MINUTES OF THE 74th MEETING OF THE RULES CHANGE COMMITTEE

Date	:	15 May 2013
Time	:	1:00 P.M.
Venue	:	PEMC Board Room 18th Floor, PEM Board Room, Robinsons-Equitable Tower Ortigas Center, Pasig City

MEMBERS PRESENT:

Rowena Cristina L. Guevara	-	Chairperson/Independent – UP
Francisco L.R. Castro Jr.	-	Independent – Tensaiken Consulting
Maila Lourdes G. de Castro	-	Independent –
Cherry Aquino-Javier	-	Generation Sector – AES
Cynthia R. Encarnacion	-	Generation Sector – NPC
Liberty Z. Dumlao	-	Generation Sector – PSALM
Ciprinilo C. Meneses	-	Distribution Sector – MERALCO
Augusto D. Sarmiento	-	Distribution Sector – DECORP
Jose P. Santos	-	Distribution Sector – INEC
Sulpicio C. Lagarde Jr.	-	Distribution Sector – CENECO
Conrado D. Pecjo	-	Supply Sector – Angeles Power, Inc.

MEMBERS NOT PRESENT:

Epictetus E. Patalinghug	-	Independent – UP
Raul Joseph G. Seludo	-	System Operator – NGCP
Robinson P. Descanzo	-	Market Operator – PEMC

ALTERNATE MEMBER PRESENT:

Isidro E. Cacho	-	Market Operator – PEMC

OBSERVERS PRESENT:

Luningning G. Baltazar	-	DOE

SECRETARIAT

Geraldine A. Rodriguez	-	PEMC – MAG
Shalom Grace A. Tomas-Llamzon	-	PEMC – MAG

OTHERS PRESENT:

Caryl Miriam Y. Lopez	-	PEMC – Legal
Ma. Lourdes S. San Andres	-	PEMC – Legal
Marissa P. Gandia	-	PEMC–Finance
Ariston P. Martinez	-	PEMC–Finance
Erwill R. Bugaoisan	-	NGCP-System Operator
Emmanuel M. Sotomil	-	NGCP - Metering Services
Joan Chavez Escalona	-	DOE
Asuncion E. Cunanan	-	DOE
Jesse B. Victorio	-	Panasia Energy Holdings
Antonio O. Mercado	-	Panasia Energy Holdings
Ethel U. Odrunia	-	Panasia Energy Holdings
Michael Maravilla	-	CENECO

After determining the presence of a quorum, the 74th RCC meeting was called to order by Chairperson Dr. Rowena Cristina L. Guevara at about 1:15 P.M.

1. Adoption of the Proposed Agenda

The Proposed Agenda for the 74th RCC Meeting was approved, as presented.

2. Review, Correction and Approval of the Minutes of the 73rd RCC Meeting

The Minutes of the 73rd RCC Meeting was approved, as amended. Corrections made are as follows:

- On line 31, page 6:

  "For Luzon, the percentage (%) system loss is 2.32%; for Visayas, 3.65%, **for the sample months used in the presentation**".

- On line 3, page 8:

  "Mr. Meneses raised his objection on the above statement and explained that he does not agree with the RRA because the factor would still matter in terms of realistic ~~**values**~~ **billing parameters**".

- On line 17, page 9:

  "Ms. Encarnacion as Consultant, given the information of Ms. Encarnacion's impending ~~**resignation**~~ **retirement** from NPC".

3. Business Arising from the Previous Meeting

A. PEM Board Directive on Prudential Requirement

Ms. Marissa P. Gandia presented and discussed the PEMC proposal to the PEM Board on Prudential Requirement (PR), which was consequently approved by the PEM Board in its 80th Meeting held on 21 March 2013.

Highlights of the presentation made are as follows:

- Identified issues relative to the issue on PR -

Issues	Rationale	Recommendations
1) Majority of the WESM Customers are not capable to provide the 63-day PR	– Security deposit (SD) is not part of the cost recovery from the power rates approved by the ERC – The 63 day PR is excessive	– ERC shall allow recovery of (SD) – Review the reasonableness of the 63-day PR
2) The basis of the determination of Maximum Exposure (ME) as the basis of PR is not reflective of	– Changes in the BCQ are not considered	– Review the basis of determining Maximum Exposure and PR

current transactions		
3) Suspension as penalty for not satisfying PR is impractical	– Not all the non-complying participants are defaulting participants – Suspension without disconnection is ineffective	– Review the penalty provisions in the WESM Rules – Strictly implement disconnection

- Summary of the Margin Calls (MCs) issued in 2012 showed that 48% of the total number of customers complied with the 63 day-prudential requirement while 14% were able to make prepayments. 30% did not have a record of default and were able to pay the settlement amount on time. However, 8% or about 6 participants were non-compliant and were thus with a record of default.

- Level of Security Deposit (SD) is not defined in the WESM Rules since it is merely compared with the prescribed trading limit and maximum exposure (ME) in WESM Rules 3.15.8.1 and 3.15.9.3, which state:

WESM RULES, Sec 3.15.8.1

Subject to clause 3.15.8.2, the MO shall set a trading limit for each WESM member who participates in the market transactions. Sec. 3.15.8.3, The trading limit for a WESM member at any time shall not be greater than 95% of the total value of the security provided by the WESM member to the MO under clause 3.15.3.

WESM RULES, Sec. 3.15.9.3

WESM Member shall ensure that at all times the aggregate undrawn and unclaimed amounts of current and valid security held by the Market Operator in respect of that WESM Member is not less than that the WESM Member's Maximum Exposure.

- The 63-day PR requirement is not actually mentioned in the WESM Rules. However, it is provided that the actual exposure (AE) should cover only the previous and current billing periods and the PR should be equal to or greater than the ME. The ME was then agreed to be pegged at 63 days to cover the previous and current billing periods plus 3 days reaction time; with the PR providing security for the same.

- The purpose of PR is to ensure the effective operation of the spot market by providing a level of comfort that WESM members will meet their obligations to make payments as required under the WESM Rules. The obligation of a market participant is to pay the settlement amount on due date; thus, the PR shall be sufficient to cover at least the 30-day settlement amount.

- In the current mechanism, the obligation is to pay the previous settlement amount covering the previous billing period on due date. Thus, if the previous settlement amount (citing as example the 26 January to 25 February billing period) is paid in full (equivalent to 30 days) and the PR is 63 days, there will be an excess PR pertaining to the previous billing by 33 days. It was also highlighted that the amount due is only 30 days and that after payment on due date (which is 25 March in the cited example), AE is only equals to the current billing period which is still unbilled on this date.

- Assuming that the PR is already 35 days and the previous settlement amount is paid in full by 25 March, there would an excess of 35 days at the time of the due date.

- An assessment is proposed to be completed to identify the participants to which margin calls will be issued by 04 March, one day after the issuance of the Preliminary Statement. This will also provide ample time for the participants to top-up or provide prepayments before due date on 25 March.

- Assessment on the compliance to the 63-day PR is as follows:
  - 50% of the total number of participants complied with 63 days
  - 23% provided PR equal to or more than 30 days
  - 27% provided PR less than 30 days

- Advantages in the reduction of the PR level to 35 days are the following: (a) it enables the participants to comply; (b) easier to enforce compliance; (c) resolves the recurring audit findings; (d) encourages participation in the WESM; (e) is consistent with the purpose of PR; less impact on power rates.

- Measures to ensure compliance are as follows: (a) assess the exposure immediately after the issuance of Preliminary Statement to ensure that any shortfall will be remedied before the due date; (b) Strictly implement suspension/disconnection to penalize default; (c) Since level of PR is reduced, Increase the default interest rate.

- On 21 March 2013, PEMC recommended to PEM Board to reduce the PR to 35 days to cover the 30-day settlement amount that will be due plus 5 days contingency. Also, it was recommended:

  - that the monthly assessment of exposure, be based on the last available settlement data (i.e., Preliminary Statement)
  - that the annual assessment of ME be computed based on the average settlement amount in the last 6 billing periods, taking into consideration the price spikes and changes in the BCQ.

- Summary of the WESM Rules provisions for further study of the RCC:

WESM Rules	**Clarification/Comments**
Sec. 3.15.2.2 The Market Operator may exempt WESM Members from the requirement to provide a security deposit under clause 3.15.2.1, if: ➢ The MO believes it is likely that the amount payable by the Market Operator to that WESM member under the WESM Rules will consistently exceed the amount payable to the MO by that WESM member under the WESM Rules in respect of that period; or ➢ The Market Operator believes it is unlikely that the WESM member will be required to pay any amount to the MO.	• Who are qualified for exemption? – Generators who consistently receive payments from MO – Indirect WESM members • Propose to define application to Customers who are net sellers and Generators who are net buyers • Propose to set a minimum amount of PR

Sec. 3.15.3 Forms of Security. The security provided by a WESM member under this clause 3.15 shall be either: a. A bank guarantee b. Another immediate, irrevocable and unconditional commitment in a form and from a bank or other institution acceptable to the MO; or c. Surety bond issued by a surety or insurance company duly accredited by the Office of the Insurance Commissioner of the Philippines. d. Such other forms of security or guarantee acceptable to the MO	• If PR shall be readily available or can be drawn immediately upon default, then the PR shall be in CASH only. • Acceptance of non-cash security deposits may be allowed as incentive only for the non-defaulting participants.

- On Response Time and Penalty:

	Existing		**Proposal**	
Particulars	**Response Time**	**Penalty**	**Response Time**	**Penalty**
Replacement of PR	24 hours	Suspension	3 days from notification	Margin Call Notice 3 consecutive MC = default
Margin Call	24 hours	Suspension	3 days from notification	SA shall become immediately due on the date of Invoice 3 consecutive MC = default
Default	24 hours	Suspension	3 days from notification (default in PR)	Suspension
			24 hours from notification (default in SA)	Suspension
Suspension	24 hours	Disconnection	3 days from notification	Disconnection

- Other rules proposed to be reviewed:

  - Definition and monitoring of Actual Exposure, Maximum Exposure and Trading Limit
  - Margin Call
  - Increase in the Default interest rate (at present only around 2.4% per annum)
  - Grounds for Default
  - Refund of security deposit (in case the participants provided higher SD than AE)

The RCC then raised the following clarifications/questions:

- On the PR at 63 days, Mr. Meneses recalled that the 63 days was agreed upon/arrived at during a PEM Board Meeting and was then proposed to be effective for only 1 year.

