

MINUTES OF THE 53RD MEETING OF THE RULES CHANGE COMMITTEE

Date : 05 October 2011
Time : 9:00 A.M.
Venue : PEMC Training Rooms 2&3
9th Floor, Robinsons-Equitable Tower
Ortigas Center, Pasig City

MEMBERS PRESENT:

Epictetus E. Patalinghug	-	Acting Chairperson/Independent – UP
Francisco L.R. Castro Jr.	-	Independent – The Herma Group
Rowena Cristina L. Guevara	-	Independent – UP
Cherry Aquino-Javier	-	Generation Sector – AES
Cynthia R. Encarnacion	-	Generation Sector – NPC
Liberty Z. Dumlao	-	Generation Sector – PSALM
Ralph T. Crisologo	-	Generation Sector – SNAP
Augusto D. Sarmiento	-	Distribution Sector – DECORP
Jose P. Santos	-	Distribution Sector – INEC
Sulpicio C. Lagarde Jr.	-	Distribution Sector – CENECO
Robinson P. Descanzo	-	Market Operator – PEMC

ALTERNATE MEMBERS PRESENT:

Ryan S. Morales	-	Distribution Sector – MERALCO
Isidro E. Cacho	-	Market Operator – PEMC

MEMBERS NOT PRESENT:

Maila Lourdes G. de Castro	-	Independent – Unitel Productions, Inc.
Ciprinilo C. Meneses	-	Distribution Sector – MERALCO
Conrado D. Pecjo	-	Supply Sector – Angeles Power, Inc.
Raul Joseph G. Seludo	-	System Operator – NGCP

OBSERVERS PRESENT:

Ferdinand S. Binondo	-	DOE (<i>Alternate</i>)
Luningning G. Baltazar	-	DOE
Wilbert S. Balilia	-	ERC (<i>Alternate</i>)

OTHERS PRESENT:

Ermelindo R. Bugaoisan	-	NGCP – SO
Edwin N. Mosa	-	PEMC – TOD
Edward I. Olmedo	-	PEMC – TOD
Marisa P. Gandia	-	PEMC – CSD-Finance
Ariston P. Martinez	-	PEMC – CSD-Finance
Phillip C. Adviento	-	PEMC – Legal
Oyie Rivera	-	Team Energy
Dennis dela Serna	-	Aboitiz Power Corporation
Jess Garcia	-	1590 Energy Corporation

SECRETARIAT

Geraldine A. Rodriguez	-	PEMC – MAG
Rheinhardt O. Banogon	-	PEMC – MAG
Dece Marwil M. Bongcawel	-	PEMC – MAG

After determining the presence of a quorum, the 53rd RCC meeting was called to order by the Acting Chairperson Prof. Epictetus E. Patalinghug, at about 9:30 A.M.

1. Introduction of Newly-Appointed RCC Member

The RCC acknowledged the appointment of Mr. Sulpicio Lagarde, Jr. as the new member of the RCC, representing the Distribution-Electric Cooperative (Visayas) sector. He was appointed by the PEM Board during its meeting on 25 August 2011.

2. Adoption of the Proposed Agenda

The Proposed Agenda for the 53rd RCC Meeting was presented and approved.

3. Review, Correction and Approval of the Minutes of the 51st and 52nd RCC Meeting

- a. The Minutes of the 51st RCC Meeting was approved, as amended. Upon clarification by Mr. Ralph Crisologo, Item B of New Business, Paragraph 3, Sentence 3 was revised to read as follows:

He went on to explain that other jurisdictions, like Europe, employ a day-ahead market in which the trading participants submit their bids and offers ahead of time, and the system operations for their part uses an imbalance methodology a balancing market for the real time.

- b. The Minutes of the 52nd RCC Meeting was approved, as presented.

4. Business Arising from the Previous Meeting

a. Proposed Amendments to the WESM Manual on Management of Must Run Units (MRU)

For the benefit of other members of the RCC who were not able to attend the previous meeting, Ms. Cherry Javier provided a brief summary of the Merchant Generators' proposed amendments to the MRU Manual. The RCC was likewise furnished with a copy of NGCP-SO's initial comments on and own version of its proposed amendments to the MRU Manual.

