

MINUTES OF THE 55TH MEETING OF THE RULES CHANGE COMMITTEE

Date : 09 November 2011
Time : 9:00 A.M.
Venue : PEMC Board Room
18th Floor, Robinsons-Equitable Tower
Ortigas Center, Pasig City

MEMBERS PRESENT:

Rowena Cristina L. Guevara	-	Chairperson/Independent – UP
Epictetus E. Patalinghug	-	Independent – UP
Francisco L.R. Castro Jr.	-	Independent – The Herma Group
Maila Lourdes G. de Castro	-	Independent – Unitel Productions, Inc.
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
Conrado D. Pecjo	-	Supply Sector – Angeles Power, Inc.
Robinson P. Descanzo	-	Market Operator – PEMC

ALTERNATE MEMBERS PRESENT:

Isidro E. Cacho	-	Market Operator – PEMC
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MEMBERS NOT PRESENT:

Ciprinilo C. Meneses	-	Distribution Sector – MERALCO
Sulpicio C. Lagarde Jr.	-	Distribution Sector – CENECO
Raul Joseph G. Seludo	-	System Operator – NGCP

OBSERVERS PRESENT:

Debora Anastacia T. Layugan	-	ERC
Ferdinand B. Binondo	-	DOE (<i>Alternate</i>)

OTHERS PRESENT:

Caryl Miriam Y. Lopez	-	PEMC – Legal
Phillip C. Adviento	-	PEMC – Legal
Edward I. Olmedo	-	PEMC – TOD
Oyie Rivera	-	Team Energy
Daniel Aboitiz	-	SN Aboitiz Power
Jess Garcia	-	1590 Energy Corporation
Joel Sagun	-	SEM-Calaca Power Corp.

SECRETARIAT

Chrysanthus S. Heruela	-	PEMC – MAG
Elaine D. Gonzales	-	PEMC – MAG
Rheinhardt O. Banogon	-	PEMC – MAG

After determining the presence of a quorum, the 55th RCC meeting was called to order by Chairperson Dr. Rowena Guevara, at about 10:00 A.M.

1. Adoption of the Proposed Agenda

The Proposed Agenda for the 55th RCC Meeting was presented and approved, as amended. Due to prior commitments of Dispute Resolution Administrator (DRA) Atty. Jesusito Morillos, the RCC agreed to discuss the proposed amendments to the WESM Rules on Dispute Resolution Provisions ahead of Item 2 (Business Arising from the Previous Meeting).

2. Business Arising from the Previous Meeting

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

Following the agreement made by the RCC during its 53rd RCC meeting, Mr. Isidro Cacho presented the results of the simulation on the different options of price substitution methodology that will be applied when there are occurrences of localized pricing error at the load-end substation.

Highlights of the presentation are as follows:

☐ The simulation conducted by PEMC-TOD likewise considers, apart from the options provided by the Merchant Generators (as presented and discussed during the previous meetings), the following price substitution options:

- Replace the prices of the identified nodes with pricing errors with either: (a) the system ex-ante Load Weighted Average Price (LWAP), excluding the affected load; or (b) regional ex-ante LWAP, excluding the affected load, where only the nodes within the affected region are considered (i.e. Luzon, Visayas)
- Replace the prices of the affected node with the ex-ante LWAP of the 10 nearest nodes. In selecting the 10 nearest nodes, the PEMC-TOD came up with the following criteria:
 - ✓ Only the market trading nodes in the same grid as the affected node should be selected.
 - ✓ Market trading nodes with prices greater than PhP100,000/MWh should not be included as these may either be affected by CVCs. (It was noted that prices can be cleared as high as the ceiling price of PhP62,000. Prices beyond PhP100,000/MWh may be affected by CVC or network congestion, which is already subject to PSM).
 - ✓ From the remaining nodes, the 10 nodes with the nearest absolute difference with respect to the affected node shall be selected using the following formula:
$$\text{Diff}_{1,A} = \text{ABS} (\text{Diff}_1 - \text{Diff}_A)$$

It was noted that this assumption is based on transmission loss factor (TLF), which is embedded in the nodal price of each node.

☐ Simulation Assumptions:

- The simulation involves only one trading interval, in which the collection and payment trading amounts, and surplus/deficit are computed.
- BCQ is assumed to be zero.
- The results of the different options shall be compared to the settlement results of the current pricing scheme in the WESM (regional application).

