation facility.</p> <p>If Company B has any WESM revenue from the generation facility, it would have to receive the amounts from Company A.</p>	<p>Settlement amounts will be calculated for Company A and Company B. Using the examples above, the settlement amounts of each company will be calculated as follows:</p> <p>Price = PhP 3,000 / MWh</p> <p>Company A</p> <ul style="list-style-type: none"> • MQ = 190 MWh • BCQ to Company B = 45 MWh • BCQ to Customers = 100 MWh • SA = $190 \times 3,000$ $- 45 \times 3,000$ $- 100 \times 3,000$ = PhP 135,000

Current	Proposed
	<p>Company B</p> <ul style="list-style-type: none"> • MQ = 0 MWh • BCQ from Company A = -45 MWh* • BCQ to Customers = 40 MWh • SA = $0 \times 3,000$ $- (-45) \times 3,000$ $- 40 \times 3,000$ $= \text{PhP } 15,000$ <p>*Buying participant of a bilateral contract has a negative value of the bilateral contract volume of the selling participant</p> <p>Company A will receive a statement reflecting a receivable of PhP 135,000 while Company B will receive a statement reflecting a receivable of PhP 15,000. Both companies will be directly paid by the market.</p>

G. VAT Treatment

Current	Proposed
Company A's sales will be applied with the appropriate VAT based on its technology.	<p>Company A's sales will be applied with the appropriate VAT based on its technology.</p> <p>Company B's sales will be applied with 12% VAT multiplied by the generation mix ratio (GMR) of spot sales by generation companies similar to customers.</p>