Mr. Ermelindo Bugaoisan, who attended on behalf of Mr. Raul Seludo and Mr. Reynaldo Abadilla, relayed the SO's request for the RCC to defer the approval of the proposed amendments, citing that further recommendations/comments will be submitted. He added that the SO is currently reviewing the provisions of the WESM MRU and Dispatch Protocol Manual to incorporate therein the lessons learned from the commercial operation of WESM Visayas, as well as the peculiarities of the two regions (Luzon and Visayas).

On the proposed amendments submitted by the SO, Mr. Crisologo noted that the SO wants an all-encompassing and broad definition for the MRU. In contrast, the Merchant Generators are proposing a more defined and categorical use of such with the end in view of establishing a proper compensation for each system security issue.

Noting the conflicting positions expressed by the SO and the Merchant Generators in their respective proposals, Mr. Augusto Sarmiento recommended that SO and the Merchant Generators meet (outside of the RCC) to come up with harmonized provisions. Taking into consideration the MO's role in the implementation of the MRU procedures, Mr. Francisco Castro likewise suggested that MO be present during the meeting.

Mr. Robinson Descanzo interjected that everyone in the RCC should participate in the discussion and deliberation, referring to the fact that there are certain proposed provisions and revisions that will impact on the settlement processes which he viewed is the responsibility of the DUs to analyze/assess.

Meanwhile, Mr. Descanzo commented that the issues on reserves, Merit Order Table (MOT) and MRU should be harmonized and properly considered in all pertinent proposals the RCC is deliberating upon. Similarly, he stressed the need for SO to document its existing procedures on grid frequency control and define instances when to use/call the MOT, the contingency reserves or the dispatchable reserves, as well as describe necessary actions performed by SO when one is not available.

After which, the RCC agreed to hold a special RCC meeting to discuss and agree on the changes that will be introduced to the MRU Manual, in particular the definition of Must Run Unit as well as the various specific scenarios that call for the designation of MRUs. This is to ensure that technical and commercial concerns of the SO and the Merchant Generators are taken into consideration, resulting in document/ procedures that will be beneficial to both as well as to the distribution utilities and end-users. In this regard, the RCC agreed to hold its special meeting by last week of October.

In view of the above, Prof. Patalinghug requested the NGCP-SO to submit their comments/recommendations by third week of October before the RCC special meeting.

As regards the internal procedures on MRU dispatch provided by SO to the RCC, upon the latter's request, Ms. Javier commented that they do not contain or describe the various specific scenarios that require the designation of MRUs as presented by SO during the previous RCC meeting. Accordingly, the RCC agreed to once again write the SO a letter requesting for a written document on the specific scenarios for the designation of MRUs. Furthermore, the RCC agreed to include in the letter its request for SO's internal procedures on ancillary services and MOT implementation, as well as on the implementation of grid frequency control.

b. Proposed Amendments to the WESM Dispatch Protocol on the Inclusion of Merit Order Table (MOT)

The RCC expressed its agreement with the Merchant Generators' proposal to define and include the MOT in the WESM Dispatch Protocol Manual, citing that the process and procedure relating to its implementation is already existing and established.

Notwithstanding the above resolution, the RCC agreed to include the proposed amendments on MOT in the agenda of the RCC special meeting, noting its connection to the preceding item. It was agreed that the details and language of the inclusion of MOT will be discussed and settled upon during the special meeting.

Noting the connection between the proposed amendments on the Merit Order Table and the preceding item, the RCC agreed to include the former in the agenda of the RCC special meeting.

c. Proposed Amendments to Various WESM Manuals on RTD Pricing Error Notice Issuances

The RCC continued its deliberation on the Merchant Generators' various proposals to reduce the issuances of PEN in the ex-ante.