- Ms. Javier clarified whether the proposal as presented will no longer follow the standard rules change process. Ms. Gandia responded affirmatively, explaining that in year 2011, PEMC presented various issues on the PR to the PEM Board which in turn was the basis for the PEM Board's directive for the RCC to study the PR. In year 2012 pursuant to DOE DC 2012-06-0007, PEMC was directed by the DOE to review the WESM Rules and recommend amendments where necessary to support the directives issued to the National Electrification Administration (NEA) to Develop a Mechanism for Ensuring the Adequacy of and Compliance by the ECs with the Prescribed PR in the WESM. Ms. Gandia explained that on this basis, PEMC went back to the Board and presented the proposed reduction.

- Ms. Javier further clarified whether there were merchant-generators present during the Board Meeting when the proposal was presented and approved. She stated that the generator-merchants were informed of the proposal apparently only 3 days before the Meeting and that only representatives from NPC and PSALM were present. Ms. Javier further explained that the reduction of the PR is an expressed concern of the Philippine Independent Power Producers Association, Inc. (PIPPA), which will be meeting to discuss the same. She explained that this is because it will be the generators which will assume liability once there is default.

  Ms. Gandia replied that there was a quorum during the Meeting and that while it was presented and approved in March, the PEM Board-approved proposal was confirmed by the PEM Board in its subsequent Meeting in April where PEMC President Melinda L. Ocampo also reported on the proposed amendments. Ms. Gandia added that there were no objections made before the proposal was confirmed.

- Dr. Guevara inquired on the reason why PEMC proposed the said reduction. She recalled that sometime in year 2011, the RCC, through its PR Subcommittee led by Mr. Santos, proposed the reduction of the PR to 30 days. However, the said proposal did not push through following PEMC's comment that the same was not feasible at that time. Ms. Gandia explained that the RCC proposal in 2011 included the proposed revision of the WESM billing period, which made it different from the current PEMC proposal, mainly intending to reduce the PR to 35 days in order to cover the previous billing period considering that in the WESM Rules, actual exposure should cover the previous and the current settlement amounts coverings two consecutive billing periods.

- Ms. Javier stated that the PR should be sufficient to cover 2 billing months, even with the current proposal. She explained that a DU should be disconnected once it fails to pay the previous settlement amount on due date. Otherwise, the exposure is already 63 days. Ms. Javier opined that the billing period should also be moved to actually cover the number of days of exposure of the generators.

- Ms. Gandia clarified that the intention of the proposal is to redefine ME and AE since the obligation of the DU on due date is to pay the previous billing period and not the current period which is not yet billed by that time.

- Dr. Guevara inquired on who will assume liability for the exposure which is not covered by the proposed reduction. Ms. Gandia reiterated that with the 63 days, after payment on due date, the remaining exposure is only the unbilled amount equivalent to only 30 days. She emphasized that the exposure is not equivalent to 63 days at all times, considering how exposure was defined in the WESM Rules.

- Mr. Castro followed-up and asked on the possibility of a DU failing to pay on due date. Ms. Gandia explained that PEMC in this case will draw the SD. Once empty, notification will be made to the DU of the said drawdown. PEMC will then require the trading participant to immediately replenish the SD to avoid disconnection.

- Dr. Guevara discussed that the RCC will have to implement the directive. However, she recognized that based on the data presented, particularly in reference to the graph on the compliance of participants to MCs, the bigger issue is on the 8% with default history in their payment.

- Mr. Meneses opined that another graph representing the equivalent figure in Pesos should have been presented considering that even while the 8% appears to be a slim margin, the same may correspond to Billions of Pesos.

- Dr. Guevara stated that the RCC's review of the provisions should be able to consider the PEM Board directives as well as the RCC discussion on the impact and the risks involved. She further stated that since the same is a directive of the PEM Board, the RCC may opt not to prepare the Discussion Paper usually required from proponents of rules change proposals, but only the matrix of the proposed amendment with the column on rationale.

- The RCC then agreed to create a Subcommittee with the following composition, for the purpose of the review and incorporation of the changes to the WESM Rules and Manuals as directed by the PEM Board:

Chairperson:	Maila Lourdes G. de Castro
Members:	Francisco L.R. Castro Jr.
	Augusto D. Sarmiento
	Liberty Z. Dumlao
Consultant:	Cherry Aquino-Javier

Timeline for the completion of the assignment is set by the end of May 2013, for presentation in the RCC in its next Meeting scheduled on 05 June 2013.

B. PEMC-TOD Simulation on the Cancellation of Offers

Mr. Edward Olmedo presented the PEMC-TOD simulation on the RCC-proposed cancellation of offers. Highlights of the presentation are the following:

- The simulation is an attempt to show the impact of allowing "inflexible" generators to cancel their offers given the RCC proposed-criteria. Covered period is the September 2012 billing month;

- The simulation is an assessment of the proposed mechanism on the cancellation of offers, which assumes a 10% supply threshold;

- Cancellation would only be allowed if there is a 10% supply margin in the system (Luzon and Visayas) and in each region of Luzon and Visayas;

- Noting that the RCC proposal is meant to address the issue of Malaya TPP and Limay CCGT, both of which are expensive plants which are "forced" to run at PMin, the simulation made use of data relevant to both.

  - Since Malaya TPP has been submitting offers in the market, the simulation utilized their relevant offers for the trading intervals of September 2012;
  - Limay CCGT only submitted offers in the market for its generating facilities A and B at 5% and 4% of time, respectively, during September 2012. For the intervals that had no offers, the simulation made use of the latest offer for the said facilities.

- The result of the simulation showed:

  - that the supply margin is beyond the 10% threshold at 94.5% of the time in September 2012;
  - if generators such as Limay and Malaya were to cancel their offers, there is an obvious decrease in supply margins;
  - In the other 41 intervals (5.5% of the time), generators would not be allowed to cancel offers;
  - There are periods where high prices cleared the market even with a complete set of offers
  - Once the supply margins decreased because of the cancellation, even higher prices will clear the market.

- Operational issues and concerns raised on the proposed mechanism are as follows:

  - Changes to the MMS-MPI are required to fully operate such a proposal for cancellation. This includes enhancements which will enable the publication of hourly demand and offers for every DAP run and restriction to allow only qualified generators to cancel offers.
  - System Enhancements to automate and allow the automated determination of the most expensive plant and the publication of qualified generators which can cancel their offers.
  - Availability of SO personnel to assess results of the 0400H DAP run, considering that at present, such assessment uses the 1200H and 1600H DAP runs.
  - Use of the Merit Order Table (MOT) as reference for cancellation considering (a) the need for clarity on the definition of the "most expensive" plant based on the MOT which will be allowed to cancel since generators offer quantities using up to a maximum of 10 offer blocks with corresponding prices; (b) cases where the supply threshold is beyond 10%, but when the "most expensive" generator cancels its offer, the supply threshold will then be below 10%; (c) how should the MOT be treated? What MOT should be used, system-wide or per grid?
  - There is no clear provision for cancellation upon the integration of the reserve market into the commercial operations of WESM.
  - Results of the simulation showed that cancellation would result to higher prices because of the increase in contestable demand. However, there is no guarantee that price increase would be low nor substantial since it will depend on market behavior and dynamics.

- Does not fully guarantee that it will resolve issues involving the must-offer rule since there are still some generating units that were scheduled at Pmin;
- In cases of congestion, the proposal may deplete the purpose of having a Security-Constrained Economic Dispatch (SCED)
  - ✓ Suppose a generator is situated in a location where it is able to alleviate congestion at a certain equipment, the MDOM would have obtained an optimal solution that determines the most appropriate schedule for the said generator. However, based on the proposal, the generator opted to cancel. Hence, SO would have to re-establish it for MRU rather than the MDOM optimizing the level it would be scheduled at with the end-result of having the most economical solution available.
- If a large generator trips, the supply would be largely depleted. Generators that opted to cancel are not available or on-line (unlike when they are scheduled at least at their Pmin) to somehow alleviate the loss of supply.

Discussion then ensued as follows:

- On the issue raised regarding the possibility of supply shortage, Mr. Meneses countered that the same is not possible since the 10% supply margin threshold is on top of the 4% mandated reserve requirement. Mr. Olmedo clarified that the RCC proposed amendment referred only to the total generation offers, without mention of the reserves. The RCC noted the proposed amendment should be clarified in this regard.

- Dr. Guevara inquired whether the RCC proposal will be acceptable if the language of the proposed amendment is clarified to expressly provide that the 10% supply margin is above the mandated 4% ancillary services/reserves requirement. Mr. Olmedo stated that there are other unresolved issues on procedure which the RCC may consider to revise. Mr. Olmedo further stated that the RCC can perhaps consider waiting for the result of the WESM Design Study on PMin, which intends to remove the Pmin and allow the plants to manage their own technical Pmins based on their submitted offers.

- Ms. Javier requested PEMC to present the result of the said study to the RCC for information. Mr. Cacho replied in the affirmative, stating that PEMC will do the same once the Study is completed and finalized.

- Mr. Meneses stated that the 41 trading intervals in the simulation which fell below the proposed 10% supply margin threshold is a much lesser burden to the end-consumers paying for Limay CCGT and Malaya TPP's Must-Run Unit (MRU) claims, compared to the 870 intervals in which both plants opted not to submit offers.

- Mr. Meneses also commented on the issue raised by Mr. Olmedo regarding the criteria on "expensive" plants. He opined that the same does not capture the intention of the proposal considering that the RCC pursued to propose the cancellation of offers in order to specifically address the forced uneconomic dispatch of Malaya TPP and Limay CCGT at their technical PMin. Mr. Meneses stated that both plants may not necessarily be the most expensive plants but are having compliance problems because of their technical capability (i.e. boiler problem). Mr. Olmedo countered that the RCC proposal should be able to clearly identify/define the "expensive" plants specially because as discussed, the criteria is based on the submitted offers by blocks, each of which may correspond to varying bid block prices.

- Dr. Guevara then closed the discussion by reiterating its previous agreement to hold any further discussion on the proposal in deference to the result of the WESM Design Study on Pmin as well as the action undertaken by the Market Surveillance Committee (MSC) to address the same issue on the uneconomic dispatch of expensive plants at Pmin.

