

MINUTES OF THE 76th MEETING OF THE RULES CHANGE COMMITTEE

Meeting Date & Time:	03 July – 09:00 AM to 4:30 PM	
Meeting Venue:	Training Rooms 2 and 3, 9 th Floor, Robinsons Equitable Tower Ortigas Center, Pasig City	
Attendance List		
In-Attendance		Not In-Attendance
Rules Change Committee Members Rowena Cristina L. Guevara –Chairperson / Independent –UP Francisco L. R. Castro Jr. –Independent –Tensaiken Consulting Maila Lourdes G. De Castro –Independent - Concepcion I. Tanglao –Independent – PRil Liberty Z. Dumlao --Generation -- PSALM Augusto D. Sarmiento –Distribution –DECORP Jose P. Santos –Distribution –INEC Sulpicio C. Lagarde Jr. –Distribution –CENECO Isidro E. Cacho -- Market Operator --PEMC Conrado D. Pecjo –Supply –Angeles Power Ambrosio R. Rosales --System Operator –NGCP		Ciprinilo C. Meneses-- MERALCO
Rules Change Committee Alternate Members Edwin N. Mosa -- Market Operator – PEMC Ermelindo R. Bugaoisan – System Operator – NGCP		
PEMC – Market Assessment Group (MAG) Chrysanthus S. Heruela Geraldine A. Rodriguez Shalom Grace T. Llamzon Romellen C. Salazar PEMC – Legal Maria Lourdes S. San Andres PEMC – Finance Marissa P. Gandia PEMC – Trading Operations Edward I. Olmedo PEMC – Billing and Settlement Milan H. Libongco		
DOE Observer(s) Ferdinand B. Binondo		

There being a quorum, as certified by the RCC Secretariat, Chairperson Dr. Rowena Cristina L. Guevara called the meeting to order at about 9:00 AM.

1. Adoption of the Proposed Agenda

The Proposed Agenda for the 76th RCC Meeting was approved, as presented.

2. Review, Correction, and Approval of the Minutes of the 75th RCC Meeting

The Minutes of the 75th RCC Meeting was approved, as amended. Corrections made are as follows:

- On line 15, page 1

Under Members present - "~~Ms~~ Cherry Aquino-Javier"

- On line 4, page 2

"The Minutes of the 73rd 74th RCC Meeting..."

- On line 13, page 9

"Dr. Guevara stated that the result of the DOE review stated that the RCC proposal will not solve the problem on pricing error but rather, as stressed in the DOE's letter to the DOE PEMC..."

Before proceeding with the discussion items, Dr. Guevara introduced the new members of the RCC, as follows:

Ms. Concepcion I. Tanglao – Independent –PRII

Mr. Isidro E. Cacho -- MO --PEMC

Mr. Edwin N. Mosa -- MO Alternate --PEMC

Mr. Ambrocio R. Rosales --SO --NGCP

Mr. Ermelindo R. Bugaoisan --SO Alternate --NGCP

3. Business Arising from the Previous Meeting

- o **Update on the Proposed Amendments to the WESM Rules and Billing and Settlements Manual on Prudential Requirements**

As a backgrounder for the new RCC members, Dr. Guevara explained that the RCC previously agreed not to change the Rules and the Manual relative to Prudential Requirements (PR) currently pegged at sixty-three (63) days. She stated, however, that the PEM Board in a Resolution, directed the following a) revise the level of PR

1 and reduce its number of days from sixty-three (63) to thirty-five (35), and b) change
2 the basis of the assessment of the Maximum Exposure (ME) and Actual Exposure
3 (AE)
4

5 Ms. Marissa P. Gandia presented to the RCC the revised Proposed Amendments to
6 the WESM Rules and BSM Manual on Prudential Requirements, with inclusion of
7 PEMC-proposed revisions to the proposed amendments agreed upon during the
8 previous meeting and thereafter posted in the WESM website for comments. Below
9 are the highlights of discussion on the matter:
10

- 11 • On Section 13.15.2, PEMC's proposal as presented by Ms. Gandia was to clarify in
12 the BSM Manual that the Load Customers with positive TA are not exempted from
13 providing a security and that Generators with Net negative TA shall be required to
14 prepay the amount payable.
15

16 Ms Gandia explained that currently, generators are not required to provide security
17 deposit, but there are instances that a Generator fails to generate for whatever
18 reason and in which case, becomes a Net Buyer. Since no security deposit is posted
19 as a Net Buyer, there are times that the TP's settlement amount is not covered by its
20 Security Deposit. The proposal of PEMC is that for such cases where the
21 Generator's settlement amount becomes negative, it shall be required to make a pre-
22 payment prior to the due date.
23

24 Mr. Augusto D. Sarmiento suggested being more specific with the use of the term
25 pre-payment, clarifying that this is not similar to a margin call. He stated that the use
26 of the term prepayment in the proposal appears to be similar to the option of load
27 customers to prepay every time there is a margin call. Ms. Gandia clarified that the
28 proposal is applicable only when the Net Settlement Amount becomes negative as
29 an effect of becoming a Net Buyer within that billing period. She added that pre-
30 payment will be after the final statement and shall be made prior to the due date
31

32 Mr. Sulpicio C. Lagarde commented that in the same manner that a customer is
33 penalized for receiving a margin call and for failure to make payment on due date, it
34 has to be given certain incentive such as a discount, for paying in advance or making
35 a prepayment. He stated that making such payment is a business decision on the
36 part of the Customer since the amount that it will make as prepayment can actually
37 still earn money in the bank through interest.
38

39 Ms. Gandia explained that PEMC is a non-stock, non-profit organization and does
40 not place money in the market to earn interest, emphasizing that funds should be
41 made available anytime that it is needed. As such, PEMC has no source for the
42 discount being suggested by Mr. Lagarde. She added that the amount collected from
43 Customers, including penalty amounts, are all remitted to generators
44

45 On this note, Mr. Lagarde expressed that if generators receive penalties collected
46 from Customers, they should also be willing to give out discounts to the Customers.
47 Atty. Liberty Z. Dumlao responded, on the other hand, that Generators receive
48 payments at a later time too, thereby incurring costs on financing obtained for
49 bridging this gap.
50

51 Dr. Guevara commented that Net Buyers are required to post Prudential
52 Requirements because of the very essence of their business. She said, however,

that Generators register in the WESM primarily to sell and not to buy, thus raising questions on the wisdom for such proposal.

Atty. Maria Lourdes S. San Andres stated that her understanding of the proposal is that it is not so much about it being a penalty but a way to safeguard the market against certain exposures. In the case of the Customer that buys in the market, it is the PR; but in the case of a Generator, only in those specific cases where it becomes a Net Buyer in order to protect the market should a security be posted. Ms. Gandia added that the proposal was submitted because of the possibility that a Generator may fail to make payment on the due date and thus become in default.

In response to the question of Dr. Guevara of whether the settlement amount of Generators have ever been negative, Mr. Millan H. Libongco said that per PEMC-BSM's records, such cases have happened in the past, specifically, in instances where one of its Customers failed to make its payment, and for which, drawings were made on the Generator's sales resulting to a negative settlement amount for that Generator. Atty. Dumlao countered that such occurrence was more due to the failure of the a DU to post the corresponding PR and not of the Generator. Therefore, requiring the Generator to post a PR and establishing a Rule based on rare occurrences may not be the proper way of trying to address the issue. She added that the a Generator is the one that is supposed to be paid, and that the risk that the Generator will not pay should be discounted because PEMC has the recourse to offset any amount due from the Generator's future revenue. Mr. Lagarde added further that it does not seem right to view the Generators as Net Buyers because their very essence is to generate and provide supply.

Dr. Guevara commented that proposed Rules Changes should satisfy three things, and that the subject proposal does not seem to satisfy the criteria of practicality given the issues raised above. Following the discussion and considering the issues raised relative to the proposal of requiring the Generators to post security deposit, the RCC disapproved the proposal to require the Generators to pre-pay the amount due when they become Net Buyers.

- On Section 3.15.3 on the Form of Security, noting the PEMC's preference for cash as a form of security, Ms. Gandia conveyed the PEMC's suggestion to include in the BS Manual that:

"If the Market Operator determines that a WESM Member is not qualified to provide a security deposit other than cash, the Market Operator shall inform in writing the WESM Member to change its existing security deposit (i.e. SBLC, surety bond) to Cash at any time before the expiry date of the existing Security"

Atty. Dumlao inquired why the Letter of Credit is not accepted as a form of security. In response, Ms. Gandia explained that on the 25th, the amount is automatically drawn from the security, and there are cases when the 25th falls on a weekend and thus, if the security is placed elsewhere, it is not possible for the MO to draw from the same. She added that with LC's, the MO is still required to present certain documents in order for it to be allowed to make drawings.

Following the above discussion, the RCC agreed to the proposal as presented.

Further to the above, the RCC likewise agreed on additional amendments to Section 3.15.3, as follows:

"b) Said *WESM member* proposing to post a security deposit in a form other than Cash has no record of default in payment **or non-compliance with the PR** for the immediately preceding six (6) billing periods."

- On Section 3.15.4 on the Amount of Security, Ms. Gandia presented the suggestion of PEMC for inclusion in the BS Manual that a WESM member shall submit the necessary documents that may be required by the Market Operator. Thus, the proposed amendment as agreed to by the RCC would read as follows:

"Using available historical data, the Market Operator shall determine the initial prudential requirement of a new WESM member corresponding to the portion of its demand that is not covered by bilateral contracts, or ten percent (10%) of its total demand if fully covered by bilateral contracts, multiplied by the average actual market price of the previous twelve (12) billing periods."

- On Section 3.15.4.1, PEMC suggested the following revisions:

"The ME of a WESM member shall be computed as the Average Monthly Settlement Amount (AmSA) of the billing periods prior to the end of the financial year multiplied by the factor (35/30). The amount of security to be provided by each WESM Member pursuant to clauses 3.15.2.1 and 3.15.2.2 shall not be less than the ME."

If there is a disputed bill, a price spike or change in new bilateral contracts that significantly affect the settlement amount during the six billing periods covered in the computation of the ME, a WESM member may request adjustment in the computation of the ME."

If the MO determines that the security provided by a WESM member is below the assessed ME, the MO shall require a WESM member to increase its security deposit up to the level of its ME within 3 working days after the receipt of the written notification of the annual assessment. If the WESM member fails to comply within the prescribed date or any later date agreed to in writing with the MO, then the MO shall issue a default notice under section 3.14.11.1.c."

Ms. Gandia raised that the PEM Board already approved the "previous six months" relative to the computation of the ME and added that the MO already issued an advisory in May informing the WESM Participants of the same. She recalled however that during the 75th RCC meeting, the RCC agreed to replace the "previous six months" with "26th March to 25th September." She then inquired if it is possible for the RCC to no longer change the Board-approved provision.

Dr. Guevara responded that the reason for the change proposed by the RCC is logical. As stated by Mr. Sarmiento, the change was so as to reflect the price spikes in certain months. He added that it is most likely that a margin call will be issued during the months of March, April and May since the basis for the computation during these months are the rainy months, wherein prices are lower and demand is lower. Mr. Francisco L.R. Castro added that the change was done after learning from

PEMC-Finance that computation is done at the end of the year, which the RCC thought was not appropriate.

Noting the above, the RCC agreed to retain the "26th March to 25th September" as basis for computing the ME, and to likewise reflect in the RCC Resolution the justifications for adopting the proposal which was different from the Board-approved version.

In relation to the proposal for a replacement month when there is a disputed bill, Ms. Gandia stated that the proposal of PEMC is based on the change in BCQ as an effect of change in contract-renewal or new contract. She explained that it is possible that the BCQ for the current billing period is different from the BCQ of the previous billing period due to changes in the contract between the bilateral parties, which consequently affect the computation of MQ. If for instance, the BCQ for the current billing period is 50% of the MQ and in the current billing period it is increased to 90%, the replacement month will not be applicable. Ms. Gandia raised the question then on how the ME will be computed in cases where changes in the BCQ have been effected. She said that PEMC's suggestion to address this concern is to compute the BCQ based on the new contract or in cases where the BCQ is 100%, compute it a 10% of the total requirement.

Following the discussion, the RCC instead agreed to adopt the following proposed changes relative to Section 3.15.4.1:

"Subject to clause 3.15.2.2, prior to the end of each financial year, the Market Operator shall determine and provide written confirmation to each WESM member of its ~~m~~Maximum ~~e~~Exposure (**ME**) to the Market Operator in respect of a billing period in the following financial year.

The ME of a WESM member shall be computed as the Average Monthly Settlement Amount (AmSA) of the billing periods covering 26 March through 25 September prior to the end of the financial year multiplied by the factor (35/30). The amount of security to be provided by each WESM Member pursuant to clauses 3.15.2.1 and 3.15.2.2 shall be equivalent to the ME.

If there is a disputed bill during the months covered in the computation of the ME, a WESM member may request a replacement month, within the 26th March to 25th September billing periods, having the same number of calendar days.

If there is a change in the bilateral contract of a WESM Member, the ME shall be computed based on the settlement amounts estimated by the Market Operator using the average actual market price based on the billing period of 26th March to 25th September. In no case shall the ME be less than ten percent (10%) of the total demand.

If the MO determines that the security provided by a WESM member is below the assessed ME, the MO shall require a WESM member to increase its security deposit up to the level of its ME within 3 working days after the receipt of the written notification of the annual assessment. If the WESM member fails to comply within the prescribed date or any later date agreed to in writing with the MO, then the MO shall issue a default notice under section 3.14.11.1.c."

- On Section 3.15.4.2, the PEMC's suggestion which was approved by the RCC was to insert the "method of determination...." with the entire provision to read as follows:

"The Market Operator may review its method of determination of a WESM member's maximum exposure ME at any time, provided that any change to a WESM member's maximum exposure ME will apply no earlier than thirty (30) days following receipt of written notification by from the Market Operator to that by a WESM member of that change, or such earlier period agreed to in writing by the PEM Board."

- The RCC also agreed to PEMC's suggestion on the deletion of Section 3.15.9.2, as follows, since the essence of this section is already captured under 3.15.9.3:

~~"In calculating the Market Operator's actual exposure to a WESM Member under clause 3.15.9.1, the period between the start of the billing period in which the review occurs and the start of the trading day immediately following the day on which the review occurs is to be treated as a previous billing period."~~

- On Section 3.15.9.3, Ms. Gandia suggested to review item "b)" in view of the changes made on the definition of Actual Exposure and "the billing period that will be due this month," which proposed amendment was agreed to by the RCC. The proposed revision shall thus be re-worded to read as follows:

~~b) Settlement amounts for the WESM Member for trading intervals from the start of the billing period in which the review occurs to the end of the trading day on which the review occurs based on:~~

~~(1) — Actual market prices or, if actual market prices are not available for all or part of a trading day, the market prices forecast for the relevant trading day as specified in the relevant day-ahead projection; and~~

~~(2) — Actual metered quantities for the WESM Member or, if actual metered quantities are not available for a trading interval, then a trading imbalance for that trading interval determined by the Market Operator as the average of the trading imbalances of that WESM Member for the corresponding trading interval on the corresponding trading days of the four previous weeks.~~

~~b) Settlement amounts for the WESM Member for the billing period that will be due on the period in which the review occurs based on the available settlement statement.~~

- On Section 3.15.10.2, Dr. Guevara noted that the proposed amendment by the PEMC is clarificatory in nature, thus, the RCC agreed to the following proposed amendments:

"If the Market Operator makes a margin call on a WESM member under clause 3.15.10.1, then the WESM member must satisfy the margin call by providing the amount of shortfall within the period determined in accordance with clause 3.15.10.3 by either

a) Providing to the Market Operator an additional security or securities complying with the requirements of this clause 3.15 ~~which enables the Market Operator to increase the WESM member's trading limit to a level which exceeds the Market Operator's actual exposure to the WESM member, or~~

b) Prepaying a portion of the amount payable or which will become payable in respect of previous billing periods sufficient to reduce the Market Operator's actual exposure to the WESM member to below the WESM member's trading limit."

- On the definition of Maximum Exposure in the Glossary, PEMC's proposed amendment as follows:

" The maximum exposure of a WESM member shall mean the computed Average Monthly Settlement Amount (AmSA) of the previous six billing periods prior to the end of the financial year multiplied by the factor 35/30 and shall set the level of security deposit that a WESM member is required to maintain."

was disapproved as this relates to the RCC's disapproval of the proposed amendments to 3.15.4.1.