Mr. Descanzo relayed that PEMC is amenable with the proposal to categorize N-1 contingency event as Localized Non-Congestion Pricing Error event. He stressed, however, that the RCC needs to thresh out the corresponding price correction/substitution methodology. As put forward by the Merchant Generators, there are two options for correcting the price: it is either using the valid ex-post prices without doing the market re-run or removing the Constraint Violation Coefficient (CVC) component which process is more mathematical but more accurate. He likewise brought up another option which is to obtain the average system price (average of all nodal prices) which will then be used as the substitute price for the affected nodes (with PEN).

Mr. Descanzo went on to explain that there are two approaches to implementing the Merchant Generators' proposed third option: first is having it fully-automated, which requires software changes, where the price is broken down into its several components, including its congestion component; second is to use the sensitivity method which is manually done. In the second approach, the price is determined by removing the CVC component which is equivalent to the product of the known or predetermined sensitivity factor of a transformer multiplied by the corresponding CVC price (e.g. 600,000 for contingency).

On Prof. Patalinghug's inquiry as regards the advantage of using the average system price, Mr. Descanzo explained that using such will lessen the discrepancy between the ex-post and ex-ante prices, although there will still remain imbalances. While he recommended the use of average system price as the price substitution methodology, nonetheless, he remarked that MO will be conducting a simulation on the proposals in order to assess their impacts which will, in turn, guide the RCC in selecting which method/option to approve and implement. He also pointed out that the proposed amendments likewise entail changes in the WESM Rules, thus the need for the RCC to review the relevant provisions of the WESM Rules.

As regards the proposed first option on the removal of N-1 contingency on the load-point connection element, Mr. Descanzo remarked that the SO could not allow such as it is a violation of the N-1 contingency requirement of the Grid Code. He likewise clarified that the MO on its own has no capability to remove the contingency list as it is the SO who inputs the list in the data entry that is accessible only by SO.

Mr. Lagarde inquired on whether there is a fourth option applicable to the Visayas region. In response, Mr. Descanzo clarified that the N-1 contingency is not being imposed in the Visayas; thus its impact is confined to the Luzon region only.

Even though not related to the subject at hand, Mr. Lagarde raised the issue on the Site Specific Loss Adjustment (SSLA) being charged to the electric cooperatives which is equivalent to almost 1% systems loss. Ms. Cynthia Encarnacion shared that the NGCP has already expressed its commitment to comply with the metering requirements before the year ends. Mr. Crisologo remarked, on the other hand, that the issue raised is not for the RCC to act on as it is not within its ambit, to which Prof. Patalinghug replied that the RCC could elevate it to the ERC. At this junction, Mr. Lagarde acknowledged the presence of ERC representative to the RCC, Mr. Wilbert Balilia.

As regards the possible reason for the imposition of N-1 contingency by SO, Mr. Sarmiento surmised that it must have something to do with the Performance Based Regulation (PBR) framework that the NGCP has adopted. He shared that what is approved under the NGCP's PBR is the transmission hub which is required to be compliant with the N-1 contingency criterion. He added that the reason the NGCP is able to justify their investment is because of the imposition of N-1, that when removed will result in them being optimized down.

Mr. Crisologo asserted that it is not always true that the removal of N-1 will result in higher prices. On the contrary, he believed that it will in fact cause lower prices because the congestion is being removed, to which Mr. Sarmiento replied that it can also work both ways. While he agreed with Mr. Crisologo, he reminded the body that the case in point is interchange transformers and since such is the case, the removal of N-1 will cause lower prices for certain nodes but may possibly impact other nodes as well. In this regard, he suggested to await the results of the simulation.

There being no further comments, the RCC expressed its agreement with the proposal to categorize N-1 contingency event as "Localized Non-Congestion Pricing Error", the corresponding substitution methodology of which shall be determined depending on the results of the simulation to be conducted by MO on the different options, as proposed by the Merchant Generators.

