

MINUTES OF THE 43RD MEETING OF THE RULES CHANGE COMMITTEE

Date : 08 December 2010
Time : 9:00 A.M.
Venue : PEMC Board Room
18th Floor, Robinsons-Equitable Tower
Ortigas Center, Pasig City

MEMBERS PRESENT:

Epictetus E. Patalinghug	-	Acting Chairperson/Independent – UP
Cherry Aquino-Javier	-	Generation Sector – AES
Ralph T. Crisolago	-	Generation Sector – SNAP
Liberty Z. Dumlao	-	Generation Sector – PSALM
Alfredo L. Licudine, Jr.	-	Generation Sector – NPC
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
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OBSERVERS PRESENT:

Mylene C. Capongcol	-	DOE
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OTHERS PRESENT:

Isidro E. Cacho, Jr.	-	PEMC – MO
Rachel P. Anosan	-	PEMC – CorpPlan
Celina R. Encarnacion	-	PEMC – Legal
Gladys G. Nebab-Zamora	-	PEMC – Legal
Sheila P. Ingco	-	PEMC – ECO
Cristina T. Suralvo	-	PEMC – ECO

SECRETARIAT

Chrysanthus S. Heruela	-	PEMC – MAG
Elaine D. Gonzales	-	PEMC – MAG
Bienvenido C. Mendoza	-	PEMC – MAG
Rheinart O. Banogon	-	PEMC – MAG

After determining the presence of a quorum, the 43rd 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 43rd RCC Meeting was presented and approved.

2. Business Arising from the 42nd RCC Meeting

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

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Mr. Isidro E. Cacho presented the proposed new Appendix A.12 of the WESM Dispatch Protocol Manual which already incorporates the comments/suggestions made by the RCC in its previous meeting.

In the course of his presentation, the body raised the following salient points:

- On Mr. Vicente Sioson's inquiry as to who or which entity will determine when to apply the fixed or variable mode of operation, Mr. Cacho responded that it is beyond the scope of the proposed appendix to identify the body that will make such decision. He added that the intention of the appendix is to ensure that the procedures are already in place in the event of approval of the proposed fixed HVDC functionality.

Mr. Robinson Descanzo clarified that by default, the current mode of HVDC operation is variable where the schedule of the generators is determined by the algorithm. However, he added, that the fixed mode constraint of the HVDC transmission line is already inherent in the formula.

- Ms. Mylene Capongcol remarked that there were MO and SO meetings which indicated that fixed mode will be implemented, to which Mr. Descanzo replied that the implementation of fixed HVDC scheduling at appropriate level requires policy approval. He clarified that PEMC submitted a proposal to the ERC to allow this mode of operation in order to minimize the escalation of pricing error during the interim operations. No decision has been made yet, however, in regards to the said proposal.

He further explained that the SO may exercise its discretion to impose security limit, as part of security measures, should there be impacts of the varying power flow on HVDC operation.

- Mr. Ralph Crisologo requested clarification on the context of the proposed Sections 4.1.2 and 4.2.2.

In response, Mr. Descanzo shared that during the drafting of the Appendix, the SO viewed that it has no basis to define the appropriate level of fixed HVDC schedule. Taking the SO's concern into consideration, the MO thus owned the responsibility for defining the appropriate level during fixed mode of operation which will be based on profile and projection. As provided for in the proposed sections, the MO will submit to the SO the HVDC security limit information based on the pre-determined HVDC power flow. Consecutively, the SO will input the information in the security limit function of the Market Management System (MMS) which only the SO has access to. Mr. Descanzo stressed that MO has no access to the said MMS function.

For purposes of clarity, Mr. Crisologo thus suggested to revise Section 4.1.2, to read as follows:

"During fixed mode of HVDC operation, the Market Operator shall pre-determine the HVDC scheduled power flow and provide the necessary HVDC security limit information to the System Operator as basis for System Operator's input to the MMS."

