

1 **MINUTES OF THE 67TH MEETING OF THE RULES CHANGE COMMITTEE**

2
3 Date : 03 October 2012
4 Time : 9:00 A.M.
5 Venue : PEM Board Room
6 18th Floor, Robinsons-Equitable Tower
7 Ortigas Center, Pasig City
8
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10 **MEMBERS PRESENT:**

11 Rowena Cristina L. Guevara - Chairperson/Independent – UP
12 Epictetus E. Patalinghug - Independent – UP
13 Francisco L.R. Castro Jr. - Independent – Tensaiken Consulting
14 Maila Lourdes G. de Castro - Independent – Unitel Productions, Inc.
15 Cherry Aquino-Javier - Generation Sector – AES
16 Cynthia R. Encarnacion - Generation Sector – NPC
17 Liberty Z. Dumlao - Generation Sector – PSALM
18 Ralph T. Crisologo - Generation Sector – SNAP
19 Augusto D. Sarmiento - Distribution Sector – DECORP
20 Ciprinilo C. Meneses - Distribution Sector – MERALCO
21 Jose P. Santos - Distribution Sector – INEC
22 Conrado D. Pecjo - Supply Sector – Angeles Power, Inc.
23

24 **MEMBERS NOT PRESENT:**

25 Raul Joseph G. Seludo - System Operator – NGCP
26 Sulpicio C. Lagarde Jr. - Distribution Sector – CENECO
27 Robinson P. Descanzo - Market Operator – PEMC
28

29 **ALTERNATE MEMBER PRESENT:**

30 Isidro E. Cacho - Market Operator – PEMC
31

32 **OBSERVER PRESENT:**

33 Ferdinand B. Binondo - DOE (*alternate*)
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35 **OTHERS PRESENT:**

36 Caryl Miriam Y. Lopez-Mateo - PEMC – Legal
37 Renato B. Afurong - PEMC – Billing and Settlement
38

39 **SECRETARIAT**

40 Geraldine A. Rodriguez - PEMC – MAG
41 Shalom Grace A. Tomas-Llamzon - PEMC – MAG
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44 After determining the presence of a quorum, the 66th RCC meeting was called to order by
45 Chairperson Dr. Rowena Cristina L. Guevara at about 9:20 A.M.
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47 **1. Adoption of the Proposed Agenda**

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49 The Proposed Agenda for the 67th RCC Meeting was approved, as presented.
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51 **2. Review, Correction and Approval of the Minutes of the 66th RCC Meeting**

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53 The Minutes of the 66th RCC Meeting was approved, as amended. Corrections made
54 are as follows:
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- On line 322, page 6:

" Mr. Sarmiento commented that the use of the term **interest-bearing** checking ~~or~~ /savings account in the first paragraph of Annex 'E' should be changed to CASA or checking account/savings account ..."

- On line 513, page 10:

" Responding to the request of the RCC in its meeting on 01 August 2012, Mr. Cacho presented the result of the test/**simulation** 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."

3. Business Arising from the Previous Meeting

A. Review of Pmin and Must-Offer Rules

- **NGCP-System Operations (SO) Recommendation on the Supply Margin Threshold Level**

Dr. Guevara informed the body of the absence of Mr. Seludo who was still ill at the time of the RCC meeting. It was recalled by the body that Mr. Seludo was requested to present the SO's recommendation on the proposed cancellation of offers, which shall be based on the MO's data on supply margins.

Dr. Guevara at the outset emphasized the significance of the SO's recommendation on the supply margin threshold level, noting the 'discomfort' expressed by Mr. Seludo on the result of the MO presentation which showed the supply margin to be more than 10% for about 70% of the time and who further stated that the same can be "very dangerous" to the system, as reflected in his statements during the 66th Meeting Minutes. Dr. Guevara opined that there may be valid concerns from the SO which should be clarified. It was also noted that Mr. Sarmiento likewise expressed apprehension on the said MO data in the same meeting.

Mr. Cacho informed the RCC that the requested data from the MO was already sent to the SO through the Secretariat on 27 September 2012. He explained that the requested data on supply margins which was submitted in excel file format, contained the details of the MO's presentation to the RCC on 05 September 2012 regarding supply (in terms of aggregate offers based on the last offer block) versus the actual demand (based on the 59th minute snapshot) for the period January 2011 to July 2012. Dr. Guevara acknowledged having received a copy of the same.