5. New Business

Issues/ Topics Discussed	Remarks	Agreement/ Action Item
A. Presentation on Merit Order Table (MOT) Procedure	<p>Following the request made by the RCC during its previous meeting, Mr. Edward Olmedo presented the procedures being followed by PEMC-TOD on the creation/construction of MOT.</p> <p>The following were the highlights of his presentation:</p> <ul style="list-style-type: none"> As a background, it was explained that the current MOT contains the list of generators along with their corresponding energy offer blocks in MW. Used as a reference by the SO in the dispatch of generating units, it uses a simple merit-order stacking of generators offers from the cheapest to the most expensive. The steps on the creation of MOT was presented as follows: <ol style="list-style-type: none"> Compare the schedule of a generating unit with its offers. Split the generation schedule, if possible, based on its offer block and place the price alongside the MW block. Repeat steps 1 and 2 for each generating unit. Sort the collected information based on offer 	<ul style="list-style-type: none"> PEMC-TOD to document the MOT procedures which will then form part as annex of the WESM Dispatch Protocol Manual. In this regard, the PEMC-TOD was requested to submit the written procedures before the RCC special meeting.

ant

- price.
5. Place a marker identifying that the stacked offers were "dispatched".
 6. For offer blocks that were not dispatched, split each block and place its respective price alongside its MW block.
 7. Sort the offer blocks in step 6 based on offer price and place this group of offers after the marker in step 5.
 8. Remove the column indicating the offer price.

For better appreciation and understanding of the body, a sample scenario was shown and each step was illustrated based on the given scenario.

Mr. Olmedo stressed that the MOT submitted by MO to SO does not include the corresponding price offers of each generator's block.

Citing instances when the SO deviates from the sequence of dispatching provided by the MOT, Mr. Lagarde raised the possibility of including the price offers in the MOT submitted to SO, otherwise the SO might blindly dispatch the generating units without knowing the extent of the prices, to which Mr. Crisologo replied that it is precisely the intention as the SO's concern is on the technical side.

Ms. Javier added that that is the reason why the MOT is proposed to be defined in the Dispatch Protocol so that it becomes binding to the SO, thus obliging the SO to follow the order of MOT and any generating units dispatched outside of MOT will be labeled differently. She likewise suggested that the dispatch should be on per block of energy in the MOT. Mr. Bugaoisan replied that in dispatching, the technical capability of the plant is likewise considered, citing that when the SO sees that the next scheduled generator is not capable to immediately provide the energy requirement then the SO will have to designate another generator capable of such.

As regards the issue on certain generators without offers being dispatched, Mr. Descanzo for his part explained that while the MOT is based on offers, it is still subject to security constraints, such as constraints on the lines and generating units and whatever security constraint measures that the SO needs to implement. The SO might have to dispatch these certain generators because only they could address the

problems in the system.

- The impact of MOT, particularly in cases where the actual demand is higher than the forecasted or the other way around, on WESM Pricing and Scheduling was similarly presented.

In the sample illustration shown, there is a +7 MW deviation in the actual demand. Following the order of MOT for offers not dispatched, Generator A's schedule will increase by 5 MW and Generator C by 2 MW. However, since Generator A has a remaining 5 and 10 MW, it could already deliver on its own the 7 MW, the 2 MW portion of which belongs to the Php 8 /MWh offer block. Even though Generator A will answer for the 7 MW deviation, the ex-post price shall still be at Php 7/MWh.

Generator	Block	Price
A	10	10
C	15	15
A	5	5
B	3	4
B	15	1
C	15	Price
B	10	Price
A	5	Price

On the other hand, if the actual demand is 7MW lower than the forecasted, following the order of MOT for offers dispatched, Generator A's schedule will be reduced by 5 MW and Generator B by 2 MW. However, if all 7 MW will be met by Generator B (given that it has 15MW to spare), the clearing price shall be Php 1/MWh, and Generator A with offer price of Php 4/MWh and was not ramped down, will be cleared at Php 1/MWh.

On Mr. Crisologo's concern that MO should be able to generate MOT that already takes into account the contingency list, system status, etc., Mr. Descanzo clarified that the current software is not capable of conducting sensitivity analysis in order to consider said parameters.