The said provision was amended to however reflect the inclusion of the multiplier factor of 35/30, as follows:

Maximum Exposure. The maximum exposure of a WESM member shall mean the computed Average Monthly Settlement Amount (AmSA) of the billing periods covering 26 March through 25 September prior to the end of the financial year multiplied by the factor 35/30 and shall set the level of security deposit that a WESM member is required to maintain

The RCC agreed to reflect applicable provisions of the proposed amendments to the WESM Rules relating to Prudential Security as approved by the RCC in the Billing and Settlements Manual.

Considering the substantial and new changes made by the RCC in the WESM Rules and the BS Manual during the meeting, the Secretariat was instructed by Dr. Guevara to repost the revised version of the matrix in the public website for comments of other WESM Members.

o RCC Requests to PEMC re line rental and SSLA

Mr. Libongco made a presentation in relation to RCC's requests to:

- Conduct simulation on a) removal of negative BCQs covering two billing periods and b) computation of SSLA in terms of the cost of energy loss (in Pesos) and not in KWH.

- Determine the practicability and impact of a) a preliminary bill reflective of the segregation of line rental, per plant, per node and b) finality of settlement within 60 days.

Highlights of the Presentation are shown in the table below:

RCC Request / Inquiry	PEMC Reply
1) Perform 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 the result would be a lower line rental amount as shown in the sampling done by Mr. Ciprinilo Meneses	<ul style="list-style-type: none"> ➤ Just assigning ZERO values to already allocated lump BCQs to metering points will create imbalances ➤ Simulations were made: <ul style="list-style-type: none"> ○ Where all negative MQs were not used for BCQ allocation, thus in a way not allowing negative BCQs and effectively assigning Zero BCQ values to meters with negative MQs during allocation ○ Resulting Total Trading Amount (TTA) value was equal to that of the TTA of the present mode of allocation ➤ WESM Rules states that BCQ declaration should be made on a per Market Trading Node (MTN) basis. At present MERALCO's way of declaring BCQ in a bulk basis is non-compliant
2) To determine if the reduction in the line rental amount which arises from removing negative BCQs will materially and adversely affect the financial balance of WESM settlements	<ul style="list-style-type: none"> ➤ Imbalances will occur if we just ZERO the values of the negative BCQs after the allocation of the BCQ lump declaration has been performed ➤ But allocation of BCQ using only positive MQ values will not affect financial balance of WESM Settlements (simulations were made for this case) ➤ Contrary to claim that it will lower the Line Rental, instead taking out the negative BCQ's will increase the LR, since the net effect will be increasing BCQ values for MERALCO in totality.
3) To perform a simulation where the basis of the SSLA computation is in terms of the cost of energy loss (Pesos) and not KWH; justification for this request if provided by GM Sulpicio Lagarde, Jr., a representative of the DU Sector in the RCC, as attached	<ul style="list-style-type: none"> ➤ Line Rental and SSLA computations in nature are totally different from each other ➤ We have already performed a simulation for ESAMELCO, simulations for the whole system will take a while <ul style="list-style-type: none"> ○ TTA results were equal for the KWH and PHP/KWH computations ○ EAQ, EAP, EPP were adjusted to the meter levels ➤ Changes Imply: <ul style="list-style-type: none"> ○ PDM Revision ○ ERC Review and Approval

<p>4) A preliminary bill reflective of the segregation of line rental, per plant, per node</p>	<ul style="list-style-type: none"> ➤ At present the Line Rental amount as a whole is already reflected in the Preliminary Bill per plant and per customer (note that the LR is almost reflected on the Customers as by default LR amounts are charged to the customers) ➤ For the segregation of the LR, <ul style="list-style-type: none"> ○ Add Additional Lines in the WESM Bill ○ Add Additional Tables for the Settlement Data ○ Make several changes in the settlement software ○ Implementation will be early next year (2014)
<p>5) 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</p>	<ul style="list-style-type: none"> ➤ At present we are allowed to issue WESM bills within 6 months upon completion of requirements and data <ul style="list-style-type: none"> ○ The Issuing MRU Additional compensation for four billing months as ERC directive is a big challenge and a heavy load on the BSM ○ The BSM maybe able to comply with this request once the MRU totally disappears in the WESM Operations.
<p>6) The use of pseudo/dummy node for MERALCO BCQs which contribute to negative BCQs</p>	<ul style="list-style-type: none"> ➤ The main cause for negative BCQ's is the allocation of the bulk BCQ using negative MQ values. ➤ Negative MQ values will somehow be eliminated if the MERALCO circuits can be modeled in the WESM (there is an on going collaborative talks between PEMC and MERALCO regarding this) ➤ Pseudo/dummy nodes are not being used, instead virtual meters are used as totalizers to attain mathematical solutions to modeling challenges like absence of necessary equipment, i.e. RTU, totalizing meters, etc.

Noting the presentation, the discussion on the matter below followed:

- Mr. Libongco stated that the MERALCO's declaration of its BCQ is not on a meter basis. Thus, PEMC has to disaggregate the BCQ based on metered quantities, and in the process, at the meter level in the MERALCO circuits, obtain negative values for the Metered Quantities (MQ) due to MERALCO's inherent circuitry. The negative MQs consequently give the negative values for the BCQ. He stated that when PEMC compared the results of the simulation with the present settlement for the same billing month used in the simulation, it was found that the Trading Amount of MERALCO would be the same whether the negative BCQ or Zero is used, leading to the conclusion that assigning Zero Values for the BCQ has no effect in the total settlement.
- Dr. Guevara asked if the negative values for BCQs result from the bulk declaration of MERALCO of its BCQ and whether the same can be eliminated if MERALCO will declare its BCQ on a per market trading node basis. Mr.

Libongco responded that the negative BCQs can perhaps be eliminated if MERALCO will remove the negative MQs in its disaggregation.

- Mr. Libongco stated that based on the simulation prepared by PEMC, if the disaggregation will be analyzed further, removing the negative BCQs will result in increased line rental as the BCQ is directly proportional to line rental. He added that moving forward, if the objective is to remove all negative BCQs, the MNM should go down to the MERALCO franchise area.
- Mr. Chrysanthus S. Heruela stated that the issue on the BCQ declaration is related to the nodal pricing of the market. He said that because the MERALCO network, which has loops within it, is not properly modeled in the Market Network Model (MNM) of the MO, the price impacts on its customers and effectively on the market. He added that the resulting negative values for the BCQ only shows the inconsistency between the MERALCO Network and the MNM.
- Dr. Guevara expressed that two things need to be addressed relative to the issue: 1) that nodal pricing cannot be done with lump declaration of the BCQ, and 2) that the accuracy of the MNM must be ensured through its proper modeling. Relative to this, Mr. Libongco said that the MERALCO should be able to provide its connection diagram in order to accurately model it in the MNM, which should result in the elimination of the negative effects of an incomplete network model.
- Mr. Libongco also said that on the simulation of ESAMELCO, which metering points are far from the nodes, conversion of the price from the node to the metering point showed that the Trading Amount is the same. Mr. Libongco explained that when the simulation of ESAMELCO was performed, prices were computed and adjusted on a meter basis, and effectively, the Site Specific Loss Adjustment (SSLA) can be computed, unlike when price is computed based on the market trading node where only the average for the meters can be derived. While the simulation showed zero difference in price relative to the settlement, perceivable differences in prices per meter were observed, where the decrease in one meter was reflected in the price increase for the other two meters, for example. In a way, by doing so, the losses were re-distributed to the other meters.
- Mr. Lagarde commented that the result of the simulation when SSLA was computed in terms of the cost of energy loss (in Pesos) and not kWh where no effect in settlement was shown only supports his proposal relative to the treatment of tariff. He said that his proposal was specifically to change the formula on tariff in order to reflect the system loss which would have an impact when the time comes that DUs shift to performance-based rate (PBR) system. On the other hand, Mr. Libongco stated that such proposal which entails changes in pricing involves revisions in the PDM and requires approval by the ERC, and for which, the same cannot be implemented immediately.
- Mr. Lagarde expressed that the proposal will clarify the NGCP's possible contribution to the downstream system loss. He stated that currently, the NGCP has no transformer for its house use which contributes to system loss

being shouldered by the Customers. In response, Mr. Libongco said that the NGCP's usage when it comes to its facilities is already being addressed through another process where the NGCP is being invited by the PEMC to register as a Customer. This way, its facilities will be properly metered and its usage will be billed through the WESM.

- Mr. Lagarde cited that their SSLA increased from 3.67% to 11% after the WESM was implemented. Mr. Cacho responded relative to this concern that the current market design adopts the locational marginal price where losses such as those caused by congestion are reflected in the price. The pricing mechanism of the previous market was that the price is averaged for all Customers regardless of their distance from the generator. This pricing mechanism, he added, effectively resulted in the subsidy of losses by certain Customers. Such subsidy was removed under the EPIRA when the locational marginal price was implemented to reflect actual losses by the Customers.
- Mr. Lagarde stated that his concern regarding the cost of SSLA in terms of energy loss (Pesos) and not kWh was sufficiently addressed by the simulation provided by the PEMC-BSM as presented by Mr. Libongco. Because of this, he stated that the DUs now have a reason to make a manifestation before the ERC to revise the tariff formula because when the time comes that the PBR system in distribution is implemented, system loss would matter.
- Mr. Sarmiento clarified whether the presentation of Mr. Libongco meant that the Market Trading Node will now become the metering point and that the NGCP will have to invest on RTUs. Mr. Libongco responded that in a way, in the simulation performed by PEMC, the BSM extended the computation in the MMS wherein an MTN was placed in the metering point. He said that the assumption in all the changes shown in the simulation was that the metering point would be the MTN.
- Mr. Libongco added that in the adjusted settlement, raw meter was converted in the adjustment meter without any changes in the prices at EAQ. In the proposal of Mr. Lagarde, what the PEMC did was apply a computation that required bringing down to the meter level the EAQ, EAP, and ETP. In effect, adjustment was done in the scheduling, the ex-ante price and the ex-post price in order to arrive at the settlement. This meant that the proposal of Mr. Lagarde and the current methodology being used in the settlement gives the same result but once the settlement is brought down to the meter level, changes in price will be observed.
- Noting the presentation made by Mr. Libongco, Dr. Guevara stated that it would be up to the DUs if they want to take action and request from the ERC regarding changes in the Pricing.
- Mr. Libongco expressed while the MRU additional compensation remains with PEMC, it will be very difficult for the same to reduce the number of days in issuing the finality of the bill. He added that if the same can be removed, the finality of the bill can actually be done in 60 days. Mr. Rosales said that the NGCP-SO can actually stop calling TPs as MRUs. However, there are certain implications if MRUs are not called which will be shown in his later presentation.

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3 o **Update on the RCC action Plan re: DOE Directives re Proposed**
4 **Amendments to the PEN Manual**

- 5
6 • Simulation to further assess impact of local PEN in terms of price
7 Increase/decrease

8
9 As an introduction to the discussion, Dr. Guevara posed the question to the RCC
10 whether or not they would stick with the proposal to amend the PEN Manual. She
11 referred to the position paper prepared by Ms. Cherry Javier which provided that in
12 45% of the all intervals in the MO runs, 95% of the peak intervals have pricing
13 errors. She added that the paper also stated that such market re-run where the
14 generators take the ex-post instead of the ex-ante price has a significant impact on
15 the generators

16
17 On this note, Mr. Cacho recalled that the proposed amendment by the RCC was to
18 have a substitute price corresponding to 5 nearest trading nodes instead of declaring
19 a pricing error, wherein the ex-post will be used only for those nodes with CVCs,
20 which nearness he explained is in terms of transmission loss.

21
22 Mr. Castro reviewed the DOE directives relative to the PEN Manual in order to put
23 the discussion into proper context. As he recalled, the DOE asked the RCC to do 4
24 things, as follows:

- 25
26 1. Conduct additional simulations to further assess the proposed methodology's
27 impact on WESM prices;
28 2. Provide further justifications on the merits of the proposal considering the
29 criteria for effecting a WESM Rules Change;
30 3. Identify and propose other possible alternative methodology to resolve the
31 issues on pricing errors for consideration of the DOE; and
32 4. Identify and propose appropriate amendments to the WESM Rules before
33 amending the PEN Manual to ensure consistency.

34
35 After reviewing, Mr. Castro stated that directives 1-3 should be given clarity before
36 the RCC can proceed with the 4th DOE directive. He reiterated that the position of
37 the RCC as he recalled was to maintain its initial recommendation except that
38 directives 1-3 must be fulfilled.

39
40 On this note, Mr. Olmedo proceeded with his presentation relative to the matter.
41 Highlights of the presentation are as follows:

- 42
43 ➤ When pricing errors are issued, ex-ante is replaced by the ex-post price.
44 Given the different factors at play at ex-post, the price substitution using ex-
45 post does not become reflective of the price at ex-ante which price is based
46 on commitment through the Merit Order Table price stacking.

- Under the local PEN, a localized non-congestion pricing error shall be issued to market trading nodes that are affected by the imposition of a contingency at a load-end equipment. The ex-post is substituted by a price based on the weighted significance of five (5) nearest trading nodes and its corresponding significance based on the Transmission Loss Factor (TLF). Local Non-congestion PEN is applied only if a contingency constraint violation manifests on a load-end customer.
- In the event that a localized non-congestion pricing error is issued to market trading nodes, its price shall be substituted by the weighted average of five market trading nodes (MTN) defined as loads in the same region that are not affected by localized Contingency CVC.
- The five nearest trading nodes was set arbitrarily by the RCC. However, selecting more or less number of nodes is not largely significant since the price substitution would depend on the weighted significance of the LMP. The percentage weight shall be based on the concept that a node with closest proximity to the affected node, based on TLF, shall have a greater significance to that affected node.
- For the entire 2012 billing periods, 3,382 ex-ante market runs out of the possible 8,768 trading intervals in Luzon fit the criteria for the local PEN price substitution. Assuming that the local PEN was applied, 35% of the 3,382 ex-ante market runs would have been cleared at higher prices. However, most of these intervals that comprise the 35% are of higher magnitude. Additionally, the other 65% ex-ante runs would have had lower prices.
- On the average, price would have been higher by P78 /MWh (or P0.078/kWh) for the entire 2012 billing periods.
- The Zapote sub-station is now the only substation manifesting CVCs frequently. Even so, PEN is still frequently issued in the Luzon Grid.
- It is possible that the modeling of the MERALCO network may have an impact in lessening the number of Contingency CVCs manifesting in its substations. However, the congestion will now manifest itself through the "binding constraints" at the major interchange, but possible congestions will manifest within MERALCO network, therefore affecting schedules in the grid. The planned upgrade in the Zapote substation with a 4th Transformer Bank will definitely alleviate the N-1 Contingency CVCs in the WESM.
- The implementation of the Reserve Market, RPS and Renewable Energy Market, among others, will have little effect in mitigating the frequency of Contingency CVCs at Zapote should the substation's transfer capacity not upgraded. An alternative is for MERALCO to study the possibility of shifting

loads to other substations in Metro Manila, which was actually already implemented from 29 January 2013 to 01 February 2012 during the maintenance period involving Zapote buses.

Below are the points arising from the presentation:

- Mr. Rosales asked how the RTD is affected by the local PEN. He said that in the ex-ante, all bids and offers are unconstrained, and, in order to come up with the RTD schedule, the N-1 constraint is considered, after which, the CVC is determined. Mr. Olmedo responded that pricing errors are issued on real-time just like when a network congestion exists, the same is published on real-time. Mr. Rosales said that a network solution when issued and adjusted based on N-1, results in reduced dispatched quantity since the N-1 constraint is considered. This only means that from the beginning, the dispatch solution is already affected by the N-1 constraint. Mr. Olmedo said in response that the local PEN or localized network congestion is affected by the ineffective MERALCO network model, thus, the N-1 constraint will always be violated in this case. He added that even if the constraint is relaxed, the generation schedule would still be the same in the local PEN, and effectively, the dispatch schedule will not be affected.
- Mr. Rosales stated that the difference when the MERALCO system is not modeled in the MNM is that it is possible that in the MNM, violation is observed but in the MERALCO system, no violation is observed. Therefore, he said that if the MERALCO network is properly modeled in the MNM, there is no need to issue a pricing error. He also noted that the proposal of Mr. Meneses is not feasible since in his proposal, the MERALCO network is treated as a load-end transformer.
- Dr. Guevara inquired whether the PEMC-TOD used other numbers for the nearest trading nodes. She recalled that in the presentation, the simulation used only 5 and 10. She stated the need to quantify the variation. She added that this will be included in the letter to the DOE in response to its directives relative to the PEN Manual. Mr. Olmedo said in response that he will submit further simulations using varied number of trading nodes other than 5 and 10, as requested by the RCC Chairperson.

