

MINUTES OF THE 47th MEETING OF THE RULES CHANGE COMMITTEE

Date : 04 May 2011
Time : 9:00 A.M.
Venue : PEMC Board Room
18th Floor, Robinsons-Equitable Tower
Ortigas Center, Pasig City

MEMBERS PRESENT:

Epictetus E. Patalinghug	-	Acting Chairperson/Independent – UP
Cherry Aquino-Javier	-	Generation Sector – AES
Ralph T. Crisologo	-	Generation Sector – SNAP
Liberty Z. Dumlao	-	Generation Sector – PSALM
Cynthia R. Encarnacion	-	Generation Sector – NPC
Ciprinilo C. Meneses	-	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.

OBSERVERS PRESENT:

Wilbert S. Balilia	-	ERC (Alternate)
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OTHERS PRESENT:

Ruth C. Perez	-	DOE
Rachel P. Anosan	-	PEMC – CorpPlan
Claudette G. Ubaldo	-	PEMC – CORSEC
Caryl Miriam Y. Lopez	-	PEMC – Legal
Phillip C. Adviento	-	PEMC- Legal
Yhardlee D. Centeno	-	PEMC – Billing and Settlement
Marie T. Delarmente	-	PEMC – Billing and Settlement
Jon R. Cleofas	-	AES – MPPCL
Raul Lucero	-	VECO
Dennis Verallo	-	VECO
Mark Anthony Kindica	-	VECO

SECRETARIAT

Chrysanthus S. Heruela	-	PEMC – MAG
Elaine D. Gonzales	-	PEMC – MAG
Geraldine A. Rodriguez	-	PEMC – MAG
Rheinhardt O. Banogon	-	PEMC – MAG
Dece Marwil M. Bongcawel	-	PEMC – MAG

After determining the presence of a quorum, the 47th Rules Change Committee meeting was called to order by the Acting Chairperson Prof. Epictetus E. Patalinghug, at about 9:10 A.M. The following agenda items were discussed:

1. Adoption of the Proposed Agenda

The Proposed Agenda for the 47th RCC Meeting was presented and approved.

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2. Review, Correction and Approval of the Minutes of the 46th RCC Meeting

The Minutes of the 46th RCC Meeting was reviewed and approved, subject to the following revisions:

- a. Replace the company name "Aboitiz Power Corporation", to which Mr. Ralph Crisologo is associated with in the Minutes, with "SN Aboitiz Power". Mr. Crisologo wanted to correct the assumption that the two companies are one and the same when, in fact, they are two different entities.
- b. Item 3 of Paragraph 3 under Item d of Business Arising from the 45th RCC Meeting was revised to read as follows (revision is underline and in bold letters):

*"Registration and application of Pmin and Pmax only to individual generating units or combined cycle units and **not** to an entire generating facility of power plant consisting of two or more generating units, even if they are identical."*

3. Business Arising from the 46th RCC Meeting

- a. The Acting Chairperson Prof. Patalinghug followed-up with Mr. Ciprinilo Meneses on the submission of MERALCO's letter articulating its intent to withdraw the proposed price adjustment in lieu of SSLA from the 2011 RCC Work Plan. Mr. Meneses expressed his commitment to submit it in the next meeting.
- b. **PEM Board-approved Urgent Amendments to the WESM Rules and Dispute Resolution Market Manual (DRMM).**

Ms. Geraldine Rodriguez provided the RCC with an update in relation to its request for recommendation from the Dispute Resolution Group (DRG) on how the DRG would want to proceed with the previously PEM-Board approved urgent amendments to the WESM Rules and DRMM which effectivity have already expired. She relayed that the DRG, through its letter to Prof. Patalinghug dated 02 May 2011, expressed its decision not to re-submit the said amendments and will instead submit later this year a more comprehensive set of proposed revisions to the WESM Rules and DRMM. In the letter, the DRG further expressed that they are aware that the DRMM has now reverted to its previous version.

From the content of the letter, Prof. Patalinghug surmised that the DRG will no longer request the RCC for the re-approval of the previously-approved urgent amendments.

Mr. Crisologo wanted to know whether the Rules Change Manual requires the proponents to re-submit or re-file the PEM Board-approved urgent amendments and that whether the RCC can decide on its own to re-file the amendments even without the original proponent's recommendation. In response, Ms. Rodriguez reminded the body of the RCC's agreement reached during its March 9 meeting that the RCC shall require the original proponent to re-submit the amendments.

