



# Market Surveillance Committee Quarterly Accomplishment Report

**26 June 2020 to 25 September 2020**

## **OCTOBER 2020**

This Report is prepared by the  
Philippine Electricity Market Corporation –  
Market Assessment Group for the  
Market Surveillance Committee

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## I. Introduction

Pursuant to Section 1.6.2 of the WESM Rules and Section 6.2.1 of the Market Surveillance, Compliance and Enforcement Market Manual (MSCEMM), the Market Surveillance Committee (MSC) carried-out its mandate in the monitoring and assessment of market outcomes in the WESM and in the Retail Market<sup>1</sup>, with the PEMC-Market Assessment Group (MAG) as the primary support unit. The MSC also continued with its mandate to review compliance and investigation reports that are prepared by the Enforcement and Compliance Office (ECO)<sup>2</sup>.

In performing its responsibilities, the MSC conducted regular monthly meetings, and frequently communicated through email and other messaging platforms to deliberate on various market issues and topics.

For the duration of the covered period, the MSC adopted the online conduct of meetings in response to the National Government's implementation of quarantine measures during the COVID-19 Pandemic.

Accordingly, during the third quarter of 2020, the MSC conducted four (4) regular and special meetings<sup>3</sup>, which were all conducted online. The MSC's accomplishments during the period are outlined in the succeeding section of this report.

## II. Accomplishments

### 1. Activities on Market Monitoring and Assessment

#### 1.1. Monitoring and Assessment of Market Outcomes in the WESM

Pursuant to MSCEM Section 6.2.1 (b)<sup>4</sup>, the MSC monitored and assessed market outcomes, trends, and drivers, as well as the bidding behavior of generator-trading participants (TPs).

The Market Assessment Report is prepared for the purpose of monitoring and assessing the efficiency and competitiveness of the WESM under different time-scales and market conditions. The periodic Reports include an assessment of market behavior, including the analysis of the market monitoring indices, as contained in the Catalogue of Market Monitoring Data and Indices (CMMDI).

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<sup>1</sup> Section 1.5.1, Retail Rules: *The provisions of Chapter 1 of the WESM Rules shall apply with respect to the governance of the integration of retail competition in the WESM, the operations of the Central Registration Body, and the participation and transactions in the WESM of Suppliers and Contestable Customers.*

<sup>2</sup> MSCEM Section 6.2.1: *The MSC shall have following responsibilities: xxx (e) Review the Non-Compliance Report prepared by the ECO pursuant to the review of a Non-Compliance Notice, and submit its review to the PEM Board; (f) Review Investigation Reports prepared by the ECO pursuant to an Investigation of an alleged Breach, abuse of market power or Anti-Competitive Behavior, and submit its review to the PEM Board; xxx*

<sup>3</sup> MSC (Regular) Meeting No. 2020-08 held on 16 July 2020; MSC (Special) meeting No. 2020-09 held on 23 July 2020; MSC (Regular) Meeting No. 2020-10 held on 13 August 2020; and MSC (Regular) Meeting No. 2020-11 held on 10 September 2020.

<sup>4</sup> MSCEM Section 6.2.1(b): *The MSC shall have following responsibilities: (a) xxx; (b) Review market monitoring indices and Market Assessment Report prepared by the Market Assessment Group; xxx*

### **1.1.1. Monthly Market Assessment Reports**

The MSC assessed the results of WESM operations for the billing months of June to August 2020, as provided under the Monthly Market Assessment Reports (MMAR) of the MAG (MMAR-2020-06, MMAR-2020-07, and MMAR-2020-08), which are the periodic assessment reports that are approved and published by the MSC.

The MSC took particular note of the transition of the whole country to the General Enhanced Community Quarantine (GECQ) starting 01 June and how this affected the market outcomes for the period. From 04 to 18 August, several high-risk areas (Metro Manila, Bulacan, Cavite, Laguna, and Rizal) reverted to the Modified Enhanced Community Quarantine (MECQ) coming from the General Community Quarantine (GCQ), allowing for stricter economic activities in the country. After which, the GCQ was reinstated for the rest of the period. While quarantine protocols continue to be implemented in August, there were no episodes of price spikes this period. In the duration of the 15-day MECQ, prices slightly dipped to an average of PhP1,973/MWh from the whole August GCQ's PhP2,101/MWh.

Increase in the monthly average spot price by 60 percent from PhP2,040/MWh in May 2020 to PhP3,265/MWh was noted by the MSC in June 2020 and further decline in the market prices were seen from PhP2,124/MWh in July, down to PhP2,017.MWh in August 2020. Nevertheless, the unusual demand-supply trend continued during the period, when compared with the previous months and years prior to the community quarantine.

