

MINUTES OF THE 42ND MEETING OF THE RULES CHANGE COMMITTEE

Date : 15 November 2010
Time : 9:00 A.M.
Venue : PEMC Board Room
PEMC Training Rooms 2&3, Robinsons-Equitable Tower
Ortigas Center, Pasig City

MEMBERS PRESENT:

Epictetus E. Patalinghug	-	Acting Chairperson/Independent – UP
Cherry Aquino-Javier	-	Generation Sector – AES
Ralph T. Crisologo	-	Generation Sector – SNAP
Liberty Z. Dumlao	-	Generation Sector – PSALM
Vicente C. Sioson	-	Distribution Sector – MERALCO
Jose P. Santos	-	Distribution Sector – INEC
Raul Joseph G. Seludo	-	System Operator – NGCP
Robinson P. Descanzo	-	Market Operator – PEMC
Conrado D. Pecjo	-	Supply Sector – Angeles Power, Inc.

MEMBER/S NOT PRESENT:

Augusto D. Sarmiento	-	Distribution Sector – DECORP
Alfredo L. Licudine, Jr.	-	Generation Sector – NPC

ALTERNATE MEMBER/S PRESENT:

Cynthia R. Encarnacion	-	Generation Sector – NPC
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OBSERVERS PRESENT:

Eduardo B. Fernandez	-	DOE
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OTHERS PRESENT:

Ferdinand B. Binondo	-	DOE
Isidro E. Cacho, Jr.	-	PEMC – MO
Celina R. Encarnacion	-	PEMC – Legal
Gladys G. Nebab-Zamora	-	PEMC – Legal
Roel B. Calano	-	PEMC – BSMD
Phillip C. Adviento	-	PEMC – MAG

SECRETARIAT

Elaine D. Gonzales	-	PEMC – MAG
Delia B. Arenos	-	PEMC – MAG
Karen D. Abregana	-	PEMC – MAG
Rheinhardt O. Banogon	-	PEMC – MAG

After determining the presence of a quorum, the 42nd Rules Change Committee meeting was called to order by the Acting Chairperson Prof. Epictetus E. Patalinghug, at about 9:30 A.M. The following agenda items were discussed:

1. Adoption of the Proposed Agenda

The Proposed Agenda for the 42nd RCC Meeting was presented and approved.

2. Review, Correction and Approval of the Minutes

a. The Minutes of the 40th RCC Meeting was presented and approved.

- b. The Minutes of the 41st RCC Meeting was approved, subject to the revisions in Paragraph 1 of Item b under Business Arising from the 39th and 40th RCC Meeting, where the phrase "conform to" is replaced with "better reflect", to read as follows:

"Mr. Senen D. Fenomeno presented, for discussion and approval the PEMC's proposal to remove the contingency list as input in the ex-post (RTX) process. The said amendment was proposed in order to ~~conform to~~ better reflect the WESM Rules Clause 3.10.6 (d) where the ex-post nodal energy price for each market trading node shall be determined assuming "a market network configuration and network state which the Market Operator, in consultation with the System Operator, in its reasonable option determines to best represent network conditions pertaining for the duration of the trading interval, as provided for by the procedures developed under clause 3.10.7". "

Atty. Liberty Dumlao inquired whether the agreement reached by the RCC to approve the proposed fixed HVDC functionality through *ad referendum* was carried out, to which the Secretariat responded that the RCC was not able to approve the said proposal as there were still revisions to be made to address and incorporate the comments/concerns raised by the RCC.

Noting Atty. Dumlao's inquiry, Mr. Ralph T. Crisologo remarked that there might have been minor agreements reached by the RCC in the previous RCC meetings that have been overlooked due to other bigger and major issues that need to be tackled. Thus, he suggested for the Secretariat to tabulate and update the status of all action and agreement items made by the RCC in the minutes to facilitate the monitoring of agreements and action items reached during the previous RCC meeting. He further recommended including the tabulated action items in the agenda of the next meeting, to which the RCC acceded.