- Mr. Crisologo expressed his reservation on the proposed Section 4.2.3 which reads: *"During market intervention or suspension, the System Operator shall implement corrective actions which may include the determination of HVDC flow"*. He viewed, which Mr. Sioson seconded as well, that the provision suggests that the SO will only exercise its right to implement corrective actions only during instances of market

intervention or suspension. He added that it is the SO's responsibility to implement corrective action if at its discretion, the SO deems the information incorrect.

He further remarked that it should be clear in the procedure that the SO has the authority to override the security limits submitted by the MO which does not necessarily require declaration of market intervention/suspension. Thus, he proposed to revise Section 4.2.3 to read as follows:

"In case the HVDC flow information is not operationally implementable, the System Operator may revise such information through the security limit functionality."

- Mr. Bienvenido Mendoza commented that if during real time, the SO sees that the HVDC flow is not operationally implementable, the SO will have to make real-time adjustment/correction; thus, there is no need for SO to use the security limit functionality.

Following Mr. Mendoza's comments, the RCC agreed to merge Sections 4.2.2 and 4.2.3 so as it is understood that only during the fixed mode of operation will SO revise the information through the security limit functionality.

Thus, Section 4.2.3 is deleted and Section 4.2.3 now reads as follows:

"During fixed mode of HVDC operation, the System Operator shall input the pre-determined HVDC security limit information to the Market Management System through the security limit functionality facility that is accessible to the System Operator. In case the HVDC flow information is not operationally implementable, the System Operator may revise such information through the security limit functionality facility."

- On the comment raised by Mr. Crisologo that the fixed HVDC functionality should be a technical rather than a policy decision as it involves technical operational constraint, Atty. Rachel Anosan replied that it can be a decision by the DOE as the policy-making body or ERC because it involves pricing issues.
- Noting the body's uncertainty on who shall decide when to implement the fixed HVDC mode, Ms. Capongcol relayed that there will be a technical meeting in the Visayas where such issue could be raised.
- As the RCC viewed that it is not the right body to identify which entity shall determine the necessity to implement the fixing of HVDC, Mr. Crisologo suggested to approve and submit the proposed amendments for the time being.

Following the above suggestion, the RCC agreed to approve the proposed new Appendix A.12 in the WESM Dispatch Protocol Manual, subject to the following revisions by the RCC (in addition to the above suggested revisions):

- Revise the title of proposed Section 5 from *"Determination of fixed HVDC power flow"* to *"Fixed mode HVDC power flow schedule"*;
- Revise Section 5.1 as follows:

"When the power flow through the HVDC link is required to be fixed, the Market Operator shall consult with the System Operator in pre-determining the fixed HVDC schedule."

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

Before the RCC continued its discussion on the “Must-offer” rule, Mr. Crisologo requested the RCC to address beforehand his issue on allowing PEMC and ERC comments on proposals to come in while the RCC is still deliberating. It can be recalled that PEMC and ERC submitted their respective comments on the proposal, which the RCC discussed during its previous meeting.

Mr. Crisologo’s concern is that their position carries a strong weight which will inevitably influence the decision of the RCC in one way or another. Further, he stressed that these are the bodies to which the RCC will elevate its analysis to.

In response, Mr. Sioson stated that the RCC should not set limitation/distinction on who should comment. Likewise, Ms. Capongcol suggested that the RCC should discuss the comments submitted by these bodies and treat them as any other comment, to which the rest of the RCC agreed.

As the above issues raised by Mr. Crisologo were already settled, he then proceeded presenting the Aboitiz Power Corporation’s (APC) response (copy of the letter dated 06 December attached as Annex “A”) on the comments submitted by ERC and PEMC. Mr. Crisologo reiterated the APC’s previous position that coal resource is becoming uncontrollable due to outside factors (e.g. weather, shipping delivery problems) and therefore must be treated in the same manner as that of renewable energy resources.

Noting the differences in position expressed by the members of the RCC, the RCC deemed that the Technical Committee (TC) is the appropriate body to review and study the technical aspect of the proposal. Thus, the RCC agreed to endorse to the TC, for review and study, the “must-offer” rule proposal.

