

## MINUTES OF THE 44<sup>th</sup> MEETING OF THE RULES CHANGE COMMITTEE

Date : 19 January 2011  
Time : 2:00 P.M.  
Venue : PEMC Board Room  
18<sup>th</sup> Floor, Robinsons-Equitable Tower  
Ortigas Center, Pasig City

### **MEMBERS PRESENT:**

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

### **ALTERNATE OBSERVERS PRESENT:**

Debora Anastacia T. Layugan	-	ERC
Eduardo B. Fernandez	-	DOE (Alternate)

### **OTHERS PRESENT:**

Ferdinand B. Binondo	-	DOE
Rachel P. Anosan	-	PEMC – CorpPlan

### **SECRETARIAT**

Chrysanthus S. Heruela	-	PEMC – MAG
Elaine D. Gonzales	-	PEMC – MAG
Ma. Delia B. Arenos	-	PEMC – MAG
Rheinhardt O. Banogon	-	PEMC – MAG

After determining the presence of a quorum, the 44<sup>th</sup> Rules Change Committee meeting was called to order by the Acting Chairperson Prof. Epictetus E. Patalinghug, at about 2:00 P.M. The following agenda items were discussed:

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

The Proposed Agenda for the 44<sup>th</sup> RCC Meeting was presented and approved.

#### **2. Review, Correction and Approval of the Minutes of the 42<sup>nd</sup> RCC Meeting**

The Minutes of the 42<sup>nd</sup> RCC Meeting was reviewed and approved.

#### **3. Business Arising from the 43<sup>rd</sup> RCC Meeting**

##### **a. Proposed new WESM Manual on Registration, Suspension and Deregistration Criteria and Procedures**

Atty. Rachel Anosan picked up from where the discussion left off in the previous meeting and presented the procedures on suspension, cessation of membership and deregistration.

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The following were the issues/concerns raised by the body:

- Mr. Vicente Sioson asked whether a direct member is also suspended in case the indirect member counterparty is suspended, to which Atty. Rachel Anosan replied that it is something that has to be clarified in the manual. Still, the consequences of suspension shall be suffered by the indirect member. On the question on whether there is a legal right to suspend, she clarified that there is since an indirect member is still a member of the WESM.

On this, Mr. Sioson remarked that there's no such thing as indirect member and that there should only be one category of membership.

- On the question on the difference between an intending and direct member, Atty. Anosan clarified that an intending member has the right to information.
- On Mr. Alfredo Licudine's inquiry on the membership requirements just in case a direct member wants to shift to an indirect member, Atty. Anosan responded that the difference in terms of requirement is that if a participant intends to apply for a direct membership, it has to put up the prudential requirement; whereas for an indirect membership, it has to either put up a prudential requirement or get a format conservation from its counterparty that the said counterparty will cover the indirect member. If the counterparty is a generation company, it is initially exempted from the prudential requirements; however, if counterparty is Wholesale Aggregator (WA), the WA will have to put up the prudential requirement
- On Mr. Ralph Crisologo's statement on the possibility of the Independent Market Operator (IMO) on registering or obtaining a license with the ERC, Atty. Debora Layugan informed the body that the ERC has actually considered it. The ERC had to put it aside, however, due to other priorities.

On Mr. Crisologo's suggestion to consider having the IMO register with WESM pursuant to Chapter 2 (which sets out the registration procedures) of the proposed manual, Atty. Anosan replied that Chapter 2 was drafted for the purpose of authorizing participation in the WESM. The authority to become the Market Operator does not emanate from registration of its own operation. She added that before the participants can transact in the WESM, they must be registered which does not really apply to MO as it is the one running the market. By virtue of it being appointed as the AGMO or the IMO, then necessarily it performs its duty as such and does not need separate registration unless, as Atty. Layugan has said earlier, a regulator or other entity will require its registration. She clarified that it will not fall under Chapter 2 of the Manual but under other enabling law.

- Mr. Licudine asked whether it's possible to be an indirect WESM member in another category and at the same time a direct member in another, to which Atty. Anosan replied that possible combination for this set-up is a customer registered as indirect member and at the same time also an ancillary service provider but registered as direct.
- For better understanding, Atty. Anosan explained the difference among the three grounds of suspension.