Relative to the presentation made by Mr. Olmedo, Mr. Rosales likewise presented the Luzon pricing Errors using data from WESM's monthly report on PEN for the period January to December 2012 and January to March 2013 as reference.

He emphasized that the cause of the CVCs was the N-1 problem in the MERALCO interchange points particularly in the Zapote substation. However, upon validation of the PEN issuance, there were already periods in the last quarter of year 2012 and the first quarter of 2013 that SO claimed that there were no N-1 problem being monitored in the Zapote interchange while in the WESM's report, there were still N-1

1 problems monitored. He stated that the huge discrepancy between the MO and SO
2 was due to the unavailability of MERALCO system data with the MO. As a result, the
3 Meralco system is not properly modeled in the MDOM of the MO. The MO's model
4 was configured only as a load-point connection while the actual configuration was a
5 looped system. He stated further that the N-1 problem would be addressed if the 4th
6 bank at Zapote will be considered. Relative to the Zapote 4th bank, he apprised the
7 RCC that the ERC hearing for PA approval was already finished and awaiting the
8 ERC's decision and that bid documents preparation is now on-going.

9
10 In relation to the presentation, the following discussion followed:

- 11
12 • Mr. Lagarde inquired on what would be the effect in price if for instance, in
13 the Zapote interchange, from the point of view of MO there is observed
14 violation of the N-1 while in the SO, there is no violation observed since
15 the MERALCO network is considered by SO in its model. In response, Mr.
16 Cacho stated that an error or a violation occurs when the N-1 limit is
17 exceeded. He expressed that such violation was not hit in the SO's
18 simulation since the MERALCO system was considered in the SO's model
19 whereby switching and re-distribution within the MERALCO loop was
20 made possible in the SO's modeling. He emphasized that the MO
21 perceives the MERALCO network only as a load end transformer. As
22 regards the impact on price of the N-1 violation, the MO declares a pricing
23 error where price substitution using the ex-post price to replace the ex-
24 ante price is implemented. He stated further that the impact of declaring a
25 pricing error would be the uncertainty in prices to the traders and
26 participants as a result of price substitution at ex-post.
- 27 • Noting that the SO has information regarding the MERALCO loop that is
28 not captured in the MO's current MNM, and that the simulation presented
29 by Mr. Rosales considered the MERALCO network, Dr. Guevara inquired
30 from the MO whether the same is already considered in the new MNM
31 software. Mr. Cacho responded that the same is not yet considered in the
32 MNM and expressed that in order for the MO to capture the MERALCO
33 network in the MNM, MERALCO should make available its system data to
34 the MO.
- 35 • Dr. Guevara further inquired from Mr. Heruela whether her understanding
36 is correct that given the current MNM of the MO which does not reflect the
37 MERALCO system, the impact is an increased market price, and whether
38 this price can be brought down if the MNM can be properly modeled. Mr.
39 Heruela responded that the MNM should be properly modeled based on
40 the objectives of the Market and the WESM Rules, which implies that the
41 market network model should reflect what impacts on the market and that
42 is to include the negative BCQ's, the constraints in allowing for a free
43 trade in the electricity market, among other things. In the absence of the
44 MERALCO network in the MNM, a mathematical formula in the MDOM is

1 formulated in order to maximize the trading of electricity both from the
2 supply and demand perspective.

- 3 • Mr. Heruela mentioned relative that the position of PEMC for MERALCO
4 network's inclusion in the MNM is already at the level of the DOE. In
5 addition, Mr. Cacho stated that since MERALCO's non-inclusion in the
6 MNM has been a subject of a previous audit findings, the thrust of the
7 PEMC has been to conduct a study in this regard to resolve the issues
8 relative to the MNM. Part of this process was to request MERALCO to
9 provide such information needed in the modeling of the MNM, but with
10 MERALCO's request for a non-disclosure confidentiality agreement
11 (NDCA) which has already been signed by PEMC and forwarded to
12 MERALCO for its signature. He added that once the document is signed,
13 the parties can start their exchange of communications and information.
14 Relative to this, Mr. Heruela expressed that for the purpose of
15 transparency and the non-disclosure policy of MERALCO, any information
16 which will have impact on the other participants should be removed in the
17 non-disclosure policy. Atty. Dumalao expressed that generators, for their
18 part, can perhaps demand such from MERALCO thru the ERC.
- 19 • Dr. Guevara commented that the confidentiality agreement can be
20 changed through the process of the RCC. Atty. Dumalao on the other hand
21 stated that while this is possible, the contractual agreement between
22 PEMC and the MERALCO may not be captured in such proposal.
- 23 • Mr. Binondo for his part stated that during the 2009 audit, the external
24 auditor already gave its comments on the need for MERALCO to provide
25 its single-line diagram to the MO. As he recalled, this was already
26 provided by the MERALCO but he is uncertain as to the status of the
27 simulation by PEMC of MERALCO. Mr. Heruela said in response that in
28 so far as PEMC is concerned, there was no single-line diagram
29 submission by MERALCO, thus, no simulation was conducted. Mr.
30 Binondo stated however, that a hard copy of the single-line diagram was
31 submitted to the external auditor at the time that the audit was being
32 conducted since the base case data of MERALCO was not yet available
33 at that time. He added that the final recommendation by the auditor was to
34 conduct a further study on the matter and to simulate the impact of
35 MERALCO's inclusion in the MNM. Finally, he mentioned that the DOE
36 already issued an order in 2009 for PEMC and MERALCO to coordinate
37 relative to the matter.
- 38 • Dr. Guevara commented that the failure of PEMC and MERALCO to
39 exchange information may result in the inefficiency in the market.
- 40 • Mr. Cacho expressed that what is required in the proper modeling of the
41 MNM is not a single-line diagram but the network parameters and real-
42 time information (snapshot) of MERALCO.
- 43 • On this note, Dr. Guevara inquired from Mr. Binondo whether the DOE
44 can compel MERALCO to submit an e-copy of its single line diagram to
45 the MO. She also expressed if Mr. Binondo can inform the DOE thru Dir.

1 Capangcol of the situation and if he can give advance notice that the RCC
2 will write a letter to the DOE requesting the same to compel MERALCO to
3 submit an e-copy of its single line diagram and all other required
4 information that would allow proper modeling of the MNM. Mr. Binondo
5 responded that the DOE already discussed the matter.

- 6 • Continuing with the discussion on local PENs, Mr. Lagarde commented
7 that the NSS reflects over-collection from the Customers, stating that if the
8 formula for computing the WESM Price is correct, then the collected
9 amount from a Participant should be exact. He stated therefore that the
10 NSS should be removed. In response to the concerns raised, Mr. Cacho
11 stated that the NSS is a surplus as an effect of trading which is later on
12 returned back the market—both to the Customers and the Generators. He
13 mentioned that the PEMC-BSM already conducted a study which
14 suggested that the NSS should be returned only to the Customers and not
15 to Generators, since it is the Customers that pay the line rental. On the
16 concern of Atty. Dumlao that in some cases, Generators also become Net
17 Buyers, Mr. Cacho responded that only in those exceptional cases should
18 the Generators receive from the NSS. Dr. Guevara commented that giving
19 to the Generators part of the NSS may not be appropriate, and therefore
20 requested Mr. Cacho to verify if indeed generators also receive from the
21 NSS.

22
23 Following the discussion and presentation made, the RCC agreed that if the
24 MERALCO network will be made available to the MO, the latter will be able to
25 properly model the MERALCO network in the MNM which should result in market
26 efficiency.

27
28 In relation to the above, Mr. Binondo was requested to raise the concern to the DOE
29 through Director Capangcol in order to call the DOE's attention regarding the matter.
30 Similarly, the RCC agreed to write a letter to the DOE requesting the same to compel
31 MERALCO to provide the necessary information regarding its network including an e-
32 copy of its single-line diagram, which, if made available, would allow the MO to
33 properly model the MERALCO system in the MNM.

34
35 Noting the presentation made by Mr. Olmedo, the RCC agreed to maintain its initial
36 recommendation to have a substitute price corresponding to the five nearest trading
37 nodes instead of declaring a pricing error wherein the ex-post price will be used.
38 Further to the discussion, the RCC agreed to write a letter to the DOE informing the
39 same that the RCC has already complied with its directives 1-3 relative to the PEN
40 Manual as contained in its letter dated 04 April 2013, and likewise to inform the DOE
41 that the relative to its fourth directive, the RCC will be submitting its proposed
42 amendments to the WESM Rules. In this regard, Mr. Castro was asked to lead the
43 sub-committee on PEN to identify appropriate changes to the WESM Rules relative
44 to the proposed amendments to the Manual. The RCC finally agreed to present and
45 discuss the same during the next meeting.

1
2 o **Update on RCC Action Plan re DOE Directives re Proposed changes to the**
3 **MRU Manual**

- 4
5 ▪ Incorporation of DOE proposed changes to the PGC for possible submission
6 to GMC

7
8 Mr. Rosales presented to the RCC regarding the MRU matter, the highlights of
9 which are :

- 10
11 ➤ Generators being called as MRU by the SO is being categorized as "lack of
12 energy requirements." This is necessary after the required reserves were
13 exhausted in order to balance supply and demand. Whenever there is under-
14 generation as a result of non-observance of the Must-offer rule or cancellation
15 of offers, it results in the an imbalance in the supply capacity to match the
16 actual demand. Other MRU criteria which the SO also considers are the
17 thermal loading requirement (to address the N-1 problem) and the voltage
18 requirement (to provide reactive support).
- 19 ➤ In addition, MRUs, as stated in the Manual, not only involve security-related
20 concerns but also non-security related issues. He presented the statistics for
21 the 1st semester of CY 2013 in which out of 5,469 trading intervals, only
22 1,070 intervals or 20% was security-related while 4,399 intervals or 80% was
23 due to non-security related issues. He emphasized that only 20% of the MRU
24 being utilized in Luzon is attributed to security-related issues. The exclusion
25 of non-security related matters under the MRU criteria was highlighted as the
26 main contributor to MRU usage. The non-security-related involves regulatory
27 requirements, commissioning tests, etc.
- 28 ➤ The use of MRU under security-related reasons was necessary to address
29 the threat in the system and once it is not considered, the SO may resort to
30 the implementation of Manual load dropping.

31
32 Relatedly, Mr. Rosales made a presentation on how the MSU should be treated, with
33 highlights as follows.

- 34
35 ➤ Same as the MRU, if the MSU is called upon, corresponding compensation
36 shall be imposed based on the RCC proposal.
- 37 ➤ Various factors on how the MSU must be treated are as follows: a) Low
38 Actual System Demand (over forecast); b) Low Intra Hour System Demand
39 Variations; c) Depleted Regulating Reserves (already at minimum) during
40 Intra-Hour Interval; d) Tripping of HVDC Link (outgoing power); e) Large Load
41 Tripping; and f) Islanding Operation.
- 42 ➤ The following questions were also highlighted: Based on the RCC proposal,
43 MSUs shall be compensated by whom? SO? Generators? (Causer's pay)
- 44 ➤ If MSU will be compensated, why should the consumers shoulder the burden
45 to pay the energy not delivered by generators. He emphasized that once
46 there were generators called upon as MSU as a result of non-compliance of

other generators to dispatch instructions/schedules, they (the violators) shall be the one to pay the MSU plant.

The RCC agreed that it is correct that a generator should be paid if it is called as must run.

On the issue on causer's pay, Dr. Guevara stated that it was already resolved that in the RCC proposal, there will only be two causers: the generators and the SO. In this regard, Mr. Rosales requested that the SO be spared of this since there are many factors that need to be considered which are not covered by the proposed rules change. He also stated that the directive of the DOE in its letter focuses only on non-compliance of generators which resulted in excess generation and the System Operator was not mentioned to be included in the causer's pay.

After a lengthy deliberation on the matter of MRUs and MSUs with no resolution at hand, Dr. Guevara instructed that a sub-committee on the MRU / MSU be formed with Atty. Maila de Castro as Chairman, and the following as members: Mr. Pecjo, Mr. Cacho, Mr. Rosales, and Atty. Dumlao. Dr. Guevara likewise requested the presence and participation of the DOE in the MRU sub-committee meeting. It was agreed that the sub-committee meets on 15 July 2013 to further discuss the proposed amendments to the MRU Manual, the WESM Rules and the PGC relative to MRU and MSU.

o **Proposed Amendments to the WESM Rules and Dispatch Protocol Manual on: Submission of Bids and Offers based on "Reasonable Estimate"**

The RCC was advised that the proposed amendments relating to the Submission of Bids and Offers based on "Reasonable Estimate" has been posted and that the Secretariat is just awaiting until 06 July 2013 which is the deadline for submission of comments on the same.

In this regards, Dr. Guevara instructed, in the absence of comments to the proposal, the Secretariat, to prepare the Resolution on the RCC approval of the same for endorsement to the PEM Board, which was duly noted.

4. New Business

o **PEM Board Update**

The RCC was informed that the PEM Board approved the following Rules Change Proposals endorsed by the RCC:

- Proposed amendments to the WESM Rules Clause 3.13.16 defining the Gross Ex-Post Energy Settlement Quantity for Market Trading Nodes
- Proposed Inclusion of Additional Clause 4.4.4 in the WESM Rules

- Proposed Amendments to the WESM Metering Standards and Procedures Manual Subsection 9.7

On matter of the proposed amendments to the WESM Rules and Manual on Market Operator Information disclosure and Confidentiality Issue 2.0, the RCC was informed that the Board approved the proposed amendments except the inclusion of Section "k" pending the results of the RCC review/study on prudential requirements. Said provisions is as follows:

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.

5. Other Matters

1. Draft Semestral Report Covering the Period January to June 2013

The RCC was informed that the Secretariat has previously sent the Semestral Report thru email to the RCC.

The RCC then reviewed the content of the Report and gave initial comments and corrections on the same. Noting time constraints for the RCC's thorough review of the same, Chairperson Guevara gave the RCC members a week within which to review said report and submit further comments to the Secretariat before the same is submitted to the PEM Board.

2. Review of the 2013 RCC Work Plan: Updates from PEMC

Mr. Cacho informed the RCC of the changes in the timelines and deliverables from PEMC to the RCC which were originally due either on the 2nd or 3rd Quarter of 2013. He explained that such changes in the timelines were as a result of new PEMC directives relating to the same, notably the constitution of a Technical Working Group (TWG) for a holistic review of the proposed amendments to the Manuals.

Dr. Guevara, while noting the developments mentioned by Mr. Cacho, requested PEMC to submit definite timelines for said deliverables. Mr. Cacho agreed to furnish the RCC with more definite timelines after he has consulted the TWG for the committed targets.

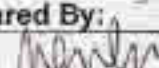
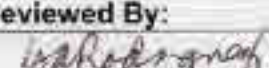
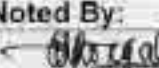
1 **6. Next Meeting**

2
3 The RCC set the date of succeeding meetings, as follows:

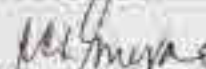
- 4
5 • 07 August 2013, 9AM
6 • 04 September 2013, 9AM
7 • 02 October 2013, 9AM
8 • 06 November 2013, 9AM
9 • 04 December 2013, 9AM

10
11
12 **7. Adjournment**


13 There being no other matter to be discussed, the meeting was adjourned at 4:30 PM.
14


Prepared By:	Reviewed By:	Noted By:
 Romellen C. Salazar <i>Analyst – Market Governance Administration Unit</i> Market Assessment Group	 Geraldine A. Rodriguez <i>Assistant Manager – Market Governance Administration Unit</i> Market Assessment Group	 Elaine D. Gonzales <i>Manager – Market Data and Analysis Division</i> Market Assessment Group


Approved by:
RULES CHANGE COMMITTEE


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Chairperson
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University of the Philippines
(UP)

Members:



Concepcion I. Tanglao
Independent
Philippine Resins Industries, Inc. (PRRI)



Francisco L.R. Castro, Jr.
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Maila Lourdes G. de Castro
Independent


Conrado D. Pecjo
Supply Sector
Angeles Power, Inc.