Ms. Javier for her part stated that she has already submitted to the Secretariat, through email, the draft Discussion Paper and filled-up Request Form on the subject. She opined that the matter can already be posted in the WESM website, in accordance with the MO's test result showing that there is a supply (aggregate energy offers) margin of >10% in 74.7% of the trading hours for both Luzon and Visayas as criteria/basis for the cancellation of offers.

Dr. Guevara emphasized that it will be more prudent for the RCC to delay the posting until the position of the SO on the matter is explained/clarified. She also informed the RCC of the text message sent by Mr. Seludo to the Secretariat, confirming that he will be sending through email the SO's recommendation on the issue by next week.

The RCC thus agreed to defer its discussion on the matter, considering the relevance of the SO's recommendation on the proposal.

B. Proposed Amendments to the WESM Dispatch Protocol Manual regarding Re-Dispatch Procedures based on the WESM Merit Order Table

The RCC continued with its discussion on the proposal and noted that the same was already posted in the WESM website on 07 September 2012.

On the illustrative graphs on Must Run Units (MRU) and Must Stop Units (MSU), which were submitted by SN Aboitiz, Inc. (SNAP) and annexed to the proposal, Dr. Guevara clarified whether the linear ramping as illustrated therein is imposable in actual scenarios.

Mr. Crisologo explained that the MMS assumes linear movement and follows only two points, end-to-end. He stated however, that in real-time, the different nature and characteristics of individual power plants depending on the resource, would impact on whether it can ramp fast or slow, but not necessarily in linear movement. He clarified that the significance of the variation is only with respect to its commercial value or in settlement/payment.

Mr. Cacho discussed that only the assumption is linear but generators in the intra-hour actually go against the dispatch schedule and bump-off other generators in the process. He explained that this impacts both in the operations, when the SO would then instruct other plants to ramp down due to the non-compliance to the dispatch schedule, and in the settlement process, since the energy delivered when a plant ramps up will be paid accordingly, even if the same is excessive of its dispatch schedule.

Mr. Crisologo expressed that there are no rules at present which would rigidly require the generators to follow linear ramp-up/down. He also stated that in reality, the demand curve/consumption is also not linear. He explained that generators would naturally have the tendency to ramp fast or slow depending on the projection for the next trading interval.

Mr. Crisologo further discussed that the MMS set-up/configuration should follow the assumption that the demand curve/consumption is also linear. He explained however, that linear ramping is not achieved in actual scenarios because the linear movement deviations in the demand curve/consumption is not sufficiently supported by ancillary reserves. He pointed-out that the insufficiency of the SO's contracted ancillary services leads to the issue of the generators being used/instructed by the SO to run for a purpose that goes against the design to follow linear ramping, and that is, to run as MRUs or in some cases, as "MSUs".

Dr. Guevara noted the SO's initial rejection of the proposal and opined that it is best if a representative from the SO should be present in the course of the RCC's discussion before any decision on the matter can be made.

The RCC agreed to defer its discussion on the matter and requested the Secretariat to coordinate with the SO to ensure that a representative will attend the next RCC meeting or submit the SO's position on the matter through email so that the RCC can proceed/decide on the proposal in the next meeting, even when the SO representative is not present.

C. Proposed Amendments to the Registration and Settlement Provisions of the WESM Rules

The RCC noted that the proposal, as amended, was published in the WESM website on September 7, 2012.

On the proposed amendment to Clause 3.13.12 on the Calculation of Line Rental Trading Amounts, the following issues were raised:

