

MINUTES OF THE 63RD MEETING OF THE RULES CHANGE COMMITTEE

Date : 29 June 2012
Time : 9:00 A.M.
Venue : PEMC Board Room
18th Floor, Robinsons-Equitable Tower
Ortigas Center, Pasig City

MEMBERS PRESENT:

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

MEMBERS NOT PRESENT:

Ralph T. Crisologo	-	Generation Sector – SNAP
Epictetus E. Patalinghug	-	Independent – UP
Robinson P. Descanzo	-	Market Operator – PEMC

ALTERNATE MEMBERS PRESENT:

Isidro E. Cacho	-	Market Operator – PEMC
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OBSERVERS PRESENT:

Isabelo Joseph P. Tomas, II	-	ERC
Ferdinand B. Binondo	-	DOE (<i>alternate</i>)

OTHERS PRESENT:

Jesusito G. Morillos	-	WESM Dispute Resolution Administrator
Caryl Miriam L. Mateo	-	PEMC – Legal
Phillip C. Adviento	-	PEMC – Legal
Edward I. Olmedo	-	PEMC – TOD
Karen D. Abregana	-	PEMC – MAG
Senen D. Fenomeno	-	SNAP

SECRETARIAT

Rheinhardt O. Banogon	-	PEMC – MAG
Hiyasminh Aleia C. Dagum	-	PEMC – MAG

After determining the presence of a quorum, the 63rd RCC meeting was called to order by Chairperson Dr. Rowena Guevara at 9:10 A.M.

1. Adoption of the Proposed Agenda

The Proposed Agenda for the 63rd RCC Meeting was approved, as presented.

2. **Review, Correction and Approval of the Minutes of the 62nd RCC Meeting**

Corrections were made on part 3.A.(a) of the minutes as follows (in bold letters):

- On page 4, 3rd paragraph

*"At this juncture, Ms. Cherry Javier queried whether the basis for MRU is still **in** a single market..."*

- On page 4, 7th paragraph, 2nd sentence

*"Ms. Javier replied that this is because it is the imbalance of the one that ramped up **which that** is being cured..."*

- On page 5, 16th paragraph, 2nd sentence

*"He pointed **out** that if this happens, in the end the consumers in Luzon will be affected..."*

- On page 6, 22nd paragraph

*"Dr. Guevara commented that it would **be categorized seem** as MRU because it is seen as a single market but if **you there is a** separate **the MOT for** Luzon and Visayas **MOT, you can't see it it would not be categorized** as MRU which Mr. Seludo affirmed..."*

- On page 6, 24th paragraph

*"Ms. Javier explained that **the reason that is** why there is stacking because it is the result of MDOM which considered the HVDC..."*

- On page 7, 29th paragraph, 2nd and 3rd sentences

*"Ms. Javier said **that** the market was **made to designed to** have scheduled and **actual because it is the market design actual runs pertaining to ex-ante and ex-post results, respectively**. Mr. Fenomeno **seconded added** that the market design ..."*

- On page 7, 30th paragraph, 1st and 2nd sentences

*"Mr. Binondo clarified whether it is **not** fair to substitute the ex-post to the ex-ante price ... On the **issue of problem-if** the ex-ante price **is being** different from the ex-post price..."*

- On page 7, 32nd paragraph, 1st sentence

*"Dr. Guevara stated that since ... which is a worst case scenario and **she** inquired what would be acceptable to the generators..."*

- On page 7, 34th paragraph, 2nd sentence

*"Mr. Meneses proposed to use the same analogy in the algorithm used for the PSM, where those that are **constraint-on constrained-on** be given their bid price*

~~but price is the same for those that are constraint-off constrained-off be given the clearing price, otherwise MRU algorithm will be used...~~

On motion duly made and seconded, the review, correction and approval of the minutes of the 62nd RCC Meeting was deferred for next meeting. RCC Chair Dr. Guevara suggested that the RCC members each review the minutes and revise the minutes accordingly and send the corrections to the RCC, copy furnished the Secretariat, with the edits saved in track mode for the Secretariat to compile the revisions into a final revised file.

3. Business Arising from the Previous Meeting

a. **Proposed Amendments to the WESM Manual on Management of Must Run Units**

Dr. Guevara reminded the Committee that the RCC already had an agreement on the proposed amendments to the WESM Manual on Management of MRUs and that the materials were supposed to be submitted to the Board after these have been signed by the Committee members. She stated, however, that two emails were received, one from SNAP proposing another definition of Nominated Price. She also stated that upon her instructions, polling was made to choose between the SNAP-proposed definition and the earlier definition discussed and approved by the RCC in its last meeting, with 8 members voting to retain the June 6 agreement and 6 voting in support of SNAP's proposal. Further, she continued that the second email was from the combined subcommittees of the Pmin and Must-Offer stating the intent for additional suggestions to the MRU manual, and for this reason, the matter is being put in the table again for the RCC to finalize its decision.