3. Main Business

Issues/ Topics Discussed	Remarks	Agreement/ Action Item
<p>A. Proposed New WESM Manual on Registration, Suspension and Deregistration Criteria and Procedures</p>	<p>Atty. Rachel P. Anosan presented, for discussion by the body, the details of the proposed new WESM Manual on Registration, Suspension and Deregistration Criteria and Procedures.</p> <p>In summary, she provided the following rationale of the proposal:</p> <ul style="list-style-type: none"> • Provides, in a single document, the rules, guidelines and procedures for the registration, suspension, and deregistration of WESM members, and all related processes • Implements the rules and procedures on registration, suspension and related processes set forth in the WESM Rules 	<p>The RCC Acting Chairperson moved for the publication of the Proposed New WESM Manual on Registration, Suspension and Deregistration Criteria and Procedures, to solicit comments from interested parties.</p>

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- Implements DOE Circulars on the implementation of the disconnection policy

It was emphasized that the new Manual covers the WESM registration, suspension and deregistration only. PEMC membership registration is excluded as this is covered by the PEMC By-Laws and applicable membership rules.

The following were the salient points raised by the body:

- Mr. Crisologo sought clarification on whether it is no longer mandatory for an entity to be a WESM member if it is not grid connected.

Atty. Anosan replied that while the WESM Rules require that all those connected to the grid must become members of the WESM, it does not bar other entities that are not physically connected to the grid to become WESM members.

- Mr. Sioson inquired as to the difference between the trading participants and the service providers, to which Atty. Anosan replied that the trading participants are the ones which buy and sell energy, and all the rest are service providers.
- On the matter of the IPPA being categorized as a generation company, Ms. Capongcol surmised that it is more appropriate to categorize it as a Supplier, rather than a generation company, as the nature of its business is selling.

In response, Atty. Anosan explained that the Rules for the Issuance of COCs provide that the IPPA can qualify as generation company; whereas the IRR allows it to be categorized as either a generation company or a supplier, depending on the type of business that they are engaged in. If the IPPA is engaged in managing and generation of capacity for the purposes of selling, then it falls under the generation company; but if the IPP administration allows it to do business as well, then it may apply as a supplier.

She further clarified that the license currently being issued by the ERC on the supplier is on the customer (buy) side rather on the generation (sell) side.

- On Ms. Capongcol's question as to the distinction between the generator and its corresponding IPPA as far as complying with the provisions in the Market

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rules and manuals are concerned, Atty. Anosan believed that if the IPPA is the WESM member rather than the IPP, then the rules shall apply to the IPPA. She manifested, however, that she is only sharing her personal opinion on the matter.

An issue was also raised by Mr. Crisologo on whether both the IPPA and IPP are allowed to register as WESM members.

- Mr. Sioson asked as to who is the proper and authorized entity to resolve issues on the rules, i.e. conflict on registration. Atty. Anosan admitted that she has no answer on the matter since in terms of mandate, it is the DOE which establishes the market and promulgates the rules. Under the EPIRA, however, the authority on the determination of the eligibility for membership lies with the ERC.

On the other hand, she provided that what is clear in the WESM Rules is that in case the MO disapproves the application of membership, then the intending participant may refer the matter to the Dispute Resolution Group.

On Atty. Dumlao's request for clarification as to whether the DRA has jurisdiction over non-WESM members, Atty. Anosan replied that the jurisdiction of the DRA covers registration as well as intending WESM members. Intending members are those who wish to engage in an activity that would qualify it for membership in the future. She clarified further that it is different from an entity which has pending application with WESM.

- On Mr. Sioson's inquiry as to the intention of the indirect member, Atty. Anosan, chose to go by example instead. She explained that currently, all indirect members are customers that are being covered by their generators and that all settlement of these indirect members is governed by their suppliers. Further, indirect members have the same rights and responsibilities as the direct member, except for settlement obligations.
- On the issue on embedded generator being an indirect member, Atty. Anosan clarified that an embedded generator cannot be an indirect member through a DU.