Ms. Cherry Javier likewise mentioned the RCC's agreement to conduct an automatic review of the PEM Board-approved urgent amendments before the effectivity period lapses. This agreement was reached in the absence of a clause that states that the urgent amendments can be extended. In this regard, she commented that the RCC may have to propose revisions to allow for the extension of effectivity.

Mr. Chrysanthus Heruela opined that the current Urgent Amendment process is inflicting a significant uncertainty on the market. Ideally, once the urgent amendments are approved and adopted, the pertinent manuals should only revert to their previous versions if the amendments have negative impacts on the market and that if there is significant opposition from the industry. He viewed that there should be a provision that allows for such.

As part of the group who crafted the Rules Change Manual, Atty. Rachel Anosan clarified that the intention of the six-month period was supposed to be the period during which the regular process should take place. Nor was it the intention to give the proponent discretion to withdraw the proposal.

Mr. Augusto Sarmiento commented that if the intention of the six-month period was communicated to the RCC then the RCC was remiss in its functions because the six months lapsed without the RCC acting on the urgent amendments.

Prof. Patalinghug suggested that as a way forward, the RCC should already render its decision on all PEM Board-approved urgent amendments during the 5th month of their implementation or a month prior to the expiration of their effectivity.

On Mr. Crisologo's question as to whether it is already safe to say that the approved urgent amendments are no longer valid, Atty. Anosan responded that under the Rules Change Manual, the urgent amendments shall be effective for a period of not more than six months until such time that a general amendment on the same matter has been approved and become effective. Since general amendments were not submitted, then the six-month effectivity has already lapsed. She viewed that the process does not provide for a stable market. She likewise pointed out that one of the gaps of the Manual is that there are no procedures in cases where there are no submissions of general amendments.

Following the discussion, the RCC reached the following agreements:

- The RCC shall already render its decision on all PEM Board-approved urgent amendments during the 5th month of their implementation or a month prior to the expiration of their effectivity. In addition, if no resubmission from the original proponent is made, then the RCC shall exercise its discretion to subject the PEM Board-approved urgent amendments to General Amendment Process. This is in addition to the previous agreement that the RCC shall conduct an automatic review of PEM Board-approved Urgent Amendments, 3 months after the Board approval.
- RCC shall review the Urgent Amendment Process in the Rules Change Manual to incorporate the above-mentioned agreements and other refinements.

c. WESM Manual on Registration, Suspension and Deregistration Criteria and Procedures

As requested by the RCC, revisions were made to the proposed new Manual to reflect the comments/suggestions from the RCC as well as from other parties. Atty. Anosan summarized the revisions as follows:

- Deletion of all references to transactions of the Retail Electricity Supplier (RES) except only in Chapter II, Section 5.1.2 which is a list of who are eligible to apply for WESM membership.
- Inclusion of a separate section on the procedures for the application for registration of Indirect WESM Members. This is included in Chapter II, Section 8. Other corresponding changes are made in other provisions.

- Expansion of the Glossary of Terms which is now moved from Chapter I to Appendix A. However, for brevity, the Glossary no longer includes definition of terms already defined in the WESM Rules.
- Revision of the sections pertaining to registered capacities and operating limits to reflect the comments made by the Market Surveillance Committee and Technical Committee, and the final agreements.
- Clarification on the disqualification of Metering Service Providers in Chapter II, Section 7.2.4.

Key points of the discussion are the following:

On Mr. Crisologo's inquiry regarding the basis of the definitions of Pmax, Pmin, and Ramp up and down rates, Atty. Anosan enlightened that the definitions of the said parameters are based on the Revised Certificate of Compliance (COC) Rules issued by the ERC. She likewise called to mind the past discussion by the RCC that resulted in an agreement that at the time of registration, registration data must be consistent with the COC data. However, upon verification, the current COC form only contains one data which is capacity. It does not contain information on ramp up and down rates, Pmax and Pmin. Nonetheless, additional provision is included to require the generation companies to include in their application the said parameters which also must be consistent with the information contained in the COC as well as other documents. On the other hand, Section 3.1 of Chapter 3 (Post-Registration Transactions and Changes) of the proposed Manual provides that post-registration changes shall be subject to confirmation by the System Operator (SO) or based on changes to the COC. The section likewise provides that the concurrence of the SO may no longer be required if the changes are based on COC.