Dr. Guevara suggested starting the discussion on Nominated Price brought about by SNAP's proposal on the removal of fixed, variable and fuel costs as the basis for the formulation of Nominated Price.

Mr. Senen D. Fenomeno explained that the purpose of the MRU/MSU Manual is to ensure that the generators are paid based on the market environment, similar to the rules on the administered price wherein it considered the market results on the determination of the prices.

Mr. Raul Seludo countered that the primary reason for the MRU Manual is to secure the system. The settlement scheme for MRUs, on the other hand, aims to ensure that the generators are at least able to recover their costs.

Dr. Guevara inquired where the NP would be based if not on the cost. Ms. Cherry Javier replied that it would still be based on the plant's cost however the costing would differ between power plants.

Atty. Liberty Dumlao explained that the Hydro Power Plants would be in great disadvantage if the NP would be based on fixed, variable and fuel cost because Hydro Power Plants have no variable cost and are more capital intensive.

Atty. Dumlao suggested removing in the definition as the basis for NP, the fixed, variable and fuel cost as what SNAP has proposed. Mr. Meneses, on the other hand, commented, that even if the basis remained in the definition, the plants can still be legally justified in nominating a price.

Dr. Guevara queried if the generator sector is concerned that the definition would compel the plants to come up with the figures. Ms. Javier explained that other than the costs specified in the definition, there are other costs that are also involved.

Dr. Guevara suggested including in the definition '*opportunity cost*' as basis for NP. However, Ms. Javier suggested adding '*other costs*' instead. Mr. Meneses clarified the NP definition further by recommending that it be based on fixed, variable and *other costs* to eliminate the limitations imposed by the old NP definition.

Atty. Dumlao suggested making the definition based on fixed, variable and '*other reasonable costs*'. Atty. Isabelo Tomas, commenting on the "reasonableness of costs, informed the RCC that it is incumbent upon ERC to look into the reasonableness of the costs claimed.

Dr. Guevara inquired from the body whether the suggested revision of the Nominated Price based on fixed, variable and other costs is acceptable to all. The RCC agreed on the suggested revision and finalized it to read as follows:

*"...The NP is based on fixed, variable and ~~fuel cost~~ **other applicable costs.**"*

Mr. Fenomeno suggested including '*cost or pricing*' in the definition explaining that the cost may be interpreted as really a cost to which Atty. Dumlao commented that it would make it circuitous citing that NP is already based on pricing.

Ms. Javier then suggested that NP be based on fixed, variable and other applicable costs '*plus reasonable premium*'. The RCC however objected to the use of premium in the NP definition.

Dr. Guevara suggested that voting be made again to decide whether to accept the new definition or the 'no definition' which SNAP has proposed. The result of the voting was 11-1, with eleven (11) voting in favor of the new definition (Mesdames. de Castro, Dumlao, Encarnacion and Messrs. Castro, Meneses, Sarmiento, Santos, Pecjo, Cacho, Lagarde, Seludo) and one (1) against (Ms. Javier).

The RCC thus decided to approve the new revised definition of NP as follows:

*"Nominated Price (NP) (P/MWh) – the Nominated Price is a price submitted by each Generator at the beginning of the year. **The NP is based on fixed, variable and other applicable costs.**"*

On the query raised by Mr. Fenomeno whether MCP in the NP formula is ex-ante or ex-post, Mr. Isidro Cacho clarified that although not clearly stated in the Manual, the simulations conducted by PEMC-TOD on the MRU pricing made use of the ex-ante MCP. Dr. Guevara thus suggested clarifying in the definition of the MCP that the same refers to the ex-ante MCP.

b. Update on the RCC's Action on Various Audit Recommendations

✓ Review of Prudential Requirements

- Dr. Guevara reminded the committee that the Generation Sector and the ECs were requested to study the proposal of shortening the prudential requirement to 30 days.

Mr. Sulpicio Lagarde replied that the Electric Cooperatives do not have control over the WESM bill. There is a preliminary bill and a final bill after ten days and in fact they have suggested shortening the billing cycle to thirty days. He said that there is difficulty inputting the preliminary bill in their system especially when the variances in the preliminary and final bills are huge.