C. Proposal on the Segregation of Line Rental

- **Update: ERC Order re Case No. 2008-083 MC and PEMC's Way Forward**

Atty. Liberty Z. Dumlao presented the following Subcommittee inputs and recommendations on the Segregation of Line Rental:

Policy Questions-

- Line Rental is a misnomer in the formula. The formula talks of line loss.
- Why should there be congestion in the PDM?

Observation-

- The unexplained spreading of BCQ by PEMC results in higher congestion cost and negative BCQ's

Recommendations-

- Strict Implementation of Bilateral Contract Quantities (BCQ) declaration and Nodal Allocation by NPC and MERALCO
  - Simulation done by MERALCO on the proposal to remove all negative BCQs (where zero BCQ was assigned to replace negative BCQs) resulted in a lower line rental amount.
  - PEMC to determine if the reduction in the line rental amount that arises from removing negative BCQ's will materially and adversely affect the financial balance of WESM settlements.

- The Site Specific Loss Adjustment (SSLA) computation should be determined in terms of the cost of energy loss and not in KWH

- Better transparency in billing and settlement – preliminary bill should already reflect the segregation of line rental, per plant per node.

- If there is clarity on the charges in the billing, parties should be able to settle within 60 days. This is to prevent occasions of accounts being unsettled for a long period of time.

The RCC deliberated upon the presentation at length. Below are some of the discussion highlights.

- Dr. Guevara inquired on the financial impact relative to the first recommendation. Mr. Meneses clarified that the reduced amount will be returned to the WESM trading participants in the form of Net Settlement Surplus (NSS). Mr. Meneses however requested PEMC to validate the said findings and determine if there will be other financial impacts aside from the NSS return, through the conduct of simulation on the removal of the negative BCQs since MERALCO's sampling covered only one trading interval and may not be sufficient to fully support the findings presented. Dr. Guevara supported the request.

- Dr. Guevara also clarified with MERALCO on whether or not they were indeed receiving negative BCQs, to which Mr. Meneses replied affirmatively. Ms. Encarnacion added that it is PEMC which manually distributes/spreads the BCQ quantities into the multiple nodes of MERALCO.

- Mr. Sotomil reminded the body that a negative BCQ reading is only possible with the separate reading of individual meters. To illustrate, he cited as example MERALCO's Balintawak node, stating that the same is served by 6 lines, with the consumption derived from all the 6 meters taken as one. He explained that the negative is removed by summing-up the total of all 6 (meters).

- Dr. Guevara inquired whether the arrangement between NPC and MERALCO, as discussed, adversely affects the end-consumers. Mr. Meneses stated that there is none since the impact is merely on the total line rental amount. Ms. Encarnacion opined otherwise. She stated that the same also impacts on the generator since line rental is being compared to system loss which to her opinion, are different references which should not be used interchangeably.

- Ms. Encarnacion stressed that the pseudo/dummy node assigned to MERALCO should be removed altogether in order to strictly follow and implement the standard procedure in the declaration of BCQs of customers vis-a-vis the nomination of delivery/metering points.

- Mr. Cacho for his part stated that at the onset of the WESM, MERALCO, NPC and PEMC signed a protocol to govern the arrangement on line rental. Ms. Encarnacion clarified however that the terms of the Protocol was not followed since the commitment on line segregation was not implemented.

- On the question of whether or not MERALCO will generate profit from the way the BCQs are allocated in its nodes, Mr. Meneses clarified that MERALCO will not, since generation cost is merely a pass-through cost to the end-consumers.

- On the second recommendation to compute the SSLA in terms of Peso and not KWH, Mr. Cacho stated that the recommendation should be studied further, considering the balance that is required in the settlement process and the corresponding impact of the proposed change to other market forces. He further stated that the proposal directly impacts on the Price Determination Methodology (PDM), which necessitates the review and approval of the ERC.
- Mr. Cacho further explained that when the SSLA was first being developed, it was determined that it would be more appropriate to adjust the KWH instead of the price considering that the price is derived as a result of the optimization process.

- Mr. Sarmiento opined that it will be difficult to arrive at a nodal price that is specific per customer taking into account the peculiarity of the sub-transmission facility from the market trading node (MTN) to the delivery point. He added that the proposal would change the basis of the SSLA from the metered quantity (MQ) to the adjusted metered quantity (AMQ). Mr. Sarmiento added that the question arising from the proposal is where to get the peso equivalent of the supposed to be adjusted metered quantity.

- Mr. Lagarde stated that the SSLA is merely an accounting of whatever is not metered from the plant to the MTN. He explained that the only impact of the proposal is a minimal increase in the generation rate, as compared to the current methodology where the impact is an increase in sales and a corresponding increase in the system loss of the DUs. He explained that CENECO's system loss increased by .92% as a result of the existing SSLA methodology. He also explained that since generation cost is a pass-on cost, the proposed change will not give undue advantage to the DUs nor the generators.

- Mr. Lagarde clarified that the proposed change is revenue-neutral for the DUs as the same will allow the DUs to outrightly collect their AMQ from the end-consumers, without necessitating the filing for under-recovery with the ERC which could happen only after each regulatory reset (of 3 years). He cited that the under-recovery of CENECO in the last re-set amounted to more than PhP200M.

- Mr. Meneses for his part explained that the SSLA is derived from the physical separation between the meter and the price where the node is located. He proposed to solve the issue by physically moving the meter in the MTN to make it a pricing node.

- Mr. Sotomil clarified that the more "general arrangement" is for one feeder to have 5 or 10 drawdown points that are individually metered. He explained that the suggestion of Mr. Meneses to place the RTU at every metering point would be difficult in terms of the installation of so many RTU points.

- Responding to the inquiry of Dr. Guevara on whether or not the more general arrangement is consistent with what is required under the Rules, Mr. Sotomil clarified that the Rules prescribe the metering point and the RTU to be installed in the same location. However, he explained that the said rule is based on the assumption that all sub-transmission assets have already been divested in favor of the DUs to allow the NGCP to simply meter at the sending end of the feeders. Mr. Sotomil stated that at present, NGCP meters at the individual withdrawal points.

- Mr. Lagarde stated that the proposal to physically move the RTU to the location of the NGCP meters should also include the proposal to include the same as a component of line rental.

- Mr. Sarmiento explained that the discussion on the physical location of the RTUs dates back to 1996. Two years after the enactment of the EPIRA however, it was prescribed that the all sub-transmission facilities should be divested in favor of the DUs and that upon divestment, the meters will be moved to the MTN, at the first pole outside the substation of the trading node. Mr. Sarmiento stated that the suggestion was difficult to operationalize considering the additional number of nodes that should be added to accommodate the physical transfer of the meters to the MTN.

- Ms. Javier inquired on whether is it is the WESM node or the NGCP metering location which is correct. Mr. Sotomil responded that the location of the WESM MTN is the point where the RTU is located because that is where the price is established. Thus, a point that is not equipped with an RTU cannot qualify as a WESM node. Ms. Javier expressed that she raised the question because the correct location is material on whether the RCC should propose the physical movement of the RTU to the location of the NGCP meter or the NGCP meter to the RTU location. She pointed-out that that the first one would impact on the price while the second, on the MW.

- On the third recommendation, Mr. Lagarde raised that the final bill should be finalized every 5th of the month, instead of waiting for another 15 days for the issuance of the final bill. He explained that CENECO is currently using the read-and-bill mechanism and for this reason, its power rate can only be derived once the final bill is issued by PEMC. Dr. Guevara expressed that the issue being raised is perhaps peculiar to CENECO, having noted that the 3 DU-representatives all opined otherwise. Dr. Guevara also stated that the DUs are not prevented from making-use of the preliminary bill and to make the necessary adjustment once the final bill is issued. She suggested a paradigm-shift on the part of CENECO on the issue.

The RCC then agreed to formally request PEMC for the following:

- to perform a simulation covering two billing periods on the removal of all negative BCQs (where zero BCQ was assigned to replace negative BCQs) on the BCQ declaration and Nodal Allocation by NPC and MERALCO in order to validate if similar to the result of the sampling done by Mr. Meneses, such would indeed result to a lower line rental amount.

- to determine if the reduction in the line rental amount that arises from removing negative BCQs will materially and adversely affect the financial balance of WESM settlements.

- to perform a simulation where the basis of the SSLA computation is in terms of the cost of energy loss (in Pesos) and not KWH.

- to inquire on the practicability and impact of:

  - a preliminary bill reflective of the segregation of line rental, per plant per node.

  - finality of settlement within 60 days, if there is already clarity on the charges in the billing, to prevent occasions of accounts being unsettled for a long period of time.

Correspondingly, Mr. Lagarde was requested to explain the issues raised relative to the second item and the justification for such. The same will be the basis for the formal request to be submitted to PEMC.

The RCC also took note of the information provided that PEMC is currently developing an in-house software to facilitate the segregation of line rental, as promulgated by the ERC in its Order dated 15 April 2013.

D. Proposed Amendments to the WESM Dispatch Protocol Manual regarding Re-Dispatch Procedures based on the WESM Merit Order Table

The Secretariat clarified that the subject proposal is contingent upon the DOE's approval of the proposed Manual on the Management of Must Run Units (MRUs), having noted that the same makes reference to Must-Stop-Units (MSU) and the revised definition of MRU. Thus, even with the DOE's concurrence to the proposed amendments to the Dispatch Protocol Manual Issue 6.0, the RCC would still have to defer publication of the proposal.

The RCC noted the clarification and agreed to defer any further discussion on the proposed amendments pending the DOE-approval of the proposed WESM Manual on MRUs.

E. Proposed Amendments to the WESM Rules and the WESM Manual on Market Operator Information Disclosure and Confidentiality Issue 2.0

- **PEMC Comments**

Atty. Ma. Lourdes S. San Andres presented PEMC's comments on the subject proposed amendments as submitted by the Aboitiz Power Corp, Inc. (APC).

Highlights of the comments made are as follows:

- In general, PEMC agreed with the intent of the proposed changes;

- In line with the declaration of transparency of the DOE Secretary, and consistent with the policy of the EPIRA as reflected in the WESM Rules, PEMC further proposed that except for information affecting system security and reliability, all items stated in the Information Disclosure and Confidentiality Manual be made transparent to all members of the WESM.