Augusto D. Sarmiento
Distribution Sector (PDU)
Dagupan Electric Corporation
(DECORP)



Liberty Z. Dumlao
Generation Sector
Power Sector Assets and Liabilities Management
Corporation (PSALM)


Sulpicio C. Lagarde Jr.
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Central Negros Electric Cooperative, Inc.
(CENECO)

Ciprinilo C. Meneses
Distribution Sector (PDU)
Manila Electric Company
(MERALCO)


Isidro E. Cacho
Market Operator
Philippine Electricity Market Corporation
(PEMC)


Jose P. Santos
Distribution Sector (EC)
Ilocos Norte Electric Cooperative, Inc.
(INEC)


Ambrosio R. Rosales
Transmission Sector
National Grid Corporation of the Philippines
(NGCP)



Attachments:

- 1) PEMC-BSMD Response to RCC Requests re Line Rental and SSLA
- 2) PEMC-TOD Local PEN Simulation
- 3) Draft RCC Semestral Report for January to June 2013.



**Wholesale Electricity
Spot Market**

RCC Requests July 3, 2013

PEMC-BSMD

Requests by RCC

- ❖ Perform 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 the result would be a lower line rental amount as shown in the sampling done by Mr. Ciprinilo Meneses
- ❖ **Reply:**
 - Just assigning ZERO values to already allocated lump BCQs to metering points will create imbalances
 - Simulations were made:
 - Where all negative MQs were not used for BCQ allocation, thus in a way not allowing negative BCQs and effectively assigning Zero BCQ values to meters with negative MQs during allocation
 - Resulting Total Trading Amount (TTA) value was equal to that of the TTA of the present mode of allocation
 - WESM rules states that BCQ declaration should be made on a per Market Trading Node (MTN) basis. At present MERALCO's way of declaring BCQ in a bulk basis is non-compliant

Requests by RCC

- ❖ To determine if the reduction in the line rental amount which arises from removing negative BCQs will materially and adversely affect the financial balance of WESM settlements
- ❖ Reply:
 - Imbalances will occur if we just ZERO the values of the negative BCQs after the allocation of the BCQ lump declaration has been performed
 - But allocation of BCQ using only positive MQ values will not affect financial balance of WESM Settlements (simulations were made for this case)
 - Contrary to claim that it will lower the Line Rental, instead taking out the negative BCQ's will increase the LR, since the net effect will be increasing BCQ values for MERALCO in totality.

Requests by RCC

- ❖ To perform a simulation where the basis of the SSLA computation is in terms of the cost of energy loss (Pesos) and not KWH; justification for this request is provided by GM Sulpicio Lagarde, Jr., a representative of the DU Sector in the RCC, as attached
- ❖ **Reply:**
 - Line Rental and SSLA computations in nature are totally different from each other
 - We have already performed a simulation for ESAMELCO, simulations for the whole system will take a while
 - TTA results were equal for the KWH and PHP/KWH computations
 - EAQ, EAP, EPP were adjusted to the meter levels
 - **Changes Implies:**
 - PDM Revision
 - ERC review and approval

Inquiries by RCC for Practicability and Impact

- ❖ A Preliminary bill reflective of the segregation of line rental, per plant, per node
- ❖ Reply:
 - At present the Line Rental amount as a whole is already reflected in the Preliminary Bill per plant and per customer (note that the LR is almost reflected on the Customers as by default LR amounts are charged to the customers)
 - For the segregation of the LR:
 - Add Additional Lines in the WESM Bill
 - Add Additional Tables for the Settlement Data
 - Make several changes in the settlement software
 - Implementation will be early next year (2014)

Inquiries by RCC for Practicability and Impact

- ❖ 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
- ❖ Reply:
 - At present we are allowed to issue WESM bills within 6 months upon completion of requirements and data
 - The issuing MRU Additional compensation for four billing months as ERC directive is a big challenge and a heavy load on the BSM
 - The BSM maybe able to comply with this request once the MRU totally disappears in the WESM Operations.

Inquiries by RCC for Practicability and Impact

- ❖ The use of pseudo/dummy node for MERALCO BCQs which contribute to negative BCQs
- ❖ Reply:
 - The main cause for negative BCQ's is the allocation of the bulk BCQ using negative MQ values.
 - Negative MQ values will somehow be eliminated if the MERALCO circuits can be modeled in the WESM (there is an on going collaborative talks between PEMC and MERALCO regarding this)
 - Pseudo/dummy nodes are not being used, instead virtual meters are used as totalizers attain mathematical solutions to modeling challenges like absence of necessary equipment, i.e. RTU, totalizing meters, etc.



**Wholesale Electricity
Spot Market**

End of Presentation



**Wholesale Electricity
Spot Market**

Impact of Local PEN

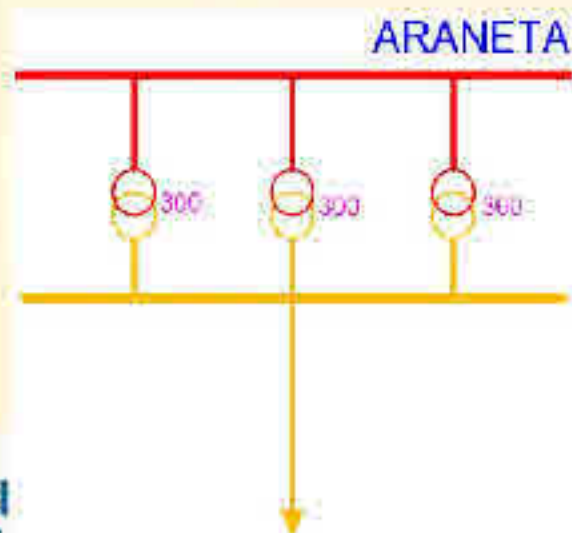
05 June 2013

Local PEN Concept

- ❑ A localized non-congestion pricing error shall be issued to market trading nodes that are affected by the imposition of a contingency at a load-end equipment
- ❑ The substituted price shall be based on the weighted significance of five (5) nearest nodes
- ❑ The five nearest nodes, and its corresponding significance, shall be based on the Transmission Loss Factors

When is the Proposed Localized Non-Congestion Pricing Error Applied?

- ❑ The Localized Non-Congestion Pricing Error shall only be applied if a contingency constraint violation manifests on a load-end transformer
- ❑ If other types of pricing error occur simultaneously with a localized non-congestion pricing error in the same region, the current Regional Application of the PEN/MRR/PSM shall be applied



A "load end transformer" is a transformer connected directly to a load, as represented in the network model, and constitute a radial (unidirectional) connection or power flow

How is the Proposed Local PEN Price Substitution Mechanism Applied?

1. In the event that a localized non-congestion pricing error is issued to market trading nodes, its price shall be substituted by the weighted average of five market trading nodes (MTN) defined as loads in the same region that are not affected by a localized Contingency CVC
2. The five nearest nodes, and its corresponding significance, shall be based on the Transmission Loss Factors
3. The weighted average of the five nearest nodes shall be based on the weighted significance of five (5) nearest nodes*

How are the 5 nearest nodes selected?

- ❑ The criteria is based on the inverse of the TLF based on the formulation of the LMP

$$\text{Diff}_{i,A} = \text{ABS} \left[\frac{1}{\text{TLF}_i} - \frac{1}{\text{TLF}_A} \right]$$

Where

A – affected node

i – other nodes not affected by CVC

- ❑ All MTN defined as loads in the same region shall be evaluated
- ❑ Loads with a nodal price beyond PhP 100,000/MWh shall be ignored (assumed to be affected by a CVC)
- ❑ After which, the 5 trading nodes with the lowest absolute difference shall be considered

Rationale for the basis of using TLF

- ❑ The criteria for determining the nearest nodes is based on the inverse of the TLF given the formulation of the Locational Marginal Price (LMP)
- ❑ Barring the cost of congestion, prices differ from each other based on the cost of losses

$$LMP_i = \lambda + \lambda \cdot \left(\frac{1}{TLF_i} - 1 \right) + \sum (\mu_{ij} \cdot a_{ij})$$

LMP	=	System Price	+	Cost of Losses	+	Cost of Congestion
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Rationale for the basis of using TLF

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$$LMP_i = \lambda + \lambda \cdot \left(\frac{1}{TLF_i} - 1 \right) + \sum (\mu_{ij} \cdot a_{ij})$$

$$LMP_i = \frac{\lambda}{TLF_i} + (\mu_{ij} \cdot a_{ij}) \quad \text{Upon simplification}$$

$$LMP_i = \frac{\lambda}{TLF_i} \quad \text{Ignoring the cost of congestion}$$

Why select only “5” for the nearest nodes?

- ❑ This was arbitrarily set by the RCC
- ❑ However, selecting less (4 or less) or more (6 or more) nodes is not largely significant since the price substitution would have to depend on the weighted significance of the LMP
- ❑ The percentage weight shall be based on the concept that a node with the closest proximity to the affected node, based on TLF, shall have a greater significance to that affected node

$$\%Weight_i = \frac{\frac{1}{ABS\left(\frac{1}{TLF_i} - \frac{1}{TLF_A}\right)}}{\sum_{i=1}^5 \left[\frac{1}{ABS\left(\frac{1}{TLF_i} - \frac{1}{TLF_A}\right)} \right]}$$

$$\%Weight_i = \frac{\frac{1}{Diff_{i,A}}}{\sum_{i=1}^5 \left[\frac{1}{Diff_{i,A}} \right]}$$

Weighted Significance Sample

Nearest Nodes

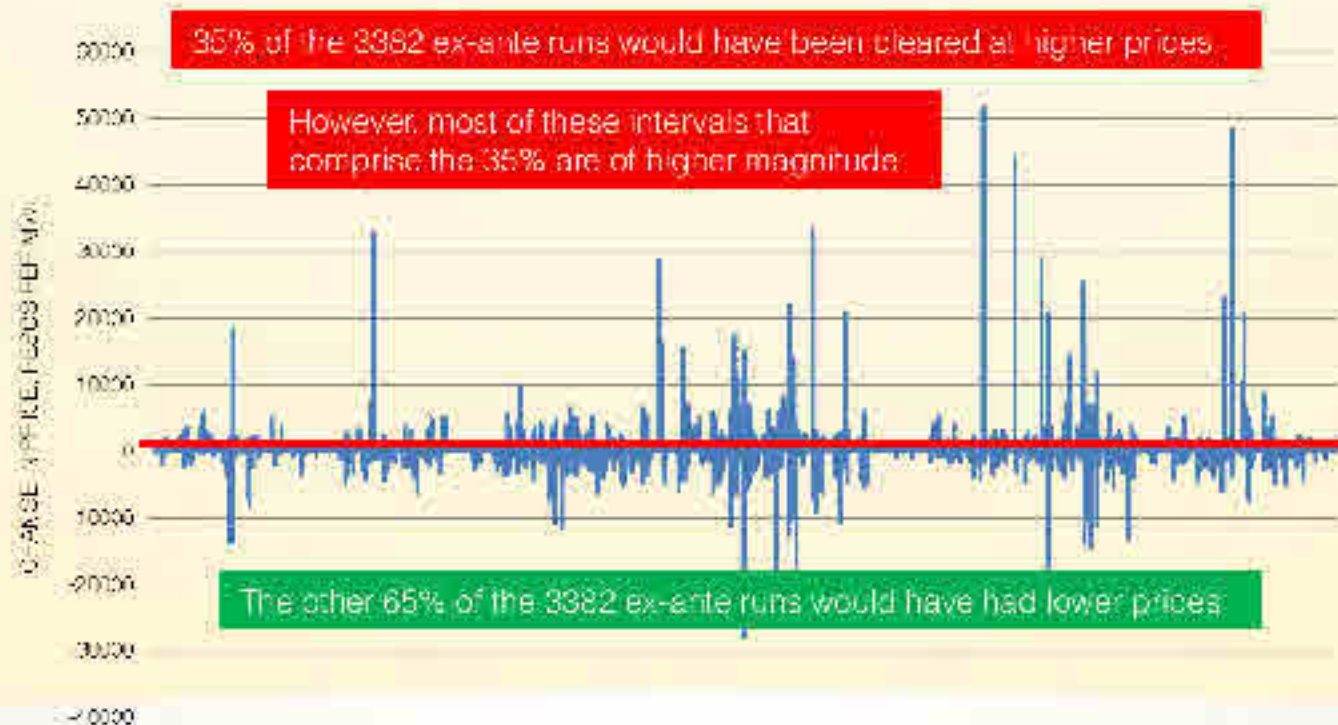
10 Nearest Nodes			
RESOURCE_ID	TLF	Weighted Significance	Nodal Price
3MAKBA_T3L1	0.9660	23.1%	30,861.76
1SNJOS_T1L1	0.9661	17.3%	30,858.86
3MKBNB_SS	0.9662	13.8%	30,854.64
3MKBNC_SS	0.9663	11.5%	30,852.69
1MALOL_T1L1	0.9664	9.9%	30,848.19
3BINAN_T1L1	0.9665	8.7%	30,847.36
3STROS_T1L1	0.9666	6.3%	30,835.14
1BNTAY_T1L1	0.9673	4.3%	30,820.61
1T_ASI_T3L1	0.9680	3.0%	30,797.49
1EHVSJ_SS	0.9690	2.1%	30,767.61
Price Substituted			30,849.27

5 Nearest Nodes			
RESOURCE_ID	TLF	Weighted Significance	Nodal Price
3MAKBA_T3L1	0.9660	30.5%	30,861.76
1SNJOS_T1L1	0.9661	22.9%	30,858.86
3MKBNB_SS	0.9662	18.3%	30,854.64
3MKBNC_SS	0.9663	15.3%	30,852.69
1MALOL_T1L1	0.9664	13.1%	30,848.19
Price Substituted			30,856.64

Zapata Computed Price	Based on 10 Nodes	Based on 5 Nodes
30,871.76	30,849.27	30,856.64