Earlier in the presentation, the following grounds for suspension were presented:



- Market Operator-related (e.g. declaration of default, failure to satisfy margin call, non-compliance with criteria or technical or commercial requirements for continuing membership);
- Breach of WESM Rules and Manuals; and
- Suspension from trading or disconnection from the grid upon lawful orders/instance of other parties

On the three grounds, she explained, the first two are MO- or PEMC-related. The third one is upon instance of other parties or order from the court. The difference is that for the first two, the grounds for suspension will provide the basis for disconnection. The third ground is the disconnection or suspension order that will provide basis for the suspension from the WESM.

- Since the Retail Electricity Suppliers (RES) operates within the DU system, Mr. Sioson is, thus, wondering on the inclusion of such in the manual.

Atty. Anosan explained that the inclusion of RES is all in the context of whatever rules the ERC will issue on the RES. Thus, she raised the need to revise certain provisions in the Manual to make it clear that the participation of the RES and the applicability of the rules of the Manual will depend on whatever the ERC will issue. She stressed that the ERC rules will prevail over the Manual.

She left the decision to the RCC on whether to delete the provision pertinent to the RES and amend the Manual when the RES comes or to include it with the colatilla that the implementability is conditioned on the issuances of the ERC.

Atty. Layugan enlightened the body that because it is a buyer, current ERC policy requires the RES to be a WESM member.

- Atty. Anosan noted the body's suggestion to clarify in the Manual that during instances where the indirect member is suspended, the direct member counterparty will not be disconnected but will no longer be allowed to transact on behalf of that indirect counterparty. Further, if the direct member with several indirect members counterparty is suspended, the indirect members will also be suspended; however, if only one of the several indirect members committed the breach, the suspension will only apply to that particular indirect member.
- Mr. Crisologo suggested that all WESM members be furnished a copy of the Notice of Reconnection, to which Atty. Anosan noted.
- On Mr. Augusto Sarmiento's inquiry, Atty. Anosan clarified that the days mentioned in the Manual refer to business days.
- On the disconnection as a condition for cessation, Mr. Crisologo recommended to clarify in the Manual that it should be a disconnection from the grid by the NGCP, to which Atty. Anosan agreed.
- On Mr. Sarmiento's request for clarification on whether disconnection means automatic deregistration, Atty. Anosan clarified that if it's at the instance of other parties, deregistration is an automatic consequence. Once a participant is disconnected from the grid, then it is no longer allowed to transact in the WESM.

On this, Mr. Sarmiento viewed that disconnection should not mean automatic deregistration since the process of re-registration is too tedious.

Noting this, Atty. Anosan suggested that for the third ground, there should be a qualification when it is suspension or when it is deregistration. She also requested the RCC to propose definitions/criteria on what should fall under deregistration and suspension.

- It was presented that the initiation of deregistration for MO-related ground is upon submission by the MO of a report to the PEM Board stating ground for deregistration and failure of Member to remedy. Mr. Crisologo wanted to know why MO requires a report only, to which Atty. Anosan explained that going through an approval process outside of the MO is time-consuming. As the MO-related grounds are commercial in nature, timing is very important.

Mr. Crisologo argued that if the submission of report is delayed, then it could also become a ground for delaying the deregistration process. On the other hand, Atty. Anosan explained that the determination on whether there is a ground for deregistration and suspension is left to the MO. Noting Mr. Crisologo's concern, she proposed to add a provision that the PEM Board should be notified of the action of the MO. The provision must also clearly state, as well, that the PEM Board does not need to approve.

Mr. Crisologo also suggested setting a prescriptive period for the submission of the report.

- Mr. Crisologo suggested setting a timeline for the MO's issuance of written Deregistration Notice to the Member, to which Atty. Anosan responded that it has to be reconciled with the provisions in Chapter 2.
- Mr. Sioson sought clarification on having a prescriptive period of 6 months for party to demonstrate to satisfaction of the MO that infraction will not occur, and other conditions set by the PEM Board and under prevailing manuals before it can be re-registered.

Atty. Anosan informed the body that it is provided for in the Market Surveillance, Compliance and Enforcement Market (MSECM) Manual. She further explained that within a period of 6 months, a party will not be allowed to re-register. It will only be allowed to register after 6 months only from the time the member was found to be in breach regardless of the fact that the infraction has already been remedied.

