

1 **MINUTES OF THE 66TH MEETING OF THE RULES CHANGE COMMITTEE**

2
3 Date : 05 September 2012
4 Time : 9:00 A.M.
5 Venue : PEM Board Room
6 18th Floor, Robinsons-Equitable Tower
7 Ortigas Center, Pasig City
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10 **MEMBERS PRESENT:**

11 Francisco L.R. Castro Jr. - Independent – Tensaiken Consulting
12 Maila Lourdes G. de Castro - Independent – Unitel Productions, Inc.
13 Cherry Aquino-Javier - Generation Sector – AES
14 Cynthia R. Encarnacion - Generation Sector – NPC
15 Liberty Z. Dumlao - Generation Sector – PSALM
16 Ralph T. Crisologo - Generation Sector – SNAP
17 Augusto D. Sarmiento - Distribution Sector – DECORP
18 Ciprinilo C. Meneses - Distribution Sector – MERALCO
19 Jose P. Santos - Distribution Sector – INEC
20 Conrado D. Pecjo - Supply Sector – Angeles Power, Inc.
21 Raul Joseph G. Seludo - System Operator – NGCP
22

23 **MEMBERS NOT PRESENT:**

24 Rowena Cristina L. Guevara - Chairperson/Independent – UP
25 Epictetus E. Patalinghug - Independent – UP
26 Sulpicio C. Lagarde Jr. - Distribution Sector – CENECO
27 Robinson P. Descanzo - Market Operator – PEMC
28

29 **ALTERNATE MEMBERS PRESENT:**

30 Isidro E. Cacho - Market Operator – PEMC
31

32 **OBSERVERS PRESENT:**

33 Isabelo Joseph P. Tomas II - ERC
34 Ferdinand B. Binondo - DOE (*alternate*)
35

36 **OTHERS PRESENT:**

37 Caryl Miriam Y. Lopez-Mateo - PEMC – Legal
38 Milan H. Libongco - PEMC – Billing and Settlement
39 Renato B. Afurong - PEMC – Billing and Settlement
40 Jesusito G. Morillos - Dispute Resolution Administrator
41 Leila B. Bonifacio - NEA
42 Francisco G. Caymo - NEA
43 Goldelio Rivera - NEA
44

45 **SECRETARIAT**

46 Geraldine A. Rodriguez - PEMC – MAG
47 Rheinhardt O. Banogon - PEMC – MAG
48 Shalom Grace A. Tomas-Llamzon - PEMC – MAG
49

50
51 After determining the presence of a quorum, the 66th RCC meeting was called to order by
52 Acting Chairperson Mr. Francisco L.R. Castro Jr., at about 9:45 A.M.
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54
55

RM

56 **1. Adoption of the Proposed Agenda**

57
58 The Proposed Agenda for the 66th RCC Meeting was approved, as presented.
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61 **2. Review, Correction and Approval of the Minutes of the 65th RCC Meeting**

62
63 The Minutes of the 65th RCC Meeting was approved, as amended. Corrections made
64 are as follows:
65

- 66 • On line 19, page 4:

67
68 "In connection with the **63-day prudential requirement**, Dr. Guevara asked the
69 ECs their comments on the matter since they are the ones affected by the
70 proposal. ..."
71

- 72 • On line 22, page 5:

73
74 "In reaction, Mr. Meneses commented that MERALCO still spends **an immense**
75 **amount of money millions of pesos** for the prudential requirement which is
76 not recoverable from the customers."
77

- 78 • On line 27, page 5:

79
80 " He explained that MERALCO collects daily, however, INEC's meter reading
81 starts on the **15th or 18th** of the month which is almost the same for all the ECs,
82 thus even if the bill is early, it still won't matter since they will be reading on the
83 **15th or 18th**.
84

- 85 • On line 17, page 6:

86
87 "Ms. Javier informed the committee that she has emailed her proposed
88 guidelines on the cancellation process for comments, however, no response
89 was provided by other members of the **Generator Sector RCC Sub-**
90 **Committee**."
91

- 92 • Other revisions are clerical in nature.
93
94

95 **3. Business Arising from the Previous Meeting**

96
97 **A. Discussion with NEA on DOE Circular No. DC2012-06-0007**

- 98 • **Review of Prudential Requirements**
99

100 Mr. Castro introduced the matter for discussion relative to the RCC's ongoing review of
101 the pertinent provisions in the WESM Rules and Manuals on prudential requirements
102 (PR) and the issue on the failure by electric cooperatives(ECs) specifically those
103 under the supervision of the National Electrification Administration (NEA) to provide the
104 same as required under the WESM. Ms. Leila Bonifacio presented NEA's position and
105 comments relative to its mandate under DOE DC 2012-06-0007 to develop a
106 mechanism for ensuring the adequacy and compliance of ECs with the prescribed
107 prudential requirements of the WESM. Ms. Bonifacio clarified and/or reiterated the
108 following during her presentation:
109



- 110 – PR is not recoverable under the ERC-approved rate methodology for the ECs;
- 111 – NEA is presently providing credit/loan facilities to some ECs, but is not yet in the
- 112 position to act as guarantor considering that its Authorized Capital Stock amounting
- 113 to PhP15B has not been fully paid.
- 114 – NEA is currently working on its Petition for Rule-Making for the ERC to approve a
- 115 formula to allow the ECs to recover the PR through a pass-on mechanism to
- 116 consumers.
- 117 – NEA recommends lowering the security deposit equivalent to 63 days to 30 days
- 118 since *'based on consultation with the ECs, the security deposit equivalent to 63*
- 119 *days is onerous considering that it imputes or considers both the previous and*
- 120 *current bills and therefore the security deposits should be reduced to an amount*
- 121 *equivalent to the previous bill which is due and payable'.*

122
123 Ms. Javier inquired whether or not NEA considers the 'pooling' or consolidation of the
124 prudential requirements for the ECs instead of the ECs going to the bank. Atty. Dumlao
125 added that NEA will be able to get a better deal with banks because it is a bigger
126 institution.