Prompted by the Market Surveillance Committee's (MSC) numerous letters citing non-compliances with the submission of offers, Ms. Cynthia Encarnacion suggested adding provisions that will automatically allow changes in the registration data if the changes are due to external factors that are beyond the control of the agency. The provision must also allow insertion of a colatilla (at the start of registration) that the registration data is subject to change. Mr. Crisologo argued, however, that there is no need to include such provisions in the proposed Manual as he does not find any problem in explaining to the MSC, i.e. reasons for not being able to generate the maximum capacity. Besides, the Manual does not state that registered capacities could not be changed.

Mr. Sarmiento noted that the concerns raised by Ms. Encarnacion are already addressed by Section 3.1.1 of Chapter 3 on Post-Registration Transactions and Changes.

Mr. Heruela remarked that one of the reasons why the Technical Committee (TC) recommended to adopt the COC Rules is that the Rules require the conduct of tests by the ERC on generation facilities at least twice every year.

Accordingly, the RCC, with the exception of Ms. Encarnacion, voted not to include her recommendation in the proposed new Manual.

On Mr. Crisologo's request for clarification as to whether there are rules for pending registration and intending member, Atty. Anosan explained that the new Manual contains provisions for intending member but are confined to what is provided in the WESM Rules under rights and obligations. She then went on to explain that intending members are those that intend to go into business that would qualify them to become WESM members in the future. They are allowed to become intending WESM members with the right to be provided with market information. On the other hand, applicants are those that have already complied with some of the registration requirements. However, they cannot trade

and transact. She further clarified that the intending member does not graduate into a member, only the applicant that does.

Mr. Crisologo proposed that there should be a certain rule that takes into account the commercial value for the period in between final registration and testing, to which Atty. Anosan replied that the proposal involves pricing and settlement. She added that under the COC Rules, generation facilities are allowed a certain period to undergo testing and commissioning during the licensing stage.

Mr. Wilbert Balilia likewise shared with the body regarding the case in Visayas where entities that are not registered WESM members were allowed to inject and withdraw power from the grid. In this regard, the ERC has already requested PEMC to formally file its proposal to address the settlement issue.

Atty. Anosan clarified however that the issue will not be covered under the proposed new Manual.

Ms. Encarnacion requested clarification as to how the process works in terms of change of ownership. As a case in point, she mentioned that to date, Bacman Geothermal Inc. is not registered under its name but rather remains under the NPC account. In response, Atty. Anosan explained that the BGI has already applied for membership but the application has not been approved as it has no COC yet. Even though the matter involves transfer of ownership, BGI still has to comply with the membership requirements, including obtaining a COC. She added that the COC issued to Bacman is named under PSALM, and if the COC is issued in the name of the corporation, then it is not transferable. But if the COC is issued in the name of the plant, it can be transferred and used by the new owner pending the application of the new COC.

On Mr. Crisologo's statement that the plant, together with the owner, should register, Atty. Anosan clarified that if the transferee is already registered, then it is enough that only the plant must qualify; however, if the transferee is a new entity that is not yet registered, then both the plant and the owner must qualify. She further enlightened that it is the entity that must be registered and not the plant, to which Mr. Crisologo suggested revising.

Ms. Encarnacion viewed that the liability should already fall on the new owner considering the fact that it has already applied for membership. In response, Atty. Anosan explained that the basis for transactions in the WESM is registration. In the case of BGI, as it is still not registered, then PEMC has no basis to transfer the account to the new owner.

Prof. Patalinghug moved for the approval of the revised proposed new Manual. Upon motion, the RCC approved the Manual on Registration, Suspension and Deregistration Criteria and Procedures, for submission to the PEM Board.

d. Proposed Changes to the WESM Rules and Billing & Settlement Manual

As agreed upon during the previous meeting, the RCC provisionally approved, as amended, the proposed changes to the WESM Rules and Billing & Settlement Manual subject to the comments of PEMC. Following this agreement, the PEMC-Legal submitted its comments, for consideration by the RCC. Atty. Caryl Lopez presented the comments of PEMC-Legal, as follows:

- On the proposed amendments to the WESM Rules:

- ✓ Suggest deleting the word "incomplete" to reflect that the amount is subject to the outcome of a pending case.
 - ✓ Suggest changing the reckoning of the 12 month period from issuance of the order to receipt of the order, since the period should toll only when the party is informed. Same comment as regards the six month period.
 - ✓ Suggest deleting "ERC" and replacing it with "final and executory" to be consistent with paragraph (b) which describes the ruling authority as a "court of competent jurisdiction".
 - ✓ Under this amendment, the Market Operator no longer has grounds to correct the final statement, if it becomes aware of an error on its own without information from the participant. We propose that the phrase "or from discovery of the same" be included to account for this possibility.
- On the proposed amendments to the Billing & Settlement Manual:
 - ✓ Suggest deletion of the sentence "Errors may also arise in respect of final statements or the supporting data thereto" since this is already implied in the succeeding paragraphs.
 - ✓ Suggest that the six month period be reckoned from receipt of the written notice and not from the submission, or from the time of discovery to make it consistent with the earlier proposed rule revision.
 - ✓ We have included a reckoning point for the twelve month period.

Following the comments of PEMC-Legal, Section 3.14.9.1 of the WESM Rules was further revised to read as follows:

"If an amount in a final statement issued under clause 3.14.5:

- (a) Has been the subject of a dispute and the dispute has been resolved; or*
- (b) was subject of a pending case before the Court of competent jurisdiction and that said Court has already rendered a final and executory Decision;*

If any of the abovementioned cases has caused a different amount payable as set out in the final statement, the Market Operator shall issue to each WESM Member affected, an adjustment to the final statement for the relevant billing period setting out:

- (a) The amount payable by the WESM Member to the Market Operator or the amount payable by the Market Operator to the WESM Member, and*
- (b) interest calculated on a daily basis at the interest rate for the final statement to which the adjustment relates to the payment date applicable to the revised statement issued under this clause 3.14.9.1*

The Market Operator shall issue the adjustment to the final statement not later than 12 calendar months after the resolution of the dispute or receipt of the relevant final and executory Order unless parties to be billed agree that the issuance of the particular WESM bill adjustment shall be at a later time."

WESM Rules Section 3.14.9.2 was likewise further revised to read as follows:

"If the Market Operator becomes aware of an error in an amount stated in a final statement issued under clause 3.14.5 and, in the Market Operator's reasonable opinion, a WESM Member would be materially affected if a revision to the final statement was not made to correct the error, then the Market Operator shall issue

the Revised Statement not later than six (6) calendar months from receipt of the Market Operator of written notice of error from the participant, or from the Market Operator's discovery of the same."

On the other hand, clause 2.8 of the Billing and Settlement Manual was further revised, incorporating the comments from PEMC-Legal and AES-MPPCL, to read as follows:

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Errors in respect of final statement shall be raised within twelve (12) months of the relevant billing period.

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For errors that do not develop into disputes, the Market Operator shall issue the Revised Statement not later than six (6) calendar months after receipt of written notice from the participant of the error, or from the Market Operator's discovery of the same. For the avoidance of doubt, no revisions shall be made by the Market Operator beyond the period specified.

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For all cases identified under Section 2.8 of this Manual, except for errors that do not develop into disputes, which caused a different amount payable as set out in the final statement, the Market Operator shall issue to each WESM Member affected within twelve (12) calendar months from the resolution of the dispute or receipt of the final and executory order or decision, a Revised Statement for the relevant billing period setting out:

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There being no further comments, the RCC unanimously approved the proposed changes to the WESM Rules and Billing & Settlement Manual, as amended, for submission to the PEM Board.

e. Proposed Changes to the WESM Manual of Procedure on Start-up and Shutdown of a Generating Unit and to the Dispatch Protocol Manual regarding the Must-Offer Rule

Following Prof. Patalinghug's motion for votation, the RCC deliberated the proposed changes on the "Must-Offer" Rule, together with all the comments received. The following are the highlights of the discussion as well as the resolutions reached by the RCC:

- On the proposal that the generating unit, from its synchronization to the start of the next trading interval, shall be paid based on its short run marginal cost, Ms. Javier remarked that in the absence of the methodology for the determination of short-run marginal costs and considering that the generating unit is placed under security limit during this period, the AES-MPPCL's proposes instead to use the Must-Run Unit (MRU) compensation mechanism as basis for payment to the generating unit. She added that if the unit's short run marginal cost is greater than the Generation Price Index (GPI), then it could opt for additional compensation, which would be validated by the ERC.

Mr. Balilia clarified, however, that the additional compensation for MRU is not subject to confirmation by the ERC.