- As an update, Mr. Olmedo informed the body that upon the request of SO, steps are being undertaken to improve the existing MOT methodology by excluding from the list those generating units on outage. For this purpose, the MO has requested the assistance of Information Systems and Technology (IST) Department in improving the process to include generator availability based on the outage schedule

	<p>submitted by SO as well as the actual connection status using the latest snapshot. It was relayed that the improvement is expected to be deployed in November 2011.</p> <p>Following the presentation, Mr. Descanzo remarked that PEMC could document the existing procedures on MOT, to which the RCC agreed.</p> <p>Accordingly, the PEMC-TOD was requested to document the MOT procedures which will then form part as annex of the WESM Dispatch Protocol Manual. In this regard, the PEMC-TOD was requested to submit the written procedures before the RCC special meeting.</p>	
<p>B. PEM Board Directive re Prudential Requirements</p> <p>i. Presentation on Prudential Requirements</p>	<p>Ms. Marisa Gandia presented the various issues on prudential requirements, as well as the PEMC-Finance's proposal to address the same. This is pursuant to the directive of the PEM Board during its 25 August 2011 to refer the matter to the RCC for the conduct of the study and to determine the possibility of WESM Rules and Manuals change on prudential requirements.</p> <p>For the appreciation of the body, the presentation started with a backgrounder on prudential requirements and margin call:</p> <ul style="list-style-type: none"> • It was explained that prudential requirement is imposed on a Trading Participant to provide and maintain a security in accordance with WESM clause 3.15, the purpose of which is to ensure the effective operation of the spot market by providing a level of comfort that WESM members will meet their obligations to make payments as required under the WESM Rules. • WESM Rules 3.15.4.1 requires that prior to the end of each financial year, the MO shall determine and provide written confirmation to each WESM member of its maximum exposure in respect of the billing period in the following financial year. Likewise, WESM Rules 3.15.9.1 requires that each day, the MO shall review its actual exposure to each WESM member in respect of the previous billing period. • Under WESM Rules Section 3.15.3, the acceptable forms of security shall be: <ul style="list-style-type: none"> – A bank guarantee in a form and from a Bank 	<ul style="list-style-type: none"> • MERALCO to present in the next regular meeting of the RCC its issues and proposals as regards the prudential requirements and margin call.

acceptable to the MO;

- Another immediate, irrevocable and unconditional commitment in a form and from a Bank acceptable to the MO, i.e., standby letter of credit (SBLC);
- Surety Bond issued by insurance company duly accredited by the Office of the Insurance Commissioner of the Philippines;
- Such other forms of security or guarantee acceptable to the MO.

It was relayed that the PEMC-Finance usually receives, as security deposit, cash, SBLC and surety bond.

- The provision set forth in WESM Rules Section 3.15.4.3 is the basis by which the prudential requirement level is determined. Said section states that each WESM member shall ensure that at all times the aggregate and unclaimed amounts of current and valid security held by the Market Operator in respect of that WESM member is not less than that WESM Member's maximum exposure.

For this purpose, the prudential requirement shall be greater than or equal to the maximum net exposure.

- The Maximum Net Exposure (MNE) is the Maximum liability or credit that a market participant may incur before being prohibited from trading in the market. It is equivalent to 63 days trading amounts, which is in turn equivalent to the sum of the previous billing period (30 days), current billing period (30 days) and reaction period of 3 days.
- It was relayed that the PEMC-Finance sought the approval of the PEM Board for the basis of the computation of MNE. Accordingly, the PEM Board approved the adoption of the twelve (12) months rolling average in the determination of the appropriate maximum net exposure, as per Board Resolution No. 2010-14. In mathematical form, the MNE is computed as follows:

$$MNE = \frac{\text{Ave. Monthly Energy Trading Amounts}}{30 \text{ days}} \times 63 \text{ days}$$

- Section 3.15.9.3 of the WESM Rules states that in calculating the MO's actual exposure to a WESM Member under clause 3.15.9.1, the MO shall take into account:

- a) Outstanding Settlement amounts for a WESM Member in respect of previous billing period, and
- b) Settlement amounts for a WESM Member for trading intervals from start of the billing period in which the review occurs to the end of the trading day on which the review occurs.