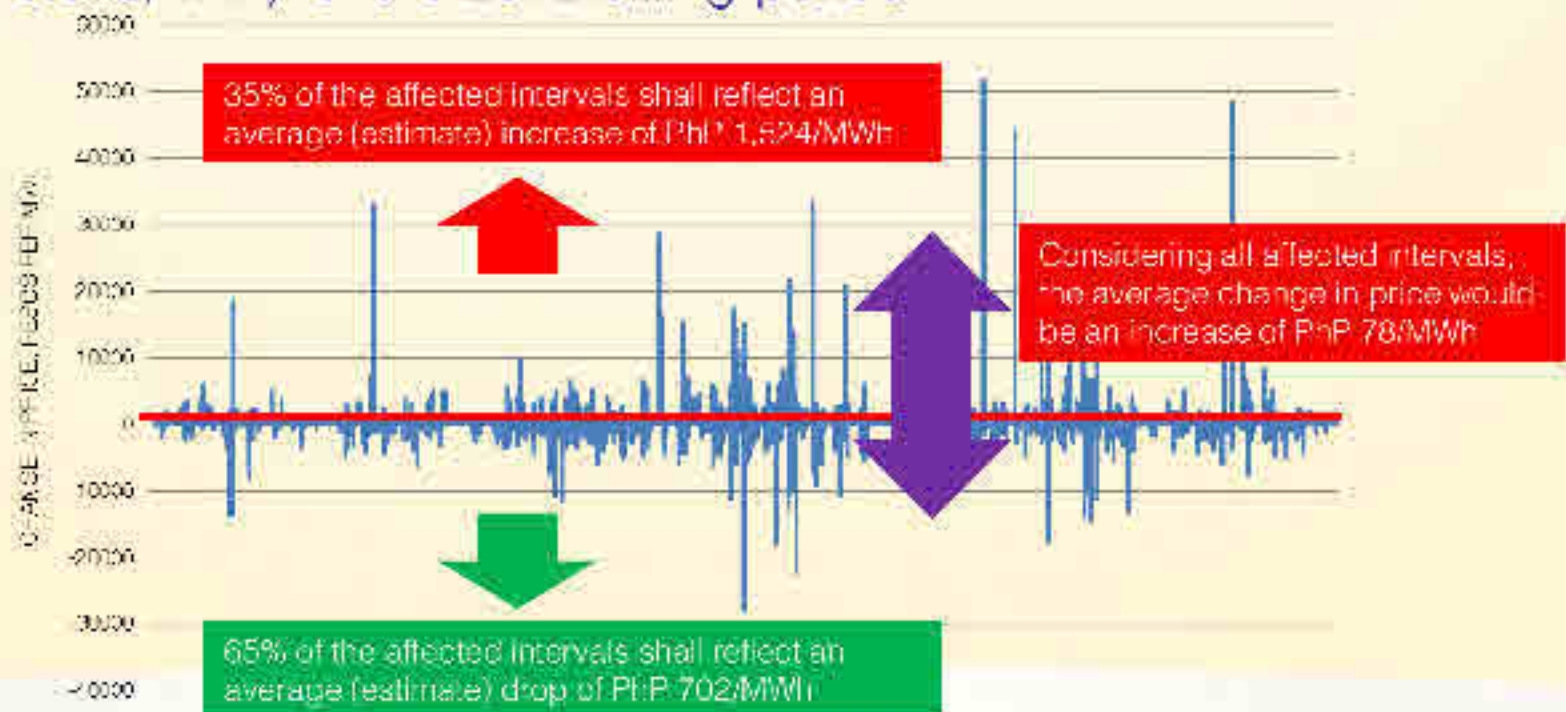
Simulation of Local PEN for Entire 2012

- ❑ For the entire 2012 (26 Dec 2011 until 25 Dec 2012), 3,382 ex-ante market runs out of the possible 8,769* trading intervals in Luzon fit the criteria for the Local PEN Price Substitution
- ❑ Suppose that the Local PEN was applied for the 2012 billing period



Simulation of Local PEN for Entire 2012

- For the entire 2012 (26 Dec 2011 until 25 Dec 2012), 3,382 ex-ante market runs out of the possible 8,769* trading intervals in Luzon fit the criteria for the Local PEN Price Substitution
- On an average, price would have been higher by PhP 78/MWh (or PhP 0.078/kWh) for the 2012 billing period

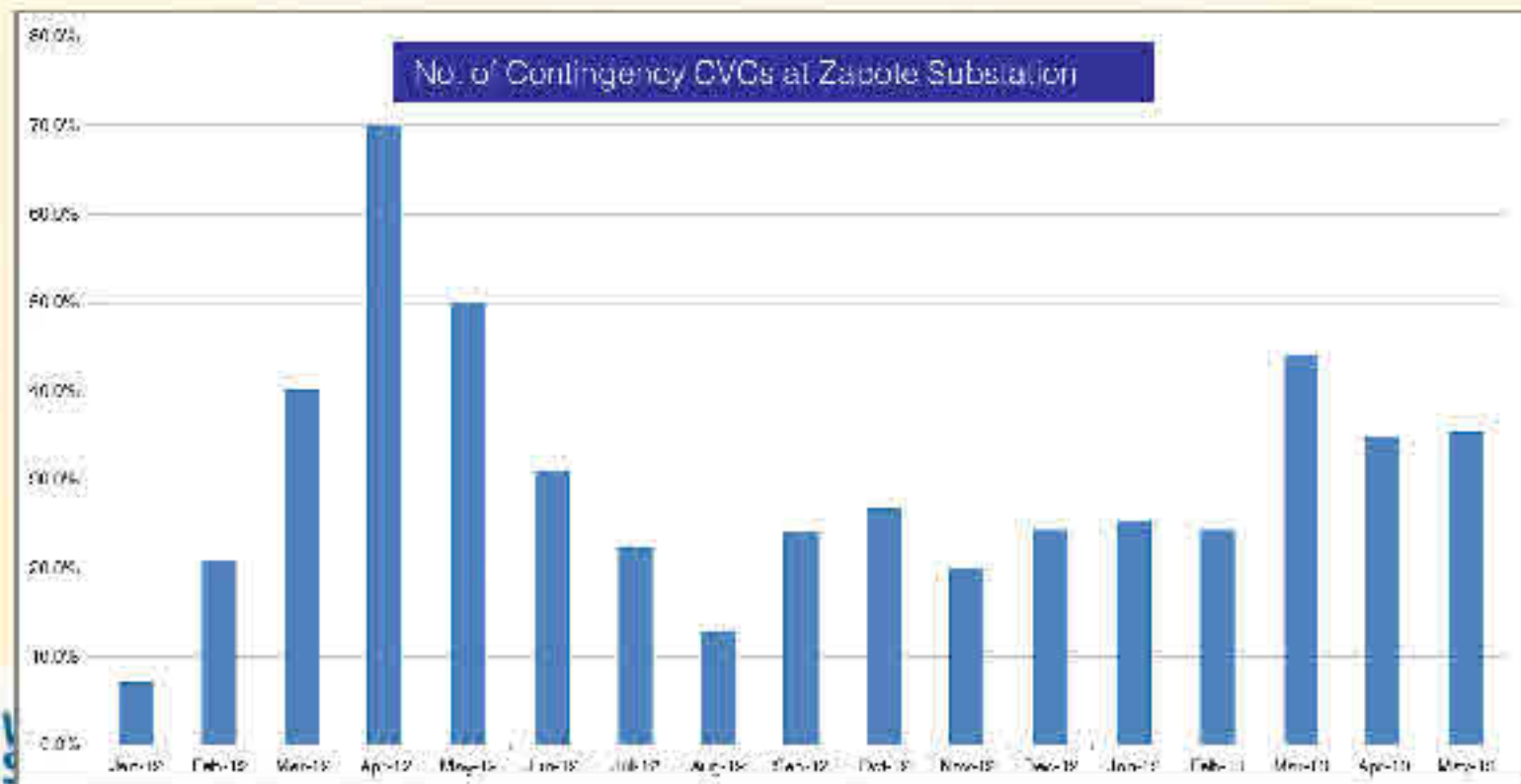


Simulation of Local PEN for Entire 2012

	Price Increase			Price Decrease			Price Increase/Decrease		
	Min	Max	Ave	Min	Max	Ave	Min	Max	Ave
Jan-12	1.40	18,474.84	1,493.12	3.83	13,624.25	1,048.05	-13,624.25	18,474.84	56.79
Feb-12	0.30	5,006.17	726.65	-0.13	-1,784.15	-323.50	0.13	4,784.15	40.04
Mar-12	0.36	33,010.35	902.80	0.15	6,294.35	405.23	0.15	6,294.35	27.12
Apr-12	0.17	9,864.27	453.94	-0.13	-4,241.37	-346.91	-0.13	-4,241.37	-61.35
May-12	0.11	6,674.53	1,124.57	-1.72	-11,696.09	-730.43	1.72	11,696.09	210.55
Jun-12	1.85	23,606.36	3,153.16	-4.09	-27,333.24	-969.59	-1.00	-27,333.24	-160.90
Jul-12	10.32	33,383.15	2,497.33	-1.30	-22,194.56	-1,644.01	-1.30	-22,194.56	-144.37
Aug-12	1.03	20,829.89	1,229.72	-1.09	-5,472.85	-477.39	-1.09	-5,472.85	142.53
Sep-12	0.46	51,487.34	2,381.82	0.11	4,694.47	605.10	-0.11	-4,694.47	570.07
Oct-12	0.54	25,297.77	2,059.08	-1.44	-17,695.78	-1,412.02	-1.14	-17,695.78	127.36
Nov-12	3.84	49,304.76	1,998.33	5.89	5,986.91	766.65	-5.89	-5,986.91	244.20
Dec-12	0.15	20,406.25	1,728.80	-2.43	-7,513.54	-521.01	-2.43	-7,513.54	250.28
2012	0.11	51,487.34	1,524.29	0.11	27,333.24	701.78	13,624.25	18,474.84	78.39

Update on Contingency CVCs

- ❑ The Zapote substation is now the only substation manifesting Contingency CVCs *frequently*
- ❑ Even so, PEN is still frequently issued in the Luzon grid



Possible Solutions on Contingency CVCs

- ❑ It is possible that the modelling of the MERALCO network may have an impact on lessening the number of Contingency CVCs manifesting in its substations
- ❑ However, the congestion will now manifest itself through “binding constraints” at the major interchange, but possible congestions will manifest within the MERALCO network, therefore affecting schedules in the grid
- ❑ Even so, these are congestions that still serve as signals to upgrade the facilities at the affected substation(s)
- ❑ The planned upgrade of the Zapote substation with a 4th Transformer Bank will definitely alleviate the N-1 Contingency CVCs in WESM

Possible Solutions on Contingency CVCs

- ❑ The implementation of the Reserve Market, RPS, and Renewable Energy Market, among others, will have little effect in mitigating the frequency of Contingency CVCs at Zapote should the Substation's transfer capacity not be upgraded
- ❑ An alternative is for MERALCO to study the possibility of shifting loads to other substations in Metro Manila, which was actually already implemented from 29 Jan 2013 to 01 Feb 2013 during a maintenance period involving Zapote's buses

End of Presentation



Rules Change Committee

2013 Semestral Report

(January – June 2013)

This Report is prepared by the Philippine Electricity Market Corporation-Market Assessment Group for the Rules Change Committee.

June 2013

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I. INTRODUCTION

In compliance with its mandate under the WESM Rules¹ and WESM Manual of Procedures for Changes to the WESM Rules (Rules Change Manual), the Rules Change Committee (RCC) submits this Report, covering the period January to June 2013. This report sets out the following:

- i. All WESM Rules and Manuals change proposals which have been submitted to and deliberated by the RCC for the covered period; and
- ii. Status of RCC Priorities outlined in the 2013 RCC Work Plan.

II. WHAT HAS BEEN DONE

The RCC met seven (7) times during the period January to June 2013, six (6) times for its regular committee meetings and once during its Planning Session held on 09 January 2013, to discuss and deliberate upon several amendments to the WESM Rules and Manuals, which are aimed at enhancing market design, as well as refining processes and operations appropriate for the current market setting.

During the 6-month covered period, the RCC deliberated on sixteen (16) proposals for amendments to the WESM Rules and Manuals, eight (8) of which were approved and subsequently submitted to the PEM Board. Of the 8 RCC approved proposals, six (6) were approved and two (2) were referred by the PEM Board Review Committee to the Tripartite Body composed of the Department of Energy (DOE), Energy Regulatory Commission (ERC) and PEMC.

The RCC activities for the covered period are discussed in detail in the succeeding sections.

II.A. Formulation and Status of the 2013 RCC Work Plan

One of the first activities of the RCC for the year was the conduct of its Annual Planning Session on 09 January 2013. The RCC Planning Session, the output of which was the formulation of the 2013 RCC Work Plan, was completed with active participation by the representatives from the DOE, ERC and PEMC.

The 2013 RCC Work Plan serves as the roadmap of the Committee for the current year and outlines the key activities that the RCC has to undertake to address issues and priority concerns as identified during the planning session.

Taking its lead from the pronouncements made by the DOE through Undersecretary Josefina Patricia M. Asiri during the RCC's Planning Session, the RCC identified its priorities to include issues requiring rules changes arising from the result of the Independent Market Operations Audit, as well as the urgency to revisit the rules change process particularly the scope of the DOE's final approving authority of proposed rules changes to ensure that the current process responds to the EPIRA objectives, and the provision for flexibility should there be a need to address findings through the WESM Rules relative to the conclusion of the WESM metering audit review.

¹ WESM Rules, Clause 8.8.5

The DOE also reminded the RCC membership of their role to bring into the RCC discussion the inputs from their respective sectors pursuant to the objective of ensuring the consultative process in the RCC.

PEMC President Melinda L. Ocampo, responding to the RCC's request for inputs, discussed how the market continues to evolve with the more efficient work relationship/coordination between the Market Operator (MO) and the System Operator (SO), the regular consultative meetings with the DOE and ERC where PEMC provides updates on its programs and PEMC's consistency in its effort to educate itself with market/policy developments in other jurisdictions.

Consequently, the 2013 RCC Work Plan was formulated taking into account the inputs from DOE, PEMC and the RCC members on behalf of the sectors they represent.

The final 2013 RCC Work Plan was submitted to the PEM Board on 17 January 2013.

II.B. RCC-Approved Amendments to the WESM Rules and Manuals

During the period covered in this report, the RCC discussed and approved the following amendments to the WESM Rules and Manuals:

1. Proposed Changes to the WESM Rules on the Reduction of the Minimum Offer Block Size from 5MW to 1MW²

On 31 July 2012, PEMC submitted its proposed amendments on the reduction of the Minimum Energy Offer Block Size and Contingency Reserve Offer Block Size from 5 MW to 1 MW. PEMC's rationale for the proposal is to enable small generating units to actively compete in the WESM and thus encourage the development of smaller units with the option for them to actively trade in the WESM.

The RCC deliberated upon the proposal but instead approved on 05 September 2012 the further reduction of the minimum energy offer block size and contingency reserve offer block size from five (5) MW to one tenth of one (0.1) MW, having noted the result of the simulations/tests from PEMC which showed that the Market Management System (MMS) will accept in its system the further reduction of the minimum bid block to 0.5 or 0.1 MW and that fractional increments in the bid blocks would also be acceptable.

The RCC justified its proposed further reduction in the offer block on account of precision and efficient payment value, since the same will allow generator-trading participants to submit their bids with precision considering that some plants, such as hydro generating plants, are capable of operating between zero (0) MW and 5 MW and at times can even operate up to a single decimal point, i.e. 3.2 MW or 5 MW, and for its corresponding payment value, as the same is the most efficient way of valuing one's service.

However, upon presentation of the RCC of the revised proposal to the Board Review Committee in its meeting on 21 September 2012, the BRC remanded the proposal to

² RCC/WESM-WR-12(04)_Proposed Changes to the WESM Rules on the Reduction of the Minimum Offer Block Size

the RCC for the following reasons: (a) the proposed reduction in the minimum offer block size from 5MW to 0.1 MW was significant so as to affect WESM participants; and (b) the said proposal lacked the requisite posting as provided under the approved processes for any rules change.

The RCC, responding to the directive of the BRC, re-opened its deliberation on the proposed amendments. Comments, including the reservations expressed by the NGCP-SO was then received by the RCC and discussed at length in its 05 December 2012 Meeting. In the same meeting, the RCC agreed: (1) that the proposed reduction will result to more gains for the WESM compared with the accompanying cost/technical difficulties cited by the NGCP-SO; (2) that necessarily, adjustments will have to be made on existing systems and processes; and (3) that having considered the value of the original intent of PEMC's proposal on the reduction of the minimum offer block from 5MW to 1MW, the same shall be re-submitted to the PEM Board for approval/ consideration.

On 17 January 2013, the RCC endorsed to the PEM Board for approval the Proposed Changes to the WESM Rules on the Reduction of the Minimum Offer Block Size and Contingency Reserve Offer Block Size from 5MW to 1MW, as originally submitted by PEMC.

The proposal was thereafter approved by the PEM Board in its 31 January 2013 Meeting and was submitted to the DOE for final approval. In response, the DOE promulgated DC2013-03-0004 on 22 March 2013 "Adopting Further Amendments to the WESM Rules Appendix A.1 Information to be Supplied with Offers to Supply and to Buy Electricity". Published on 05 April 2013, the said DC approved the proposed WESM rules change, effective 20 April 2013.

2. Proposed Amendments to the Manual of Procedures for Changes to the WESM Rules³

The RCC reviewed the provisions of the Manual of Procedures for Changes to the WESM Rules (Rules Change Manual) in several meetings of the Committee in year 2012, to address the following audit observations of the PEMC-Internal Audit Department in year 2011:

- No advisories on amendments were published on a regular basis in one (1) newspaper of general circulation which per IAD is provided for under Section 10 of the Rules Change Manual; and
- That "publish" as defined in Section 2 of the Manual is inconsistent with the provision in Section 10 where it appears that publication in the newspaper is mandatory.