- Ms. Encarnacion clarified whether the calculation as mentioned in the subject Clause already covers the segregation of line rental into the cost of losses and congestion, as expounded under the Manual on the Segregation of Line Rental which was approved by the PEM Board in August 2011. She also opined that the use of the phrase 'transmission line' in the proposed amendment is inappropriate considering the difference between transmission line loss and line loss, line loss being the component of line rental. She emphasized that the paragraph should not have made reference to 'transmission line'.
- Mr. Cacho clarified that the segregation of line rental is not yet being implemented by PEMC pending the approval of the ERC of the necessary budget for its implementation.
- Dr. Guevara stated that even with the rule on segregation already in-place/approved by the PEM Board, this cannot as yet be implemented. Thus, to include/impute the segregation into the subject Clause may not yet be in order. The RCC may however revisit this particular provision once the same is already implemented.
- Ms. Encarnacion and Atty. Dumlao then requested to have it officially included in the Minutes that NPC and PSALM raised the above issue on the segregation of line rental in the discussion on the subject Clause.
- Ms. Javier suggested to simplify the phrasing of Clause 3.13.12. to read as follows: "The Market Operator shall calculate the Line Rental trading amounts **for each bilateral contract quantities (BCQ) xxx**" since Line Rental and BCQ are already defined in the WESM Rules.
- Mr. Crisologo opined otherwise. He explained that the RCC-proposed amendment which reads: "The Market Operator shall calculate the line rental trading amounts for each **bilateral contract associated with the delivery of the bilateral contract quantities (BCQ) through the** transmission line in the market network model as: xxx" does not repeal the cited definitions under the WESM Rules but merely attempts to further clarify the same.
- The RCC then conducted a votation on whether to retain the subject proposed amendment, as agreed upon by the RCC in its 66th Meeting or to adopt the simplified language being proposed by Ms. Javier.
- The votation resulted to 8-2, in favor of the RCC-proposed amendment, with 1 abstention.

The RCC then agreed to approve the proposal, as amended, for endorsement to the PEM Board, subject to the submission of comments of interested parties until 08 October 2012, which is the 30th day of its publication in the WESM website.

The RCC further agreed to henceforth submit to the PEM Board rules change proposals with timeline on the implementation, taking into account the approval of the funds necessary for the implementation of such. The same was agreed upon with the objective of ensuring more efficient implementation of duly-approved rules which are put in-place to improve current/existing processes.

D. Proposed Amendments to Section 9.8.3 of the WESM Metering Standards and Procedures Manual

The RCC noted that the proposal was published in the WESM website on September 7, 2012.

The RCC approved the proposal, as amended, for endorsement to the PEM Board, subject to the submission of comments of interested parties until 08 October 2012, which is the 30th day of its publication in the WESM website.

E. Review of the Rules Change Manual in Response to the Governance Process Review Audit Observation

The RCC took note that the proposal has already been discussed and approved by the RCC on 18 July 2012 but was not immediately published in the WESM website upon approval.

The RCC then affirmed its earlier approval of the same for endorsement to PEM Board, subject to the submission of comments of interested parties until 08 October 2012, which is the 30th day of its publication in the WESM website.

F. Review of Prudential Requirements

Dr. Guevara noted that the RCC, in its 66th Meeting, already agreed to submit its recommendation to the PEM Board that the existing rules on the PR should be retained. She informed the body, however that she requested, with the concurrence of then Acting RCC Chair Castro to bring the matter back to the RCC's discussion in order to complete the review of the PR with the inclusion of the further discussion on risk assessment and its legal implications, as earlier agreed upon by the RCC in its 65th Meeting held on 01 August 2012. Dr. Guevara stated that the RCC's decision on the PR should not rest alone on the discussion with NEA.

Atty. Lopez then discussed the legal opinion on whether or not the RCC may impose a classification in the PR. She explained that following the general rule on the application of administrative circulars on the co-protection of the laws, reasonable classifications are allowed. However, the same must be substantial, germane to the purpose of the law and has to apply to existing conditions and equally to all members of the same class.

Following the Legal Opinion on classifications, the RCC discussed as follows:

- The RCC proposed classification distinguishes between WESM members which are low-risk and high-risk; However, the low-risk/high-risk classification will be applied to the same class-the distribution utilities/electric cooperatives

- 274 (ECs), which by law, abide by the same structured regulatory and financial
275 parameters.
276
277 • The classification on low-risk and high-risk points more to issues on
278 management and performance, since the ECs are similarly structured-
279 organizationally and financially.
280
281 • The classification does not seem to solve/address the issue on PR compliance
282 because the ECs which are low-risk are those which can actually comply with
283 their PR, while the high risk ECs are those which cannot pay.
284
285 • The RCC earlier explored the possibility of the NEA assuming the risk on the
286 PR for the poor performing ECs. However, NEA representatives, during the
287 RCC 65th Meeting on 05 September 2012, expressed that they are not yet in
288 the position to act as guarantor for the ECs. Dr. Patalinhug for his part opined
289 that to ask NEA to assume the risk would merely create moral hazards for the
290 market and the end consumers.
291