To illustrate, should the previous billing period be June 26-July 25 and the review occurs on July 30, the actual net exposure (ANE) is thus 35 days (30 + 5 days).

- WESM Rules 3.15.8.3 states that the trading limit for a WESM Member at any time shall not be greater than 95% of the total value of the security provided by the WESM Member to the Market Operator. In mathematical form, $TL = 95\% \times PR$.
- Once the ANE exceeds the trading limit, it already warrants issuance of margin call (MC).

It was clarified that failure by the WESM customers to pay on the due date is called default; in which case, the PEMC-Finance usually draws from the customers' prudential to cover the amount due, after which customers are notified for them to replenish their prudential.

- Under WESM Rules Section 3.15.10.2, the WESM member must satisfy the Margin call by either:
 - Providing an additional security to increase the WESM member's Trading Limit to a level which exceeds the Market Operator's actual exposure, or
 - Prepaying a portion of the amount payable or which become payable sufficient to reduce the Market Operator's actual exposure to the WESM member to below its trading limit.
- WESM Rules Section 3.15.10.3 requires that if MC is made on business day before 10:00 a.m., the MC must be satisfied on or before 3:00 pm on that same day. If beyond 10:00 a.m., MC must be satisfied on or before 10:00 on the first business day to occur after the MC is made.

It was relayed that while not required in the WESM Rules, the PEMC Finance already issues the MC three days before the due date to give the customers enough time to satisfy the margin

aut

call.

- As per WESM Rules 3.15.10.5, the penalty for failure of a WESM member to satisfy a MC in accordance with clause 3.15.10.2 is suspension.

Ms. Gandia then proceeded to discuss the various issues on prudential requirements, as follows:

- As a background, it was shared that the PEM Board directed the management to prepare a study in relation to the prudential requirements. In this regard, ECs were invited to discuss their respective issues on prudential compliance.
- The following were the issues raised during the discussion:
 - The customers claimed that the basis for estimating the Actual/Maximum Net Exposure is not reflective of the current WESM transactions (i.e. increase in the bilateral contract, fluctuation of the WESM transactions).
 - Incapability of the WESM Customers to provide a high level of security deposit equivalent to 63 days as their existing rate has no provision for such cost neither for working capital.
 - WESM Customers requested to reduce the security deposit. To be compliant with the 63-day PR, customers shall prepare cash equivalent to 93 days transactions (63 days security deposit + 30 days energy payment).
 - The non-defaulting WESM Customers claimed that they should be exempted from the 63-day PR and should not be suspended as they are paying their current bills. They proposed to provide a 30-day security deposit to secure only the amount that will become due.
 - Difficulty in complying with the response time to Margin Call (3:00 pm on the same day or 10:00 am of the following day)
 - PHILRECA proposed pooling of security deposit, in which case PHILRECA needs historical data of ECs' WESM transactions to conduct a study similar to the security deposit requirement of NGCP.
- The following are the issues of ECs on prudential requirements:
 - The basis of the calculation of the actual

exposure is not reflective of the current transactions of the WESM customers.

- Incapability of the WESM customers to provide the 63-day security deposit.
- Suspension as penalty for Margin Call.
- Unreasonable period (within 24 hours) for ECs to respond to the MC (Response time for margin call).

Based on the WESM Rules, penalties for non-compliance to Margin call within the deadline are suspension and deregistration. However, imposition of the penalties pose the following problems:

- ✓ Participants can continuously withdraw energy from the grid unless they are disconnected.
- ✓ Possibility of the customers being difficult to deal with in terms of collection/payment.

- Proposals to address the aforementioned issues:

- To address the first issue, the PEMC-Finance is proposing to revise the basis for the calculation of the ANE, such that ANE is calculated by using the most recent bill (previous billing period) and estimate the unbilled amount (current billing period) on the basis of the average transaction for the last 3 billing periods (prior to the previous billing period).
- As regards Issue No. 2, the PEMC-Finance is proposing to set a minimum security deposit (i.e., 30 days), provided that prepayment shall be made. Moreover, MC shall be issued 3 days after issuance of advisory and customers shall be required to make prepayment within 24 hours from the issuance of MC. In this proposal, the issuance of Margin Call notice shall be done on the 5th of the month based on Preliminary Statement.