The aforementioned MMARs were reviewed, deliberated upon and approved by the MSC, and consequently submitted to the PEM Board, the ERC and the DOE, and published in the PEMC website.

### **1.1.2. Market Assessment on the Hot-Dry Season**

During its Regular Meeting held on 13 August 2020, the MSC reviewed the assessment results for the period 26 February to 25 June 2020, covering the Hot-Dry Season.

As discussed by the MSC, the Hot-Dry season was marked by the low level of market prices, driven by the substantial reduction in demand following the implementation of quarantine measures in a bid to combat the spread of the coronavirus disease. The MSC agreed that these measures resulted in disruption in economic activity and restricted operations of industries and businesses which weakened electricity demand amidst the onset of the summer months. Consequently, owing to the comfortable supply cushion during the season, prices were mostly below PhP2,000/MWh.

The Seasonal Market Assessment Report on the Hot-Dry Season was then submitted for the information of the PEM Board, the DOE and the ERC, and was likewise published in the PEMC website.

### 1.1.3. Annual Market Assessment Report for 2019

During its Regular Meeting No. 2020-08 held on 16 July 2020, the MSC reviewed the highlights of the Annual Market Assessment Report (AMAR) for 2019. The AMAR provides an assessment of results of the integrated Luzon and Visayas operations of the Wholesale Electricity Spot Market (WESM) for the period of Cool Dry Season (26 November 2018 to 25 February 2019), Hot Dry Season (26 February to 25 May 2019), and Rainy Season (26 May to 25 November 2019).

The MSC noted the observations discussed by MAG for each of the three (3) seasons. In particular, the MSC noted the record-breaking events that occurred during the rainy season as follows: In June 2019, the market recorded the highest system demand for the year at 12,030MW, as well as the highest monthly LWAP at PhP7,770/MWh. Meanwhile, the highest recorded average system effective supply was recorded in September at 13,894MW.

The imposition of the secondary price cap<sup>5</sup> was also observed during the year. The same was imposed during the occurrence of sustained high prices in April and May 2019, following its last imposition in September 2014. However, it is noteworthy that the rainy season recorded more secondary price cap impositions, especially in June 2019, compared to the dry season. Secondary price cap impositions in 2019 were evident during April-May (hot dry season) and June (rainy season). The high-priced events which led to secondary price cap impositions in the latter part of the hot dry season crossed at the onset of the rainy season in June. Following this, no secondary price cap events were noted for the rest of the rainy season (July-November). The secondary price cap impositions were caused by continued high prices in the market due to thin supply margin. Overall, this constituted 3 percent (243 trading intervals in Luzon and 274 trading intervals in Visayas) of the total trading intervals for the 2019 billing year.

Moreover, market intervention events slightly increased this year in the Luzon region, from 0.1 percent (9 trading intervals) in 2018 to 1 percent (57 trading intervals) in 2019 while retaining its Visayas share at 0.1 percent (11 trading intervals) in 2019. It is noted that around 69 percent of the market intervention events in 2019 (47 trading intervals) was the result of the insufficiency of supply to satisfy the high level of demand that led to a number of alert warnings and the SO's implementation of manual load dropping.

After thorough deliberation, the MSC recommended some improvements into the AMAR, including its suggested format for some of the indices that were discussed in the Report.

The AMAR was then submitted for the information of the PEM Board, the DOE and the ERC, and was likewise published in the PEMC website.

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<sup>5</sup> Secondary price caps at PhP6,245/MWh were imposed as rolling average market prices breached the PhP9,000/MWh threshold for 120 consecutive trading intervals.

## 1.2. Review of Interesting Pricing Events

During its August Meeting, the MSC discussed the interesting pricing events for the billing month of June 2020, as reported by MAG.

It was noted that a total of three (3) intervals were found to have breached the approved seasonality threshold for the spot price indices on interesting pricing events. It was further noted that price-setters above the PhP10,000/MWh mark during the subject intervals were also found to have exhibited bid-splitting behavior.

The MSC approved the MAG's analysis on the interesting pricing events for June 2020. The MSC likewise requested MAG to further pursue the bid-splitting analysis and submit recommendation to the MSC regarding this, to include the development of the corresponding guidelines/rule/methodology on bid-splitting.