- The ex-ante and ex-post results of this trading interval was cleared at the prices of PhP19, 000 /MWh and PhP11, 000/MWh, respectively.

It was clarified that the clearing price refers to the Market Clearing Price (MCP) for the ex-ante and ex-post of the generators and not the reference bus.

- The example trading interval has an N-1 CVC at ex-ante in the Araneta and Zapote substation.
- For the price substitution option where the ex-ante prices of the affected nodes will be determined by removing the CVC component of the Locational Marginal Price (LMP), there is a need for manual retrieval of data to perform appropriate price calculations.

☐ Simulation Results

- A table comparing the ex-ante nodal prices as a result of the application of the proposed different price substitution options was shown. The resulting ex-ante nodal prices were likewise compared with the ex-ante nodal price using the current pricing scheme where all the ex-ante nodal prices of the Luzon grid were replaced with the ex-post prices.
- Except for the proposed option (Option 1a) where the valid ex-post prices shall serve as ex-ante prices for the identified nodes with pricing errors, all the proposed price substitution methodology options yielded ex-ante prices that are closer to the clearing ex-ante price of PhP19, 000 /MWh.
- Simulations results likewise show that applying Option 1a will cause a lower collection than the payment, thus resulting into a deficit in the WESM settlements.

☐ Based on the results of the simulation, the following observations were noted:

- Relaxation of constraints should only be applied for load-end market trading nodes as relaxation of constraints at generator-end will produce infeasible results
- Relaxation of constraints at load-end shall produce the same generator and load schedules, with the exception of cases where there is load shedding.
- Option 1a can result to deficits if the ex-post price is used for the affected trading nodes only, especially in cases where the ex-post price is lower than the ex-ante price
- Using the regional LWAP and Nearest Nodes options are deemed more feasible, especially in cases where there is price separation between Luzon and Visayas (during binding HVDC).
- Removing the CVC component of the LMP option is currently not feasible due to the associated manual calculation. Major MMS software enhancement is necessary to automate the process and is thus not implementable.

- ☐ The PEMC-TOD recommended the use of either the Regional LWAP or the Nearest Nodes. It was clarified, however, that implementing either option will entail software development (outside of MMS) to automate the determination and publication near real-time.

The following were the highlights of the discussion that ensued in the course of the presentation:

- Noting the critical role of NGCP-SO in the system security as well as their absence in the meeting, Mr. Augusto Sarmiento suggested further discussing the matter in their

presence. He recalled that the point of contention is the interchange transformers which, according to Mr. Ambrocio Rosales of NGCP-SO, could be delivering or receiving power depending on the load flow. He likewise wanted to be clarified on whether the said interchange transformer will be considered as load end for this particular case, to which Ms. Cherry Javier replied that it is modeled as load end in the Market Dispatch Optimization Model (MDOM).

Mr. Robinson Descanzo explained that what the NGCP-SO wants to convey is that the MERALCO has a subsystem behind that transformer which is connected to the adjacent substation. If what is modeled is purely load end without reflecting the connection to the other transformers, then it would appear that the load is static. As modeled in the market, the load end transformer is being flagged as N-1 which, in reality, should not be the case considering that it is actually an interchange transformer. However, given the limitation of the existing model, the Merchant Generators are proposing to categorize the affected transformer as localized in order to limit or confine to the affected transformer the manner of correcting the prices.

Ms. Javier likewise clarified that the proposed options, as discussed, no longer affect the operations of the System Operator (SO). Given that the SO could not allow the removal of N-1 contingency on the load end transformers, what is now being deliberated by the RCC is how to address the impacts on the settlement brought about by such imposition.

- Mr. Sarmiento expressed his reservations on the use of absolute value in determining the nearest nodes. He pointed out that the subject at hand is an interchange transformer where power can flow both ways, to which the RCC Chair Dr. Rowena Guevara clarified that obtaining the absolute difference is for the purposes of determining the nearest nodes and thus has no bearing on the cost. She emphasized that what is being measured is distance and there is no negative distance.

Mr. Sarmiento further commented that the loss factor refers to the losses associated with the power when it is being delivered to and from a particular location of the system.