127
128 Ms. Bonifacio replied that there had been discussions on 'pooling' similar to the existing
129 arrangement of PHILRECA with the ECs which holds the pooled amount in escrow as
130 security in the payment of their NGCP account. However, the same was not considered
131 in the NEA's current study because NEA is currently working on its Petition for Rule-
132 Making for the ERC to approve a formula to allow the ECs to recover the PR through a
133 pass-on mechanism to consumers.

134
135 Mr. Crisologo inquired on the mandate of NEA. He stated that from his understanding,
136 NEA's mandate is more of electrification rather than financial support. Ms. Bonifacio
137 explained that the EPIRA Law expanded NEA's mandate to include the provision for
138 financial, institutional and technical assistance to help prepare the ECs compete in a
139 deregulated electricity market.

140
141 Ms. Encarnacion further inquired on the types of loans being extended by NEA to the
142 ECs, whether these account for the payment of the ECs' outstanding loans or for the
143 expansion of their electrification program only. Ms. Bonifacio responded that at present,
144 NEA provides loans to the ECs to answer for the payment in the shortfalls of the ECs'
145 power accounts and even with the ECs' working capital to pay their outstanding
146 obligations. She explained that the loans extended to the ECs are remitted directly by
147 NEA to the generators. Additionally, Ms. Bonifacio also stated that the NEA has
148 extended loans to some 6 or 7 ECs to enable them to comply with their PR.

149
150 Ms. Javier asked if it is possible for NEA to enter into an arrangement to allow them to
151 issue letter/s of credit to assist ECs with difficulty in finding a bank which will issue a
152 letter of credit in their favor. Ms. Bonifacio reminded the RCC that NEA is not a banking
153 institution and that the amount which goes into their lending facilities mostly comes
154 from internally generated sources. She emphasized that NEA can develop other credit
155 facilities if only the PhP15 Billion authorized capital will be released to them.

156
157 Mr. Castro inquired as to whether or not NEA follows a set of guidelines or criteria in its
158 approval of loan applications from the ECs. Ms. Bonifacio replied affirmatively. She
159 explained that NEA also looks into an EC's capability to pay and requires from them the
160 submission of a recovery plan. However, in conformance with the NEA mandate under
161 the EPIRA, the credit facilities are open to all ECs, not only to those which are of good
162 rating and performance. She further stated that about 80 ECs out of the 119 ECs under
163 their supervision are good performers. She reiterated that payment of the prudential
164 requirement is not part of the rate structure of the ECs and unlike MERALCO, the ECs

are not allowed to operate with surplus and operating capital. She also explained that most of the ECs even resort to borrowing in order to comply with the PR. She stated that the good performance of the 80+ ECs are overshadowed by the issue on the prudential requirements. She further reiterated that for the time being, while the petition with the ERC is still not finalized, she stated that reducing the 63-day posting to 30-days only will help address the issue of compliance by the ECs.

At this juncture, NEA representatives requested permission to leave the meeting. Mr. Castro then thanked the NEA for its presentation and interaction with the RCC.

Mr. Castro reminded the body that one of the reasons for the RCC's invitation to NEA is to be able to provide information and guidance on the RCC's 'risk assessment' of the ECs relative to its mandate under the subject DOE Circular. Mr. Crisologo for his part explained that such invitation is premised on the prospect that NEA can provide some sort of an arrangement or 'guarantee' to help mitigate/lessen the risk involved with ECs with default history in the WESM. Mr. Crisologo also took note of the NEA's statement as regards reducing 63-days to 30-days. He commented that the proposal does not remove nor reduce the risk because it does not change the risk involved with poor performing coops.

Mr. Castro expressed the opinion that the continued imposition of the 63-day PR could be useful in 'weeding-out' WESM participants which are seemingly 'laggard' or unsuitable. He then invited the RCC members to express their view relative to the RCC's mandate from the PEM Board to review whether or not 63 days is still appropriate to be applied to WESM members.

Mr. Crisologo expressed that the NEA proposal did not address the issue of risk reduction nor justified the shortening of the period from 63 days to 30 days.

Ms. Javier stated that the high risk remains with the ECs which have no capability to pay and not with those which can comply with the 63-day posting. She recalled that the RCC earlier requested the PEMC for its guidance with regard to the RCC Subcommittee recommendation on the reduction of the PR from 63 days to 30 days. She explained that PEMC responded to the request through its 11 July 2012 letter to RCC which pointed-out that reducing the PR to 30 days is currently not doable. Ms. Javier further explained that the RCC's invitation to NEA was made in response to the same letter from PEMC informing the RCC of the DOE Circular mandating the NEA to develop the necessary mechanism in ensuring the ECs' compliance with the PR.

The RCC finally agreed that the existing rules on the PR should be retained since:

- Shortening the number of days of exposure to 30 days will not remove the risk of non-payment by the ECs because 'risk' has nothing to do with the number of days but rather, with poor performing coops which are direct WESM members;
- NEA's presentation did not provide the justification which can support the view that the risk involved with poor performing ECs can be reduced/removed, to merit the suggested shortening of exposure to 30 days; and
- Considering the PEMC's recommendation through its letter to the RCC that the reduction is not yet doable/practicable at this time.

The RCC agreed to formalize its comments and submit the same to PEM Board which first directed the RCC to review the WESM Rules on the PR.

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B. Proposed Amendments to the Dispute Resolution Market Manual

The Dispute Resolution Administrator (DRA) was called upon by the RCC to formally respond to the clarificatory questions which were raised by Atty. De Castro through email. At the onset, Atty. De Castro clarified that her comments were all intended to help simplify/make the DRMM language clearer so that even non-legal/lay people can fully understand it.

Highlights in the discussion are as follows:

- On the use of 'RA' instead of 'Request' to refer to 'Request for Arbitration'

Atty. De Castro suggested to abbreviate Request for Arbitration as 'RA', for clarity, in order to differentiate the RA from other 'requests' in the course of the dispute resolution process, and further, to be consistent in form with the abbreviation used for the 'Request for Mediation' which had been abbreviated to 'RM'. DRA Morillos and the RCC concurred with the suggestion.