- On Ms. Cherry Javier's question on whether a member has to register first before it can be reconnected, Atty. Anosan explained that the procedure for re-registration for the first two grounds (conditions), the members have to reapply because they have to satisfy certain conditions. Whereas for the third condition (disconnection at the instance of other parties), what is required from the party is a written intention to resume membership. There is no need for the party to prove to the MO that the breach has already been rectified. Presumably, the other party has already found reasons for reconnection, thus, the MO has no discretion to refuse registration.
- Atty. Anosan remarked that she will raise the comments submitted by MERALCO with the PEMC-TWG on registration, suspension and deregistration.



#### 4. Main Business

Issues/ Topics Discussed	Remarks	Agreement/ Action Item
<p>A. Proposed Changes to the WESM on various audit provisions</p>	<p>Mr. Chrysanthus Heruela presented, for discussion, the PEM Audit Committee's (PAC) proposed changes to the WESM Rules on various audit provisions. Prior to his presentation, he manifested that MAG was requested by the PAC to present on its behalf.</p> <p>As a background, the PAC proposed changes to the WESM Rules to:</p> <ul style="list-style-type: none"> <li>• Establish the oversight functions of the PEM Auditor on WESM audits and to clarify that the PEM Auditor (and the PEM Audit Committee), do not directly undertake the market audits;</li> <li>• Provide flexibility in managing PEMC resources and audit activities of the PEM Auditor and auditees; and</li> <li>• Require the audits on other WESM service providers, i.e. System Operator (SO).</li> </ul> <p>The following were the points/concerns raised by the body:</p> <ul style="list-style-type: none"> <li>• On the function of the PEM Auditor to delegate the undertaking of audits to external and internal audits, Mr. Sioson wanted to be clarified which internal audit it is pertaining to. Mr. Heruela responded that it is referring to the Internal Audit Department (IAD), a corporate department tasked to audit the internal business transactions of PEMC. On the other hand, the external business transaction of PEMC is audited by external financial auditor who is supervised by the IAD. The IAD, in turn, reports to the BAC which, coincidentally, has the same members as the PAC.</li> </ul> <p>Mr. Heruela further clarified that the primary function of PAC under the PEM Audit Manual is to audit PEMC as the market administrator as well as how MO performs its obligation with respect to the WESM Rules and Manuals.</p> <p>It was clarified, however, that the PAC does not directly handle the market audit but engages the services of an external auditor to conduct the market audits.</p> <ul style="list-style-type: none"> <li>• On Mr. Sioson's question as to the difference between audit of the spot market and Market</li> </ul>	<p>The RCC Acting Chairperson moved for the publication of the Proposed Changes to the WESM Rules on various audit provisions, to solicit comments from interested parties.</p>

Assessment System (MAS) review, Mr. Heruela explained that the MAS is a system developed and used by the MAG in monitoring the market. The purpose of the review is to ensure that the information contained in the MAS is consistent with that of MMS.

- Upon the request of the RCC for an update on SO audit, Mr. Heruela provided that the PAC and PEMC have already started activities in preparation for the metering services and SO. He called to mind that the plan to audit the SO was prompted by the request of the participants for such, which was expressed during the participants' consultation in relation to the MO audit. Certain events such as the change in management at NGCP have delayed the conduct of SO audit. He apprised the body, however that during the last two PEM Board meetings, the NGCP has expressed its commitment to support the audit.

On the other hand, the metering services audit has two bases. First, the Grid Code requires that all metering facilities shall be audited once in every 5 years. Second, the WESM Rules also require the conduct of annual audit of the metering services. The issue, however, is that it was not clarified where to get the funds for the audit of metering facilities.

Mr. Crisologo asked how the SO audit will operate, given that SO is a private entity. He further inquired under what jurisdiction the SO reports to, to which Mr. Heruela responded that the DOE is currently working out this issue.

- For his part, Mr. Raul Seludo explained that the reason why the SO audit was delayed was because involved parties are still ironing out the scope of the audit. During initial discussions, issues arose such as whether the MO is authorized to audit the system operations. He remarked that while the SO fully supports the conduct of SO audit, there is still a need to settle jurisdictional issues.

Mr. Eduardo Fernandez informed the body that the SO initially expressed their willingness to be audited. Recent developments, however, saw that the SO already has reservations. In addition, the previous agreement that SO will shoulder the cost of audit is no longer the case. However, as the SO is critical to the operations of the market, the DOE is still working on how to compel the SO to be audited.