3. Business Arising from the 41st RCC Meeting

a. Proposed Amendments to the WESM Dispatch Protocol Manual regarding Fixed HVDC Functionality

Mr. Isidro Cacho presented, for discussion by the RCC, the proposed amendments to the WESM Dispatch Protocol Manual regarding the fixed HVDC functionality. As a backgrounder, he provided that one of the action plans proposed for the launching of the WESM Visayas commercial operations is that the exchange of power between Luzon and Visayas will be scheduled by the System Operator (SO) during the initial phase of the WESM Visayas. This proposal, however, requires policy approval by the PEM Board and the DOE.

For the appreciation of the body, he provided a brief explanation on the HVDC link. The HVDC link, he explained, is a transmission system using direct current that interconnects Luzon and Visayas systems with rated power of 440 MW and voltage of 350 KV. At present, the maximum allowable power flow from Visayas to Luzon is 440 MW while from Luzon to Visayas is 150 MW.

On Mr. Robinson Descanzo's question as to what limits the flow from Luzon to Visayas, Mr. Raul Seludo responded that increasing the amount of power that can be transferred from Luzon to Visayas is equivalent to bringing in a new plant in the Visayas which could affect its system stability. In addition, the short circuit level in the Visayas limits the transfer of power from Luzon to Visayas.

To further illustrate, Mr. Descanzo explained that when power is exported, generators in the Visayas are shut down. Shutting down the generators, in effect, removes the impedance, thus reducing the short-circuit level which constraints the power flow.

On Mr. Descanzo's inquiry as to whether there is a plan to increase the maximum allowable power flow to accommodate the increasing demand in the Visayas, Mr. Seludo replied that there is a need to check the capability of the HVDC. Increasing the power flow may pose risks to system stability.

Mr. Eduardo Fernandez inquired whether the HVDC, given its age, can still support the blocking and de-blocking once the WESM Visayas is launched.

Mr. Seludo admitted that blocking and deblocking is putting stress on the HVDC, which is why one of the initial actions proposed is to limit it. He clarified, however, that there is a plan to upgrade the HVDC. Noting this, Mr. Fernandez opined that there is a need for NGCP to improve the system before starting the operations of the WESM Visayas.

Mr. Descanzo clarified that one of the reasons the fixed HVDC functionality is proposed is to prevent the occurrence of blocking and deblocking. He explained that letting the market prices dictate the schedule of the two islands will result in variation of power flow in certain hours or intervals (Visayas to Luzon, Luzon to Visayas) which will be detrimental to the operation of HVDC as controls are adjusted from time to time to allow reverse flow.

Mr. Cacho then proceeded to clarify some of the issues/comments received through e-mail on the proposed amendments.

- On whether the SO has no responsibility during normal mode of operation, Mr. Cacho clarified that it still has in terms of ensuring system security and reliability.
- On the recommendation to replace "and" with "in consultation with" in the phrase "*for the Market Operator and the System Operator*" which is contained in Section 1 of the proposed Appendix 12, Mr. Cacho remarked that it may not be appropriate as the purpose of the appendix is to define the role of the MO and SO.
- On the proposed Section 4.1.4 by SO which reads as: "*The Market Operator upon determination of dispatch schedules and may request the System Operator to utilize the security limit functionality to input the HVDC scheduling*", Mr. Cacho opined that the proposed provision may not be necessary as the HVDC limits are sent to the Market Management System (MMS) through the security limit functionality which is accessible only to the SO.

Subsequently, Mr. Cacho presented the details of the proposed new appendix in the Dispatch Protocol Manual which defines the modes of HVDC operations, outlines the responsibilities of MO and SO, and describes the process by which the power flow through the Leyte-Luzon HVDC link is scheduled. The following were the comments/suggestions raised by the body:

- On the proposed provision in Section 3.2 which reads as: "*This mode of operation is applied, if necessary, during the operation of WESM Visayas to minimize escalation of pricing error conditions from one region to another*", Mr. Crisologo asked as to who determines the necessity. He further commented that the provision may not be appropriate as it is outside the definition of fixed mode.
- Ms. Cherry Javier noted that the proposed Section 4.1.2 is connected to Section 4.1.1, whereas Section 4.1.4 is connected to Section 4.1.3. She thus suggested for the proponent to consider combining the related sections.