- On the language of Section 9.6.7.3

To indicate that the section is an exception to the case as expressed in Section 9.6.7.2 where the parties and the tribunal sign the agreement as a matter of course, the RCC agreed to revise the provision to read as follows:

"However, if if any of the parties refuses to take part in ~~the~~ drawing up of the Terms of Reference or to sign the same ~~it shall they shall~~ be submitted to the DRA for approval. When the Terms of Reference have been signed in accordance with Section 9.6.7.2 or approved by the DRA, the arbitration shall proceed."

- On Section 9.6.10.3

DRA Morillos indicated that arbitration proceedings are held similar to an open court. Thus, there is no more need for a written order from the Tribunal to exclude parties which are not involved in the proceedings.

- On the use of the phrase 'draft award' in Section 9.8.1.1

On the clarification regarding the meaning and relevance of 'draft award', the DRA explained that this refers to the document on the Award, already drafted and signed by the arbitrators, but before promulgation to the parties.

Atty. De Castro suggested to remove the phrase 'pending issuance of the 'draft award' in Section 9.8.1.1. The DRA concurred with the suggestion but maintained that the reference to 'draft award' in other Sections of the DRMM is still in order. He clarified that draft awards shall be submitted by the arbitrators to the DRA before promulgation, for scrutiny/review of its format only and the computation of the award made.

Mr. Crisologo inquired if there is a possibility that a draft award is disapproved by the DRA. DRA Morillos responded by citing the current arbitration practice of the International Chamber of Commerce where the 'draft award' is submitted to the Commission on Arbitration which then reviews the Award and may recommend changes with respect to typographical or computation errors but never with the merit or

275 ruling of the arbitrators on the dispute. The DRA explained that this holds true for the
276 WESM's dispute resolution process where judicial freedom is exercised and full
277 accountability of the decision rendered is placed with the arbitrators, without
278 interference from the DRA.

279
280 Mr. Crisologo, for emphasis, again asked the question if there is no way by which a
281 draft award can be disapproved. DRA Morillos, for clarity, stated that the DRA has no
282 authority to disapprove a draft Award.

283
284 The DRA further explained that an Award would always contain two dates-the date of
285 drafting the award and the date of promulgation.

286
287 On the query by Atty. De Castro if there are requisites to the issuance of interlocutory
288 orders, DRA Morillos explained that the issuance of the same is an interim measure
289 which may be done by the tribunal at any time from filing to decision.

290
291 The RCC then agreed to revise the subject provision as follows:

292
293 **"At any time, the The** Arbitral Tribunal may issue a written interlocutory order
294 requiring an action or measure on matters related to the dispute, in order to
295 minimize damages or to protect the rights and obligations established in the
296 WESM Rules and other Applicable Law, Rules and Regulations **pending**
297 **issuance of draft award**. The parties shall be bound by such written
298 interlocutory order pending the final decision of the Arbitral Tribunal and
299 outcome of the dispute."

- 300
301 • On Section 9.8.4

302
303 The RCC agreed to revise the provision, considering the explanation of DRA Morillos
304 that the award resulting from the settlement of the parties has to be approved by the
305 arbitral tribunal so that the same is sanctioned by the tribunal and can be recognized in
306 courts of law. Without the said approval, the DRA explained that the settlement is only
307 a private agreement between the parties. Further, as clarified by the DRA, the parties
308 to the settlement will be submitting to the tribunal their Motion for the Approval of a
309 Compromise Agreement, thus, 'approval' shall be most appropriate.

310
311 The RCC then agreed to revise the provision as follows:

312
313 "Award by Consent:

314
315 If the parties reach a settlement after the ~~f~~**File of the dispute case** has been
316 transmitted to the Arbitral Tribunal, the settlement shall be recorded in the form
317 of an award made by consent of the parties, if so requested by the parties and
318 **with if the approval of** the Arbitral Tribunal **agrees to do so**."

- 319
320 • On Annex 'E', Treasury Services

321
322 Mr. Sarmiento commented that the use of the term interest-bearing checking or savings
323 account in the first paragraph of Annex 'E' should be changed to CASA or checking
324 account/savings account, following the formal language of banks/financial institutions.
325 The RCC agreed to correct the same, as follows:

326
327 " xxx (2) keeping the funds collected in an interest-bearing checking
328 **account**/savings account; xxx"
329

Atty. De Castro inquired on whether the services of the Accredited ADR Support Service Center (ASSC) will entail cost and whether corresponding receipts shall be issued. DRA Morillos confirmed that this shall indeed entail cost. On the query on the issuance of receipts, the DRA explained that the Philippine Dispute Resolution Center, which is an ASSC, is a corporation which can issue receipts.

Atty. De Castro further clarified if the ASSC service is an additional service which would entail additional cost for the parties. The DRA explained that administrative services are already included in the cost chargeable to the parties. For clarity, the RCC then agreed to insert the following additional paragraph:

"IV. Treasury services provided under this section shall not be a separate fee chargeable to the parties."

Atty. Dumlao inquired whether there is a trust agreement between the tribunal and the parties with the ASSC, considering the trust or fiduciary nature of the ASSC's services. The DRA replied that the matter is still subject to further review and study.

Responding to the query of Ms. Javier, the DRA clarified that the interest earned is already included in the disposition of excess or unused funds, as to be instructed by the PEM Board. The RCC then agreed to revise the pertinent portion of the paragraph as follows:

" xxx Finally, the ASSC concerned shall dispose of the aforesaid excess or unused funds **including interest earned, if any**, only in the manner instructed in writing by the PEM Board."

In the interest of time, Atty. de Castro, with the concurrence of DRA Morillos, expressed that she will work with the DRA in the finalization of the DRMM, taking into account her comments and clarificatory questions which were not covered in the discussion.

The RCC approved the proposal for endorsement to the PEM Board and noted the agreement between the DRA and Atty. de Castro to come-up with the final matrix form of the proposed amendments. The said final document, which shall be sent to the RCC through email, is to be annexed to the RCC Resolution to be submitted to the PEM Board.

