

ON THE MANDATE AND RESPONSIBILITY OF THE DEPARTMENT OF ENERGY OVER THE WHOLESALE ELECTRICITY SPOT MARKET AND THE AUTHORITY OF THE PHILIPPINE ELECTRICITY MARKET CORPORATION IN RE...

DOE DEPARTMENT CIRCULAR NO. DC 2006-01-0002, January 23, 2006

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/8eae1dde6f74/>

WHEREAS, under Section 30 of Republic Act No. 9136 (otherwise known as the “Electric Power Industry Reform Act of 2001” or “EPIRA”), the Department of Energy (“DOE”) is mandated to establish the wholesale electricity spot market (“WESM”) composed of the wholesale electricity spot market participants.

WHEREAS, in accordance with Rule 9 Section 3 (a) of the Implementing Rules and Regulations of the EPIRA (“IRR”), the DOE is mandated to organize and establish the appropriate market design and governance structure of the wholesale electricity spot market.

WHEREAS, pursuant to its power to establish the WESM, Section 30 of EPIRA further provides that the DOE is responsible for (a) the formulation of the detailed rules for the WESM (“WESM Rules”), jointly with the electric power industry participants and (b) the constitution of the market operator which shall be an autonomous group responsible for the implementation of the WESM in accordance with the WESM Rules.

WHEREAS, on 28 June 2002, the DOE, with the joint endorsement of electric power industry participants, issued Department Circular No. 2002-06-003 promulgating the WESM Rules, consistent with the provisions of Section 30 of EPIRA that:

- a. the rules shall reflect accepted economic principles and provide a level playing field to all electric power industry participants; and
- b. the rules shall provide, among others, procedures for:
 - i. establishing the merit order dispatch instructions for each time period;
 - ii. determining the market-clearing price for each time period;
 - iii. administering the market, including criteria for admission to and termination from the market which includes security or performance bond requirements, voting rights of the participants, surveillance and assurance of compliance of the participants with the rules and the formation of the wholesale electricity spot market governing body;
 - iv. prescribing guidelines for the market operation in system emergencies; and
 - v. amending the rules.

WHEREAS, in November 2003, the DOE constituted the Autonomous Group Market Operator (“AGMO”) with the incorporation of the Philippine Electricity Market Corporation (“PEMC”).

WHEREAS, Section 30 of EPIRA states that the WESM Rules shall provide the mechanism for determining the

price of electricity not covered by bilateral contracts between sellers and purchasers of electricity;

WHEREAS, Section 30 of EPIRA provides further that the price determination methodology contained in the WESM Rules shall be subject to the approval of the Energy Regulatory Commission (“ERC”).

WHEREAS, on 30 November 2004, the DOE authorized the PEMC to file on its behalf the WESM Price Determination Methodology (“PDM”) for the approval of the ERC, and to comply with all directives of the ERC in relation to the PDM.

WHEREAS, there is a need to clarify the scope of PEMC’s authority to act on behalf of the DOE in relation to the preparation, adoption and filing for approval of the PDM with the ERC pursuant to the DOE’s mandate as regards the design and structure of the WESM.

NOW, THEREFORE, premises considered, the DOE hereby adopts this Circular for purposes stated above and to provide guidance to PEMC in seeking the approval of the PDM;

SECTION 1. Objective of Wholesale Electricity Spot Market - Consistent with its mandate under Section 30 of EPIRA and, more particularly, Rule 9, Section 3(a) of the IRR, the DOE adopted a WESM design and structure that is intended to establish a competitive, efficient, transparent and reliable market for electricity where:

- a) A level playing field exists among the participants;
- b) Trading of electricity is facilitated among participants within the spot market;
- c) Third parties are granted non-discriminatory access to the power system;
- d) Prices are governed as far as practicable by commercial and market forces; and
- e) Efficiency is encouraged.