Mr. Crisologo viewed that ERC could facilitate the

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	<p>SO audit since under the current structure, it is the ERC who sets the performance-based rating for NGCP.</p> <p>Mr. Sarmiento likewise opined that the Philippine Distribution Code (PDC) and Philippine Grid Code (PGC) have audit requirements. The concern, however, is that it has not been determined yet how to enforce the PDC and PGC regulations. He also said that the PGC and PDC have the best audit, but it has not been finalized on how to enforce PDC and PGC regulations.</p> <p>Mr. Seludo expressed his concurrence with the intention of the proposed rule which is for the PEM Auditor to cause the service providers, i.e. SO &amp; MSP, to subject themselves to independent audits by external auditors. However, he did not agree with the idea that the PEM Board, DOE and ERC may identify or instruct that the audit shall cover other than those which are relevant to the spot market.</p> <ul style="list-style-type: none"> <li>Noting the body's confusion on the PEM Audit structure, Ms. Karen Abregana explained that the current PEM auditor is the PAC Chairman. The PAC currently has two members. So as to save audit costs, the PAC engaged the services of the IAD to conduct review on market operations as well to develop software such as the software used by the PEMC Billing and Settlement. The purpose of which is to ensure the MO is ready for the next round of MO audit.</li> </ul> <p>Mr. Crisologo requested that the PEM Audit Structure be presented in the next RCC meeting, for better understanding.</p> <p>The RCC Acting Chairperson moved for the publication of the Proposed Changes to the WESM Rules on various audit provisions, to solicit comments from interested parties.</p>	
B. Proposed 2011 RCC Planning Session	<p>In the previous meeting, the RCC expressed its interest to hold its 2011 RCC Planning Session in Cebu City and where Mr. Crisologo mentioned that the Aboitiz Power might be willing to shoulder all necessary costs of the activity. However, he apprised the body that as per internal discussions with the Aboitiz Power, the company deems that shouldering the whole cost of the session is not appropriate.</p>	<p>The RCC agreed to hold its 2011 RCC Planning Session in Cebu City on 11 February 2011.</p>

	<p>The Secretariat also informed the body that the same matter was also raised to PEMC Management. The PEMC Management agreed to hold the session in Cebu City. However, sectoral members will shoulder the cost of their airfare and hotel accommodations. PEMC will only shoulder travel expenses and hotel accommodations of the Independent members.</p> <p>Although the Secretariat provided the RCC option to hold it in Manila, in particular at the Discovery Suites, the RCC expressed its interest still to have the session in Cebu City. Thus, after a lengthy discussion, the RCC agreed to hold the session in Cebu City. Further, the RCC sectoral members agreed that they will shoulder the cost of their airfare and hotel accommodations.</p> <p>The planning session is also well-timed with the ERC Hearing, which will be held on 8-10 February 2011 in Cebu City, in relation to the Motion for Approval filed by PEMC with regard to various modifications to WESM Market Manuals relevant to the operations of WESM Visayas. It was noted that some of the participants to the RCC Planning Session will be attending the said hearing.</p>	
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## 5. Adjournment

There being no matter to be discussed, the meeting was adjourned at 5:00 P.M.

Prepared by:


  
**Reinhart O. Banogon**

Noted by:


  
**Elaine D. Gonzales**





Approved by:  
RULES CHANGE COMMITTEE

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

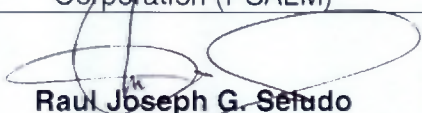
Members:


  
**Cherry Aquino-Javier**  
Generation Sector  
AES Philippines  
(AES)

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

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

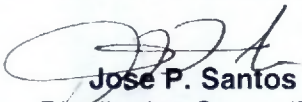
**Alfredo L. Licudine, Jr.**  
Generation Sector  
National Power Corporation  
(NAPOCOR)

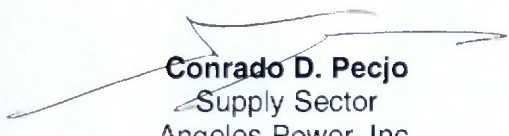
  
**Raul Joseph G. Senado**  
Transmission Sector  
National Grid Corporation of the Philippines  
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**Robinson P. Descanzo**  
Market Operator  
Philippine Electricity Market Corporation  
(PEMC)

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

  
**Augusto D. Sarmiento**  
Distribution Sector (PDU)  
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