C. Review of Pmin and Must-Offer Rules

Mr. Cacho presented the result of the study on Supply Margins from January 2011 to July 2012, which was made in response to the RCC Subcommittee's request on 14 August 2012, relative to the proposal on the cancellation of offers. It was noted from the presentation that there is a supply (aggregate energy offers) margin of >10% in 74.7% of the trading hours for both Luzon and Visayas. It was further noted that the data presented exclude reserve requirements and is solely based on the aggregate energy offers of the generators.

Mr. Seludo clarified that the subject was discussed during the MO-SO Coordination Meeting where it was discussed that the cancellation of offers might eventually lead to supply shortage. He expressed discomfort with the result of the presentation, reflecting

supply margins at about 70% of the time, which according to him, can be very dangerous to the system.

Mr. Sarmiento recalled that the reason for the RCC's request for the MO to simulate is because the original proposal setting the supply margin threshold level at 10% was questioned by the SO and by the DUs. He explained that the offers made during the DAP-run may differ from actual offers submitted in real-time.

Mr. Crisologo explained that the proposal gives the generators the option/flexibility to withdraw their offers, without violating the must-offer-rule. Ms. Javier clarified that as it is happening at present, the generators are not submitting their offers, even while knowing that they are in breach of the must-offer-rule, because it is not economically feasible for them to run.

Mr. Sarmiento indicated that the basis of the simulation should be that *'everybody must offer'*, taking note that the must-offer-rule should have been factored into the simulation. He further recalled that the simulation should have considered multiple possible scenarios, considering the load of the biggest online plant for each trading interval, as basis for the 10% threshold level.

Mr. Crisologo countered that the proposal is about offer cancellation and not about grid reliability, which has the ancillary service as support. He clarified that it is the ancillary services which account for incidents such as tripping during real-time. He clarified that the RCC is also asking the SO for its own comfort level, considering issues on system security and reliability, but for this particular study, the data presented only accounted for the offers submitted.

Mr. Sarmiento replied that the apprehension of the DUs is the possibility of the scenario where one generator with cancelled offers during off-peak hours, would be dispatched as a must-run unit due to the tripping of another generator.

Mr. Crisologo stated that it is the Philippine Grid Code (PGC) which covers the scenario on tripping. He emphasized the impracticality of allowing generators to run even during intervals where there supply is exceedingly greater than the demand. He also emphasized that the proposed 10% supply margin is on top of the requirement on ancillary services.

Mr. Binondo clarified on the intent and purpose of the proposal. Mr. Crisologo stated that the same relates specifically to making the generators in agreement with the must-offer-rule. Ms. Javier clarified that for practical and economic reasons, generators should be allowed to cancel their offers if the acceptable level of supply margin is already established during the DAP-run. Ms. Javier further stated that the proposal does not preclude the generators with cancelled offers to re-submit their offers during RTD.

Mr. Seludo followed-up on the 'tripping' scenario earlier given by Mr. Sarmiento, and inquired whether on this basis, the 10% supply margin should be recomputed and whether the must-offer-rule must again be re-imposed. Mr. Crisologo answered in the affirmative. Ms. Javier stated that she sees no problem with it, considering the certainty of dispatch for the generators which will re-submit their offers.

Mr. Cacho further followed-up by clarifying on the situation where it may be possible that the expensive plants which will be called-back during the RTD-run will be unable to ramp-up in time to meet the demand for the interval. Mr. Crisologo explained that the issue on ramp rates will remain, because the expensive plant is already not viable.

Also, to respond to the question of Mr. Sarmiento on 'tripping', which Mr. Crisologo assumed to have been asked out of the concern that prices would go up, Mr. Crisologo stated that prices will go up just the same, with or without the rule allowing the cancellation of offers.

After its discussion on the matter, the RCC agreed as follows:

- Noting the apprehension expressed by both the SO and the representative of the distribution sector on the possibility that the cancellation of offers might eventually lead to supply shortage, to request the SO to come-up with its own recommendation on the criteria of the percentage of the availability of supply as against the demand before cancellation can be allowed by the MO;
- To request the MO for the details of the data presented and further, to show the corresponding data on demand in relation with the percentage distribution of the supply margins;
- To request Ms. Javier to draft the proposal and discussion paper, with the inclusion of a provision allowing the resubmission of offers for the generators with cancelled offers during the DAP run.

D. SNAP's Proposed Amendments to the WESM Dispatch Protocol Manual regarding Re-Dispatch Procedures based on WMOT

Mr. Crisologo presented the illustrative graphs on Must Run Units (MRU) and Must Stop Units (MSU) which had been requested from SN Aboitiz, Inc. (SNAP) by the RCC relative to its proposed re-dispatch procedure using the WESM Merit Order Table (WMOT). It was explained that the graphs are reflective of the output of the discussions/agreements reached during the Subcommittee Meeting held on 23 August 2012, with focus only on payment rather than frequency issues.

Mr. Crisologo likewise presented the revised matrix of the proposed amendment. He explained that to address the concerns raised by SO, the original proposed amendments which then included provisions pertaining to the SO and system frequency, had been removed. Mr. Crisologo explained that the proposal was revised to indicate the sequence by which plants are re-dispatched using the WMOT, without anymore reference to system frequency, in order to give the SO the flexibility to use the WMOT according to its own security constraints table.

Mr. Crisologo also discussed the issue raised by the SO during the Subcommittee Meeting as regards the WMOT, which according to the SO, is still not optimized since it only matches the unconstrained dispatch and is not therefore representative of security constraints.

Mr. Seludo for his part expressed that the initial reaction of SO is to totally reject SNAP's proposal because the original proposed amendments did not consider the security aspects of the system. However, with the revised proposal from SNAP, integrating the points/concerns raised by the SO, Mr. Seludo stated that the SO can be amenable with the proposal, as revised. Mr. Crisologo emphasized that apart from the changes in procedure, revisions were also incorporated in the language/wording of the proposal from 'should' to 'when' in reference to the SO's role in the re-dispatch process.

Mr. Crisologo then suggested for the RCC to adopt the proposal as an RCC-proposal, considering the revisions made on the original SNAP proposal resulting from the agreement of the parties concerned on the subject.