- On the proposed amendment to Section 5.3.2 (j), the proposed rule change should clearly indicate the cut-off date from which such unpaid settlement amounts shall be reckoned. In this regard, PEMC proposed that the cut-off be set as the end of each month, to be defined and provided in the Manual. This is consistent with the financial closing of books of the net sellers.

- On the proposed amendment to Section 5.3.2 (k), it was proposed to further refine and simplify the proposal. Comment was also made that not all the information being proposed for disclosure is not necessary.

The RCC then resolved to adopt the following proposed amendments, as revised:

<u>On Section 5.3.2 Exceptions of the WESM Rules:</u>

"Subject to clause 5.3.3.1, this clause 5.3 does not prevent:

(a) x xx

(i) The disclosure of information to the *ERC* and *DOE* and any other government authority having jurisdiction over a *WESM member* pursuant to the *WESM Rules* or otherwise.

(j) The disclosure of: (i) settlement amounts unpaid by the end of each month, and (ii) the specific *WESM member* that failed to pay the settlement amounts.

(k) The disclosure information (confidential or otherwise) in relation to: (i) any failure of a *WESM member* to meet prudential requirement obligations to the *Market Operator*, which resulted in margin calls, and (ii) any prudential security exemptions or waivers given by the *Market Operator* to a *WESM member*."

PEMC indicated that it will submit the corresponding amendments in the Manual, consistent with the RCC-approved amendments in the WESM Rules.

The Secretariat was requested to submit the RCC proposed amendments to PEM Board, as revised.

F. Proposed Amendments in the WESM Rules Additional Clause 4.4.4

- **SNAP Comments and PEMC Response**

The RCC noted the comments submitted by SN Aboitiz, Inc. and acknowledged that PEMC's response was able to clarify, that to address the concern on data security, the MSP is being required to transmit the data in meter data exchange format (MDEF).

The RCC then resolved to adopt the proposed additional Clause 4.4.4, as originally submitted. The same shall then be endorsed to the PEM Board for approval.

G. Proposed Amendments in the WESM Manual on Metering Standards and Procedures Subsection 9.7

Noting that no comment was received on the proposal, the RCC approved the proposed amendments to Subsection 9.7 of the WESM Manual on Metering Standards and Procedures, as originally submitted.

The proposal will then be submitted to the PEM Board for approval.

H. Proposed Amendments to Clause 3.13.6 of the WESM Rules

- **SNAP Comments and PEMC Response**

The RCC noted the comments submitted by SN Aboitiz, Inc. and discussed its merits together with the response submitted by PEMC.

On the proposed amendments to Clause 3.13.6 (d), Mr. Sotomil reiterated that the said additional clause requiring the Metering Services Provider (MSP) *to determine and notify the Market Operator and the relevant Trading Participant the appropriate* *manner of determining the gross ex-post settlement quantity for that market trading node* is a burden unduly placed on the MSP alone. Mr. Sotomil opined that there should be another way to resolve the matter. He recommended that the same be subject to technical investigation to be conducted by both the MSP and PEMC.

Dr. Guevara explained that the proposal does not speak of any investigation but of the MSP determining how the gross ex-post settlement quantity should be quantified. She added that cases that might involve fraud or breach of the Rules are matters within the jurisdiction of the Market Surveillance Committee (MSC).

At this juncture, the RCC resolved to approve the proposal, as originally submitted. The same shall be endorsed to the PEM Board for consideration.

4. New Business

Issues/ Topics Discussed	Remarks	Agreement/ Action Item
A. PEM Board Update	• Atty. de Castro informed the RCC that the PEM Board, in its 81st Meeting held on 30 April 2013, approved the proposed revision in the WESM Rules to re-define financial year similar to calendar year since it is the latter which the PEMC follows in respect to its financial statements. • The PEM-Board approved amendment was endorsed to the DOE for final approval.	• Noted the update/ information given.
B. DOE Policy Directives on MRU and PEN	• The Secretariat informed the RCC of the DOE Memorandum dated 04 April 2013 re: policy directives on the proposed amendments to the WESM Market Manuals on the *Criteria and Guidelines for the Issuance of Pricing Error Notices (PEN) and the Conduct of Market Re-Run*, and on the *Management of Must-Run Units (MRU).* • Dr. Guevara requested Ms. Baltazar to discuss the DOE directive with the RCC for guidance. Ms. Baltazar then informed the RCC of the following: <u>On the proposed amendments to the PEN Manual</u> – The proposed price substitution methodology during pricing errors specifically with regard to the use of data on the 5 nearest nodes with the nearest value during PEN does not provide long term solution and allows only the immediate substitution of values during instances of pricing error. The simulation showed substantial increase in price only	• To task the following RCC members to undertake specific DOE directives, as follows: <u>On the proposed amendments to the PEN Manual-</u> 1. PEMC/Mr. Cacho-conduct of simulation to further assess the proposed methodology's impact on WESM prices; 2. Generator-Merchants/Ms. Javier-provide justification on the merits of the proposal considering the criteria for effecting the WESM rules change; 3. DUs/Mr. Meneses-identify and propose possible alternative methodology to resolve

<table>
<tr><th>Issues/
Topics Discussed</th><th>Remarks</th><th>Agreement/
Action Item</th></tr>
<tr><td></td><td>for those affected by the congestion. It is thus suggested that a study/simulation on the impact of the proposal to other market participants be completed as well.

– Critical issues in the system should first be determined and addressed to prevent the occurrences of pricing errors.

– The corresponding amendments to the WESM Rules should also be identified before the revisions in the Manual could be finalized.

<u>On the proposed amendments to the MRU Manual</u>

• Emphasized on the responsibility of the NGCP-SO in ensuring the adequacy of Ancillary Services (AS). It was explained that the DOE sees merit in the proposed amendment but noted that the NGCP-SO should have exhausted all available AS before resorting to MRUs.

• Must Stop Units (MSUs), as proposed, should be used in cases of excess generation but if said condition is caused by the non-compliance to RTD or the use of reactive support reserve.

• On directives 2 and 5, it was clarified that the intention is to limit the definition of MSUs as those exclusively caused by excess generation due to non-compliance to dispatch instructions <u>or</u> the use of reactive support reserve.

• For both Manuals, it was highlighted that proposals should be consistent with existing the legal and regulatory frameworks such that amendments to Manuals must be supported by policies embodied in the WESM Rules.

• The RCC was informed that the DOE met with the NGCP-SO where the compliance of the latter with its mandate on the provision for AS was extensively discussed.

• The RCC then raised the following comments/inquiries:</td><td>issues on pricing errors;
4. RCC Subcom/Mr. Castro (Chair), Mr. Pecjo, Mr. Santos-identify and propose appropriate amendments to the WESM Rules corresponding to the proposed changes to the PEN Manual, to ensure consistency.

<u>On the proposed amendments to the MRU Manual-</u>

1. Independent/Mr. Castro-incorporate all directed changes/revisions in the WESM Rules;
2. NGCP-SO/Mr. Seludo/ Mr. Bugaoisan - incorporate the proposal in the PGC for consistency, for possible submission of the same to GMC.

• The assignments are due for presentation to the RCC in its next Meeting on 05 June 2013. Completion timeline is set before end of July 2013.</td></tr>
</table>

Issues/ Topics Discussed	Remarks	Agreement/ Action Item
	– On the occurrences of PEN, Ms. Javier stated that the most practical way forward is to relax the N-1 contingency in the MERALCO system model in the MMS. She opined that the N-1 contingency requirement will remain to be physically compliant since it will only be the market network model which is proposed to be relaxed. – Mr. Meneses concurred with the suggestion of Ms. Javier, stating that it is more realistic to assume N-1 for all of the 5 delivery points of MERALCO instead of allocating 1 transformer to be out of service for each of the said 5 delivery points. – Mr. Cacho explained that PEMC is coordinating with MERALCO and is working its way towards the integration of the MERALCO system into the market network model. He added that the integration of the MERALCO system will validate pressing issues on MERALCO including its BCQ declaration and requirement on N-1. On the issue regarding reserves, Mr. Cacho informed the body that the concept of MSU is similar to the "lower reserve service" being espoused by the ERC. The RCC can bring its proposal on the MRU-MSU into the ongoing discussion being led by the ERC through the Grid Management Committee (GMC) on the harmonization of the WESM Rules, the Philippine Grid Code (PGC), Ancillary Services Annual Procurement Plan (ASPP) and the OATS Rule. – On the provision for AS, Ms. Javier inquired on whether the DOE will issue the policy direction to ensure NGCP-SO's compliance or whether it will be PEMC which will push for the same with the ERC, considering that NGCP has already submitted the ASPP. Ms. Baltazar replied that in view of the ongoing review of the PGC, the DOE will incorporate the inputs it has collected from the market for inclusion in the	

Issues/ Topics Discussed	Remarks	Agreement/ Action Item
	discussion of the ERC with DOE in its review of the PGC. - Responding to the RCC's inquiry regarding the impact of the proposed amendments to other relevant documents such as the PGC, Atty. Lopez clarified that the RCC can submit its recommendations to the DOE as part of the RCC's compliance with the DOE's directives. She explained that the DOE will in turn bring the issues raised to the ongoing review of various rules as above discussed.	

5. Next Meeting

The RCC was reminded of its next succeeding meetings as follows:

- 75th RCC Meeting - 05 June 2013, 9:00 AM
- 76th RCC Meeting - 03 July 2013, 9:00 AM

6. Adjournment

There being no other matter to be discussed, the meeting was adjourned at around 6:15 P.M.