During its 64th Meeting held on 18 July 2012, the RCC concluded that there is no conflict between Section 2 and Section 10 since both provisions clarified instances when publication in newspaper/s is required: (a) as may be deemed necessary by the PEM Board, amendments will have to be published in at least two (2) newspapers of general circulation (Section 2); and (b) advisories on amendments which shall be published in one (1) newspaper of general circulation (Section 10).

³ RCC/WESM-WM-1203_2, Proposed Amendments to the Manual of Procedures for Changes to the WESM Rules

In the 68th RCC Meeting held on 14 November 2012, the RCC discussed the comments submitted by MERALCO following the posting of the proposal in the WESM website but nonetheless upheld its previous decision and proceeded with its submission of the proposal to the PEM Board.

Upon the RCC's presentation of the proposed amendments during the PEM Board Meeting held on 31 January 2013, however, the PEM Board deferred its discussion on the proposal for its next Meeting to clarify the intent of the subject matter more particularly, the proposed amendment on Section 10 in relation to the comments made by the DOE.

During the 28 February 2013 Meeting of the PEM Board, the RCC clarified that the intent of its proposal was to respond to the IAD audit observations and harmonize the definition of 'publish' under Sections 2 and 10 of the Manual. It thus, recommended to remove from Section 10 the requirement on the publication of Advisories on Amendments, since approved amendments, specifically on the WESM Rules, are already embodied in DOE Circulars. This effectively modified the definition of 'publish', as defined in Section 2 of the Manual, thus addressing the IAD audit observation to harmonize the two sections.

The PEM Board approved the proposed amendment. The revised Manual was posted in the market information website on 02 April 2013 and was rendered effective on 17 April 2013.

3. Proposed Amendments to the WESM Rules and Registration Manual on the Registration of Ramp Rates⁴

The proposal, which intends to require all generators to submit minimum ramp up and ramp down rates (on top of the maximum ramp up and ramp down rates) together with the ramp rate capability curve of each generation unit or aggregated generation units, came a long way before reaching its final form as submitted by the RCC to the PEM Board on 08 April 2013.

In its 49th Meeting held on 22 June 2011, the RCC discussed with PEMC the procedure by which ramp rates are declared in the market as well as the manner by which they are applied in the dispatch optimization.

Subsequently, during its 50th Meeting held on 06 July 2011, the RCC discussed with the NGCP-SO the latter's concerns regarding the ramp rates of generators, including issues on ramping behavior and the SO-Visayas' preference for the registration of ramp rates per generating unit, instead of the aggregate ramp rate of the whole plant, to enable the SO to measure the response of the system based on the availability of each unit. In response to the said discussion, the RCC formally requested for PEMC's comments on the concerns raised by the NGCP-VSO.

The RCC received the comments of PEMC on 30 September 2011, which explained that the registration of ramp rates in the WESM is based on the aggregated unit, not on the basis of individual generating units, since the maximum ramp rate can be attained when all units are on line, which then became the basis of its discussion during the RCC's 57th Meeting held on 11 January 2012. It was on the said meeting where the RCC resolved to seek further guidance from PEMC on its recommendation

⁴ RCC/WESM-WRAM-1301_Proposed Amendments to the WESM Rules and Manual on the Registration of Ramp Rates

that generators should instead be required during registration to submit a graph/curve on ramp up/down rates (showing the change in MW versus time) and to submit the same to NGCP-SO to guide them in gauging/determining the response of a generator to certain dispatch instructions over a trading interval.

On 03 September 2012, PEMC submitted its comments to the RCC, stating that PEMC is amenable to the RCC's suggestion, with the recommendation to additionally require the submission of minimum ramp up/down rates upon registration, since at present, it is only the maximum ramp up/down rates which serve as the validation criteria in the processing of the ramp rate offers of generators.

The RCC deliberated upon the concept on the registration of ramp rates and its possible proposed amendments during the RCC meetings held on 14 November 2012 and 05 December 2012 and agreed to include the registration of ramp rates as a deliverable for the First Quarter of 2013 in its 2013 Planning Session.

During the RCC 70th Meeting on 16 January 2013, the RCC discussed in detail the proposed amendments to Appendix A1.1 (g) of the WESM Rules and Clause 5.4.4 Generation Registered Capacities of the Registration Manual, respectively, reflecting therein the proposed additional requirement for generators to submit their minimum and maximum ramp rates, as part of the registration requirement in the WESM. In addition, in response to the RCC's request, PEMC representative presented its draft Discussion Paper on the proposal. The generator representative likewise presented the draft application form to be required from generators in its submission of ramp rate data.

On 14 February 2013, the rules change proposal was published in the market information website in order to solicit comments from interested parties. The RCC then deliberated upon the proposal in its subsequent meeting held on 03 April 2013 and similarly discussed the comments received from the Market Surveillance Committee (MSC) and the Technical Committee (TC). In the same meeting, the RCC resolved to endorse the proposal, as revised, to the PEM Board with the following as rationale.

- The information required to be submitted upon registration will:
 - provide the Market Operator all the boundary values needed for the validation of the generator's offers; and
 - guide the SO in gauging the response of a generator to certain dispatch instructions over a trading interval.
- Promote transparency, improve the integrity of the market schedules and provide a level playing field resulting to better competition.

Upon presentation by the RCC of the proposed amendments during the PEM Board Review Committee Meeting held on 17 April 2013, the BRC agreed to refer the proposal instead to the Tripartite Body composed of the DOE, ERC and PEMC, having taken note that the proposal is a common concern among the three entities, particularly as regards the consistency of the WESM data requirement on registration vis-a-vis the declaration of data and the corresponding documentary requirements attached to the ERC's issuance of a Certificate of Compliance (COC).

4. Proposed Amendments to the Registration Manual on the Provisional Approval of Request for Change in Generator's Maximum Available Capacity⁵

In the course of its discussion on the proposed rules change on the Registration of Ramp Rates during its 70th Meeting held on 18 January 2013, the RCC noted the issue on the consistency of the WESM registration data with the data on the generator's COC, as the same is issued and annually monitored by the ERC. The RCC also noted the issue on the protocol attendant to a generator's subsequent request for change in its COC data, in view of the observation raised that the overall process attendant to the issuance of a generator's COC takes a considerable amount of time.

During the said meeting, the RCC agreed to address the above-identified lengthy process on the request for upgrade/increase in capacity of existing generating units relative to the objective to immediately integrate the added capacity into the grid through a possible rules change.

The generator sector representative suggested to amend the Rules to grant provisional acceptance on a generator's application for change in its registered capacity due to the upgrade/increase in capacity of its existing generating unit/s, subject to verification/final approval of the ERC and DOE after the conduct of the required inspection, testing and commissioning. It was however noted that the same proposal was previously elevated by the RCC to the PEM Board but the NGCP-SO expressed apprehension over the responsibility attached to such provisional acceptance.

The RCC Chairperson emphasized that the proposed amendment should satisfy the following requirements: (a) the MO/SO can grant provisional approval of a generator's application for increase in capacity for existing generating unit/s only; (b) documentary requirements under the present rules must all be complied with, within a specified timeline; (c) the generators are required to inform all interested parties of the said application. Further, it should be qualified that the provisional approval is still subject to the final approval of the DOE and the ERC which are responsible in the conduct of the corresponding inspection and testing/commissioning, as may be applicable.⁶

In its next meeting held on 13 February 2013, the draft proposal was presented for the RCC's consideration. Significant considerations factored-into the final form of the proposal were the following comments given during the RCC deliberation, from PEMC and the RCC Chairperson, respectively⁷:

- The PEMC Registration Group might require some additional documents and as such, the same should be explicitly provided for in the proposal. Also, the terminology registered capacity data as used under Section 3.1.1 refers not only to the increase in capacity but collectively refers to the generator's PMin, PMax and ramp rates. Since the change in PMin is a major operations and market issue, it was suggested to make an expressed qualification that the proposal puts premium only on the increase in capacity;

⁵ RCC/WESM-MM-1302_Proposed Amendments to the Registration Manual on the Provisional Approval of Request for Change in Generator's Maximum Available Capacity

⁶ MIN-RCC-13-01_Minutes of the 70th Rules Change Committee Meeting-18 January 2013

⁷ MIN-RCC-13-02_Minutes of the 71st Rules Change Committee Meeting-13 February 2013

- Inclusion of a separate provision on the prescribed process for all other requests for change in registered capacities data, except for the request for increase in PMax, which requires another process in order to clarify that proposal does not intend to impose a limitation of a generator's ability to decrease its capacity.

On 19 February 2013, the rules change proposal was published in the WESM website to solicit comments from interested parties.

During the 73rd RCC Meeting held on 03 April 2013, the RCC, giving due course to the comments received from the MSC and the TC, deliberated upon the proposed amendments and thereafter agreed to adopt the proposed amendments, as revised, for endorsement to PEM Board.

Upon presentation by the RCC of the proposed amendments during the PEM Board Review Committee Meeting held on 17 April 2013, however, the BRC agreed to refer the proposal instead to the Tripartite Body composed of the DOE, ERC and PEMC, having taken note that the proposal is actually raising an issue which can best be addressed collectively by the three entities.

5. Proposed Amendments on the Definition of Financial Year⁶

The proposal, which was submitted by PEMC to the RCC on 27 February 2013 seeks to define financial year in the WESM Rules similar to calendar year for the following reasons:

- calendar year is the period followed by PEMC in respect to its financial statements; and
- to align the deadlines for the preparation and submission of reports specified in the WESM Rules with the actual period of reporting of PEMC of its financial statements and budget.

The proposed amendments were presented to RCC for discussion during its 06 March 2013 Meeting and was thereafter posted in the public information website to solicit comments from interested parties.

On its 73rd Meeting held on 03 April 2013, having noted that there were no comments received on the proposal, approved the same as originally submitted by PEMC, for the PEM Board's approval.

The PEM Board approved the proposed amendments during the 81st PEM Board Meeting on 30 April 2013.

The PEM Board-approved WESM Rules amendments on "Financial Year" are still subject to the DOE's final approval.

6. Proposed Amendments to the WESM Rules and the WESM Manual on Market Operator Information Disclosure and Confidentiality⁷

⁶ RCC/WESM-WR-13/03 - Proposed Amendments on the Definition of Financial Year

⁷ RCC/WESM-WMAWR-13/01 - Proposed Amendments to the WESM Rules and the WESM Manual on Market Operator Information Disclosure and Confidentiality

On 20 March 2013, Abotiz Power Corporation (APC) submitted to the Rules Change Committee (RCC) its proposed amendments to the WESM Rules and the WESM Manual on Market Operator Information Disclosure and Confidentiality (IDC) Issue 2.0 with the objective to extend the exception on confidential information to enable affected WESM net sellers to obtain/gain access on the relevant information regarding their uncollected spot sales from WESM.

The proposed amendments of the WESM Rules and the Manual will allow disclosure to the WESM net sellers information on (a) settlements amount not paid; (b) the failure of any WESM member to meet prudential requirement obligations; (c) significant activity on prudential security, including drawings, monthly bills in excess of the security, and failure to top-up after drawings; and (d) any prudential security exceptions or waivers granted.

APC presented its proposal to the RCC during its 73rd Meeting held on 03 April 2013. In the course of the RCC's deliberation on the proposal, PEMC representative informed the group that when the Confidentiality Rules were first drafted, the proposal was to disclose everything, even the data on settlement. However, what was finalized was to disclose everything, except settlement information, as then espoused by the generator sector. Generator sector representative responded that as generators, it may not also be appropriate to reveal everything in settlement, considering that by policy, the generation sector has been made into a competitive segment in the power industry¹⁰.

During its 74th Meeting held on 15 May 2013, giving due course to the comments submitted by PEMC after the publication of the proposal in the public information website on 03 April 2013, adopted the proposed amendments, as revised, incorporating comments of PEMC to further simplify and refine specific wordings in the proposal, while also taking into consideration the practicability of the proposed amendments.

The RCC submitted its proposal to the PEM Board on 03 June 2013.

As a business arising from PEMC's comments on APC's proposal on Confidentiality rules, the RCC, in its 75th Meeting held on 05 June 2013, has further taken note of the declaration of transparency from DOE Secretary Honorable Carlos Jericho L. Petilla and that consistent with the overarching policy of the EPIRA as reflected in the WESM Rules and PEMC's further proposal 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. The RCC, cognizant of this directive, made a corresponding request for PEMC to submit the proposed amendments effecting the intended changes to the IDC Manual/WESM Rules, for the same to be posted for comments of all concerned and deliberated upon by the RCC.

On 20 June 2013, the PEM Board approved the RCC-proposed additional paragraph (j) on Clause 5.3.2, Exceptions, as follows:

- (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.**

¹⁰ MN-RCC-13-04_Minutes of the 73rd RCC Meeting held on 03 April 2013

However, the PEM Board deferred its approval of paragraph (k) to await the result of the RCC's ongoing review of the WESM Rules provisions on Prudential Requirements.

The above PEM Board action will be submitted to the DOE for its final approval.

7. Proposed Additional Clause 4.4.4 in the WESM Rules on the Registration of Metering Services Provider¹¹

PEMC submitted its proposed Additional Clause 4.4.4 in the WESM Rules on the Registration of Metering Services Provider on 20 March 2013, with the objective to address the scenario when there is only one Metering Service Provider (MSP) registered with the Market Operator but is also required to register as a Trading Participant, in view of the following:

- NGCP is currently the only MSP registered in PEMC with Certificate of Authority from the ERC for its Grid System Network.
- On February 26, 2012, the NGCP registered as a Customer Trading Participant in the WESM, trading its facilities at Itogon and Talavera Stations. Both facilities are formerly under the Default Wholesale Supplier (DWS) account of the National Power Corporation (NPC). NPC had refused to continue trading for the said facilities of NGCP.

During the 73rd RCC Meeting held on 03 April 2013, the proposed amendments were presented by PEMC to the RCC, for discussion. One of the matters discussed is that it is only fair to require all entities injecting to and/or withdrawing energy from the grid to be metered and registered in the WESM. On the same day, the proposal was posted in the public information website to solicit comments from interested parties.

In its 74th Meeting held on 15 May 2013, the RCC deliberated upon the comments submitted by SN Aboliz Power, Inc. (SNAP) together with the response provided by PEMC. The RCC has taken note of the concern raised by SNAP on transparency, considering that the TP is also providing metering services in its own Market Trading Node and the suggestion that there should be a third party (e.g. Market Operator) looking at this to ensure transparency. PEMC clarified that the suggestion is actually an inherent function of the MO and in addressing the concern on the security of data, the MSP is required to transmit its data using the meter data exchange format (MDEF) to secure its integrity.

The RCC then agreed to adopt the proposed amendments as originally submitted by PEMC. The proposal was endorsed to the PEM Board on 17 May 2013.

Consequently, the PEM Board has taken-up the proposal in its Meeting held on 20 June 2013 and agreed to introduce the proposed amendment not as an additional clause (4.4.4) but as an additional paragraph (insertion) to Clause 4.4.3.

The above approval will then be endorsed to the DOE, for final approval.

¹¹ RCC/WESM-WR-13/05_Proposed Additional Clause 4.4.4 in the WESM Rules

8. Proposed Amendments in the WESM Market Manual on Metering Standards and Procedures Subsection 9.7 on the Responsibility for Carrying-Out Site-Specific Loss Adjustments¹²

The proposed amendments in Subsection 9.7 of the WESM Market Manual on Metering Standards and Procedures delves on the responsibilities in carrying-out the Site-Specific Loss Adjustments (SSLA) and aims to ensure the timely, complete, accurate and updated submission by the Trading Participants (TPs) and the Network Service Provider (NSP) of the conductor and power transformer data to the Market Operator, which is the basis of its computation of the amount of losses between the metering point and the market trading node (MTN).

The proposal, which was submitted by PEMC on 20 March 2013, was presented to the RCC on 03 April 2013 during the 73rd Meeting of the RCC. In the same meeting, PEMC explained that over time, the data at hand with the Market Operator may no longer reflect the actual physical configuration of the conductor and transformer as changes sometimes happen on the field without the knowledge of the MO.

Salient features of the proposal are summed-up as follows:

- For both the Network Service Provider and the Trading Participants, to update and submit to the MO every 6 months, conductor and power transformer data between the metering point and the market trading node and as often as significant changes in the actual physical configuration of the said facilities are made;
- The updated data shall be used by the Market Operator starting only on the current billing month upon reconciliation by the MO, Trading Participants and the Network Service Provider; and
- The updated data shall be used progressively on the succeeding months until a new update is submitted.