Ms. Gonzales added that as a rule, all generation companies, including embedded generators, shall register with the MO.

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Since by virtue of the law, no DU shall source more than 90% of its total demand from bilateral power supply contracts, Mr. Crisologo then opined that all DUs must be required to register as direct members, to which Atty. Anosan replied that an indirect member can buy from the spot market but the obligations corresponding to the spot are paid for by the direct member counterparty.

Seeing the complexity of having indirect and direct members in the WESM, Mr. Sioson viewed that any entity connected to the grid must carry one type of membership only.

Ms. Gonzales called to mind that the purpose of having an indirect member, when the WESM Rules were being formulated, was for captive customers which are not allowed to trade directly in the WESM.

- On the matter of retirement of facilities, Mr. Crisologo expressed his reservation on the provision that the trading participant will continue to be held liable for transactions of the unit prior to and after deregistration. He viewed that it is the responsibility of the WESM to ensure that prior to deregistration of facilities (that will cease operations), all liabilities have already been accounted for. He added that there must be a provision in the Manual for this purpose.

In response, Atty. Anosan clarified that the provision only meant that all transactions associated with that facility/unit will continue to be the liability of the original owner. She added that the purpose of the provision is to ensure that there are no obligations that transferred to the market.

- Mr. Sioson inquired how the transfer of facilities will affect the liability of the original owner. Atty. Anosan explained that the transferor will continue to be held liable until such time that the registration is transferred. This is to ensure that the facility will continue to be transacted in the WESM.

In the interest of time, Atty. Anosan requested the RCC to discuss the topics on suspension, cessation of membership and deregistration in the next RCC meeting, to which the RCC agreed.

Accordingly, the RCC Acting Chairperson moved for the publication of the Proposed New WESM Manual on Registration, Suspension and Deregistration Criteria and Procedures in the WESM website, for comments by

	the market participants and other interested parties.	
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4. Other Matters

The RCC agreed to hold its 2011 RCC Planning Session in early January with the following tentative agenda:

1. Review of the 2010 RCC Work Plan, which includes RCC's accomplishments and pending items to be discussed; and
2. Various PEM Board-approved urgent amendments.

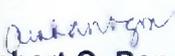
Noting the interest of the RCC to conduct the session in Cebu City, Mr. Crisologo conveyed that the Aboitiz Power Corporation might be willing to sponsor the said activity, including travel expenses of the RCC. This is still subject, however, to approval. He requested to give him until next week to broach this topic with the Aboitiz Power. He likewise requested the Secretariat to confirm with the PEMC Management whether Aboitiz will be allowed to shoulder the expenses of the planning session.

There were also discussions among the RCC on whether to hold a meeting prior to the planning session; however, no consensus was reached.

5. Adjournment

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

Prepared by:


Rheinhart O. Banogon

Noted by:


Elaine D. Gonzales

Approved by:
RULES CHANGE COMMITTEE



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

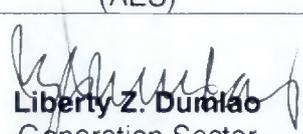
Members:



Cherry Aquino-Javier
Generation Sector
AES Philippines
(AES)

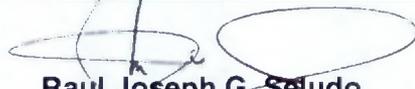


Ralph T. Crisologo
Generation Sector
SN Aboitiz Power
(SNAP)



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

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

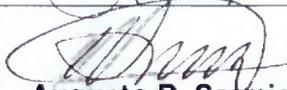


Raul Joseph G. Seludo
Transmission Sector
National Grid Corporation of the Philippines
(NGCP)



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

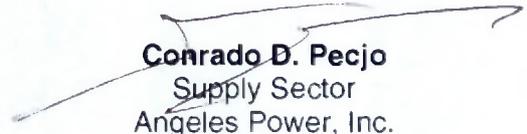
Vicente C. Sioson
Distribution Sector (PDU)
Manila Electric Company
(MERALCO)



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.