On the other hand, the Philippine Rural Electric Cooperatives Association, Inc. (PHILRECA) is recommending for pooling or consolidation of the prudential requirements of WESM customers. They are proposing for a 30 or 48 days in addition to pooled PR to complete the 63 days security deposit. Said proposal is subject to further study by

PHILRECA, however.

In this proposal, the issuance of Margin Call notice shall be on the 20th of the month based on the Final Statement.

- It was noted that there is a need to review the provisions of the WESM Rules on margin call (response time/penalty), suspension, actual and maximum exposure, prudential requirements and default. Ms. Gandia related that one of the proposals currently being looked into is to increase the default interest in order to discourage customers to default.

The following were the points raised by the body:

- On Ms. Encarnacion's request for clarification on whether the trading amount is equivalent to the usual withdrawal from the system, Ms. Gandia clarified that it is already net of BCQ, thus referring to the spot market transactions only.
- Mr. Sarmiento suggested harmonizing current provisions of the WESM Rules with that of the Magna Carta as under the latter, a prompt payer for the last three years has the right to a refund of deposit.
- Mr. Castro expressed reservation regarding the idea of amending the rules to favor the noncompliant customers, to which Mr. Wilbert Balilia opined that the interest of the ECs must be considered as well, referring to the fact that it is the end-users who will suffer if they are disconnected.
- Mr. Descanzo surmised that the issue on customers not being able to comply with the prudential requirement lies in the absence of mechanism to put up recovery, which is under the control of the ERC.

In the absence of such recovery model, Ms. Gandia remarked that the only option is to reduce the prudential requirement. She acknowledged, however, that it poses risks to the generators.

- In response to Mr. Crisologo's and Dr. Guevara's inquiry, Ms. Gandia disclosed that 50% of customers in Luzon (including MERALCO) and 70% in Visayas only have 30 days' worth of

	<p>security deposit. She likewise clarified that the said 50% customers in Luzon, while not able to comply with the prudential requirement, are able to pay their bills.</p> <p>Dr. Guevara opined that it doesn't make sense to suspend the customer if they are able to pay their bills in the first place. In this regard, she suggested revising the rules such that the issuance of margin call will depend on the customers' failure to pay their bills.</p> <p>Ms. Javier remarked that once the customers default on their payment, it already entails 60 days of exposure. If they couldn't pay still, it will incur 90 days of exposure which will in turn pose downside risks to generators.</p> <ul style="list-style-type: none"> • Noting the concerns of the ECs, the RCC expressed that it is open to the idea of revising the WESM Rules to allow for pooling. • Mr. Ryan Morales shared that the MERALCO's Treasury Department main issue is not on the level of prudential but the concept itself. As one of the affected parties, Prof. Patalinghug requested for the MERALCO to present in the next regular meeting of the RCC its issues and proposals as regards the prudential requirement and margin call. 	
<p>C. RCC Comments/ Response on PEMC Internal Audit Department's (IAD) Preliminary Observations on CA-2011-04 (Market Governance Administration Process Review)</p>	<p>Having received from the IAD the detailed audit report (sent to the RCC through electronic mail dated 15 September 2011), the RCC went over each comment/recommendation and proceeded to discuss and finalize its comments and response, as follows:</p> <ul style="list-style-type: none"> • Adopting Mr. Castro's comments (sent through email dated 21 September 2011) as regards the recommendation to reassess the practicality of the number of periods and meetings within which to resolve and/or decide on the rules change proposal, the RCC resolved that the sixty (60) business days from date of publication that the RCC is given to resolve items should be sufficient, as the actual time elapsed is about three (3) months, which can span about three (3) committee meetings. This is taking into consideration that the average month has about 22 working days, thus 60 business days is about 3 calendar months. Henceforth, the RCC shall inform the PEM Board officially (listing the 	<ul style="list-style-type: none"> • Secretariat to finalize the RCC comments and response and send to the RCC, for confirmation/ approval.

appropriate justifications and reasons for the delay) whenever there is an item or issue that could not be resolved within the specified period.