After its deliberation on the matter, the RCC agreed:

- To adopt the revised proposed amendments as the RCC's rules change proposal on the Dispatch Protocol Manual, harmonizing the inputs of parties concerned, with the illustrative graph-examples from SNAP as attachment;
- To post the proposed amendments in the public information website to solicit comments from the market participants and other interested parties.
- To make use of the original Discussion Paper submitted by SNAP as it applies to the revised proposal, and to remove the reference to SNAP as stated therein.

E. Proposed Changes to the WESM Rules on Minimum Bid Block

Responding to the request of the RCC in its meeting on 01 August 2012, Mr. Cacho presented the result of the test it conducted to validate if it is possible to further reduce the minimum bid block offers to 0.5 MW or 0.1 MW in the MMS. The test result verified that the MMS can accept bid block offers for as low as 0.1MW but up to 1 decimal place only. However, Mr. Cacho raised the issue on whether or not this further reduction is practical considering the nature of existing plants and as this will apply to the re-dispatch instructions of the SO.

Mr. Crisologo replied by saying that some plants are technically capable to submit energy offers in fractional increments but because of the 5MW limitation on the minimum bid block, these plants are forced to round-off their offers.

Mr. Cacho clarified that the MMS is capable of accepting offers up to 1 decimal place, for example, bid blocks of 5.5.MW.

Mr. Castro raised the issue as to the intent of the request for simulation on fractional increments. Mr. Crisologo explained that the fractional increment has a payment value. He expressed that the most efficient way to value one's service is if the same can be paid up to last fraction possible. Ms. Javier for her part expressed that the further reduction will allow the second offer block to be closer to the pmin.

Mr. Castro then asked Mr. Cacho for his reason in saying that the further reduction is not practical considering existing plants. Mr. Cacho pointed-out that the same comes from the operational point of view, in cases where a scheduled plant, say at 81.1MW, delivers below or above its schedule taking into account the existing +/-3% dispatch tolerance limit. Mr. Crisologo then explained that generators naturally want their system to be in a perfect operating condition but would not attain such because it cannot bid with exact precision, using discreet values in fractional increments, due to the minimum bid block limitation requiring generators to round-off their nominated offers.

Mr. Seludo for his part stated that the problem is on the big jump of the proposed reduction from 5MW to 1MW, then, from 1MW to 0.1MW. He expressed the opinion that the RCC should first review the intent/purpose of the reduction from 5MW to 1MW. He suggested to review the original intent of the proposal.

Mr. Castro then invited the RCC's attention to the MSC Memorandum to RCC through its 03 September 2012 Memorandum, with the suggestion to change the justification that the proposed amendment will enable generating units with 5MW and below (which under the Rules are classified as non-scheduled generating units) to register as scheduled generating units since the said option is already provided for in the Rules and what needs to be emphasized is that Appendix A of the Rules (which defines the minimum block size at 5MW) restricts the said option.

Mr. Crisologo clarified that for SNAP, the justification is more for precision, in terms of getting the exact value in payment and operation, and not for the inclusion of smaller generating units, as pointed-out by the MSC. He also opined that the significance of the further reduction is to provide the option for generators to bid with discreet values.

Mr. Cacho then requested the RCC to write-down its justification for the proposed further reduction considering that the same already departed from the original proposal submitted by PEMC.

The RCC agreed to endorse the proposal to PEM Board and to change the justification using payment value and precision as bases. Mr. Crisologo committed to draft the language of the above justification for submission to PEM Board.

F. Proposed Amendments to the WESM Rules and Manual on Publication of Suspension Notices

The RCC deliberated on the proposed amendments with reference to the MSC Memorandum dated 03 September 2012, through which the MSC expressed its disagreement on the proposed removal of the requirement on newspaper publication of suspension notices.

Atty. Lopez explained that PEMC submitted the proposal with the objective to remove the requirement to publish the suspension notice in a newspaper of general circulation since it is the WESM members which are immediately affected with the suspension and not the general public. She stated that posting the notice on the market information website already achieves the purpose of notifying WESM members of a defaulting Trading Participant (TP). She further clarified that suspension has no real effect/meaning until such time that the WESM member in default/breach is physically disconnected from the grid. In addition, Atty. Lopez explained that newspaper publication is expensive, costing about PhP20,000 per notice, and that it is the rest of the market which pays for it.

Mr. Castro pointed-out that the spirit of the rule is to give notice to the public. Mr. Crisologo opined that the MSC pointed a valid argument in saying that the local constituents of a utility should know the suspension of its own utility. Mr. Sarmiento stated that suspension is one step away from disconnection and for this reason, it is important for the consumers of the utility/EC to know that it is possible for the WESM member to be disconnected from the grid at any time due to default or breach.

Mr. Seludo stated that the publication of the suspension notice differs from the publication of the disconnection notice because while still under suspension, the utility still has the opportunity to correct, pay and/or rectify.

Mr. Castro stated that the next issue is that PEMC does not want to pay for the publication because effectively, it is the entire market which bears the cost. Atty. Lopez explained that the publication of suspension notice can happen frequently on a monthly

basis, owing to a number of grounds for suspension under the Rules, such as the suspension of a member due to the issuance of margin call or when the MO calculates that its exposure to a WESM member exceeds the WESM member's trading limit.

Atty. De Castro stated that the suggestion of the MSC, though sound and valid, would entail enforcement. Mr. Sarmiento answered that WESM can put in-place a mechanism which would require the defaulting member to shoulder the cost of publication as a requisite for the lifting of the suspension.

Mr. Santos for his part articulated his disagreement with the proposal to remove the publication, for the reason that it will effectively put the message across the EC's coverage area, including local politicians, some of whom have their own share of power bill arrearages.

Mr. Castro explained that the hanging issue is with the mechanism on the charging of the cost. He explained that several options can be considered, including the charging of the amount from the utility's security deposit. Atty. De Castro opined that the same may not be feasible, particularly if the reason for suspension is non-payment.

Mr. Crisologo stated that the proposal seems to measure the value of publication in terms of cost. He pointed-out that the significance of information to the local constituents of a TP in default/breach should not be equated with the cost of publication.