Mr. Robin Descanzo clarified that if during the said period (from synchronization of the generating unit to the next trading interval), the generating unit is tagged as MRU, then it must be paid using the MRU compensation mechanism. Nevertheless, he suggested that SO review its protocol on the designation of MRU and have it compared with the provisions contained in the WESM Manual of Procedure on Start-up and Shutdown of a Generating Unit.

Mr. Raul Seludo explained that there are plants with high levels of Pmin and thus could not ramp-up to their Pmin within one hour. As a result, these plants are tagged as must-run. In which case, Mr. Descanzo deduced that the plants are compensated as must-run. He opined that there might not be a need to amend the Manual to compensate the synchronization of generating units as there might be existing provisions with regard to this already. Accordingly, he suggested that Secretariat review the WESM Manual of Procedure on Start-up and Shutdown of a Generating Unit as well as the Management of Must-Run Units to determine the manner by which the generating unit is paid from its synchronization to the start of the next trading interval.

Following the suggestion made, the RCC agreed to defer rendering its decision on the proposed compensation mechanism, pending the review of the relevant Manuals.

- With a vote of 9-2, in which Mr. Crisologo and Ms. Javier were outvoted, the RCC disapproved the proposed revised determination of the Maximum Available Capacity.
- Ms. Javier explained AES-MPPCL's proposed further refinements on the proposal to allow cancellation of bids/offers when then total generation offers are 5% above the total demand requirements. The AES-MPPCL recommended that the cancellation should be on a first-come-first-serve basis and SO should only allow cancellation when the 5% threshold has not been reached. If in case the SO disallows, then the generating unit should be paid based on the MRU compensation mechanism.

Mr. Seludo reiterated SO's comments that it should not be involved in any bidding process, i.e. cancellation of bids, since this is still within the scope of the Market Operator.

Mr. Crisologo viewed, on the other hand, that the SO, because of its responsibility to maintain the reliability of the grid and because of its long-term planning that enables it to see the supply and demand trend, is in the best position to ascertain whether it's reasonable that a plant shuts down.

Mr. Seludo reiterated that the SO's function is to maintain the security and reliability of the grid and agreed with TC's comments that the SO does not have any information on the bids/offers of each of the trading participants.

Mr. Descanzo questioned the inclusion of additional grounds for cancellation when the original provision already allows for such. He wanted to know whether the existing provision that allows for cancellation when the demand is less than the aggregate Pmin is not adequate. He recommended that before considering the proposed revisions, the RCC should first review the applicability of the existing provisions.

- Mr. Descanzo remarked that there is no need to revise the WESM Dispatch Protocol Manual to allow fast start generators to cancel their generation offers during periods

when there is more than enough base load capacity to meet demand requirements. He explained that the determination of whether there is enough base load capacity will come after a schedule is produced/generated which is based on the offers of the generators. He viewed that the issue being brought to light is not critical and is not related to the cancellation of offer, but rather an issue related to compensation which should be discussed in another market manual.

Following the comments raised by Mr. Descanzo, the RCC agreed to disapprove the proposed revisions on allowing the fast-start generators to cancel their offers.

f. PEM Board Directive to the RCC regarding the Revision of the Market Surveillance, Compliance and Enforcement Market (MSECM) Manual and the Incorporation of the Provisions of the ERC-PEMC Protocol in the WESM Rules and pertinent WESM Manuals

Prof. Patalinghug apprised the RCC that he has yet to sign the clarificatory letter drafted by Mr. Crisologo because he was informed that the PSALM representative in the PEM Board did not oppose the incorporation of the ERC-PEMC Protocol in the WESM Rules. He wanted to be clarified whether the RCC can oppose the direction of the PEM Board when the *sub judice* issue did not prevent the Board from arriving at such resolution.

Mr. Crisologo made clear that the RCC has no intention of opposing but rather is requesting for clarification on some issues with regard to the ERC-PEMC Protocol.

Upon the suggestion of Ms. Elaine Gonzales, Corporate Secretary Atty. Claudette Ubaldo was invited to relay and clarify the instructions of the PEM Board.

Atty. Ubaldo relayed the instruction of the PEM Board for the RCC to reflect the Protocol in the WESM Rules. She added that the Board directive is merely a reiteration of the agreement, which already contained a directive to include the Protocol in the WESM Rules, that was entered into since 2008. On this issue, Mr. Crisologo inquired why this is only being put forward now, three years after the agreement was signed. In response, Atty. Ubaldo remarked that although she cannot speak for the previous administration, the PEMC however recognized the lapse in the process.