## 1.3. Assessment of Over-Riding Constraints

### 1.3.1. Monthly Monitoring of Over-Riding Constraints

Pursuant to MSCEM Section 6.2.1 (i)6, the MSC assessed the over-riding constraints imposed by the System Operator on generators for the billing months of March to May 2020. These are summarized as follows:

Billing Month	Total	Number of Generators	Event Categories
June 2020	5,987 over-riding events	27 Luzon generators and 9 Visayas generators	All events were categorized as non-security limit events, mainly due to the conduct of testing and commissioning (T&C) for a total of 5,777 events involving 13 plants.
July 2020	6,073 over-riding events	21 Luzon generators and 8 Visayas generators	All events were categorized as non-security limit events, mainly due to the conduct of T&C for a total of 5,739 events involving 14 plants
August 2020	5,764 over-riding events	20 Luzon generators and 7 Visayas generators	All events were categorized as non-security limit events, mainly due to the conduct of T&C for a total of 5,585 events involving 12 plants

<sup>6</sup> MSCEM Section 6.2.1(i) *The MSC shall have following responsibilities: (a) xxx; (i) Review Over-Riding Constraints; xxx*

### **1.3.2. Annual Report on Over-Riding Constraints**

The MSC also reviewed the result of the highlights of the Annual Report in the Monitoring of Over-Riding Constraints for CY 2019, during its Meeting in July 2020.

Testing and commissioning was observed to be the main reason for the imposition of over-riding constraints across the billing months of 2019, with several plants undergoing testing and commissioning in excess of the 2 month-allowable period, as provided under the ERC Resolution No. 16, series of 2014.

The Annual Monitoring Report on Over-Riding Constraints was then submitted to the PEM Board, for information.

### **1.4. Review of Market Intervention Events**

The MSC reviewed the System Operator (SO) – Initiated Market Intervention (MI) Events for CY 2019, until January 2020. It was noted during the discussion that the MSC has requested the NGCP-SO to regularly furnish the MSC with a copy of its MI Report during its Meeting with SO representatives in September 2019. However, it was observed that the MSC has yet to receive the MI Reports from the NGCP-SO for the MI events in October, December 2019 and January 2020.

Following the MSC request for the submission and the follow up letters issued for the aforementioned MI Reports, NGCP-SO on 02 September 2020 submitted the reports as prescribed under Chapter 6 of the WESM Rules. Further, MAG was requested to include in the MI Review Report an analysis on the SO's dispatching of plants during MI events.

### **1.5. Continuing Discussion on the MSC's Monitoring of Unusual TTA Outcomes**

The MSC continued its discussion on the unusual Total Trading Amounts (TTA) for some resources, as monitored by the MSC and MAG, during its Regular Meetings in July and August.

After discussion, the MSC requested MAG to enhance its monitoring and reporting on nodal analysis by conducting its pre-assessment/nodal analysis on the preliminary settlement data within the WESM timetable.

In addition, the MSC presented to the PEM Board during its 27<sup>th</sup> Meeting last 26 August 2020 the updates on the monitoring conducted by the MSC regarding the Unusual TTA Outcomes as the result of meetings of MSC, MAG and IEMOP.

## 1.6. Monitoring and Assessment of the Retail Market

Pursuant to the Catalogue of Retail Market Monitoring Data and Indices (CRMMDI) Section 3.1.2<sup>7</sup>, the MSC monitored and assessed the performance of the Retail Market, as provided for under the Retail Market Assessment Report, which discusses the results of retail monitoring indices and provides indications on how the retail market performed during the period in review.

- Retail Market Assessment Report covering the period 26 March to 25 June 2020 (MAG-RMAR-2020-02)

The MSC assessed the performance of the retail market for the second quarter of billing year 2020, as provided under the Retail Market Assessment Report covering the period 26 March to 25 June 2020 (MAG-RMAR-2020-02).

As set forth in the Catalogue of Retail Market Monitoring Data and Indices, the Retail Market Assessment Report discusses the results of monitoring indices and provides indications on how the retail market performed during the period in review.

The MSC noted that a total of 2,089 qualified electricity end-users were already issued with the ERC's Certificate of Contestability. Of these, 1,455 contestable customers or about 70% have already registered in the market as of June 2020. Quarter-on-quarter, additional 35 Contestable Customers were issued with ERC's Certificate of Contestability while additional 10 Contestable Customers registered in the market.

In terms of contestability threshold, the market recorded 1,118 registrants or about 77% of the total registered contestable customers in the 1 MW and above contestability threshold. The remaining 337 registrants or about 23% were classified under 750-999 kW contestability threshold.