- On Section 4.1.4, Mr. Crisologo wanted to know why the MO should request for security limit functionality when it is SO's function. So as to avoid confusion, Mr. Cacho proposed to add another sentence that will oblige the SO to utilize the security limit functionality after the MO is able to provide the dispatch schedules, to which the RCC agreed.
- Mr. Crisologo proposed to delete the word "may" in Section 4.2.2 as it provides leeway for the SO not to include the determination of HVDC flow as one of the corrective actions to be implemented during market intervention or suspension. Likewise, he suggested deleting the word "may" in Section 5.3 as it implies there is an option for the MO not to use the information as listed under said section.
- On Section 5.2, Mr. Vicente Sioson suggested using the billing month instead of the calendar month.
- Mr. Seludo viewed that month-ahead or monthly determination of fixed HVDC schedule may not be practical considering that a lot could happen in a month.

The RCC agreed to defer the approval of the proposed new Appendix A.12 pending the incorporation of the following revisions, as suggested by the RCC:

- Revise the section on Purpose to include the following:
 - Reduce occurrence of pricing error due to HVDC non-binding;
 - Minimize price escalations; and
 - Address other policies on HVDC operation

- Delete the last two sentences in Section 3.2:

~~"This is the mode of HVDC operation wherein the power flow is determined through the security limit functionality of the Market Management System (MMS). This mode of operation is applied, if necessary, during the operation of WESM Visayas to minimize escalation of pricing error conditions from one region to another. It may also be applied to facilitate the implementation of other policies with regards to HVDC operation."~~

- Delete the word "may" in Section 4.1.4 and add additional sentence that will oblige the SO to utilize the security limit functionality after the MO is able to provide the dispatch schedules.

"The Market Operator upon determination of dispatch schedules and may request the System Operator to utilize the security limit functionality to input the HVDC scheduling."

- Combine Sections 4.1.1 & 4.1.2 and Sections 4.1.3 & 4.1.4.
- Add another provision under Section 4.2 that will provide the process of scheduling under the variable mode of operation.
- Replace the word "if" in Section 5.1 with "when", to read as follows:

"If When the power flow through the HVDC is required to be fixed to effect price isolation between Luzon and Visayas, the Market Operator shall consult with the System Operator in pre-determining the said fixed schedule prior to the implementation of the HVDC scheduling."

- Revise the language of Section 5.3 such that in determining the hourly fixed HVDC schedule, the MO shall consider other information other than those enumerated under the said section.
- Revise Section 5.3 (i) such that in determining the hourly fixed HVDC schedule, MO shall use the historical HVDC schedule for the past billing period instead of the past calendar month as was originally proposed.
- Revise the timeframe for the determination of the fixed HVDC schedule from month-ahead to week-ahead.

b. Proposed Changes to the WESM Manual of Procedure on Start-up and Shutdown of a Generating Unit and to the Dispatch Protocol Manual regarding the Must-Offer Rule

Mr. Crisologo provided his views/comments on the comments submitted by ERC through its letter dated 14 October 2010. He expressed his disagreement with the comments made by ERC which he noted are built on the assumption that there is a tendency for the generators to withhold capacity and increase price and thus gain more. His objection is that the generator's first priority is to earn and that when the generator withholds capacity, then it is not selling.

Atty. Dumlao viewed that the must-offer rule is contrary to the volunteerism of a free market. Since its adoption, however, the basic premise is that when a generator does not offer, then it must have a valid reason for not doing so.

Ms. Elaine Gonzales clarified that WESM is designed as a mandatory and not a voluntary market. She elaborated that it is a self-commitment market where the generators may structure their offer in such a way that they can offer all their maximum available capacity with corresponding costs. If a generator wants to be to be dispatched, it can offer at a lower price. On the other hand, if it does not want to operate or be dispatched, it can offer its capacity at a higher price. She stressed that there is a need to review the whole market design before changing the must-offer rule.

On the ERC's comments that coal constraint is not technical, Mr. Crisologo remarked that coal has become a scarce commodity, and therefore, the earlier belief that it is something that can be controlled may not be totally acceptable at the present.

Mr. Descanzo presented the PEMC's comments, for the consideration of the body. In summary, PEMC expressed its disagreement with the proposed amendments.