Atty. Liberty Dumlao wanted to know whether it was raised during the Board deliberation that the matter is a subject of a case filed by PSALM against ERC and PEMC, where one of the main issues is the validity and constitutionality of the Protocol. Atty. Ubaldo replied that although the issue was not raised, she believed that the PEM Board was aware of it. Considering also that the Supreme Court did not issue a Temporary Restraining Order (TRO), then there is nothing to restrict the Board from making a decision with regard to the Protocol.

Atty. Dumlao explained that as a lawyer member of the RCC, she just wanted the RCC to be aware of the consequences as they might subject themselves to *sub judice* and might be preempting the decision of the Court. She expressed her concern about the possible implications should the Court decide that the Protocol is not valid. Atty. Ubaldo reiterated that there is no Court ruling preventing the PEM Board from making any decision. Besides which, it is a Protocol acknowledged by the PEM Board and which was entered into by the President of PEMC who had authority then to enter into a contract with the ERC.

Mr. Crisologo pointed out that the signatories in the agreement are no longer the same people as the ones who are in the current administration to which Atty. Ubaldo replied that all actions of the previous administration is rendered valid and is presumed valid in the

absence of a Court ruling that declares it otherwise. She likewise wanted to correct the statement made by Mr. Crisologo that the RCC was not allowed to request for clarification from the PEM Board. She clarified that what the PEMC management would like to impart is that the RCC members are representatives of the members of the Board. As such, they have an obligation to update themselves on the activities and decision of the Board. She added that there is nothing preventing the RCC from requesting for clarification. Following this statement, Prof. Patalinghug stated that the RCC will act on the PEM Board's directive but would like to first seek answers on their queries.

On Atty. Lopez's question as to what does the RCC want to clarify, Mr. Crisologo explained that the RCC would want to be enlightened on the circumstances by which the Protocol was made and the original intention of the Protocol. He likewise questioned the reason behind ERC's decision to enter into an agreement with the PEMC considering that as the regulating body, the ERC can also investigate PEMC. In this regard, Atty. Phillip Adviento suggested that the RCC invite Atty. Celina Encarnacion because, as the Head of Legal then, she was involved during the negotiation and drafting of the Protocol.

On Atty. Dumlao's query as to who is the proponent of the subject matter, Atty. Ubaldo believed that it is not relevant to the discussion for the RCC to know the proponent. Although she could not divulge the details of the discussion in the PEM Board as it was highly confidential, she nevertheless explained that the discussion on the Protocol originated from the directive of the ERC for PEMC to investigate on something. She further clarified that it is still the ERC who has the jurisdiction over anti-competitive behavior and that the intentions of the directive of the Board were to reflect what was already agreed upon and to reflect the most practical procedure to apply in cases where the ERC directs the PEMC to investigate on something.

Following the discussion, the RCC agreed to request the PEMC-Legal to clarify the original intent and rationale of the ERC-PEMC Protocol.

4. Main Business

Issues/ Topics Discussed	Remarks	Agreement/ Action Item
A. VECO's Letter to the RCC	<p>Following the RCC's receipt of the letter dated 04 April 2011 from the Visayan Electric Company (VECO) citing inconsistencies in the Trading Amount (TA) computation process, Mr. Raul Lucero was invited to further explain the concerns of VECO.</p> <p>Mr. Lucero presented VECO's concerns and observations on the Trading Amount model and payment of line rental during the four months of the operations of Visayas WESM.</p> <p>The following observations on the settlement computation were presented:</p> <ol style="list-style-type: none"> 1. When the metered quantity (MQ) equals the Bilateral Contract Quantity (BCQ), which means that when VECO's demand is fully covered by their IPPs, VECO still ends up 	<ul style="list-style-type: none"> • The RCC requested VECO to submit their proposed WESM settlement model, including a Discussion Paper. • The RCC agreed to endorse to the PEMC Billing and Settlement, for comments, the concerns raised by VECO in its letter to the RCC

paying a certain amount for a zero energy traded.