292 Mr. Santos informed the body that the NEA will be submitting to the ERC a proposal
293 which will allow the ECs to recover the PR through a pass-on mechanism to
294 consumers.
295

296 Following the above discussions, the RCC then agreed to confirm the Committee
297 agreement in its 65th Meeting that the existing rules on the PR should be retained.
298

299 The Secretariat was instructed to revise the draft response letter to PEM Board which
300 issued the directive for the RCC to review the rules on the PR, considering the above
301 points discussed.
302

303 **G. Proposed Amendments to the Dispute Resolution Market Manual Issue 2.0**

304 Noting that Atty. de Castro and DRA Atty. Jesusito G. Morillos already met and agreed
305 on the language and final form of the DRMM, the RCC affirmed its 05 September 2012
306 approval of the proposed amendments and agreed to endorse the same to the PEM
307 Board for approval. It was also noted that a copy of final matrix was already sent to the
308 RCC through email.
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311

312 **4. New Business**

Issues/ Topics Discussed	Remarks	Agreement/ Action Item
<p>A. PEM Board and Board Review Committee (BRC) Meeting Updates</p> <ul style="list-style-type: none"> BRC Directive on the Proposed Changes to the WESM Rules on Minimum Bid Block 	<ul style="list-style-type: none"> Dr. Guevara informed the body that the RCC proposal on the further reduction of the minimum bid block from 5MW to 0.1MW was remanded by the BRC to the RCC for further discussion/study and re-publication in the WESM website in order to solicit comments, considering the significant change from the original PEMC-proposed rules change on the reduction of the minimum bid block from 5MW to 1MW only to 5MW to 0.1MW. Dr. Guevara commented that the further reduction 	<p>To re-open the discussion on the subject in the next RCC Meeting and go back to the original justification provided by the proponent on the proposed reduction to 1MW, that is, to allow smaller generators to participate in the spot</p>

Issues/ Topics Discussed	Remarks	Agreement/ Action Item
<ul style="list-style-type: none"> • PEM Board Action on the RCC Proposal 	<p>to 0.1MW will magnify by a factor of 50 the SO's difficulty in strictly following the protocol on the dispatch of plants. Dr. Guevara further commented that the RCC's justification for the 0.1MW which is based on 'precision in terms of getting the exact value in payment and operation' sounded very self-serving. She noted from the 66th RCC Meeting Minutes that the same was taken from what was discussed by Mr. Crisologo during the meeting. She proposed that the RCC should go back to the original justification provided by the proponent on the proposed reduction to 1MW, that is, to allow smaller generators to participate in the spot market as scheduled generating units, and further, to revert to the original proposal on the reduction of the offer block size to 1MW only, since the same is the proposal which was reviewed by the RCC and consequently posted in the WESM website.</p> <ul style="list-style-type: none"> ▪ Mr. Cacho raised the following issues: (a) the current software on the MPI will still round-off the result of the scheduled offers even though the MMS has already accepted the discreet/precise values of bids up to 0.1MW; (b) possibility of the 0.1MW setting the market clearing price should be further studied; (c) the original PEMC proposal covered only the minimum offer blocks on energy and contingency reserves but did not anymore touch upon the minimum offer block for regulating reserves which is already set at 1MW. ▪ Ms. Javier expressed that Mr. Cacho should have raised the said issues in the last meeting when the RCC decided to adopt the 0.1MW based on the MO's presentation that the MMS can accept offers up to 0.1MW. ▪ Mr. Castro recalled that the SO expressed disagreement with the 0.1MW and recommended to instead focus the RCC's discussion on the merits of the proposed reduction to 1MW only. ▪ Dr. Guevara concluded that the RCC should re-open the discussion on the subject in the next Meeting and instructed the Secretariat to ensure the attendance of the SO's representative or that inputs from the SO on the matter are received before the next meeting. ▪ Dr. Guevara informed the body of the letter from the Office of the Corporate Secretary (CORSEC) informing the RCC of the PEM Board's decision 	<p>market as scheduled generating units.</p> <p>It was agreed that RCC members should declare their availability on</p>