Mr. Descanzo explained that what is being considered in the settlement, for this particular case, is the price of the affected location which is determined by using the weighted average price of the 10 nodes. Mr. Cacho seconded that the TLF is used to determine the nearest nodes and not the price.

- On Atty. Maila de Castro's inquiry on the length of time before either of the recommendations can be implemented, Mr. Cacho explained that the IT Department of PEMC will have to be consulted in this regard, although he assumed that the programming itself will take about two weeks to one month, outside of the Information and Communication Technology (ICT) Change Management Process being implemented by PEMC.
- On Atty. Debora Layugan's inquiry, Mr. Descanzo replied that there is a need to validate/confirm with PEMC-Legal on whether the proposed price substitution mechanism will be filed to the ERC for approval.
- Mr. Descanzo suggested extending the proposed methodology for the selection of 10 nearest nodes to include a filtering process in cases where there is an extreme nodal price separation. In which case, only the nearest nodes that do not manifest congestion are selected.

On Atty. De Castro's request for clarification on whether the removal of nodes with congestion will no longer necessitate the selection of other nearest nodes, as replacement, Mr. Cacho replied that it could be possible. He likewise suggested adopting Ms. Javier's recommendation to come up with a fixed 10 nearest nodes. Mr. Descanzo expressed reservations however on the use of fixed 10 nearest nodes, given the dynamic nature of the system where it is a possibility that the number of nodes will increase in the future.

- Atty. Layugan wanted to be clarified on whether there will be simultaneous application of the Price Substitution Methodology due to Congestion (PSM) and the proposed pricing mechanism for localized non-congestion pricing error in case there is simultaneous occurrence of congestion and non-congestion pricing errors. Mr. Cacho clarified that in this instance, the PSM will apply.

For clarity purposes, Mr. Descanzo provided further details on the manner by which the current methodology is implemented. As it is now, the node with load end contingency violation is initially excluded from the price trigger computation. If the market runs for the remaining nodes result in a value that is equal to or greater than the price trigger factor of 1.2, then the PSM will apply; otherwise, the proposed pricing mechanism for localized non-congestion pricing error will apply for that particular node with contingency violation. He therefore stressed the need to define or include as well the hierarchy of correcting the prices in the proposed revisions, to which Mr. Cacho replied that the WESM Manual on the Methodology for Determining Pricing Error and Price Substitution Due to Congestion for Energy Transaction in the WESM (PSM Manual) already provides for such, adding that the difference between the localized constraint and network constraint are already defined.

Accordingly, the RCC agreed that there is no longer a need to define the hierarchy of correcting the prices, as suggested by Mr. Descanzo, considering that it is already included/defined in the PSM Manual

- As one of the representatives of Distribution Utilities, Mr. Sarmiento remarked that between the two options recommended by the PEMC-TOD, he will opt for the nearest nodes option. He added that using the Regional LWAP option will affect the prices of those nodes located outside of Metro Manila.

Based on the results of the simulation and after due deliberation, the RCC agreed to adopt the methodology using the weighted average Locational Marginal Price (LMP) of nearest customer nodes as the substitute price. The RCC further agreed using the 5 nearest nodes, instead of 10 as initially recommended by PEMC-TOD, basis of which is the number of MERALCO nodes within the Metro Manila area. The 5 nearest customer nodes are defined as the nodes with the nearest absolute difference with respect to the affected node and are selected using the formula as follows:

$$\text{Diff}_{1,A} = \text{ABS} (\text{TLF}_1 - \text{TLF}_A)$$

Accordingly, the RCC approved the proposal to define localized non-congestion pricing error and its corresponding price substitution methodology, for endorsement to the PEM Board.