2. When the BCQ is greater than the MQ, which means that VECO is selling its excess BCQ to the market, VECO noted that it still ends up paying for the energy sold. In support of this observation, a table showing particular trading intervals when this scenario occurs was presented. Mr. Lucero brought the attention of the RCC to January 30, 7PM trading interval where there was a very big difference between the ex-ante and the ex-post price. He relayed the explanation given by PEMC that there was an occurrence of price separation at this particular time, thus the significant difference.
3. There were also instances when VECO ends up being paid for the energy bought from the WESM, in this case BCQ is less than the MQ.
4. There were instances when VECO pays for the exorbitant costs during price separations.

Mr. Lucero also shared their concerns on the ex-ante quantity (EAQ). He remarked that the EAQ is a value determined by PEMC and when an error in determining the value is committed, the distribution utility still ends up paying for it. Based on the observations cited, VECO deems that the WESM settlement formula or the trading amount formula does not always apply to all conditions in the grid. Thus, it is proposing that the current settlement amount formula be reduced into a very simple equation where only the MQ and BCQ are considered, as well as the price of the energy at the start of the trading hour. Further, it is proposing to reduce the current trading interval from one hour to 15 minutes. With this proposed short interval, any increment in the prices will be handled more accurately. Mr. Lucero acknowledges, however, the fact that the proposal requires high level of technical capability on the part of PEMC.

After his presentation on VECO's proposed settlement model, he suggested that PEMC look into other means by which the current WESM settlement process can be improved or enhanced. He likewise requested the RCC to formulate some methodology where PEMC can settle more accurately all the energy traded in the market.

Ms. Javier informed Mr. Lucero regarding AES-MPPCL's proposal to make the EAQ equal to MQ, which is already part of the 2011 RCC Work Plan.

On Mr. Crisologo's recommendation that VECO submit a detailed proposal to the RCC, Ms. Javier remarked that the AES-MPPCL will coordinate with VECO regarding the proposed revisions on the settlement processes.

In addition to the observed inconsistencies in the application of the trading amount formula, Mr. Lucero also shared VECO's concerns regarding the line rental. VECO noted that it still ends up paying for line rental up to the full extent of the BCQ even if it sells part of it in the WESM. VECO viewed that the line rental is already embedded in the settlement when it buys energy from the market. Thus, VECO viewed that if the excess energy is sold to the grid, VECO should no longer pay for the line rental for that particular amount of energy.

Noting the above concerns, VECO is thus proposing the following:

- If $BCQ > MQ$, the proposed line rental model should be used
- If $BCQ < MQ$, the current line rental model should be used.
- Effectively, VECO should pay for line rental only up to the MQ or BCQ whichever is lower.

Prof. Patalinghug requested Mr. Lucero to submit to the RCC a discussion paper detailing VECO's proposed methodology.

Mr. Descanzo expressed his disagreement with VECO's statement that there are observed inconsistencies in the process of computing for the trading amount. He explained that the PEMC Billing and Settlement only followed the approved-settlement formula. Based on the scenarios presented and discussed, he noted that VECO seems to treat the process as a single settlement process when in fact, it is a two-way settlement process where the ex-ante is settled based on the commitment regardless of whether it is delivered or not and where the actual delivery is taken into account in the ex-post. He stressed that there is no inconsistency in the application of the data in computing the settlement amount. He added that the proposed single-settlement model can be done; however, this would entail changes not only in the

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	<p>WESM Rules but in the infrastructure as well.</p> <p>On Mr. Crisologo's comment that the line rental is arbitrary, Mr. Descanzo explained that the line rental is not an arbitrary number that is added to the transaction amount. It is part of the settlement formula. He also did not agree placing a qualifier in the computation for line rental, i.e. when $BCQ > MQ$ or vice versa.</p> <p>Mr. Crisologo clarified, on the other hand, that the word "arbitrary" was mentioned in the context that the equation for line rental could be changed. He likewise suggested endorsing to the Billing and Settlement the concerns raised by VECO which are contained in its letter to the RCC.</p> <p>Following the discussion, the RCC reached the following agreements:</p> <ul style="list-style-type: none"> • VECO to submit to the RCC a discussion paper detailing its proposed WESM settlement model. Secretariat to provide VECO with the discussion paper template and forms for rules changes proposals; • VECO to coordinate and co-sponsor with the AES-MPPCL the proposed revisions to the settlement formula; and • RCC to endorse to the PEMC Billing and Settlement, for comments, the letter of VECO containing its concerns on the trading amount computation. 	
B. TC Position Paper on Pmin, Pmax and Ramp Rates	<p>Ms. Rodriguez informed the RCC of the Board Review Committee's (BRC) decision to refer the TC Position Paper to the RCC for proper consolidation of issues.</p> <p>Prof. Patalinghug requested the RCC to review and study the paper, for discussion in the next RCC meeting.</p>	<ul style="list-style-type: none"> • For discussion in the next RCC meeting.