On PEMC's disagreement with the proposal to allow the generators to cancel their offers when the total generation offers are 5% above the total demand requirements, Ms. Javier suggested for PEMC to consider increasing the proposed cancellation trigger of 5% to whatever value it deems appropriate. Mr. Descanzo responded that determining the appropriate value may be difficult.

Since the intention of the proposal to amend the compensation mechanism is for the generators to be paid based on their short run marginal cost during start-up, then perhaps, Mr. Sioson opined, the whole market design should be changed to cost-based instead of bid-based. In the cost-based type of market, generators are paid for their start-up, variable and shutdown costs.

Atty. Dumlao opined that the must-offer issue cannot be resolved in isolation and that to address this, the entire market design must be looked into.

On Mr. Javier's comments that the proposal will optimize the system thus resulting in lower costs, Mr. Sioson replied that the way he sees it, the proposal will entail additional costs on the part of the Distributors.

Noting the objections raised by some members of the RCC, Ms. Javier appealed for the RCC not to totally reject the whole concept of the proposal. Mr. Crisologo seconded that one of the intentions of the proposal is to make the market robust and responsive to the changes presently taking place. While he acknowledged the fact that there is a need to change the market design, he admitted that the proposal is the nearest solution to resolve issues on the must-offer rule.

Noting the different opinions, Mr. Crisologo suggested for the RCC to request the comments of DUs as they are the ones which will be likely affected in the event that the proposal will push through. He also mentioned that the Aboitiz Power might respond to the comments of the ERC.

Following Mr. Crisologo's recommendation, the RCC agreed to await comments and recommendations from other groups, particularly from the DUs, before rendering its decision on the rules change proposal.

4. Main Business

Issues/ Topics Discussed	Remarks	Agreement/ Action Item
A. Update on PEM Board-approved rules changes	<p>The RCC Acting Chairperson provided an update on the following RCC-approved amendments which were presented to the PEM Board during its meeting on 27 October 2010, for approval:</p> <ul style="list-style-type: none"> • Proposed Changes to the WESM Dispatch Protocol Manual Issue 5.0 and Procedure for Determining Ex-Post Nodal Energy Prices regarding the Exclusion of Contingency List as Input in the RTX Process; • Proposed New WESM Manual: Criteria and Guidelines for the Issuance of Pricing Error Notices and Conduct of Market Re-Run; • Proposed Amendments to the Administered Price Determination Methodology Manual; and • Proposed Amendments to the Price Substitution Methodology (PSM) Manual <p>All aforementioned proposals were approved by the PEM Board during the said Board meeting.</p> <p>On the first item, Mr. Robinson Descanzo presented the initial results of the exclusion of the contingency list at the RTX run which was implemented starting 11 November 2010. Initial results showed that there was a</p>	

	reduction of pricing error occurrence upon implementation of the contingency list removal.	
B. RCC Reportorial Requirement under the Manual of Procedures for Changes to the WESM Rules	<p>The Secretariat advised the RCC regarding the requirement contained in the Manual of Procedures for Changes to the WESM Rules, for the RCC to submit a semi-annual report to the PEM Board which will detail the proposals deliberated by the RCC for the period January-June and July-December.</p> <p>The RCC agreed to draft an Annual Report instead which shall cover the RCC's activities and accomplishments for the period September 2009 to December 2010. It must be noted that the current members of the RCC first convened in September 2009.</p>	The RCC agreed that its 2010 Annual Report shall cover the RCC's activities for the period September 2009 to December 2010.

5. Other Matters

a) **Proposed Revisions to the PEM Board-Approved Amendments to the PSM Manual.**

Mr. Roel B. Calano presented the details of the proposed revisions to the PSM Manual which was recently approved by the PEM Board on 27 October 2010. As a background, the PEMC-Legal, for purposes of its regulatory filing with the ERC sought clarification on an erroneous cross-reference in the PSM Manual. Thus, revision on Section 8.2.1 was proposed in order to clarify the manner of computation of ex-post trading amount. Likewise, the PEMC Billing, Settlement and Metering Department (BSMD) proposed additional provisions in the Manual so as to describe the manner of determining line rental trading amounts for BCQ cross declarations between congested and non-congested regions.