- On the recommendation to reassess the need for a publication in the newspaper of general circulation on a regular basis, the RCC viewed that it may not be within RCC's jurisdiction. The RCC likewise agreed to revise the Manual of Procedures for Changes to the WESM Rules to reflect the said comments as well as to clarify what needs to be published in the WESM website.
- The RCC agreed to adopt Prof. Patalinghug's comment in the previous meeting that the current template of the RCC Resolution may have to be amended to include the procedures implemented by the Committee.
- As an action plan in response to IAD's observation that there is no regular reporting to the RCC by the Member, the RCC sectoral representatives will be updating their respective sectors on the matter concerning rules changes and other activities, through email, copy furnish the RCC and Secretariat.
- The RCC wished to note that the authority of the Chair to make an official designation or assignment of other Members in the event he is not available is already being exercised.
- As regards the recommendation to establish an internal evaluation process which will begin with a questionnaire that will be answered anonymously by all Members, the RCC viewed that this is not relevant, citing that the work plan versus the accomplishment already reflects the performance of the RCC. The RCC added that as this is a collegial body, importance should be given to the team output rather than individual performance.
- As agreed during the previous meeting, the RCC agreed to publish the highlights of the RCC meeting instead of the minutes of the meetings.
- As regards the recommendation for the RCC to monitor its compliance with the Rules Change Manual and Internal Rules, the RCC agreed to adopt Mr. Castro's comments that the RCC should focus on monitoring its progress as far as its Workplan [vs. Accomplishments] is

	<p>concerned. IAD's task, on the other hand, is to monitor RCC's compliance to rules/manuals.</p> <p>There being no further comments, it was agreed that the Secretariat will finalize the comments and send to the RCC, for confirmation/approval.</p>	
--	---	--

6. Other Matters

a. **Re-submission of PEM Board-approved Urgent Amendments to the WESM Rules on Dispute Resolution Provisions as General Amendments**

Ms. Geraldine Rodriguez informed the RCC of the Dispute Resolution Administrator's (DRA) intent to re-submit the PEM Board-approved urgent amendments as general amendments within the month of October.

Bearing in mind the impending expiration of the effectivity of PEM Board-approved urgent amendments (effectivity will expire in January 2012), the RCC granted the request of the Secretariat to include the same in the agenda of the RCC special meeting, for purposes of reviewing whether it would qualify for publication.

7. Next Meeting

- The 54th RCC (Special) Meeting shall be held on 26 October 2011.
- The 55th RCC Regular Meeting shall be held on 09 November 2011.

8. Adjournment

There being no other matter to be discussed, the meeting was adjourned at 2:44 P.M.


Prepared by:


Rheinart O. Banogon

Reviewed and Noted by:


Geraldine A. Rodriguez

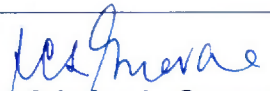
Approved by:
RULES CHANGE COMMITTEE



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

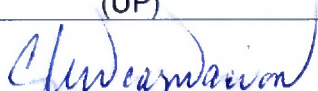
Members:



Francisco L.R. Castro, Jr.
Independent
The Herma Group

Maila Lourdes G. de Castro
Independent
Unitel Productions, Inc.

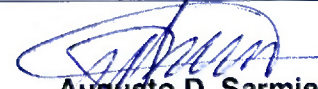

Rowena Cristina L. Guevara
Independent
University of the Philippines
(UP)


Cherry Aquino-Javier
Generation Sector
AES Philippines
(AES)



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



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


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


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


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


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


Sulpicio C. Lagarde Jr.
Distribution Sector (EC)
Central Negros Electric Cooperative, Inc.
(CENECO)

Conrado D. Pecjo
Supply Sector
Angeles Power, Inc.

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


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

aut