5. Other Matters

a. **PEM Board Updates**

Prof. Patalinghug informed the RCC of the PEM Board's approval during its meeting on 28 April 2011 of the following RCC-approved proposed amendments:

- Administered Price Determination Methodology Manual
- Exclusion of Contingency List as Input in the RTX process

- WESM Manual on the Criteria and Guidelines for the Issuance of Pricing Error Notices and Conduct of Market Re-Run

He likewise informed the RCC that the SO's position on the alternative Manual Load Dropping (MLD) procedures was presented by Mr. Seludo to the Board, for information.

b. Bi-monthly meeting of the RCC

The RCC was reminded of the previous directive for the RCC to meet at least twice a month. In this light, the RCC agreed to start holding twice-monthly meetings in June as the RCC Acting Chairperson is on a month-long trip abroad from May 5 to June 3, 2011.

c. Stakeholders meeting

Prof. Patalinghug informed the RCC of the forthcoming WESM Participants Meeting on 31 May 2011, of which part of the agenda are the presentations of the WESM Committee Chairpersons on the functions and processes of their respective Committees. As Prof. Patalinghug will not be available on the said date as earlier mentioned, the RCC voted for Ms. Javier to do the presentation.

d. Presentation of RCC Rules Change Proposals to the PEM Board

The Secretariat informed Prof. Patalinghug on the schedule of the next PEM Board Meeting on 25 May 2011 where the RCC-approved new WESM Manual on Registration, Suspension and Deregistration Criteria and Procedures, and Proposed Changes to the WESM Rules and Billing & Settlement Manual will be included in the Agenda. In the absence of the RCC Acting Chairperson, the Secretariat inquired on who will do the presentation on the proposed new Manual and proposed rules changes to the PEM Board. Prof. Patalinghug suggested that the RCC-approved rules changes proposals be presented by the proponent.

6. Next Meeting

The RCC agreed to hold the succeeding meetings on 08 June and 22 June 2011. The RCC likewise agreed that just in case a special meeting will be called (during Prof. Patalinghug's month-long trip) due to submission of an urgent amendment, the RCC shall vote for a Presiding Officer from among the members present during the said special meeting.

7. Adjournment

There being no matter to be discussed, the meeting was adjourned at 3:15 P.M.

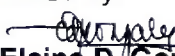
Prepared by:


Rheinhart O. Banogon


Reviewed by:


Geraldine A. Rodriguez


Noted by:



Elaine D. Gonzales


Approved by:
RULES CHANGE COMMITTEE

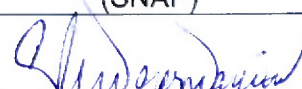

Epictetus E. Patalinghug
Acting Chairperson
Independent
University of the Philippines
(UP)

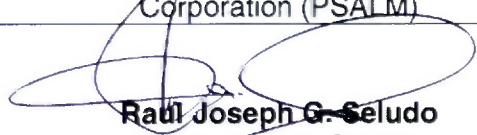
Members:

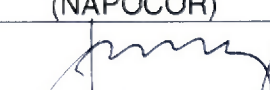

Cherry Aquino-Javier
Generation Sector
AES Philippines
(AES)


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

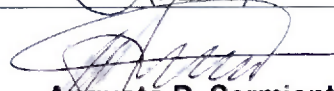

Liberty Z. Dumlao
Generation Sector
Power Sector Assets and Liabilities Management
Corporation (PSALM)


Cynthia R. Encarnacion
Generation Sector
National Power Corporation
(NAPOCOR)



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


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


Ciprinilo C. Meneses
Distribution Sector (PDU)
Manila Electric Company
(MERALCO)


Augusto D. Sarmiento
Distribution Sector (PDU)
Dagupan Electric Corporation
(DECORP)


Jose P. Santos
Distribution Sector (EC)
Ilocos Norte Electric Cooperative, Inc.
(INEC)


Conrado D. Pecjo
Supply Sector
Angeles Power, Inc.