The RCC then agreed on the following:

- The requisite on the publication of the suspension notice should not be removed, as proposed. This is because it is the right of the TPs' consumers and/or constituents to be informed of the TP's infraction and to be warned of the possibility that such TP can be disconnected from the grid.. Further, the value of information should not be equated with the cost of publication.
- The RCC agreed to write to PEM Board, giving information on the RCC's agreement to retain the existing provision on the subject and to recommend that to address the issue on the cost of publication, it may be considered to have it borne by the trading participant in default.

4. New Business

Issues/ Topics Discussed	Remarks	Agreement/ Action Item
A. Proposed Amendments to the Registration and Settlement Provisions of the WESM Rules	<p>Mr. Libongco presented the proposed amendments to the RCC.</p> <p>The RCC reviewed the submitted proposed amendments and agreed as follows:</p> <ul style="list-style-type: none"> • On Chapter 11 of the Glossary, re new entries on working day and non-working day, the RCC agreed with the proposal but suggested to capitalize 'W' and 'D' in the phrase 'Working Day' and 'N', 'W' and 'D' in Non-Working Day, to indicate these as 	<p>The RCC agreed to post the proposed amendments, as revised, in the public information website to solicit comments from the market participants and other interested parties.</p>

Issues/ Topics Discussed	Remarks	Agreement/ Action Item
	<p>proper nouns being clearly defined and differentiated under the WESM Rules for specific WESM activities on registration and billing and settlement;</p> <ul style="list-style-type: none"> • On relevant clauses under the Section on Billing and Settlement, the RCC suggested to remove the word 'business' from 'business days' in provisions which refer to the WESM's 24 hour-operations, to do away with the odd situation of a 'Non-Working Day' during a 'business day' • On pertinent sections in the Chapter on the Enhancement of Formulation of Rules, the RCC noted PEMC/Mr. Libongco's representation that the proposed amendments in this Section followed existing processes and mathematical formulations and that the proposed amendments are aimed only to clarify ambiguous provisions, correct erroneous references and document and not to change/modify existing practices. • On Chapter 11 of the Glossary, re Ex-Post Energy Settlement Quantity, the RCC has taken note that the term Ex-Post Energy Settlement Quantity is an existing terminology under the WESM Rules. The same is supported with reference to the mathematical formulations being used by the market under the Manual on Price Determination Methodology (PDM). Instead of removing the entire entry only because of its erroneous reference to a non-existing provision (3.8.14), the RCC suggested to retain the same and instead replace the erroneous reference to Clause 3.8.14 with Clause 3.13.6 on the Gross Ex-Post Energy Settlement Quantity, which is the terminology being used in the Section on Billing and Settlement and defined in clause 3.13.6 • On Clause 3.13.12 re Calculation of Line Rental Trading Amounts, the RCC suggested to clearly reflect that it is the bilateral contract quantities passing through the transmission line which is the basis for payment and not the transmission line itself. The RCC proposed amendment would read as follows: 'The Market Operator shall calculate the line rental trading amounts for each <u>bilateral</u> 	

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Issues/ Topics Discussed	Remarks	Agreement/ Action Item
	<p><u>contract associated with the delivery of the bilateral contract quantities (BCQ) through the</u> transmission line in the market network model as: xxx'</p> <p>Additionally, Ms. Encarnacion raised the issue on whether the cutoff/deadline for the submission of adjustments in the final statement can be included in the proposed amendments. Mr. Libongco clarified that the settlement adjustments/revisions are already covered by Section 3.14 of the Rules.</p>	
B. Proposed Amendments to Section 9.8.3 of the WESM Metering Standards and Procedures Manual	Mr. Afurong presented the proposed amendments to the RCC. The RCC then took note that the same were submitted following the audit findings of PA Consulting, Ltd. in order to reflect the correct mathematical equation on the Site-Specific Loss Adjustment (SSLA).	The RCC agreed to post the proposed amendments in the public information website to solicit comments from the market participants and other interested parties.
C. PEM Board Updates	Ms. Javier informed the RCC that the PEM Board approved the Technical Committee Market Manual during its 73rd Meeting held on 31 August 2012.	The RCC noted the information provided.

5. Other Matters

A. Selection Committee Updates

Ms. Rodriguez informed the RCC that the Selection Committee has yet to convene but will do so within this month, and will submit its recommendation to PEM Board in its September 2012 Meeting, relative to the expiration of terms of the majority of the RCC members and the selection and appointment of new members.

The RCC requested the Secretariat to make further clarification on the matter since it is their view that unless expressly told through a formal notice, they are assuming that their terms have already ended by 15 September 2012.

6. Next Meeting

The RCC was reminded of the schedule of its next meeting (67th RCC Meeting) on 03 October 2012.

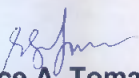
7. Adjournment

There being no other matter to be discussed, the meeting was adjourned at 4:10 P.M.

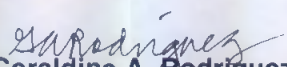
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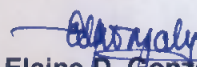
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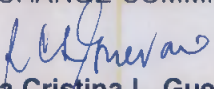
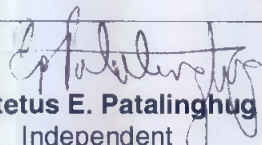
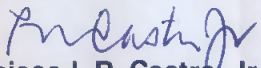





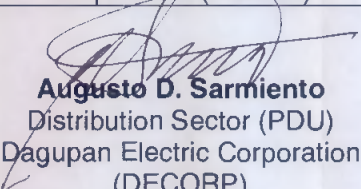

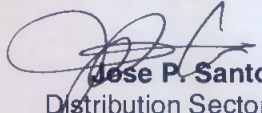
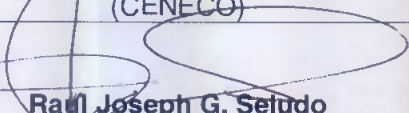
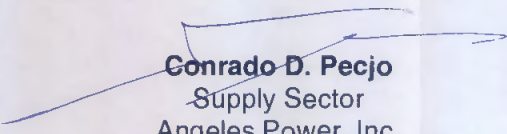
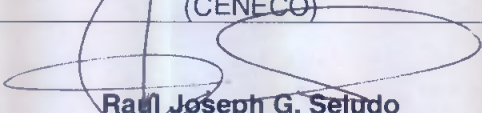
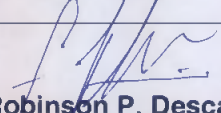