Dr. Guevara replied that as discussed during the previous meeting, the bottom line is when the ERC agrees with the proposal then there won't be any problem. She further cited that what was agreed upon during the previous meeting was for RCC to request the PEMC – Billing, Settlements and Metering Division to figure out how to make the proposal operational and feasible.

Dr. Guevara informed the RCC that PEMC-BSMD has not responded to the request yet. She further added that Atty. Tomas and Mr. Nelson Canlas were also requested to study and consider the provision of passing onto the next billing cycle the corrections from the previous month.

Dr. Guevara inquired from the Generation Sector whether the 30-day proposal in Prudential Requirement is acceptable. Ms. Javier added that if the exposure is still equal to the prudential requirement then it would be acceptable, otherwise if the exposure is longer than the amount of prudential, then it would be a problem.

In relation to the above discussion, the Secretariat was instructed to follow-up the RCC request regarding the proposal on Prudential Requirement with PEMC-BSMD. The RCC then agreed to defer the discussion on Prudential Requirement for the next RCC Meeting. In addition, RCC Chair requested to include in the inquiry with PEMC-BSMD the possibility of coming up with the final billing on the fifth of the month, as suggested by Mr. Lagarde.

✓ **On review of Pmin Rules and Procedures and Update on the Review of the Must-Offer Rule**

The Pmin Subcommittee and Must-Offer Rule Subcommittee agreed to present their specific assignments in tandem.

On the Proposed Must Offer Rule Provisions

- On Mr. Fenomeno's query regarding similar provisions, Ms. Javier replied that the provisions were just consolidated but not deleted. Dr. Guevara replied that in enumerating the different sections, the previous provisions were not eliminated nor diminished. Atty. Dumlao added that lumping all these provisions is just to facilitate the review of the provisions so as to avoid going back and forth.
- Mr. Ciprinilo Meneses commented that the term 'NRE' referring to New Renewable Energy in Clause 3.5.12.2 is already obsolete. The RCC agreed with Mr. Meneses' comment to change the New Renewable Energy (NRE) to Renewable Energy (RE) in Clause 3.5.14.2 of the WESM Rules.

Dr. Guevara requested Atty. Adviento to assist the RCC with the review of all the appearances of New Renewable Energy (NRE) in the WESM Rules so as to amend these all at the same time.

On Options for Pmin

- The Pmin Subcommittee presented to the RCC the proposal on Options for Pmin for the RCC to decide on, as follows: (a) Status quo; (b) Status quo plus the right to file claim for additional compensation for except operationally inflexible and expensive plants; and (c) Exceptions to the MOR if the standing offer is higher than the 1400 hour average price.

In connection with the above proposal, Mr. Isidro Cacho requested Mr. Edward Olmedo to provide additional information and comments for the Pmin discussion.

For clarification on the matter, Mr. Olmedo presented the Evaluation of NGCP/Pmin Subcommittee's Proposal on the Minimum Stable Loading. To address the PA Audit findings regarding the forced dispatch of the Pmin, the following three options were outlined: (a) Use the existing provisions; (b) Allow generator to have an offer price for their Pmin; and (c) Allow generator to offer Pmin but only up to the limit of the true cost of generation. He explained and presented illustrations for each option listed.

- With the resulting discussions after the presentation, Dr. Guevara clarified and recapped what was discussed. She re-stated that the issue the RCC is trying to solve is how to prevent the violation of the Must-Offer Rule. She continued, however, that technically, it is not feasible for some other plants to offer so the only solution is to have $P_{min} = 0$, but allowing $P_{min} = 0$ offers another onslaught of problems.

Mr. Meneses commented that the second proposed option for Pmin, i.e. status quo plus the right to file claim, will solve the problem. He explained that the TPs can still file its claim with PEMC since their price is higher than the billing price when they were called to run. Further, he stated that with this, their economic dilemma will be solved and at the same time SO will have no additional problem with the secondary Pmin.

On Penalty for Non-compliance

- Ms. De Castro presented what the subcommittee has agreed on during its meetings. The proposal on penalty for non-compliance is as follows: (1) $P_{min} \times 1400$ hour average price \times (every hour of failure to offer); and (2) for flow back to all load customers.

Atty. Dumlao raised an issue with regard to the penalty and the Financial Penalty Manual (FPM). Atty. Dumlao opined that the manuals for penalty must be ERC-approved since ERC is the regulator.

In connection with the Financial Penalty Manual, Atty. Caryl Lopez-Mateo explained that the rules allowed the MSC to promulgate the penalties so it's actually outside of the coverage of the RCC. She however added that the RCC can certainly coordinate with the MSC on the matter. Further, she continued that it is PSALM's position that they do not want to be penalized under any WESM rule except by the ERC.