The proposal was approved by the RCC for endorsement to PEM Board during its 74th Meeting held on 15 May 2013, having noted that there were no comments submitted on the same. Thereafter, the RCC submitted its proposal to PEM Board as originally worded, on 17 May 2013.

The PEM Board approved the proposed amendments during its meeting held on 20 June 2013. The revised Manual will then be posted in the WESM website, with its effectivity to be reckoned 15 days from publication.

9. Proposed Amendments to Clause 3.13.6 of the WESM Rules on Defining the Gross Ex-Post Energy Settlement Quantity for Market Trading Nodes¹³

The proposed amendments to Clause 3.13.6 of the WESM Rules was submitted by PEMC to the RCC on 20 March 2013 and were aimed to: (a) Introduce a more solid basis for the netting of bidirectional energy flows in a trading interval

¹² RCC/WESM-WM-13/03, Proposed Amendments in the WESM Manual on Metering Standards and Procedures Subsection 9.7 on the Responsibility for Carrying-Out Site-Specific Loss Adjustments

¹³ RCC/WESM-WR-13/07, Proposed Amendments to Clause 3.13.6 of the WESM Rules on Defining the Gross Ex-Post Energy Settlement Quantity for Market Trading Nodes

recorded in the meter; (b) Discourage meter tampering and other forms of pilferage in connection with RA 7832; and (c) Address the requirement that all embedded generators should register with the ERC and secure the corresponding Certificate of Compliance. The proposal will require all customers to inform the MO of any embedded generator facility and provide evidence of the embedded generator registration with the ERC to provide the MO with legal basis in settling the energy injected.

PEMC presented the proposal to the RCC on 03 April 2013, during the RCC 73rd Meeting. During the said meeting, PEMC expounded on the observations which triggered its submission of a rules change proposal. These were as follows:

- There are customers injecting energy to the grid, as recorded in their meter and that such energy injections are valid if these are the results of: a) an embedded generator whose generation is above the requirement of the local load; or b) excess energy withdrawn from an adjacent metering/connection point serving the same load; and
- There are injections to the grid that do not fall under any of the above cited cases.

After its posting in the public information website on 03 April 2013, the RCC continued with its deliberation on the proposal during its 74th Meeting held on 15 May 2013, and gave due course to the comments submitted by SNAP vis-a-vis the clarifications from PEMC.

In the same meeting, NGCP-MSP representative expressed that the additional Clause 3.13.6 (d) requiring the 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 and as such, that there should be another way to resolve the matter. NGCP-MSP recommended that the same be subject to technical investigation to be conducted by both the MSP and PEMC. The RCC Chairperson 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. The RCC Chairperson further stated her understanding that cases that might involve fraud or breach of the Rules are matters within the jurisdiction of the MSC.¹⁴

The RCC, recognizing the merits of the proposed amendments, approved the proposal as originally worded. The proposal was submitted to the PEM Board on 17 May 2013.

The PEM Board approved the proposed amendments during its meeting held on 20 June 2013. The same will be submitted to the DOE for its review and final approval.

II.C. Other Items Deliberated by the RCC

During the period covered in this report, the RCC likewise deliberated upon the following amendments to the WESM Rules and Manuals:

¹⁴ MN-RCC-13-05_Minutes of the 74th RCC Meeting held on 15 May 2013

1. PEM Board Directive on Prudential Requirement¹⁶

On 08 April 2013, the RCC received the PEM Board directive on Prudential Requirement, as follows:

- "Reduction of the level of PR to thirty-five (35) days to cover the 30-day settlement amount (SA) that will be due plus five (5) days contingency;
- Change the basis for the assessment of the ME and actual exposure (AE), which shall be as follows:
 - the monthly assessment of AE shall be based on the last preliminary statement or available settlement data;
the annual assessment of ME shall be based on the average settlement amount in the last six (6) billing periods, taking into consideration the price spikes and changes in the BCO.
- The PEM Board directed the RCC to reflect the above approved reduced level of PR and the new basis of computing the actual and maximum exposure with instruction to further study and revise the pertinent provisions of the WESM Rules in relation to PR in accordance with the aforementioned approval to ensure effective implementation thereof."

To guide the RCC in its review of the PR provisions, PEMC was requested to present and discuss the PEMC proposal to the PEM Board on the PR, as the same was presented and approved by the PEM Board in its 80th Meeting held on 21 March 2013. Additionally, the RCC requested for a copy of the proposed rules changes relative to the PEM Board-approved proposal on the PR¹⁶.

Responding to the above request, PEMC made its presentation to the RCC on 15 May 2013 during the 74th Meeting of the RCC. In summary, the pressing issues on PR were identified as follows:¹⁷

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

¹⁶ RCC/WESM-WRPM-1309_PEM Board Directive on Prudential Requirement

¹⁷ COR-INT-RCC-13-15_RCC Letter to PEMC re: PEMC Presentation on Prudential Requirement

¹⁸ MIN-RCC-13-05_Minutes of the 74th RCC Meeting held on 15 May 2013

2) The basis of the determination of Maximum Exposure (ME) as the basis of PR is not reflective of current transactions	<ul style="list-style-type: none"> – Changes in the BCQ are not considered 	<ul style="list-style-type: none"> – Review the basis of determining Maximum Exposure and PR
3) Suspension as penalty for not satisfying PR is impractical	<ul style="list-style-type: none"> – Not all the non-complying participants are defaulting participants – Suspension without disconnection is ineffective 	<ul style="list-style-type: none"> – Review the penalty provisions in the WESM Rules – Strictly implement disconnection

During the same meeting, the Summary of the Margin Calls (MCs) issued in 2012 was also presented through a graphical illustration which 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 with a record of default.¹⁹

The representative from the generator sector stated that the reduction of the PR is an expressed concern of the Philippine Independent Power Producers Association, Inc. (PIPPA) because it will be the generators which will assume liability once there is default. The generator sector representative likewise opined that a distribution utility (DU) should be disconnected once it fails to pay the previous settlement amount on due date.¹⁶

In response, PEMC explained that the intention of the proposal is to redefine ME and actual exposure (AE) since the obligation of a DU on due date is to pay the previous billing period and not the current period which is not yet billed by that time.

RCC consequently created the Subcommittee on PR for the purpose of the review and incorporation of the changes to the WESM Rules and Manuals as directed by the PEM Board.

In its 05 June 2013 Meeting, the RCC Subcommittee presented its proposed amendments to the WESM Rules and the WESM Manual on Billing and Settlements. The RCC approved the proposed amendments, for posting in the market information website, once the matrices of the proposed amendments are finalized by the RCC Subcommittee consistent with the RCC's discussion on the same.

The finalized matrices of the RCC proposed amendments were published in the market information website on 21 June 2013.

2. DOE Directive on the Proposal on the Manual on the Criteria and Guidelines for the Issuance of Pricing Error Notices (PEN) and Conduct of Market Re-Run (MRR)²⁰

Upon receipt of the DOE directive dated 04 April 2013 on the Proposal on the Manual on the Criteria and Guidelines for the Issuance of Pricing Error Notices (PEN) and

¹⁹ MIN-RCC-13-05_Minutes of the 74th RCC Meeting held on 15 May 2013

²¹ MIN-RCC-13-05_Minutes of the 74th RCC Meeting held on 15 May 2013

²⁰ DOE Policy Directives on the Proposed Amendments to the WESM Market Manuals dated 04 April 2013

Conduct of Market Re-Run (MRR), the RCC immediately deliberated upon each of the directives during its 74th Meeting held on 15 May 2013.

The DOE directives relative to the proposal on the PEN-MRR Manual are as follows:

- Conduct of additional simulations to further assess the proposed methodology's impact on WESM prices;
- Provide further justifications on the merits of the proposal considering the criteria for effecting a WESM rules change;
- Identify and propose other possible alternative methodology to resolve the issues on pricing errors for consideration of the DOE; and
- Identify and propose appropriate amendments to the WESM Rules before amending the PEN Manual to ensure consistency.

In the same 74th RCC meeting, the DOE observer to the RCC explained the details of the above directives as follows:

- The proposed price substitution methodology for cases of 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 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.

The RCC, acting upon the directives of the DOE, resolved to set a timeline of up to the end of July 2013 and correspondingly created the working groups identified below to ensure the RCC's substantive yet speedy compliance with the said directions.

- PEMC - to conduct a simulation to further assess the proposed methodology's impact on WESM prices;
- Generator-Merchants - to provide justification on the merits of the proposal considering the criteria for effecting the WESM rules change;
- DUs/MERALCO - to identify and propose possible alternative methodology to resolve issues on pricing errors; and
- Independent Member, Supply and DUs/INEC - to identify and propose appropriate amendments to the WESM Rules corresponding to the proposed changes to the PEN Manual, to ensure consistency.

In the next RCC Meeting held on 05 June 2013, the RCC working groups presented to the RCC their respective recommendations. The RCC deliberated upon each of the presentations at length and resolved as follows:

- On the PEMC Simulation

- To make clear/explicitly provide that the proposed substituted price based on the weighted significance of the five (5) nearest nodes is meant to be in reference to the 5 nearest nodes in terms of cost and not in terms of physical location.

To further simulate the implementation scenario on the proposed local PEN using market results for year 2012 in order to show the impact of the local PEN in terms of price increase/decrease and determine the additional cost to the end-consumers.

- On the Justification re: merits of the proposal
 - To prepare a revised paper which follows the "criteria for effecting a WESM rules change", as found in Clause 8.4.1 of the WESM Rules²¹
- On Proposal re: Possible Alternative Methodology
 - the RCC has taken note of the recommendation to either: (1) re-model the MERALCO system in the Market Network Model (MNM) such that only the biggest node of MERALCO is put on constraint, or (2) re-define the "N-1" contingency criterion as it is currently interpreted/implemented by the NGCP and the WESM.

However, the RCC has also considered the explanation of the PEMC representative that the MO's revisions in the Market Network (MNM) follow the Manual on the MNM Criteria and Procedures which prescribes the model to reflect the actual location in the system owing to the locational marginal pricing (LMP) design in the WESM pricing. Further, the audit findings that the modeling done for the MNM is acceptable except that the MERALCO system should be based on its actual physical configuration.

- On Corresponding Proposed Changes to the WESM Rules, the RCC agreed to pursue the said changes after the completion of the assignments as above identified.

3. DOE Directive on the Proposal on the Manual on the Management of Must-Run-Units (MRU)²²

Similarly, the RCC has also discussed at length the DOE directives dated 04 April 2013 on the Proposed Amendments to the Manual on the Management of Must Run Units during its 74th Meeting held on 15 May 2013.

The DOE directives on the proposed MRU Manual are as follows:

²¹ consistent with the WESM objectives; feasible; not unreasonably costly to implement; and a more appropriate or better means of achieving the criteria set out in clauses 8.4.1 (a) to (c), where the effect of the change to the WESM Rules will be to replace an existing rule.

²² DOE Policy Directives on the Proposed Amendments to the WESM Market Manuals dated 04 April 2013

- Revise the MRU definition to read as:

"Must-Run Unit (MRU) - a generating unit identified and instructed, on real-time or scheduled basis, by the System Operator to either (a) come on-line or (b) provide additional energy on a particular trading interval but the dispatch is said to be Out of Merit to address System Security requirements and other considerations as provided in this manual. **Real-time MRU shall be used only after SO has exhausted all available AS.** A non-exhaustive list of possible market scenarios is in Appendix A "

- Revise the MSU definition to read as:

"Must Stop Unit (MSU) - a generating unit identified and instructed by the SO in an Out of Merit Dispatch to reduce the provision of energy specified in its RTD instruction **exclusively caused by excess generation due to non-compliance of generators to dispatch instructions and use of reactive support reserve.**"

- Retain "Lack of reserve" as criteria for MRU, provided National Grid Corporation of the Philippines (NGCP) strict compliance with its obligation in procuring the required level of Ancillary Service under the Philippine Grid Code and prioritize utilization of such over MRU.
- Incorporate the definition of MRU and MSU in the WESM Rules and submit proposed amendments to PGC.
- Include, under Section 8.1.15 of the Manual, the type of excess generation that are to be exclusively considered for the use of the MSU and will read as follows:

"6.1.5 Excess generation capacity in the system **due to non-compliance of generators to dispatch instructions and use of reactive support reserve** "
 - Provide additional provision indicating that the cost of MRU/MSU should be allocated/accounted under the Ancillary Service of the System Operator and not to the WESM.

Likewise acting upon the directives of the DOE on the MRU Manual, the RCC resolved to set a timeline of up to the end of July 2013 and correspondingly created the working groups identified below to ensure the RCC's substantive yet speedy compliance with the said directions.

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

During the 75th RCC Meeting held on 05 June 2013, the RCC deliberated upon the proposed changes and agreed:

- To incorporate the changes to the MRU Manual Issue 4.0, consistent with the DOE directives.

- Further, in order to correct the distortion of market price by transferring the cost of MRU to the NGCP which is the entity mandated to ensure the provision for ancillary services, the RCC agreed to explicitly provide under Section 9 on the Settlement of Must Run Units the following:

"The cost of MRU/MSU should be allocated/accounted under the Ancillary Service of the System Operator and not the WESM inasmuch as the WESM was used by SO to provide AS through MRU. The System Operator will pay directly to the generator at MRU/MSU price."

The RCC also requested the NGCP-SO's submission of the corresponding proposed changes to the PGC by email, for submission to the DOE within the 31 July 2013 timeline.

4. Review on the Segregation of Line Rental

Having been included in the RCC 2013 Work Plan as an additional input from the generator-NPC representative, the RCC discussed the associated issues on the segregation of line rental in several meetings (consistently, from February to June 2013).

The RCC at the onset has noted that there was a previous submission from the RCC on the subject - the proposed Manual on the Segregation of Line Rental, approved and endorsed to the ERC by the PEM Board in August 2011, which for the duration of its ongoing deliberations was still pending before the ERC for decision, until the ERC's promulgation of the Order on 15 April 2013 on the Motion to Implement the Decision Dated March 10, 2010 by Immediately Effecting the Refund/(Collection) of Line Rental Adjustments to Consumers²².

In its 71st Meeting held on 13 February 2013, the RCC then agreed to formally organize an RCC Subcommittee which shall further study the attendant issues raised during the discussion on the segregation of line rental and possibly submit a rules change proposal to address the said concerns.

Pursuant to its objective to address ongoing issues on the matter through a possible rules change proposal, the RCC interfaced with the NGCP-Metering Services Division (MSP) and the PEMC-Billing and Settlements and Metering Division (BSMD), which upon request by the RCC, made presentations on the computation of system loss and the Proposed Formula on the Segregation of Line Rental, respectively.

During the RCC 74th Meeting held on 15 May 2013, the RCC agreed to request PEMC's assistance in the collation of data and the conduct of corresponding simulation to support the RCC's review and possible rules change proposal on the matter. In particular, the following requests were made:

- 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

²² Part of the ERC Order is specific on PEMC's "WESM Manual on the Segregation of Line Rental Trading Amounts". The ERC ruled that the said Manual is acceptable since the components of the LRTA may be identified. PEMC is directed to conduct an information dissemination pertaining to the said Manual to all the WESM registered participants, particularly, the Visayas participants.

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 BCOs 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.

In the same meeting, the RCC was also informed that PEMC is currently developing an in-house software to facilitate the segregation of line rental consistent with the said ERC Order.

The RCC discussion on the matter is still ongoing.

5. Proposed Cancellation of Offers²⁴

The RCC proposed amendments on the cancellation of offers is a joint output of the RCC subcommittees which were created on 19 June 2011 to address the following: (1) PEM Board directive issued on 27 April 2012 for the RCC to review the provisions of the Must Offer Rule and (2) the audit findings stated in Section 2.2.3 of PA Consulting's Process and Compliance Review Report on the PMin Rules and Procedures. With its creation of the RCC Subcommittee, the RCC agreed to consolidate its review of PMin with the review of the must offer rule, having identified that the forced dispatch of oil-based plants at their PMin is causing them to violate/breach the Must-Offer-Rule.