Shalom Grace A. Tomas-Llamzon
Market Governance Analyst

Reviewed by:


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Noted by:


Elaine D. Gonzales
Manager
Market Data and Analysis

<p>Approved by:</p> <p>RULES CHANGE COMMITTEE</p>  <p>Rowena Cristina L. Guevara Chairperson Independent University of the Philippines (UP)</p>	
<p>Members:</p>	
 <p>Epictetus E. Patalinghug Independent University of the Philippines (UP)</p>	 <p>Francisco L.R. Castro, Jr. Independent Tensaiken Consulting</p>
 <p>Maila Lourdes G. de Castro Independent Unitel Productions, Inc.</p>	 <p>Cherry Aquino-Javier Generation Sector AES Philippines (AES)</p>
 <p>Cynthia R. Encarnacion Generation Sector National Power Corporation (NAPOCOR)</p>	 <p>Liberty Z. Dumlaog Generation Sector Power Sector Assets and Liabilities Management Corporation (PSALM)</p>
 <p>Ralph A. Crisologo Generation Sector SN Aboitiz Power (SNAP)</p>	 <p>Augusto D. Sarmiento Distribution Sector (PDU) Dagupan Electric Corporation (DECORP)</p>
 <p>Ciprinilo C. Meneses Distribution Sector (PDU) Manila Electric Company (MERALCO)</p>	 <p>Jose P. Santos Distribution Sector (EC) Ilocos Norte Electric Cooperative, Inc. (INEC)</p>
 <p>Sulpicio C. Lagarde Jr. Distribution Sector (EC) Central Negros Electric Cooperative, Inc. (CENECO)</p>	 <p>Conrado D. Pecjo Supply Sector Angeles Power, Inc.</p>
 <p>Raul Joseph G. Seludo Transmission Sector National Grid Corporation of the Philippines (NGCP)</p>	 <p>Robinson P. Descanzo Market Operator Philippine Electricity Market Corporation (PEMC)</p>

Attachments:

1. PEMC-TOD Presentation on Supply Margins from January 2011 to July 2012
2. SNAP's Illustrative Graphs on WMOT and MRU
3. RCC Subcommittee Meeting Minutes held on 31 August 2012
4. PEMC-TOD Presentation on the Result of Simulation re Minimum Bid Block



**Wholesale Electricity
Spot Market**

Supply Margins from Jan 2011-Jul 2012

September 2012

Introduction

- ❑ Supply margin is a measure of the degree of difference of supply against the demand.
$$\text{Supply Margin, \%} = \frac{[\text{Supply} - \text{Demand}]}{\text{Demand}} \times 100\%$$
- ❑ Since WESM is the central scheduling platform in the Luzon and Visayas grids, it can capture the supply margin in these regions.
- ❑ However, these data are only approximations and are therefore accurate in a certain degree since WESM currently caters the energy market only given that the available supply relative to reserves are not yet captured.
- ❑ The information contained herein considers the available supply in the market, which is the aggregate MW of energy offers and generation security limits imposed by SO less the generation capacities on outage and generator ramp limitations (if there are any).



**Wholesale Electricity
Spot Market**

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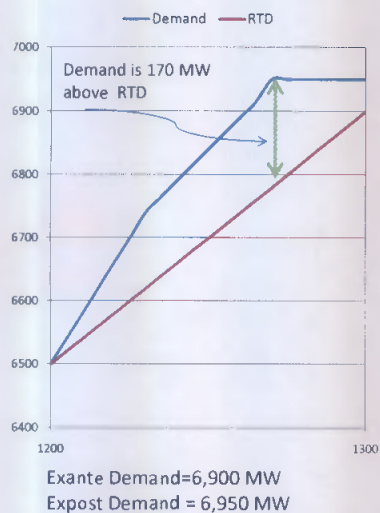
Available Supply Margin, % of Time

	PERCENTAGE DISTRIBUTION OF SUPPLY MARGINS, %							
	0 AND BELOW	0 TO 5	5 TO 10	10 TO 20	20 TO 50	50 TO 75	75 TO 100	GREATER THAN 100
System (All Hours)	1.5	8.7	15	26.6	46.8	1.3	0	0
Luzon (All Hours)	7.4	13.8	14.6	27.2	36.2	0.6	0	0
Luzon (1100H to 1500H)	19.4	27.8	19.1	23.4	10	0.2	-	0.2
Visayas (All Hours)	0	0.2	0.6	7.9	51.3	31.8	8	0.1
Visayas (1800H to 2100H)	0.2	1.1	2.4	20.1	74.4	1.7	0.1	-

End of Presentation

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Illustration of WMOT and MRU



Merit Order Table

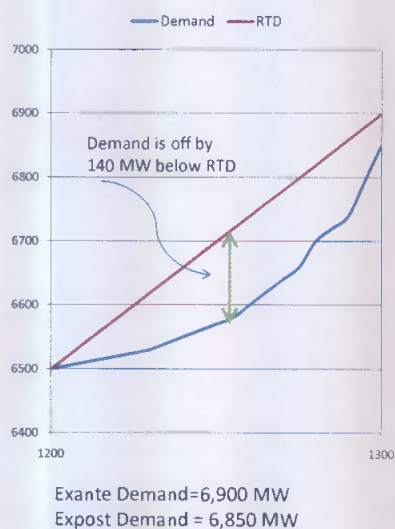
Gen	Price	Qty
Hydro3	3000	200
Coal6	2500	150
Coal5	2300	300
Coal4	2200	250
Coal3	2100	600
Hydro2	2000	300
Coal2	1700	650
Hydro1	1600	400
Geo3	1500	800
Geo2	1000	900
Geo1	0	1000
Coal1	0	2000