Prepared by:

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Market Governance Analyst

Reviewed by:

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Assistant Manager
Market Governance and Administration

Noted by:

Elaine D. Gonzales
Manager
Market Data and Analysis

Approved by: RULES CHANGE COMMITTEE **Rowena Cristina L. Guevara** Chairperson Independent University of the Philippines (UP)	
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Maila Lourdes G. de Castro Independent	**Cherry Aquino-Javier** Generation Sector AES Philippines (AES)
Cynthia R. Encarnacion Generation Sector National Power Corporation (NAPOCOR)	**Liberty Z. Dumlao** Generation Sector Power Sector Assets and Liabilities Management Corporation (PSALM)
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Sulpicio C. Lagarde Jr. Distribution Sector (EC) Central Negros Electric Cooperative, Inc. (CENECO)	**Jose P. Santos** Distribution Sector (EC) Ilocos Norte Electric Cooperative, Inc. (INEC)
Conrado D. Pecjo Supply Sector Angeles Power, Inc.	
Raul Joseph G. Seludo Transmission Sector National Grid Corporation of the Philippines (NGCP)	**Robinson P. Descanzo** Market Operator Philippine Electricity Market Corporation (PEMC)

Attachments:

1) PEMC-TOD Simulation on the Cancellation of Offers
2) PEMC Comments on the Proposed Rules Change on Confidentiality
3) Proposed Amendments in the WESM Rules Additional Clause 4.4.4
4) Proposed Amendments to Clause 3.13.6 of the WESM Rules

Wholesale Electricity Spot Market

Assessment of the Proposed Amendments to Appendix A.1 of the Dispatch Protocol Manual (Proposed Cancellation of Offers)

May 2013

Operational Assessment

Background

- The Rules Change Committee (RCC) proposes revisions on Section 4.5 (Revision and Cancellation of Bids) in Appendix A.1 of the Dispatch Protocol Manual
  - To address PA Findings on mandatory dispatch of generators at Pmin causing generators to be non-compliant with “must-offer” rule
  - Address existing problems
    - Power plants with high variable costs are not economically feasible to run all the time; and
    - Forcing these plants to run will incur additional cost for their Pmin. Pmin under WESM rules are price takers, thus fuel costs for their Pmin are unrecoverable

RCC Rationale

- Currently, there are existing problems with the implementation of the must offer rules, in which:
  - Power plants with high variable costs are not economically feasible to run all the time; and
  - Forcing these plants to run will incur additional cost for their Pmin. Pmin under the WESM rules are price takers, thus fuel costs for their Pmin are unrecoverable
- The RCC has already tackled alternative proposals such as the use of a secondary Pmin, however it was found to be not feasible. Thus, provisions for cancellation are now being looked at
- RCC believes that the proposed provision for cancellation shall result to the following
  - High cost power plants will not be forced to run if they are not needed by the system; and
  - Efficient use of resources

Proposed Manual Change

1. Trading Participants may opt to cancel their daily or "converted" standing bids/offers for a particular trading interval <u>if the generating unit is included in the list of the generating units that may opt to cancel which MO shall provide.</u>
2. <u>The MO shall publish list of generating units per interval that may opt to cancel upon the following conditions:</u>
   a. <u>total generation offers is 10% above hourly demand ("Supply Threshold") for all trading intervals for the specific day;</u>
   b. <u>the generation units are the most expensive units, following the MOT results of 1200H DAP; and</u>
   c. <u>after deducting Pmin of the generating units, total offer is still more than demand.</u>
3. <u>MO shall further evaluate Supply Threshold and recommend changes if necessary.</u>

Proposed Manual Change

4. Cancellation of bids/offers shall be made within the period provided in the WESM timetable. Cancelled bids/offers may, however, be revoked or revised likewise within the period provided in the WESM timetable for submission of bids/offers
5. <u>If upon cancellation of a generating unit, SO finds that the generating unit is needed for system reliability, then the generating unit shall be scheduled as an MRU, as provided for in the MRU Manual</u>

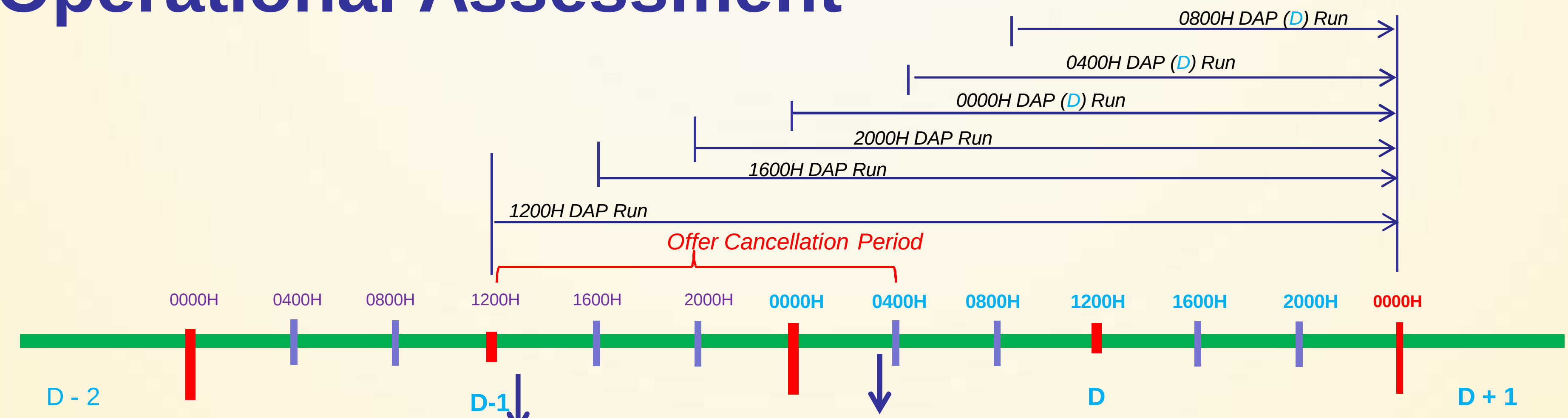
Guiding Principles of the Proposal

- Generators must have default offers for the accuracy of Day Ahead Projection (DAP), which will be used by MO and SO in assessing system security and reliability concerns;
- MO will be the entity responsible in providing the hourly projected system demand, hourly offers and other pertinent data in the MMS system messages for transparency;
- MO to publish in the system messages if the threshold to cancel is reached and the Trading Participants (TPs) that are allowed to cancel their bids/offers

Guiding Principles of the Proposal

- The proposal notes that “the threshold to be used is generator offers 10% above hourly demand. The cancellation time will be from 1200H DAP (d-1) until fifteen (15) minutes before the 0400H DAP (d) run only”
- The proposal also notes the following steps for cancellation
  - If threshold is reached, then MO to inform thru the MMS that:
    a. there is an excess offer
    b. most expensive (by the result of MOT) plants that may opt to cancel offers;
  - The most expensive may opt to cancel their offers only before 0400H DAP, so that SO and MO may have an overview of supply situation for the day on the 0400H run;
  - Cancellation of offers shall be done thru the MMS and should already be reflected in the next DAP run;
  - If after the cancellation, SO finds that the plant needs to run due to other reasons (system reliability), then that particular plant should be a MRU; and
  - Generators which cancelled their bids may opt to rebid anytime.

Operational Assessment



Scenario 3: At 15 minutes before 0400H of **D**
1. Gen X Cancels offer for 0600H onwards

1200H DAP published to MPI at 1300H

AMP

- Load Forecast (per interval, per MTN)
- Projected LMP (per interval, per MTN)

MP

- Projected Schedules

Scenario 2: If at 2200H of **D-1**
1. Gen X Cancels offer for 0100H onwards

At ~1300H MO to determine:

1. If total gen offer is > 10% **for all trading intervals** of **D**
2. Given the above, determine gen units that are >10% in the MOT results
3. Deduct Pmin of the gen units, total offer is still more than demand
4. If all the above is true, **then Publish thru MMS else publish Advisory**: ***No excess offer***
    1. *There is an excess offer*
    2. *Gen units determined as most expensive based on 1200H DAP MOT*

At ~1400H until 15 minutes before 0400H of **D**
1. Gen in List may opt to cancel

Based on 1200H DAP, SO prepares contingency plan for **D**

Scenario 1: Assuming Gen X is in the list, If at 1545H of **D-1**
1. Gen X Cancels offer (for 0100H D to 0400H D)
2. Then Gen X prepares to shutdown, as possibility of being scheduled is only up to 1900H
3. Since Gen X has offers 0500 H onwards, it is possible that he will be scheduled from this interval onwards

- This proposal is effectively the same as the current provision under the DP, which provides option to cancel when demand is less than sum of Pmin