Issues/ Topics Discussed	Remarks	Agreement/ Action Item
regarding the Publication of Suspension Notices	<p>during its 25 September 2012 Meeting to exclude in its discussion the RCC recommendation on the proposed rules change on the publication of suspension notices due to lack of presenter who should be at least, any of the members of RCC.</p> <ul style="list-style-type: none"> ▪ The RCC then agreed to ensure the availability of an RCC member who will present the Committee-proposed agenda during the conduct of PEM Board and BRC Meetings. The Secretariat was requested to coordinate through email the availability of RCC members on specific working hours on the meeting dates confirmed with the Office of the CORSEC. 	<p>specific working hours on the day of the scheduled BRC and PEM Board Meetings to ensure the presence/availability of an RCC member who will present the Committee's proposed agenda both to the BRC and the PEM Board. The Secretariat was instructed to coordinate the matter to the RCC through email once meeting dates are confirmed/announced by the CORSEC.</p>
B. Selection Committee Updates	<ul style="list-style-type: none"> ▪ Ms. Rodriguez stated that the Selection Committee has already given the PEM Board some updates including its sending-out of the Call for Nominations. She informed the body that by far, only MERALCO has submitted its nomination. Further, the PEM Board has also noted the resignation of Mr. Lagarde from the RCC who submitted a resignation letter to President Ocampo. Ms. Rodriguez clarified that the Secretariat has reminded Mr. Lagarde that the expiration of his term is still September 2014 but he said he wanted to give chance to others. ▪ Dr. Guevara explained that Mr. Lagarde seemed to have misunderstood the Selection Committee when its Call for Nominations was sent to the Visayas ECs. She however stated that the said Letter was sent and addressed to all trading participants including the ECs in the Visayas. From the series of emails which were copied to her by Mr. Lagarde however, she noted that the Visayas will still most likely nominate Mr. Lagarde after his resignation. ▪ Dr. Guevara further clarified that RCC members whose terms have expired on September 16, 2012 are on holdover status pending the appointment of new members to the Committee. 	<p>The RCC noted the information given.</p>

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316 **5. Other Matters**

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318 **A. Review of the RCC Workplan**

The RCC noted that the following items have been deleted from the 2012 RCC Workplan:

- Study on the possible implementation of price cap, alternative pre-emptive mitigating measure, absence of market power mitigation mechanism, since it is the Tripartite Committee (composed of DOE, ERC and PEMC) which will undertake the review of the price cap;
- Reserves Market, since the same is already with the ERC. Per information from Mr. Cacho, the deadline for PEMC's submission of its response to the ERC Directive is on December 2012;
- Renewable Energy and Retail Competition and Open Access (RCOA), since it is the DOE which will promulgate the RE Market Rules and the RCOA Rules, respectively.

Mr. Binondo commented that the RCC can submit its comment on the RCOA Rules, once the same has been issued.

The RCC noted the information provided on the RCC Workplan.

Dr. Guevara instructed the Secretariat to include the pending item on ramp rate/consideration of shorter trading period as an agenda in the next RCC Meeting, considering that the PEMC has already submitted its response to the RCC recommendations on the matter on 04 September 2012.

6. Next Meeting

The RCC was reminded of the schedule of its next meeting (68th RCC Meeting) on 07 November 2012.


7. Adjournment

There being no other matter to be discussed, the meeting was adjourned at 12:35 P.M.

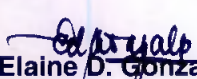
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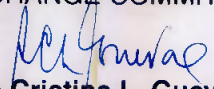
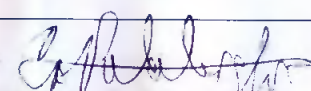
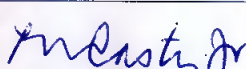



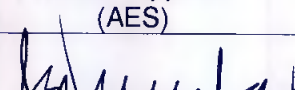



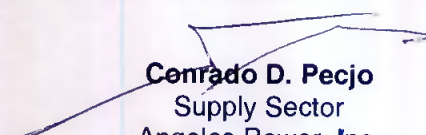
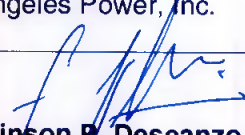

Shalom Grace A. Tomas-Llamzon
Market Governance Analyst

Reviewed by:


Geraldine A. Rodriguez
Assistant Manager
Market Governance and Administration

Noted by:


Elaine D. Gonzales
Manager
Market Data and Analysis

<p>Approved by: 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 T. 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>