Hydro3 as MRU

Dispatch Coal5

Coal4 clears At P2,200

Illustration of WMOT and MSU



Merit Order Table

Gen	Price	Qty
Hydro3	3000	200
Coal6	2500	150
Coal5	2300	300
Coal4	2200	250
Coal3	2100	600
Hydro2	2000	300
Coal2	1700	650
Hydro1	1600	400
Geo3	1500	800
Geo2	1000	900
Geo1	0	1000
Coal1	0	2000

Coal4 clears At P2,200

Re-dispatch Coal4

Hydro 1 and Hydro2 as MSU

**Dispatch Protocol RCC Meeting
31 August 2012, NPC Boardroom**

Present:

1. Fidel D. Dagsaan
2. Erwell R. Bugaoisan
3. Senen D. Fenomeno
4. Ralph T. Crisologo
5. Alfie Miras
6. Isidro E. Cacho
7. Ambrosio Rosales
8. Raul Joseph Seludo
9. Cherry Javier
10. Rowena Guevara
11. Cynthia R. Encarnacion
12. Maria Ellinore L. Danganan

Purpose of SNAP in the proposal:

To identify the quantities for MOT, MRU and MSU

To settle of documented use

Procedure by which MOT and MRU are identified

To associate with the purpose by which it was originally intended

Side of SO

The origin of MOT due to problem of inter-hour, what should SO do? Why not use a system that shows stacking of generators. MOT main purpose is to guide the SO. Reaction of last time was due to loss of flexibility of SO during operation.

It is easy to give procedures for one year, but real-time it would be difficult. Ambi is here so that we will hear the side of the Dispatcher.

Ambi: in previous dispatch schedule from MO, there were not MOTs. SO requested hourly MOT. This way, generators will be treated fairly and easier for SO to explain to generators.

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Ambi explained that during the start of WESM, previous Real Time Dispatch (RTD) that has been provided to them does not include the Merit Order Table (MOT). What they provide is only the monthly dispatch. NGCP requested MO if they can provide the hourly dispatch for them to have a guide and at the same time to play fair with the Generators. He said that it would be easy to explain to

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generators if they have system on the manner of their dispatch regardless whether it is in maximum or minimum load.

(Through illustration Ambi explained the creation of Merit Order Table (MOT))

What they provide as the MOT is still not optimized it only matches the unconstrained dispatch. He said that they already requested to MO how they can be provided with the correct ranking of plants based on the optimized dispatch. (Optimized means price and security were already considered). MO will only provide them the schedule in the market based on forecasted demand. In terms of implementation, he said that as much as possible they will provide 100% of the dispatch schedule using as reference the MOT. He emphasized that the MOT was not designed when there is disturbance in the system.

Ms. Cherry Javier explained the side of generator. She said that they know that at some instance, the example given by Ambi is happening, on their side, they wanted a solution. What they wanted to do now is to correct the Ex-Post price (whoever is being dispatched should reflect the ex-post price) though with the existing system of MMS right now, it is not possible to happen. To match cycle, she further suggested to look at the SO side, probably if we correct the MOTs it will match the result of the MMS. The best way they could think of is to match the MO and the SO results (dispatch equal to price). Meanwhile that SO does not have a solution, the proposal on the MSU of the RCC stands to prevent imbalance.

Ms. Cynthia Encarnacion informed the group that during 2008 they have a letter addressed to Mr. Fidel Dagsaan. She explained that the reason why the MSU concept was formulated was because at that time in 2008, SO implements load dropping and due to imbalance where their RTD is not being followed, thus, the proposal for MSU. Then Exec. Vice-President of PEMC, Mr. Mario R. Pangilinan said that the WESM could help them because it is not included in the WESM Rules. It can only be corrected if we will change the WESM rules. At that time what SO was telling them was the forecast of MO was higher than the demand. So now the group wanted it to be transparent.

Mr. Crisologo said that among generators, they wanted to solve where there are causes that will not follow the instructions then they should be responsible for any imbalance and not the generators.

Ambi explained that there are instances that they would tell the generators to drop their load. Among those that they will instruct to bring down their load at a certain time/interval, there are still those who do not follow and insist on operating at the same level. He requested MO to verify whether these generators who did not follow the requested load dropping are still being paid and at what level.

According to Ms. Rowena Guevara, we should figure out since we have an MSU in place that is still for approval, let's say the MSU has been approved, and then we

will know if the market will behave differently. She said that the RCC do not have any malicious intent in pushing with the MRU/MSU, except to correct something in the market. The group only knows if the solution will actually solve the problem upon approval of the concept. Right now the DoE has endorsed the proposal to GMC.

Mr. Crisologo commented that hen they studied this concept, major concern is really the frequency, the procedure by which it is going down, so SNAP prepared a counter proposal wherein they focused on the MOT issue and the payment. They wanted a procedure that is going to be vague and quantities involved. They made another revision of the proposal removing the intricacies of the frequency.

Ms. Guevara observation, the NGCP has been there, they have set their ways in a a market which is quite different n what we have now. She said that what she requested in the stat of this discussion is that keep an open mind because what we have experiencing now has not been experienced before. What used to work before, may not work anymore at this time. Maybe we need the possibility of adjusting to something new.

(SNAP Proposal)

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Wholesale Electricity
Spot Market

Minimum Offer Block Change

Rules Change Committee
September 5, 2012

Background

This test is in response to the Rules Change Committee's (RCC's) request to validate if it is possible to **further reduce the minimum bid block to 0.5 or 0.1 MW** in the MMS, after noting that the MO was able to propose the minimum offer block to 1MW.



Wholesale Electricity
Spot Market

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Test Result

Min Block Setting, MW	Result	Remarks
0.5	Successful	MPI precisions of <u>MW Quantity</u> , <u>Price</u> , <u>Ramp – up rate</u> and <u>Ramp – down rate</u> can only accommodate: • 5 whole numbers and • 1 decimal number
0.001	Failure	
0.1	Successful	
0.55	Failure	

CONCLUSION:

- ☐ MMS can accept min bid block as low as 0.1 and up to 1 decimal place only
- ☐ Not practical considering existing plants
- ☐ Re – dispatch instructions of the SO
 - ❖ Very small blocks may be impractical for re – dispatch
 - ❖ WMOT longer.
- ☐ Monitoring by SO?

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End of Presentation

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