Wholesale Electricity Spot Market

Market Simulation

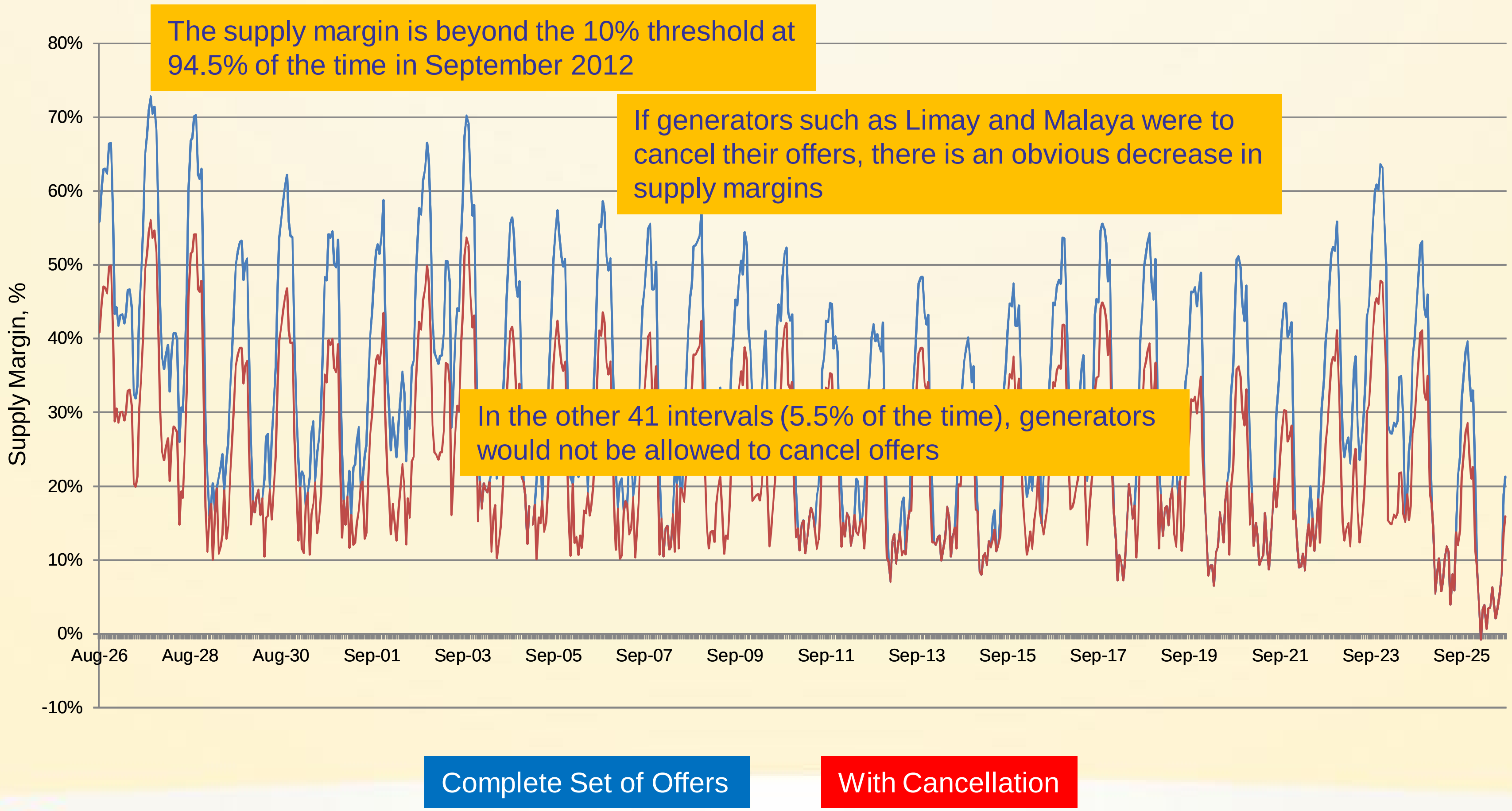
Background of the Simulation

- During the November 2012 RCC meeting, it was requested that TOD perform a simulation on the impact of allowing the cancellation of market offers for inflexible generating units
- These inflexible generators are only allowed to cancel their offers given that the supply margin is greater than 10%
- The simulation attempts to show the impact of allowing inflexible generators to cancel their offers given the said criteria

Simulation Assumptions

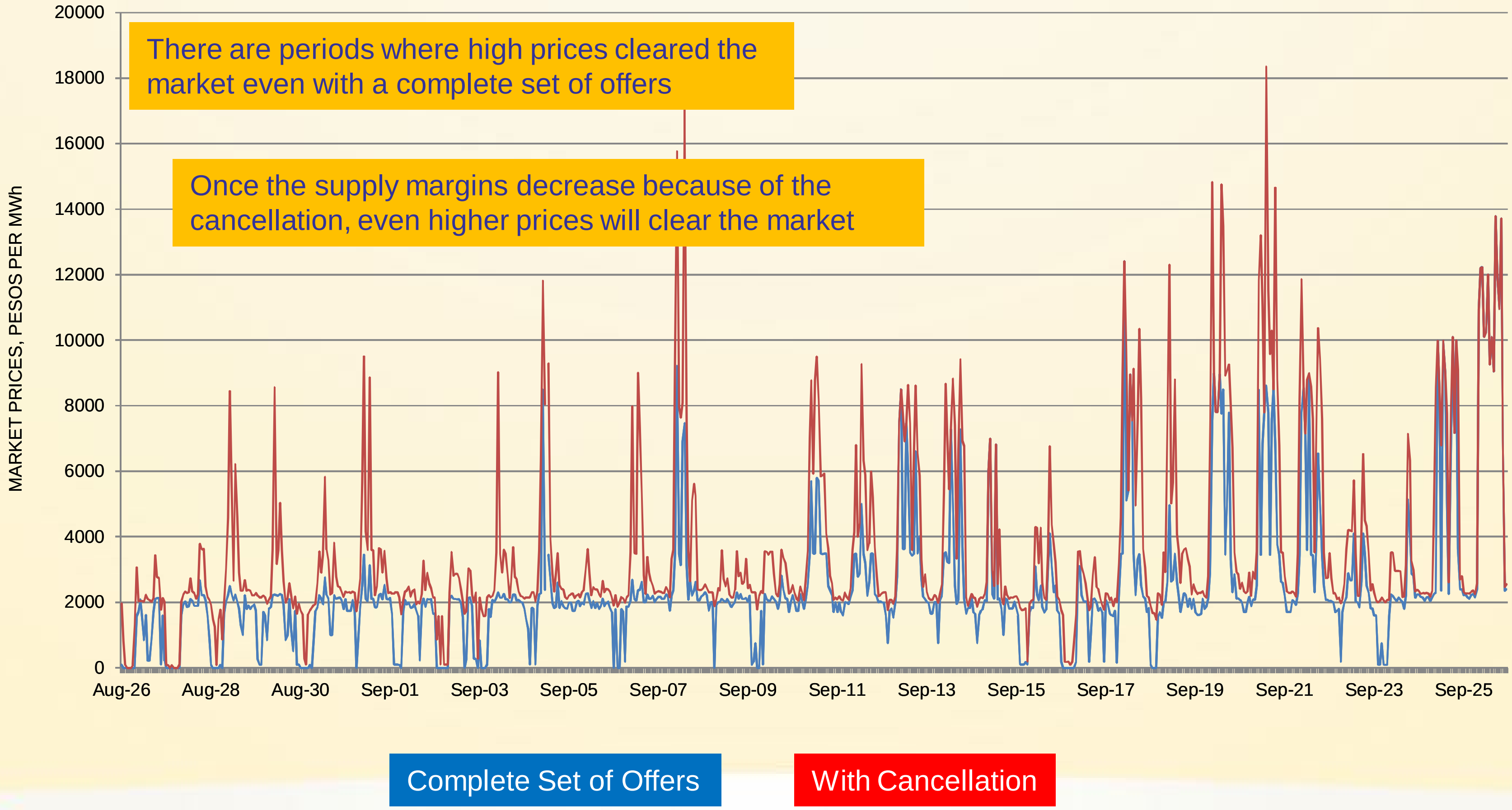
- The simulation involved the September 2012 billing period
- This simulation would assess the proposed principle of the RCC in the cancellation of offers, which assumes a 10% supply threshold
- Cancellation would only be allowed to ensure more than 10% of the supply margin is observed in the system (Luzon and Visayas) and in each region of Luzon and Visayas
- Since Malaya has been submitting offers in the market, this simulation will use their relevant offers for the trading intervals of September 2012
- Limay only submitted offers in the market for its generating facilities A and B at 5% and 4% of time, respectively, during September 2012. For the intervals that had no offers, it will use the latest offer for the said facilities