By the end of June 2020 billing month, about 43% of the consumption of all registrants were supplied by the MERALCO group. This was followed by the Aboitiz group, the San Miguel group and the Ayala group at about 21%, 17% and 9% share, respectively.

The MSC agreed to present the highlights of the Retail Market Assessment Report to the PEM Board, in time for its August Meeting.

The MSC's Retail Market Monitoring Report for Q2 2020 (MSC-RMMR-2020-02), which adopted in full the MAG-RMAR-2020-02 was submitted to the PEM Board on 19 August 2020. The Report was also submitted to the DOE and the ERC on 24 August 2020 and was likewise published in the PEMC website.

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<sup>7</sup> CRMMDI Section 3.1.2 *The Market Surveillance Committee shall have the following responsibilities: 3.1.1 xxx; 3.1.2. Review the retail market monitoring indices and reports submitted by the Market Assessment Group. Xxx*

### **1.7. Continuing Discussion on the MSC Study on the Retail Market**

The MSC initially discussed the proposed outline for the MSC Study on the Retail Market during its Regular Meeting in July 2020. Objectives of the Study were identified as follows: (a) to adopt best practices and enhancements on the procedures of the RCOA Market; (b) to promote competition in the retail market.

The MSC then agreed to launch the following activities in order to solicit the comments and inputs of various sectors: (a) MSC Dialogue with the Retail Electricity Suppliers Association (RESA), (b) MSC Meeting with the ERC, and (c) MSC Dialogue or conduct of online survey for Contestable Customers.

On August 13, 2020, the MSC continued with its discussion and deliberated upon the roadmap on the MSC Study on the Retail Market.

After discussion, the MSC directed MAG to coordinate with the Retail Electricity Supplier Association (RESA) on the creation of a Technical Working Group (TWG) to complete the MSC Study on the Retail Market. This is to ensure that RES concerns are considered in the Study, as requested by RESA during the MSC-RESA Dialogue that was held earlier in the day.

### **1.8. Conduct of Dialogue with RESA, ERC Contestable Market Division and Contestable Customers re: MSC Study on the Retail Market**

The MSC held a Dialogue with the officers and representatives of the Retail Electricity Suppliers Association (RESA) on 13 August 2020, ERC Contestable Market Division on 14 August 2020, and with the Contestable Customers on 28 August 2020, to solicit inputs and comments on the MSC Study on the Retail Market. PEMC Officers and DOE representatives were also present during the MSC-RESA Dialogue.

The Dialogues were in line with the MSC's recognition that the RESA, being the Suppliers directly involved in the RCOA Market, and the ERC, as the market regulator, have valuable inputs which may lead to enhancements to better the experience in joining/participating in the market. Through the said Dialogues, the MSC likewise expressed its intention to work hand in hand the RESA and the ERC in the conduct of the Study.

### **1.9. Proposed Revisions to the WESM Industry Code of Ethics**

During its Meeting on 16 July 2020, the MSC passed a Resolution endorsing for the PEM Board's consideration, the proposed revisions to the PEMC-proposed WESM Industry Code of Ethics (WICOE).

The proposed WICOE was first submitted by the MSC to the PEM Board on 24 March. The PEM Board had in turn approved to endorse the draft WICOE to the DOE, as proposed by the MSC, on

29 May. The DOE then reviewed the proposal as submitted by PEMC and reverted to PEMC with comments on the proposed WICOE on 15 July.

Revisions to the WICOE was discussed and approved by the MSC following the comments of the DOE as aforementioned. The same was submitted for the PEM Board's approval on 21 July 2020.

### **1.10. Discussion on the ERC Decision regarding Avion NGPP**

The MSC discussed the highlights of the Decision on ERC Case No. 2019-005 regarding Prime Meridian Power Corporation (PMPC) – Avion Natural Gas Power Plant. The issue, as identified in the ERC Order, is whether or not PMPC's deviation from its typical offer pattern on 16 August 2017 at 1400H is tantamount to an exercise of market power abuse, or anti-competitive or discriminatory act or behavior (ACB) in violation of Section 45 of the EPIRA.

The MSC took note of the details of the Decision and regarded the same as an input to its ongoing study on the monitoring framework on Anti-Competitive Behavior (ACB).

### **1.11. Discussion on the Monitoring of Grid Operating Program for Q2 2020**

The MSC discussed the initial result of monitoring of the GRID Operating Program for the 2<sup>nd</sup> quarter of 2020. The SO sent the Grid Operating Program (GOP) Revision 2 for Luzon, Visayas and Mindanao to PEMC on 17 July 2020 which covers 01 April 2020 to 30 June 2020. The monitoring highlighted plants which extended the scheduled maintenance outage ranging from 13 days up to 76 days.