Atty. Celina Encarnacion further clarified that the proposed changes mirror the equivalent provisions in the APDM Manual which was approved by the RCC on 13 October 2010 and subsequently approved by the PEM Board on 27 October 2010.

Mr. Descanzo provided his comments on the proposed provisions in Section 8.3.2 which states *"Where price substitution is to be applied in one region only pursuant to Section 5.1 of this Manual, and the customer in the congestion region has a bilateral contract quantity with the supplier in the normal region, no line rental amount is computed."* While he acknowledged the fact that the line rental amount is not actually computed as it is already embedded in the computation for the price substitute, he stressed the need for BSMD to decouple its actual computation in order to determine the actual line rental amount associated with the BCQ.

Following the comments raised by Mr. Descanzo, the RCC requested the BSMD to submit a proposed computation for the line rental with detailed sample computation.

After due deliberation, the RCC approved the PEMC Legal's and BSMD's proposed further revisions to the PEM Board-approved PSM Manual to clarify the methodology by which exported quantities between congested and non-congested regions shall be priced, as well as the manner of determining line rental trading amounts for BCQ Cross declarations between congested and non-congested regions.

- b) The Secretariat advised the RCC of the forthcoming WESM Governance Christmas Party which will be held on 08 December 2010, 5PM.
- c) Ms. Javier inquired on PEMC's submission of rules changes proposals on the WESM Manuals on Management of Must Run Units and Management of the Net Settlement Surplus to incorporate possible rules revisions for the regional application/treatment in view of the forthcoming launching of WESM Visayas commercial operations as well as to make the provisions in the Manuals consistent with the directives prescribed in previous ERC rulings. Likewise, the RCC Acting Chairperson requested for PEMC to submit its proposed new WESM Manual on Registration, Suspension and Deregistration Procedures.

Accordingly, the Secretariat assured the RCC that they will coordinate with PEMC on this matter.


6. Next Meeting

For the convenience of RCC members who live a great distance away from Manila, the RCC agreed to set its next meeting on the same day as the WESM Governance Christmas Party which will be on December 8th.

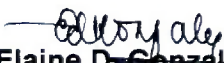
7. Adjournment

There being no matter to be discussed, the meeting was adjourned at 3:00 P.M.

Prepared by:

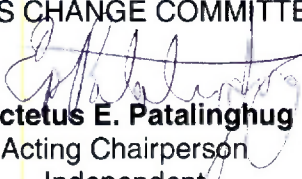

Rheinart O. Banogon

Noted by:



Elaine D. Gonzales


Just

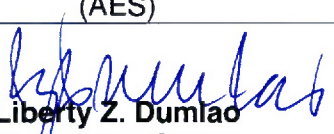
Approved by:
RULES CHANGE COMMITTEE


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

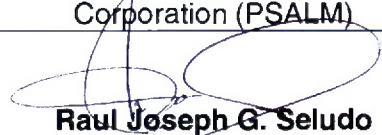
Members:

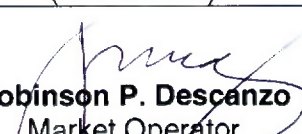

Cherry Aquino-Javier
Generation Sector
AES Philippines
(AES)

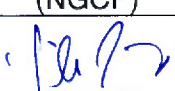

Ralph T. Crisologo
Generation Sector
SN Aboitiz Power
(SNAP)

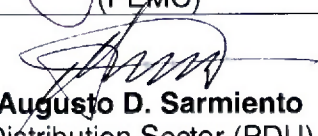

Liberty Z. Dumlao
Generation Sector
Power Sector Assets and Liabilities Management
Corporation (PSALM)


Alfredo L. Licudine, Jr.
Generation Sector
National Power Corporation
(NAPOCOR)



Raul Joseph G. Seludo
Transmission Sector
National Grid Corporation of the Philippines
(NGCP)


Robinson P. Descanzo
Market Operator
Philippine Electricity Market Corporation
(PEMC)


Vicente C. Sioson
Distribution Sector (PDU)
Manila Electric Company
(MERALCO)


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


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


Conrado D. Pecjo
Supply Sector
Angeles Power, Inc.

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