Simulation Results



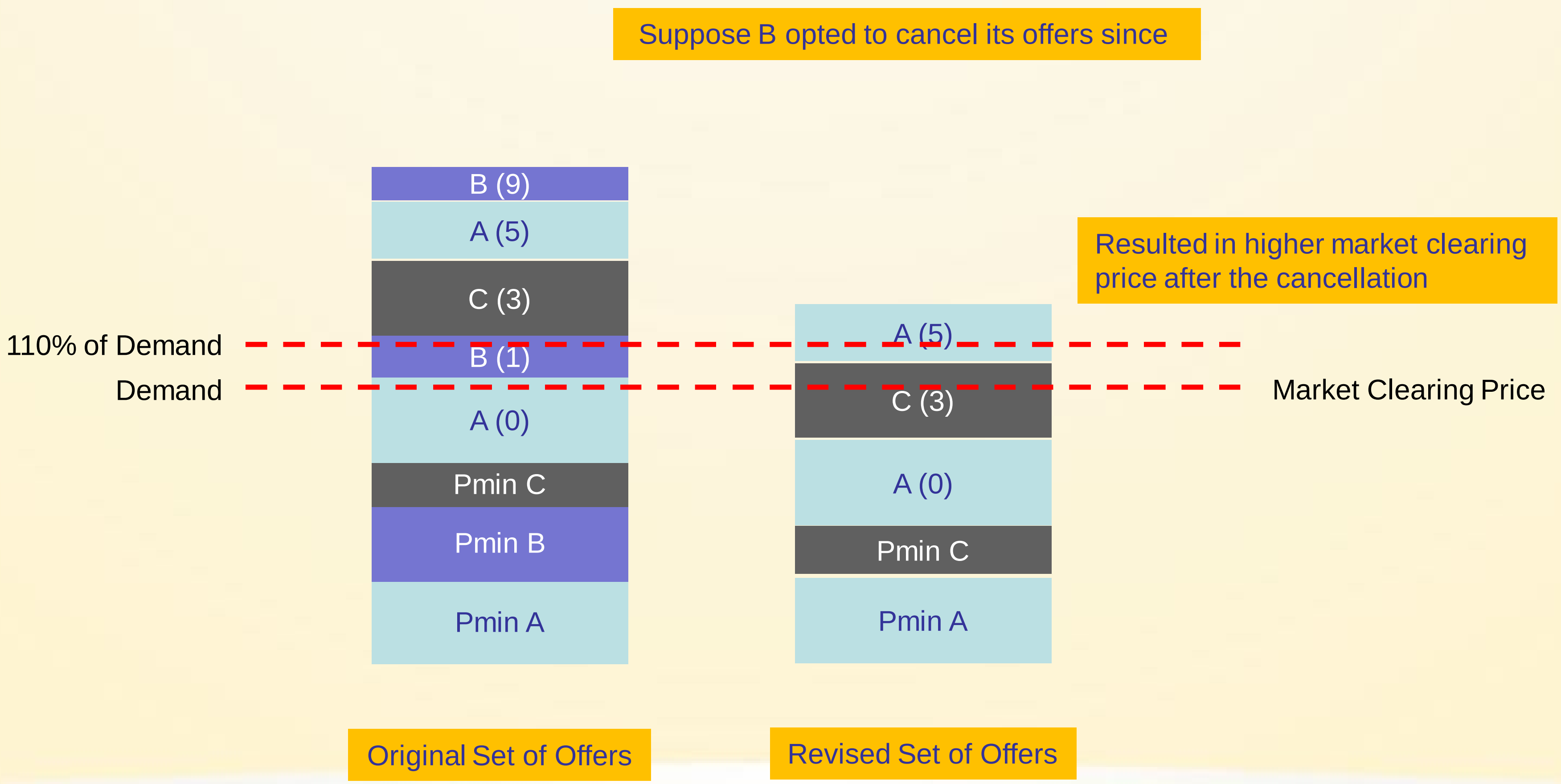
Wholesale Electricity Spot Market

Simulation Results



Wholesale Electricity Spot Market

Simulation Scenario



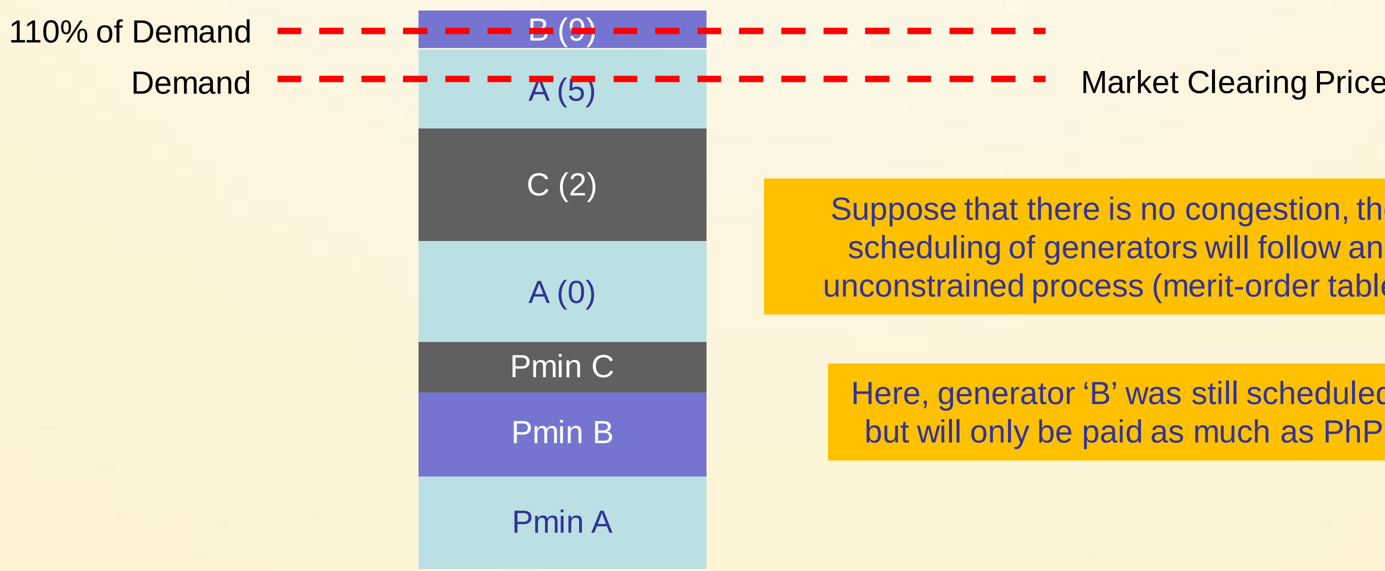
Wholesale Electricity Spot Market

Simulation Observations

- During the 41 intervals that generators were not allowed to cancel their offers, the inflexible plants such as Limay and Malaya were still scheduled at Pmin given their high offer prices
- Having been scheduled at Pmin only, these generators are deemed “price takers”. They were scheduled at their Pmin but their lowest offered price was not cleared in the market.
- Hence, allowing cancellation of offers using a threshold of 10% for the supply margin does not fully address the issue that generators, particularly the inflexible plants, would be cleared above their Pmin

Simulation Scenario

No one was allowed to cancel because of the 10% supply margin threshold



Suppose that there is no congestion, the scheduling of generators will follow an unconstrained process (merit-order table)

Here, generator ‘B’ was still scheduled at Pmin but will only be paid as much as PhP 5/MWh

Issues and Concerns

Operational Concerns and Feasibility

- Changes to the MMS-MPI are required to fully operate such a proposal for cancellation
  - Publication of hourly demand and offers for every DAP run
  - Restriction to allow only qualified generators to cancel offers

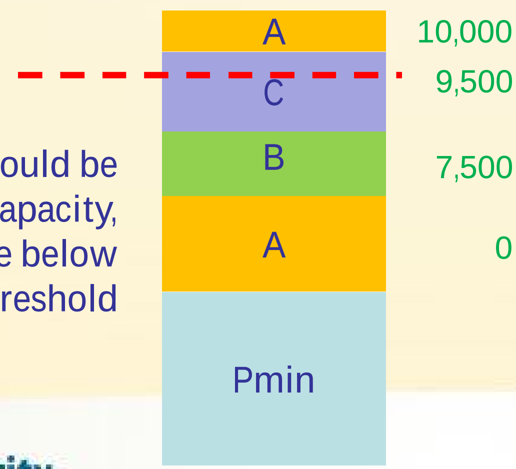
- System Enhancements to automate
  - Determine the most expensive plant
  - Publish qualified generators for cancellation

- Assessment of Supply and Demand typically uses the 1200H and 1600H DAP run
  - In this regard, SO personnel should be available to assess results of the 0400H DAP run

Operational Concerns and Feasibility

- Use of the Merit Order Table (MOT) as reference for cancellation
  - It is only stated that generators that are the most expensive based on the MOT would be allowed to cancel
  - However, generators offer quantities using offer blocks that are pairs of prices with corresponding quantities
  - Hence, it should be clear how to identify the “most expensive” generators based on MOT
  - It should also be noted that there may be cases where the supply threshold is beyond 10%, but when the “most expensive” generator cancels its offer, the supply threshold will then be below 10%

110% of Demand



In this case, if generator A would be allowed to cancel its entire capacity, the remaining supply may be below the 10% threshold

Also in this case, it would only seem Gen A is the most expensive since its last block is the most expensive.

Operational Concerns and Feasibility

- There is no clear provision for cancellation upon the integration of the reserve market into the commercial operations of WESM
  - There should be consideration of reserve requirement on the cancellation of offers
  - Once the co-optimization of energy and reserve is in effect in WESM, the treatment for cancellation would be entirely different and complex given the varying schedules it may produce to meet the energy and reserve requirements
- How should the MOT be treated?
  - What MOT should be used? System-Wide? Or Per Grid?
  - PEMC noted on the November 2012 RCC meeting that generators would only be allowed to cancel their offers as long as the supply threshold (proposed at 10%) is maintained on a System-Wide and Regional level

Other Issues and Concerns

- Based on simulation, cancellation would resulted to higher prices if most generating units are allowed to cancel because of the increase in contestable demand (lower price-taker volume)
  - However, the results do not fully guarantee that price increase would be low nor substantial since it will still depend on the behavior of the Trading Participants and the market's dynamics (possible congestions, etc.)
- The proposal does not fully guarantee that it will resolve issues involving the must-offer rule since there are still some generating units that were scheduled at Pmin

Other Issues and Concerns

- In cases of congestion, this proposal may deplete the purpose of having a Security-Constrained Economic Dispatch (SCED)
  - Suppose a generator is situated in a location where it is able to alleviate congestion at a certain equipment
  - Barring any cancellation, the MDOM would have obtained an optimal solution that determines the most appropriate schedule for the said generator
  - However based on the proposal, this generator opted to cancel its offer
  - Hence, SO would have to re-establish it for MRU rather than the MDOM optimizing the level it would be scheduled at with the end-result of having the most economical solution available
- If a large generator trips, the supply would be largely depleted. Generators that opted to cancel are not available or on-line (unlike when they are scheduled at least at their Pmin) to somehow alleviate the loss of supply

End of Presentation

Wholesale Electricity Spot Market

Proposed Amendments to the WESM Rules and Information Disclosure and Confidentiality Manual

PEMC Comments

Regular Meeting of the Rules Change Committee

May 15, 2013

General Comments

- In general, PEMC agrees with the intent of the proposed changes.
- In line with the declaration of transparency of the DOE Secretary, and consistent with the overarching policy of the EPIRA as reflected in the WESM Rules, PEMC further proposes that except for information affecting system security and reliability, all items stated in the Information Disclosure and Confidentiality Manual be made transparent to all members of the WESM.

Disclosure of Settlement Information

WESM Rules

Proposed Amendment	PEMC Comments
5.3.2 Exceptions Subject to clause 5.3.3.1, this clause 5.3 does not prevent: (a) x x x (i) The disclosure of information to the *ERC* and *DOE* and any other government authority having jurisdiction over a *WESM member*, pursuant to the *WESM Rules* or otherwise. **(j) The disclosure of: (i) settlement amounts unpaid by due date; (ii) the specific *WESM member* which failed to pay the settlement amounts, and (iii) other related information (confidential or otherwise), to each of the affected *WESM members* within fifteen (15) business days after the release of the Final Statement.**	Given the stated rationale of the proposal, which establishes a creditor-debtor relationship between WESM net sellers and net buyers, we do not disagree with the proposal to disclose unpaid settlement amounts of net buyers to net sellers. However, the proposed rule change should clearly indicate the cut-off date from which such unpaid settlement amounts shall be reckoned. In this regard, we propose that the cut-off be set as the end of each month, to be defined and provided in the Manual. This is consistent with the financial closing of books of the net sellers. Further, the MO shall provide the requested information within five (5) days from this cut-off, and if such date falls on a non-working day, including Saturday and Sunday, on the immediately

Disclosure of Settlement Information

WESM Rules

Proposed Amendment	PEMC Comments
5.3.2 Exceptions Subject to clause 5.3.3.1, this clause 5.3 does not prevent: (a) x x x (i) The disclosure of information to the *ERC* and *DOE* and any other government authority having jurisdiction over a *WESM member*, pursuant to the *WESM Rules* or otherwise. **(j) The disclosure of: (i) settlement amounts unpaid by due date; (ii) the specific *WESM member* which failed to pay the settlement amounts, and (iii) other related information (confidential or otherwise), to each of the affected *WESM members* within fifteen (15) business days after the release of the Final Statement.**	succeeding business day. Similarly, we do not disagree with the proposal to disclose the identity of the specific WESM net buyer that failed to timely settle its settlement obligations to affected WESM net sellers. In light of the foregoing, we propose the following rewording to 5.3.2(j): "**(j) The disclosure of (i) settlement amounts unpaid by the end of each month, and (ii) the specific *WESM member* that failed to pay the settlement amounts.**"

Wholesale Electricity Spot Market

Disclosure of Information on Compliance with Prudential Security Obligations

WESM Rules

Proposed Amendment	PEMC Comments
<u>**(k) The disclosure of information (confidential or otherwise) in relation to: (i) any failure of a *WESM member* to meet prudential requirement obligations to the *Market Operator* including *WESM members* with no prudential security or who did not renew their security; (ii) any prudential security exemptions or waivers given by the *Market Operator* to the *WESM member*; (iii) any drawings on the prudential security of a specific *WESM member*; (iv) any month-end billing exceeding the value of the prudential security, and (v) any failure to top-up a prudential security after it is drawn.**</u>	▪ We do not disagree with the proposal to disclose the identities of the WESM members that fail to meet their respective Prudential Security obligations, since this would affect their ability to meet their settlement amount obligations as they come due. However, it is our view that (i) can be further refined and simplified to cover those WESM members that fail to maintain their Prudential Security to a level that would cover their exposure to the spot market, and which resulted to margin calls. We further propose that this disclosure be made by the MO on a monthly basis, to be provided in the Billing and Settlements Manual.