Dr. Guevara inquired whether the FPM is ERC-approved or not. Atty. Mateo replied that under a DOE Issuance, the MSC is entitled to design the FPM, thus it was promulgated under a different authority.

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- On Dr. Guevara's inquiry on the possibility of PSALM being penalized, Atty. Dumlao replied that PSALM doesn't recognize the MSC as a valid authority. She explained that as far as PSALM is concerned, they would only recognize ERC and that the FPM and DRMM are not valid rules.

She further added that it is not within the powers of PEMC to regulate but the ERC's, pointing out that the ERC has exclusive jurisdiction. She said that when the FPM was being drafted, it didn't go through RCC causing PSALM to raise the issue of ERC being the sole regulatory body.

- On Dr. Guevara's inquiry whether the FPM was approved by the Board, Atty. Adviento clarified that there is a DOE issuance that authorized the MSC and that the PEM Board and RCC will just be consulted by the MSC when it comes to penalties.

Atty. Adviento added that ERC and PEMC both crafted the protocol and that ERC agreed that the PEMC would have a jurisdiction for breaches of WESM Rules. Atty. Dumlao commented that it is the MSC that crafted the FPM and not the PEMC, so why can't the PEM Board just approve it.

Atty. Adviento clarified that the manual was crafted by the MSC but the imposition of the penalty is still for approval by the PEM Board.

Atty. Dumlao commented that the manual still has to be approved by the Board if it is not yet approved. Atty. Adviento replied that according to the rule, PEM Board and RCC will just be consulted with respect to the promulgation of penalties basing on the DOE Circular. He continued that the remedy is to amend the DOE Circular delegating the MSC as the sole authority on the promulgation of penalties.

Atty. Mateo explained further that the MSC can design a manual, and if Enforcement and Compliance Office (ECO) finds a breach and propose a penalty, the PEM Board still has the final say of the imposition.

Dr. Guevara inquired what other manuals would be affected by the proposal if the RCC accepts the Subcommittee's proposal on Penalty for Non-compliance. Atty. Mateo replied that RCC can recommend and coordinate with MSC on that matter.

On Cancellation of Offers

- As what the Must-Offer Rule Subcommittee has previously presented, the existing provisions on Cancellation of Offers shall be adopted, but with a colatilla which states that in no case shall it result in undergeneration/under capacity.

Dr. Guevara directed the committee to the decision on Pmin Rules. Ms. Javier commented that she would go with the status quo but proposed amending the proposal on cancellation of offers.

On Ms. Javier's comment, Mr. Meneses stated that it would in turn be the fourth option, i.e. status quo plus cancellation. The RCC then agreed to select Status quo among the Pmin options and consider revising the cancellation of offers.

With the agreement to amend the proposal on cancellation of offers, Ms. Javier explained that with the current provision, the only plants that can cancel are those plants with demands lower than the aggregate Pmin. Ms. Javier said that what the RCC wants is to allow plants to cancel offers when it is not economically feasible for the plant to bid. She suggested defining what is 'economically feasible' and what are the allowable cases where the plant can cancel.

- With the suggestion of Ms. Javier to set new criteria for cancellation, Mr. Augusto Sarmiento suggested making the 3rd proposal on Options for Pmin, which is the Exceptions to the MOR if the standing offer is higher than the 1400 hour average price, as qualifier for cancellation of offers.

Ms. Javier stated that from the latest day ahead projection, if the projected price is less than the benchmark price, then the plant can cancel for the succeeding hour.

Atty. Dumlao added that if the demand is not greater than the summation of the Pmin, cancellation of offers is applicable, subject to the condition of having a standing offer that is higher than the 1400 hour average price. Dr. Guevara replied that it's like an addition to the options on exceptions to the must offer rule.

Atty. Dumlao however commented that technically it is not applicable because Pmin addresses volume and the issue is on the price to which Dr. Guevara replied that the Pmin option is status quo.

Ms. Javier replied that the option however would not address the high cost of generation.

- Dr. Guevara reiterated the agreement that Pmin would be status quo with the consideration of changes in cancellation of offers that would be feasible for some other plants affected by current cancellation rules.

Following the discussions, she suggested that Generation Sector submit proposals on Cancellation of Offers for further discussion on 18 July 2012 RCC Meeting.

Further, the RCC agreed to take off from Mr. Sarmiento's suggestion on 1400 hour with the instruction from Dr. Guevara to study and do some simulation on the same.

✓ **Review of Procedures on Pricing errors and Market Re-Runs**

The RCC approved the Memo addressed to the Board regarding the review of Pricing Errors and Market Re-runs, as presented/prepared by Ms. Javier.