SECTION 2. Components of Wholesale Electricity Spot Market - The following key components constitute the design of the WESM:

a) Pricing

i. Basic to any market design is the method and procedures for determining the price at which electricity will be sold or purchased in the wholesale electricity spot market.

ii. The main objectives of the pricing method are to --

- 1. Balance supply and demand;
- 2. Provide the proper incentives, both short term and long term, to the buyers and sellers through the correct pricing signals;
- 3. Prevent abuse of market power; and
- 4. Manage congestion.

b) Scheduling and Dispatch

i. This involves the process of determining the dispatch schedule for all facilities, which schedule shall be used by the system operator in providing central dispatch to all generation facilities and loads connected to the transmission system.

ii. It is based on certain specified factors, such as pricing (economic dispatch) and transmission capacity and constraints (security-constrained dispatch).

iii. In order to implement the dispatch schedule, there must be coordination between market operations and system operations. The market design establishes the procedures, processes or system operator to coordinate their functions in relation to the spot market.

iv. The need for coordination is emphasized by the fact that the centralized operation and maintenance of the transmission system and the grid in the restructured electricity industry is controlled by a single entity (initially the TRANSCO, eventually the private concessionaire selected in accordance with Republic Act No. 9136).

c) Billing and Settlement

The market design should specify the procedures for determining the final settlement amounts to be paid by the market participants for their transactions in the wholesale electricity spot market and the procedures for billing and actual settlement of market transactions between the market operator and the market participants, as well as among market participants.

d) Market Administration/Governance

i. The governance of the market contemplates the processes by which decisions are made and implemented within the wholesale electricity spot market to ensure the attainment of the market's objectives.

ii. This shall include, but not be limited to, the following --

1. The terms and conditions by which entities may be authorized to participate in the spot market;
2. A cost-effective framework for the resolution of disputes among market participants;
3. Sanctions in case of a breach or violation of the market rules by a market participant; and
4. Efficient, transparent and fair processes for amending the market rules.

SECTION 3. PEMC Submission of Price Determination Methodology - The PEMC is authorized to submit to the ERC, for evaluation and approval, the PDM which consists of the procedures for the determination of schedules and energy prices for the real time dispatch and for the week-ahead and day-ahead market projections. These procedures shall be expressed in a series of equations or mathematical algorithm that constitute the Market Dispatch Optimization Model (the "MDOM").

The MDOM shall contain and adhere to the market design features and principles contained in the WESM Rules, particularly those contained in WESM Rules 3.2 to 3.10, as follows -

- a. WESM Rule 3.2 - Market Network Model, Trading Nodes and Pricing Zones;
- b. WESM Rule 3.3 - Ancillary Services;
- c. WESM Rule 3.4 - Market Trading Interval and Timetable;
- d. WESM Rule 3.5 - Submission of Offers, Bids and Data;
- e. WESM Rule 3.6 - Market Dispatch Optimization Model
- f. WESM Rule 3.7 - Market Projections;
- g. WESM Rule 3.8 - Scheduling and Dispatch Implementation;
- h. WESM Rule 3.9 - Treatment of Load Shedding and Excess Generation; and
- i. WESM Rule 3.10 - Determination of Market Prices.

Except for the MDOM, all the other components or elements of the WESM as described in Section 2 hereof are considered integral parts of the design and structure of the market and, thus, PEMC shall ensure that no changes are made to these components or elements without the prior approval of the DOE or as may be necessary pursuant to any amendments to the WESM Rules. However, PEMC is authorized to provide information or to expound on

any issue or question from the public, the ERC or any other government agency as regards the non-PDM components of market design.

SECTION 4. DOE Responsibility - Notwithstanding the authority granted to PEMC under Section 3 above, the DOE shall retain overall responsibility for ensuring that the market design and structure, as embodied in the WESM Rules, shall achieve the objective of the wholesale electricity spot market stated in Section 1 hereof.

SECTION 5. No Amendment or repeal of existing laws - Nothing in this Department Circular shall be construed to amend, supplant, or repeal any of the mechanisms or institutions already existing or responsibilities already allocated and provided for under any existing law, rule or contract. However, to the extent necessary, previous issuances by this Department in relation to the subject matter herein shall be deemed amended accordingly.

This Department Circular shall take effect immediately after its publication in two (2) newspapers of general circulation and shall remain in effect until otherwise revoked.

Adopted: 23 Jan. 2006

(SGD.) RAPHAEL P.M. LOTILLA
Secretary

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.