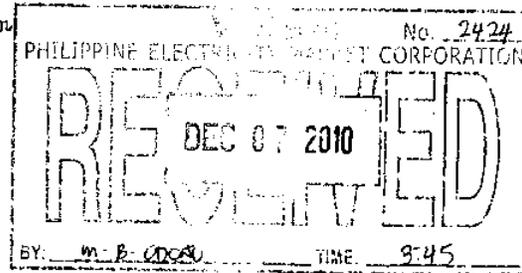
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AboitizPower

December 6, 2010

Professor Epictetus E. Patalinghug *Autamang 12/07/10*
Chairman
PEMC Rules Change Committee
18/F Robinsons Equitable Tower, ADB Avenue,
Ortigas Center, Pasig City



Dear Prof. Patalinghug,

This is with regards to the comments of ERC and PEMC on the Aboitiz Power Corporation's ("APC") proposed amendments to the Wholesale Electricity Spot Market ("WESM") Manuals on the "Must Offer Rule". Please find below our comments:

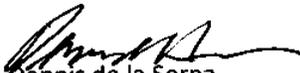
1. **Coal constraints such as coal supply and quality** – As stated during the RCC meeting, there are extraordinary events that lead to reduction in generation capacities due to limitations in the coal supply and coal quality. These extraordinary or unforeseen events are not within the control of the generation company. High sulfur content, low calorific values, wet coal, coal shipping problems are examples of non-commercial issues that impact the generation capacity. We are amenable to providing the necessary documents to prove that such extraordinary or unforeseen event a) has occurred and b) has severely impacted the generation capacity.
2. Trading participants may opt to cancel their bids/offers when **the total generation offers are 5% above the total demand requirement. The cancellation of the bids must be approved by the System Operator ("SO") and if the cancellation request is not approved, then the trading participant is compensated based on the Must Run Unit ("MRU") rules** – We are amenable to increasing the cancellation trigger to 10% above system demand, which is above the day-ahead load forecast error as stated by PEMC. We believe that the SO should be involved since the SO knows the generation schedules, planned and unplanned downtimes, and system requirement. The SO is already highly involved in real time dispatch since it revises the WESM dispatch schedule and MRU. We believe that the concerns on load fluctuations should be addressed by ancillary services. We believe that if the cancellation is not approved, the SO operator has put the generator on Must Run status and therefore must be paid based on MRU. Note that cancellation of offers creates significant risk to the generator since the generator may not be online when WESM prices are reasonably high, thus it is not a scheme for market abuse. It merely addresses the inefficiency of the system when high-priced diesel/bunker plants are being run at PMIN when in fact cheaper base load plants can be dispatched at a higher load.

3. Fast start generators such as diesel, simple cycle gas turbines and hydro plants, that can meet the RTD schedules within the required interval/hour, can revise or cancel their offers 30 minutes prior to the initial interval – We suggest that the Market Operator issue a market advisory showing the base load capacity. We are open to changing cancellation timetable to 1 hour before the trading interval (closing of bids). Note that the proposal is based on providing proper compensation, incentives, and signals to investors as fast start generators are needed by the grid.

4. From its synchronization to the start of the next trading interval, the generating unit shall be paid based on the generating unit's short run marginal cost – PEMC acknowledges that generators need to recover start up costs and that such costs may not be recovered under the current rules. We believe that PEMC's concern on price distortion is not a distortion but a price that is reflective of reasonable pricing and recovery. We believe that incorporating and spreading the costs across the next block offers does not address the problem when the generating unit is kept running at PMIN and therefore no recovery. We are open to revising the payment based on the generation offers for PMIN. We are open to discussing PEMC's PMIN de-commitment rules.

In a competitive market environment to occur, we believe that market participants should a) be compensated and paid properly and b) be given the opportunity or flexibility to offer its generation. It is the "Must Offer" Rules that limit the rights and capability of the market participants to compete and creates an uneven playing field in a market environment. We are open to discussion on other possible solutions to the problem and that the problem can be solved.

For your consideration.



Dennis de la Serna
WESM Compliance Officer
Aboitiz Power Corporation