In summary, the proposal seeks to amend Appendix A.1 of the Dispatch Protocol Manual on Bids & Offers Submission & Processing to allow trading participants to cancel their daily or "converted" standing bids/offers for a particular trading interval if the following conditions are met: (1) total generation offers is 10% above hourly demand ("Supply Threshold") for all trading intervals for the specific day, (2) the generation units are the most expensive units, following the MOT results of 1200H DAP; and (3) after deducting Pmin of the generating units, total offer is still more than demand.

In its 70th Meeting held on 16 January 2013, the RCC, the RCC deliberated upon the comments submitted by the Market Surveillance Committee (MSC) and the Technical Committee (TC) on the proposal, and responded to each of the points/observations raised. Upon discussion, the RCC agreed to defer approval of the proposed rules change and further requested the MO to conduct simulation using historical data and to submit to RCC its own listing of constraints which may render the proposal impracticable/not feasible at this time.

²⁴ RCC/WESM-WM-1213_Proposed Cancellation of Offers

Responding to the above request, PEMC-Trading Operations Department presented the "Operational Assessment of the Proposed Amendments to Appendix A.1 of the Dispatch Protocol Manual" during its 72nd Meeting held on 06 March 2013. In the same meeting, the RCC agreed to invite the MSC and the TC to a consultative meeting to possibly harmonize the RCC's position with those of the other governance committees.

During the 73rd RCC Meeting held on 03 April 2013, the RCC proceeded with its consultative meeting with the MSC and the TC. It noted the position taken by the MSC that the proposal should not be disadvantageous to the consumers and agreed to await the result of the MSC initiative which will similarly address the issue of forced dispatch of expensive plants at Pmin as well as the result of PEMC's engagement of a Consultant for the WESM Design Study to delve on the issue on Pmin and other associated market issues.

In its 74th Meeting held on 15 May 2013, PEMC presented its simulation on the proposal with the following results:

- that the supply margin is beyond the 10% threshold at 94.5% of the time for the subject billing month of September 2012;
- if generators such as Limay CCGT and Malaya TPP 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; and
- Once the supply margins decreased because of the cancellation, even higher prices will clear the market.

The RCC Chairperson then reiterated the RCC's deference to the result of the WESM Design Study on Pmin as well as the action undertaken by the MSC to address the same issue on the uneconomic dispatch of expensive plants at Pmin.

Discussion on the proposal is still ongoing as the RCC awaits the result of the WESM Design Study and the MSC proposal to PEM Board.

6. Proposed Further Amendments to the WESM Dispatch Protocol Manual on Re-Dispatch Procedures based on the WESM Merit Order Table²⁶

The proposed amendments to the Dispatch Protocol Manual set out the procedures that the System Operator should follow during a re-dispatch process using the WESM Merit Order Table (MOT). The proposed procedures cover the following conditions:

- Forecast Error and Ramping Limitations
- Non-Compliance to RTD Schedule
- HVDC Schedule Deviation
- Insufficient Reserve
- Under-generation

²⁶ RCC/WESM-WM-12/08_6: Proposed Further Amendments to the WESM Dispatch Protocol Manual on Re-Dispatch Procedures based on the WESM Merit Order Table

The proposal was originally submitted by SNAP and was adopted by the RCC as a Committee proposal on 05 September 2012. However, the RCC, in its Meeting held on 14 November 2012, agreed to defer any further discussion on the proposal to await the result of the DOE's then ongoing review of the RCC's proposed amendments.

With the DOE's concurrence to the proposed amendments to the Dispatch Protocol (DP) Manual Issue 6.0 and the subsequent posting of the DP Manual Issue 7.0 in the market information website (rendered effective on 10 April 2013), the RCC has agreed to defer any further discussion on the proposed amendments having clarified that the same proposal is contingent upon the DOE's approval of the proposed Manual on the Management of Must Run Units (MRUs), considering that the proposal makes reference to Must-Stop-Units (MSU) and the revised definition of MRU.

7. Proposed Amendments to the WESM Rules and Dispatch Protocol Manual on the Submission of Bids and Offers based on "Reasonable Estimate"²⁶

The proposal, which aims to amend the WESM Rules and the Dispatch Protocol Manual in order to indicate that the revision of market offers or bids may be submitted prior to gate closure and to also incorporate the submission of reasons as part of the bid/offer validation process, was submitted by PEMC on 21 May 2013 and was taken-up as an agenda item for discussion during the 75th RCC Meeting held on 05 June 2013.

The proposed amendments were posted in the market information website on 06 June 2013 to solicit comments from interested parties.

8. Proposed Amendments in the WESM Rules on the Market Dispatch Optimization Model (MDOM) Performance Standards²⁷

Together with the PEMC proposal on "reasonable estimate" as above discussed, the proposed amendments in the WESM Rules on the MDOM Performance Standards were submitted to the RCC on 21 May 2013 and were thereafter presented to the RCC during its 75th RCC Meeting held on 05 June 2013.

The RCC noted the following justifications by PEMC in its deliberation:

- a) The MDOM is an algorithm set and documented under the WESM Price Determination Methodology which has been approved by the Energy Regulatory Commission (ERC);
- b) Given that the MDOM is an algorithm and is subject to regular Market Software audit, it is deemed that the requirement for the MDOM performance standard is no longer relevant;
- c) In terms of availability of the Market Management System (MMS) as a whole and the availability of market prices and schedule for the real-time and market projection timelines, MMS and MO performance measures are incorporated in the Market Operator Performance Standard (MOPS).

²⁶ RCC/WESM-WRAMM-13/06_ Proposed Amendments to the WESM Rules and Dispatch Protocol Manual on the Submission of Bids and Offers based on "Reasonable Estimate"

²⁷ RCC/WESM-WRAMM-13/06_ Proposed Amendments in the WESM Rules on the MDOM Performance Standards

Upon evaluation of the proposed amendments and having noted that the MDOM is central to the operations of the market, the RCC concluded that the proponent should instead develop the MDOM performance standards rather than altogether delete the WESM Rules provision prescribing the publication of the same. The RCC expressed the opinion that the same should be established apart from the existing performance measures for the MO and the MMS, noting its significance to the generation of dispatch schedules.²⁸

III. WAY FORWARD

Mindful of the set target, the RCC will devote the succeeding months in completing and resolving the remaining items in the 2013 RCC Work Plan.

Approved by:
RULES CHANGE COMMITTEE

Rowena Cristina L. Guevara
Chairperson
University of the Philippines
(UP)

Members:

Epictetus E. Patalinghug
Independent
University of the Philippines
(UP)

Francisco L.R. Castro, Jr.
Independent
Tensaiken Consulting

Maila Lourdes G. de Castro

Liberty Z. Dumlao

²⁸ COA-WT-RCC-13-22 dated 07 June 2013 re: Notification on the Non-Adoption of the Proposed Amendments on the MDOM Performance Standards

Independent	Generation Sector Power Sector Assets and Liabilities Management Corporation (PSALM)
Augusto D. Samiento Distribution Sector (PDU) Dagupan Electric Corporation (DECORP)	Ciprinilo C. Meneses Distribution Sector (PDU) Manila Electric Company (MERALCO)
Jose P. Santos Distribution Sector (EC) Ilocos Norte Electric Cooperative, Inc. (INEC)	Sulpicio C. Lagarde Jr. Distribution Sector (EC) Central Negros Electric Cooperative, Inc. (CENECO)
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)	Certified True and Correct: Elaine D. Gonzales RCC Secretary PEMC

ANNEX A
Members of the RCC for the period
January – June 2012

Sector	Representative Organization	Members	
		Regular	Alternate
Independent	University of the Philippines	Rowena Cristina L. Guevara (Chairperson)	-
	University of the Philippines	Epictetus E. Patsalinghug	-
	Tensaiken Consulting	Francisco L.R. Castro, Jr.	-

		Mailla Lourdes G. de Castro	-
Market Operations	Philippine Electricity Market Corporations (PEMC)	Robinson P. Descanzo	Isidro E. Cacho
System Operations	National Grid Corporation of the Philippines (NGCP)	Raul Joseph G. Seludo	Reynaldo B. Abadilla
Generation	SN Abotiz Power	Ralph T. Crisologo (Resigned from RCC effective 15 March 2013)	-
	Power Assets & Liabilities Management (PSALM) Corporation	Liberty Z. Dumlao	Ronald V. Siquido
	AES Philippines	Cherry Aquino-Javier (Resigned from RCC effective 31 May 2013)	-
	National Power Corporation (NPC)	Cynthia R. Encarnacion	-
	PDU – Manila Electric Company (MERALCO)	Cipriano C. Meneses	Ryan S. Morales
Distribution	PDU – Dagupan Electric Corporation (DECORP)	Augusto D. Samtiento	-
	EC – Ilocos Norte Electric Cooperative (INEC)	Jose P. Santos	Roy F. Alimbuyuguen
	EC – Central Negros Electric Cooperative, Inc (CENECO)	Sulpicio G. Lagarde Jr	-
Supply	Angeles Power, Inc.	Conrado D. Pego	-
Observers	Department of Energy (DOE)	Dir. Mylene C. Capangcol	Ferdinand B. Binondo Luningning Baltazar
	Energy Regulatory Commission (ERC)	Dir. Isabelo Joseph P. Tomas II	Nelson G. Canlas Rodel A. Meris (Resigned from ERC effective 14 January 2013) Remedios M. Francisco

ANNEX B

Status of the 2013 RCC Work Plan

Item	Topics/Proposed Rules Change	Target	Deliverables	Responsible Party	Status	Remarks
1	Minimum Bid Block	Q1	WESM Rules change	PEMC	Done	DOE approval through DC2013-03-0004 promulgated on 22 March 2013 published on 05 April 2013
2	Review on the Must Offer Rule (as per PEM Board directive dated 27 April 2012)	Q1	WESM Rules change	RCC	Ongoing	On 03 April 2013, the RCC agreed to await the MSC initiative which answers to the same issue on the uneconomic dispatch of oil-based plants at Pmin. On 03 April 2013, the RCC agreed to await the MSC initiative which answers to the same issue on the uneconomic dispatch of oil-based plants at Pmin as well as the result of the WESM Design Study on Pmin to be completed by Intelligent Energy Systems (IES)
3	Proposed Amendments to the WESM Dispatch Protocol Manual regarding Re-Dispatch Procedures based on the WESM Merit Order Table	Q1	Revised Manual	RCC	Ongoing	On 15 May 2013, RCC agreed that the 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.
4	Ramp rate registration	Q1	WESM Rules Change	PEMC	Done	Approved by the RCC on 03 April 2013 through RCC Resolution No. 2013-01. To be referred by the PEM Board Review Committee (BRC) to the Tripartite Body composed of the DOE, ERC and PEMC. Presented to the BRC Meeting held on 17 April 2013. Proposal was parked awaiting result of tripartite meeting

Item	Topics/Proposed Rules Change	Target	Deliverables	Responsible Party	Status	Remarks
5	Net Settlement Surplus (NSS)	Q1	Revised Manual	PEMC	Done	For deletion in the Workplan. PEMC to submit revised plowback mechanism on the NSS directly with the ERC, in compliance with ERC directive.
8	Proposed Changes to the WESM Rules on Trading Amount and Line Rental Computation (ECs in RCC to submit proposal)	Q1	WESM Rules change	EC Representatives in RCC	Ongoing	As of 05 June 2013, discussion on proposal within the RCC is still ongoing. Requested PEMC's assistance on the conduct of simulation/verification of findings/data re-issues associated with Line Rental segregation
7	Deletion/Revision of provisions on "MDO Performance Standards"	Q1	WESM Rules Change	PEMC	Ongoing	Submitted by PEMC on 21 May 2013. RCC, during its 75th Meeting held on 06 June 2013, concluded that proponent should instead develop the MDO performance standards rather than propose to altogether delete the WESM Rules provision prescribing the publication of the same
8	Amendment - Metering Manual Section 9.7	Q1	Revised Manual	PEMC	Done	Submitted by PEMC on 20 March 2013. Approved by the RCC on 15 May 2013 through RCC Resolution No. 2013-06. Endorsed for the PEM Board's approval on 17 May 2013
9	Amendment to WESM Rule 3.13.6 (a) and Additional Clause - WESM Rule 4.4.4 (Metering Provisions)	Q1	WESM Rules Change	PEMC	Done	Submitted by PEMC on 20 March 2013. Approved by the RCC on 15 May 2013 through RCC Resolution Nos. 2013-05 and 2013-07. Endorsed for the PEM Board's approval on 17 May 2013
10	Definition of Financial Year	Q1	WESM Rules Change	PEMC	Done	Submitted by PEMC on 27 February 2013. Approved by the RCC on 03 April 2013 through RCC Resolution No. 2013-03. Approved during 81st PEM Board Meeting on 30 April 2013
11	Deletion/Revision of provision regarding the submission of bids and offers based on "reasonable estimate"	Q1	WESM Rules Change	PEMC	Ongoing	Submitted by PEMC on 21 May 2013. Posted in the market information website and solicited comments from interested parties on 06 June 2013.
12	Line Rental (Segregation approved by PEM Board, awaiting ERC Decision/Issue on implementation)	Q1	WESM Rules Change	NPC	Ongoing	RCC discussion consolidated with item # 8
13	Revisit the rules change process (Amendments to Chapter 8, WESM Rules and Rules Change Manual)	Q1	Revised Manual	Mr. Meneses/ Mr. Samliento / Dus	Deferred	Put on hold to await result of PEMC TWG on the harmonization of rules and manuals (PEMC letter dated 11 March 2013)

Item	Topics/Proposed Rules Change	Target	Deliverables	Responsible Party	Status	Remarks
14	Value of Load Loss (VOLL) Pricing	Q2	Study	PEMC		Carried-over from the 2012 RCC Workplan. Included in the IES Study on Pmin and Associated Issues. To be submitted to RCC once Study is completed.
15	Amendment - Metering Manual Section 7, 2, 6 and 5	Q2	Revised Manual	PEMC		Included in the ongoing review of the PEMC TWG, timeline of which is until 3Q of 2013.
16	Harmonization/Provision of Renewable Energy Market in the WESM Rules	Q2	WESM Rules Change	PEMC		The Rules Change Proposal is one of the deliverables of the WB Technical Assistance for the RE Market which will commence only this end of June and will end in December 2013. In this regard, PEMC may be able to submit the Rules Change Proposal for the provision on REM in the WESM Rules by 1Q 2014.
17	Metering Audit Results (SSLA Computation, adjusted meter data, line loss etc)	Q2	Revised Manual	DOE/PEMC		Information will come from BSMD but directive from DOE
18	Methodology for Determining Pricing Errors and Price Substitution due to Congestion	Q2	Revised Manual	PEMC		Included in the ongoing review of the PEMC TWG, timeline of which is until 3Q of 2013.
19	Payment Default Procedure	Q2	WESM Rules Change	PEMC		
20	Provision for flexibility in RCC's workplan to address WESM metering review/audit findings	Q2	Revised Manual	NPC		Included in the ongoing review of the PEMC TWG, timeline of which is until 3Q of 2013.
21	RCCA	Q2	WESM Rules Change	RCC		RCC to review Rules
22	Review of Prudential Requirements	Q2	WESM Rules Change	PEMC	Ongoing	PEM Board issued directive on 21 March 2013 re: the reduction of the PR from 63 to 35 days

Item	Topics/Proposed Rules Change	Target	Deliverables	Responsible Party	Status	Remarks
23	Amendment - Metering Manual Section 8	Q3	Revised Manual	PEMC		Included in the ongoing review of the PEMC TWG, timeline of which is until 3Q of 2013.
24	Demand-side bidding	Q3	WESM Rules Change	EC Representatives in RCC		
25	Dispatch Protocol - Harmonization with Proposed Rules Changes on Market Intervention	Q3	Revised Manual	PEMC		Included in the ongoing review of the PEMC TWG, timeline of which is until 3Q of 2013.
26	Incorporate policies on the renewable energy in the WESM Rules	Q3	WESM Rules Change	DOE/PEMC		
27	Load Forecasting Manual	Q3	Revised Manual	PEMC		Included in the ongoing review of the PEMC TWG, timeline of which is until 3Q of 2013.
28	Rules Provision on Market Intervention	Q3	WESM Rules Change	PEMC		Included in the ongoing review of the PEMC TWG, timeline of which is until 3Q of 2013.