The MSC took note of the initial results of monitoring and requested MAG for further enhancements of the monitoring for the Committee's further evaluation.

## ***2. Activities on Compliance and Enforcement***

### **2.1. Review of Compliance Monitoring and Assessment**

Compliances of Generator-Trading Participants (TP) with the Real Time Dispatch (RTD) schedule, the Must Offer Rule (MOR) and the rule on the Nomination of Loading Levels and Projected Output (NOM) for the billing months of May, June and July 2020, were deliberated upon by the MSC, as contained in the Compliance Monitoring and Assessment Reports (CMARs) prepared by the Enforcement and Compliance Office (ECO).

The CMAR is a result of the daily compliance monitoring activities by the ECO after assessing the generator-TPs' compliance with the RTD schedule and MOR. The ECO's monitoring activity was carried out by issuing Daily Compliance Notices to the generator-TPs that are initially flagged for

possible non-compliance, and by validating and assessing the generator-TPs' explanations in the Significant Event Report Form and Dispatch Discrepancy Report Form, supporting documents, and other market data or reports from the MO and SO.

Following the MSC's monthly review of the CMAR, the MSC endorsed to the ECO for appropriate action, the following requests for investigations (RFIs):

<b>Billing Month</b>	<b>MSC-Issued RFIs</b>
May 2020	MOR – 2 RTD – 2
June 2020	RTD – 4
July 2020	RTD - 4

### **2.1.1. Review of ECO Investigation Reports**

The MSC deliberated upon ECO Investigation Reports (IRs) that were submitted during the period for the MSC's review. The ECO IRs covered the non-compliances of generator-trading participants with the Real Time Dispatch (RTD) schedule, the Must Offer Rule (MOR) and the rule on the Nomination of Loading Levels and Projected Output (NOM).

The MSC reviewed the submitted ECO IRs with respect to: (a) the ECO's compliance with the procedures set forth in the MSC-EM for the conduct of investigation, and (b) the validity and completeness of the data and documents upon which factual findings are based, pursuant to Section 10.7 of the MSC-EM Manual.

For the covered period during its regular monthly meetings, the MSC completed its review on the following:

<b>MSC Meeting</b>	<b>ECO IRs Reviewed and Deliberated-Upon</b>
16 July 2020	Eight Consolidated Reports involving 7 generator-TPs
13 August 2020	Four (4) Consolidated Reports involving 4 generator-TPs
10 September 2020	Three (3) Consolidated Reports involving 3 generator-TPs

The MSC then submitted and presented to the PEM Board for its approval and appropriate action the result of its review and recommendation on the ECO IRs on 27 July 2020, 19 August 2020, and 10 September 2020.

### **2.1.2. Discussion on the ECO Recommendation regarding the Disposition of Pending Cases**

On 16 July 2020, the MSC thoroughly discussed the options submitted by the ECO regarding the disposition of backlog cases from year 2014 and agreed to adopt one of the options submitted.

During its Special Meeting on 23 July 2020, the MSC discussed the details of the ECO-proposed action plans on the MSC-approved option/way forward, as presented on 16 July 2020. After due deliberation, the MSC agreed with the action plan presented by ECO and recommended further improvements in the implementation of the same to ensure the timely resolution of pending cases.

Further, during its August Regular Meeting, following the MSC's request, the ECO presented its proposed timeline and performance indicators in the implementation of the above action plan.

The MSC discussed the ECO proposal and took note of the internal monitoring procedure of the ECO. The MSC likewise noted that the same shall be presented monthly to the MSC beginning October 2020, to allow the MSC to monitor the ECO's progress in the disposition of case backlogs.

### **2.1.3. Monthly Update on the Compliance Rating of Generator-TPs**

The MSC likewise reviewed the monthly compliance rating of generator-TPs for the June 2020 billing month, as reported by the ECO. This is in accordance with the MSC's request for the ECO's monthly reporting on the compliance rating of generator-TPs, following the MSC-approved guidelines in the Compliance Rating for Generators.

The MSC also looked-into the ranking of the generator-TPs based on their compliance rating for the month.

The MSC is composed of four (4) members, namely, Engr. Francis V. Mapile, Dr. Peter Lee U, Atty. Doroteo B. Aguila and Prof. Fernando Martin Y. Roxas.