Wholesale Electricity Spot Market

Disclosure of Information on Compliance with Prudential Security Obligations

WESM Rules

Proposed Amendment	PEMC Comments
(k) <u>**The disclosure of information (confidential or otherwise) in relation to: (i) any failure of a *WESM member* to meet prudential requirement obligations to the *Market Operator* including *WESM members* with no prudential security or who did not renew their security; (ii) any prudential security exemptions or waivers given by the *Market Operator* to the *WESM member*; (iii) any drawings on the prudential security of a specific *WESM member*; (iv) any month-end billing exceeding the value of the prudential security, and (v) any failure to top-up a prudential security after it is drawn.**</u>	▪ As regards (ii), we also do not disagree with the proposal to disclose to the WESM members – Generation Companies (and other net sellers) any Prudential Security exemptions or waivers given by the MO to a specific WESM Member, since this would also affect their ability to meet their WESM settlement amount obligations as they come due. However, some information would not necessarily be frequently updated. For example, generators are generally exempt from Prudential Security requirements, and would thus be reported all the time. Thus, we propose that an initial list be provided to the WESM Members, and only updates, if any, shall be provided on a regular basis.

Wholesale Electricity Spot Market

Disclosure of Information on Compliance with Prudential Security Obligations

WESM Rules

Proposed Amendment	PEMC Comments
<u>**(k) The disclosure of information (confidential or otherwise) in relation to: (i) any failure of a *WESM member* to meet prudential requirement obligations to the *Market Operator* including *WESM members* with no prudential security or who did not renew their security; (ii) any prudential security exemptions or waivers given by the *Market Operator* to the *WESM member*; (iii) any drawings on the prudential security of a specific *WESM member*; (iv) any month-end billing exceeding the value of the prudential security, and (v) any failure to top-up a prudential security after it is drawn.**</u>	▪ As regards (iii), it is our view that the disclosure of any drawings on Prudential Security of any WESM Member is not necessary. As stated in the WESM Rules, if the amount paid by a net buyer is insufficient to cover its settlement amount obligation for a particular billing period, the MO shall draw from that net buyer's Prudential Security an amount sufficient to cover the shortfall. Thus, upon payment to the WESM net seller of an amount sufficient to cover the total payables to said net seller, regardless of whether or not funds had to be drawn from the net buyer's Prudential Security, the creditor-debtor relationship between the net seller and net buyer would not arise. In this case, the replenishment of Prudential Security shall be coordinated between the WESM Member obliged to maintain such security and the MO, with no involvement from the net sellers.

Wholesale Electricity Spot Market

Disclosure of Information on Compliance with Prudential Security Obligations

WESM Rules

Proposed Amendment	PEMC Comments
(k) The disclosure of information (confidential or otherwise) in relation to: (i) any failure of a *WESM member* to meet prudential requirement obligations to the *Market Operator* including *WESM members* with no prudential security or who did not renew their security; (ii) any prudential security exemptions or waivers given by the *Market Operator* to the *WESM member*; (iii) any drawings on the prudential security of a specific *WESM member*; (iv) any month-end billing exceeding the value of the prudential security, and (v) any failure to top-up a prudential security after it is drawn.	▪ As regards (iv), it is also our view that disclosure of this information is not necessary. The fact alone that any month-end billing to a particular WESM load customer exceeds the value of its Prudential Security would not directly adversely affect the WESM Members supplying to such load customer, since the latter can make payment covering the entire amount of its settlement obligation. In such case, there would be no need to draw from the load customer's Prudential Security.

Wholesale Electricity Spot Market

Disclosure of Information on Compliance with Prudential Security Obligations

WESM Rules

Proposed Amendment	PEMC Comments
<u>(k) The disclosure of information (confidential or otherwise) in relation to: (i) any failure of a *WESM member* to meet prudential requirement obligations to the *Market Operator* including *WESM members* with no prudential security or who did not renew their security; (ii) any prudential security exemptions or waivers given by the *Market Operator* to the *WESM member*; (iii) any drawings on the prudential security of a specific *WESM member*; (iv) any month-end billing exceeding the value of the prudential security, and (v) any failure to top-up a prudential security after it is drawn.</u>	▪ As regards (v), this information is already contained in the Suspension Notice to be issued by the MO to a WESM Member that fails to top-up its Prudential Security or pre-pay, after a margin call is issued. The Suspension Notice is published in both the newspaper and the Market Information Website. ▪ In light of the above, we propose the following rewording to 5.3.2(k): "**<u>(k) The disclosure of any *WESM member* that has received a margin call from the *Market Operator.*</u>**"

Wholesale Electricity Spot Market

END OF PRESENTATION

Thank you

Proposed Amendments in the WESM Rules
Additional Clause 4.4.4

Title	Section	Provision	Proposed Amendment	Rationale	Comments	
					SNAP	**PEMC** ***(Response to SNAP)***
	4.4.4	(new)	If a *Trading Participant* is also a *Metering Services Provider* and there is only one *Metering Services Provider* registered with the *Market Operator* (in the Transmission Level), then it shall be allowed to provide *metering services* on an interim basis for a *market trading node* assigned to it or a connection point that it owns until another *Metering Services Provider* becomes authorized by the *ERC* and is registered with the *Market Operator* upon which the *metering services* shall be transferred to another *Metering Services Provider* following the applicable procedure.	NGCP had already registered as a Customer Trading Participant. This registration has taken precedence over the provisions of the WESM Rules aiming for more than one MSP.	Given that the Trading participant is also providing metering services in his Market Node, there should be a third party (e.g. Market Operator) looking at this for transparency	This is an inherent function of the Market Operator. To address the security of data, the MSP is required to transmit the meter data exchange format (MDEF) to secure the integrity of meter data.

Proposed Amendments to Clause 3.13.6 of the WESM Rules

Title	Section	Provision	Proposed Amendment	Rationale	Comments	
					SNAP	PEMC *(Response to SNAP)*
Defining the Gross Ex-Post Energy Settlement Quantity for Market Trading Nodes	**3.13.6**	For each trading interval, the gross ex-post energy settlement quantity for each market trading node shall be determined by the Market Operator as follows: (a) If the market trading node is defined under clause 3.2.2.1 as lying on the boundary of the power system operated by the System Operator, the gross ex-post energy settlement quantity for the market trading node is the net metered flow into the power system operated by the System Operator through the associated meter;	For each trading interval, the gross ex-post energy settlement quantity for each market trading node shall be determined by the Market Operator as follows: (a) If the market trading node is defined under clause 3.2.2.1 as lying on the boundary of the power system operated by the System Operator, the gross ex-post energy settlement quantity for the market trading node is the net metered flow into the power system operated by the System Operator through the associated meter, **provided however, that if the market trading node is a customer node, and there is no ERC-registered embedded generation facility associated with that node, or the source of injection cannot be traced, any injection shall not be accounted for in determining the gross *ex-post energy settlement quantity* for that node**	To introduce more solid basis for the netting of bidirectional energy flows in a trading interval recorded in the meter as read in Clause 3.13.6 of the WESM Rules.	• The desired change can be properly addressed through revision of the WESM Manual on Metering Standard and Procedures as the aforementioned Manual already contains provision on Validation, Estimation and Editing (VEE) of metering data. • The Metering Service Provider and Market Operator should endeavor to address discrepancies in the metered data. • In the case of a customer node with unidirectional meter, the Market Operator/Metering Service	• The VEE is applied if there is an error on the metering data or metering installation problem. This is a case where a customer/load metering installation is properly functioning and recording both metering data injection and withdrawal to the grid. Upon comparing the MQ recorded by the registered metering installation to the meter at the sending end (RTU reading), there is a large disparity of MQ whenever the metering installation registered injection to the grid. A customer/load metering installation must only register MQ withdrawal. The registered customer has no generating facility. • This is addressed in the proposed new provision in letter (d). • The VEE process cannot be applied to address the discrepancies. The VEE is

Title	Section	Provision	Proposed Amendment	Rationale	Comments	
					SNAP	**PEMC *(Response to SNAP)***
					Provider should estimate the consumption of that node using the VEE procedure stipulated in the WESM Manual on Metering Standard and Procedures rather than totally disregarding any injection in determining the gross ex-post energy settlement quantity.	applied if there is an error on the metering data or metering installation problem. The recorded injection shall not necessarily be disregarded. This will be reviewed/studied and addressed in the proposed new provision in letter (d).
		(b) If *the market trading* node is defined under clause 3.2.2.2 as a *generator node* lying on the interface between *networks*, apparatus or equipment operated by parties other than the *System Operator* the gross *ex-post energy settlement quantity* for the *market trading node* is the net metered flows through the associated meter from the *Generation Company* to the *Customer* side of the meter; and	(b) (As written)		•	•
		(c) If the market *trading node* is defined under clause 3.2.2.2 as a customer node lying on the interface between networks, apparatus or equipment operated by parties other than the *System Operator* the gross *ex-post energy*	(c) (As written)		•	•

Title	Section	Provision	Proposed Amendment	Rationale	Comments	
					SNAP	**PEMC *(Response to SNAP)***
		settlement quantity for the *market trading node* is the negative of the amount determined for the corresponding *generator node* in 3.13.6 (b).				
			(d)**If the net metered flows registered through a meter is inconsistent with the expected power flows at the *market trading node* to which that meter is associated, the *Metering Services Provider* shall determine and shall notify the *Market Operator* and the relevant *Trading Participant* the appropriate manner of determining the gross *ex-post settlement quantity* for that *market trading node.***		• The manner of determining metered quantity/gross ex-post energy settlement quantity should be included in the VEE procedures to ensure consistency of the Metering Service Provider's approach.	• The VEE is applied if there is an error on the metering data or metering installation problem. This is a special case wherein the MSP has conducted several test on the existing metering installation and found the meter are properly functioning.