✓ **Review of SO with respect to its responsibilities under the Market Rules**

Dr. Guevara informed the RCC that the matter has been taken off their hands since the particular Audit recommendation which involves SO's obligation to be audited is already being addressed by the PEM Board. According to Dr. Guevara, the PEM Board has already decided that the DOE and ERC will deal with the matter.

c. SNAP's Proposed Amendments to the WESM Dispatch Protocol Manual regarding Re-Dispatch Procedures based on Merit Order Table (MOT)

Dr. Guevara recapped what was discussed during the 62nd RCC Meeting, citing SNAP's suggestion that the proposed amendments be included as an appendix to the MRU. She continued that the committee, however, suggested including the same in the Dispatch Protocol Manual as agreed upon during the said meeting.

Further discussion regarding the matter was suspended since the SO has yet to submit its comments on the matter.

Dr. Guevara requested Mr. Fenomeno to convert the proposed amendments by SNAP into the RCC format proposal and instructed that the same already be reviewed by the SO and ready for discussion before the next RCC Meeting.

Mr. Fenomeno committed to finish the same within 1-2 weeks.

d. Proposed Amendments to the WESM Dispute Resolution Market Manual

The RCC continued to review the remaining pages of the 92-page proposal of the DRA page by page and accordingly made some corrections on the manual.

The RCC made clarifications on some provisions and revised Clause 9.6.7.1(g) in page 60 as suggested by Mr. Fenomeno to read as follows:

*"...if such is the case, reference to the power conferred **by the parties upon** the Arbitral Tribunal..."*

After the further review, clarifications and revisions on the DRMM until page 75, the RCC decided to continue the discussion/approval of the same for the next RCC Meeting.

Dr. Guevara requested the submission of the committee members' comments to the remaining pages of the proposed DRMM to facilitate faster discussion of the same in the next RCC Meeting.

4. Next Meeting

Dr. Guevara decided to adjourn the meeting at 3:18 PM and defer discussion of the other matters in the agenda for the next RCC meeting.

Further, she requested Mr. Joey Santos to present the discussion on CENECO's Rules Change Proposal regarding Line Rental in case Mr. Lagarde is not available.

The RCC was reminded to study the file regarding RCOA which was emailed by Mr. Binondo as it will be included for discussion in the next RCC meeting.

The RCC was reminded of the schedule of its succeeding meetings: (64th RCC Meeting) on 18 July 2012, (65th RCC Meeting) on 01 August 2012 and (66th RCC meeting) on 05 September 2012.

had


5. Adjournment

There being no other matter to be discussed, the meeting was adjourned at 3:18 P.M.

Prepared by:

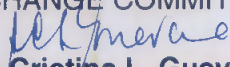
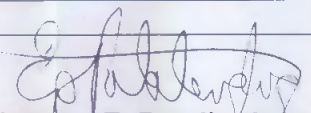



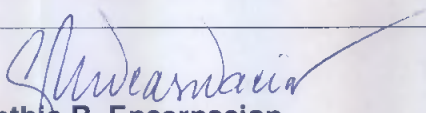
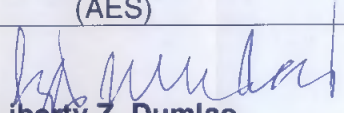

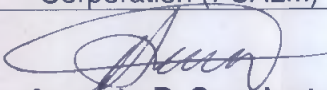


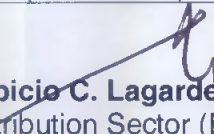
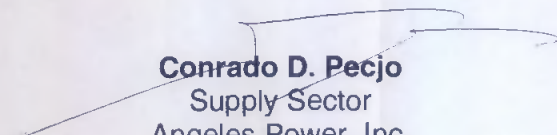



Hiyasminh Aleia C. Dagum

Reviewed by:


Geraldine A. Rodriguez

Noted by:


Elaine D. Gonzales

<p>Approved by: RULES CHANGE COMMITTEE  Rowena Cristina L. Guevara Chairperson Independent University of the Philippines (UP)</p>	
Members:	
 Epictetus E. Patalinghug Independent University of the Philippines (UP)	 Francisco L.R. Castro, Jr. Independent Tensaiken Consulting
 Maila Lourdes G. de Castro Independent Unitel Productions, Inc.	 Cherry Aquino-Javier Generation Sector AES Philippines (AES)
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 Ralph T. Crisologo Generation Sector SN Aboitiz Power (SNAP)	 Augusto D. Sarmiento 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)

Good