3. New Business

Issues/ Topics Discussed	Remarks	Agreement/ Action Item
<p>A. Proposed Amendments to the WESM Rules on Dispute Resolution Provisions <i>(Resubmission of the PEM Board-approved Urgent Amendments)</i></p>	<p>For the appreciation of the body, Dispute Resolution Administrator Atty. Jesusito Morillos provided a brief background on the dispute resolution framework (presentation attached as Annex "A").</p> <p>After which, the RCC proceeded on to discuss the proposed WESM Rules change on dispute resolution provisions. Upon the recommendation of Dr. Guevara, the RCC agreed that the deliberation be concentrated on items that have been changed from the PEM Board-approved proposed urgent amendments.</p> <p>Highlights of the discussion are as follows:</p> <ul style="list-style-type: none"> On the proposed deletion of Section 3.3.3.7 <p>Atty. Morillos explained that Section 3.3.3.7 was proposed to be deleted as it conflicts with the dispute procedure provided for in the Open Access Transmission System (OATS) Rules which specifies that the dispute arising from an ancillary contract is in the province of Ancillary Services Procurement Agreement (ASPA).</p> <p>Atty. Phillip Adviento clarified that it was the NGCP who proposed the deletion of that clause, citing that the dispute resolution procedures will be provided in the agreement between the NGCP and the provider. (Said comments of the NGCP were transmitted to the RCC through electronic mail dated 09 September 2011).</p> <p>Atty. Morillos likewise clarified that the deletion of the clause would not preclude the parties from submitting to the dispute resolution process of the WESM.</p> <p>Atty. Debora Layugan reminded the body that the ASPA is just an agreement and is subject to change anytime by the parties. She raised the possibility of the parties deciding later on to delete the dispute resolution provision from the agreement and thus the deletion of WESM clause 3.3.3.7 will leave no alternative course of action for the parties in cases of disputes. In this light, she suggested qualifying said WESM clause to clarify that if the ASPA already provides for the dispute resolution procedures, then it</p>	<ul style="list-style-type: none"> The RCC approved the publication of the proposed WESM Rules Change in the WESM website for comments from the market participants and other interested parties.

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shall prevail, otherwise WESM clause 3.3.3.7 shall apply.

- On the deletion of Section 7.3.1.1 (c)

Atty. Morillos explained that there are two reasons for the deletion of the PEM Board and its Working Groups as possible parties to dispute: first, the PEM Board has no juridical personality; second, it is not named in the ERC-PEMC Protocol, while all the rest of the parties listed in Section 7.3.1.1 are.

Atty. Layugan expressed that she has an issue on the statement that the PEM Board was not part of the protocol, stressing that from the understanding of the ERC, then PEMC President was given authority by the PEM Board to sign the protocol as the act of the President should carry with it the assent of the Board. She added that the PEM Board could not be separated from the corporation itself because the corporation acts through its Board.

Going back to the dispute resolution framework as earlier presented, Atty. Morillos emphasized that in the "*inter partes* disputes" aspect, there is no place for the PEM Board, to which Atty. Layugan responded that the EPIRA does not make a distinction.

On Atty. Morillos' justification that specifying the PEM Board as one of the parties to dispute would be redundant considering that the Market Operator is already named as one, Atty. Layugan rationalized that the PEMC consists of the Market Operator and the Governance Committees.

Atty. Liberty Dumlao for her part shared that there is a pending case against the PEM Board which is possible that the PEM Board can be sued, or in this case, can be one of the parties.

Atty. Caryl Lopez, on the other hand, explained that there are only certain and specific grounds, which usually involve patently illegal acts, when the directors themselves could be personally liable. This is basically why corporations were formed because nobody would want to be directly liable, adding that the concept of a Board of Directors is that it is a collegiate body and that it is the corporation itself who assumes liability.

In response, Atty. Layugan enlightened that the intention of WESM clause 7.3.1.1 (c) is to make the PEM Board and the Working Groups liable collectively. On the issue of whether the PEM Board has no juridical personality, she reminded the body that the Market Operator does not have juridical personality on its own, as well as the System Operator. She believed that the intention was to make the particular entity, not necessarily a juridical person, but the entity acting as the MO and SO liable for some acts. Thus, she proposed for the retention of the said WESM clause.

- On the proposed deletion of 7.3.1.1 (f) Items 1-6, which enumerates other grounds for dispute

Atty. Morillos explained that it would only be appropriate to delete the enumeration if the underlying principle that will be followed for the dispute resolution is limited to arbitration agreement based civil commercial business. Atty. Layugan posed her objection on the proposed removal, citing that it is better to enumerate and include all in the rules. She likewise added that the law does not make a distinction on whether it is regulatory or *inter partes*.

In response to Atty. Layugan's statement, Atty. Adviento justified that it is the intention of the elimination of other grounds to limit the disputes filed before the WESM to WESM-related transactions only. Similarly, he stressed that other grounds spelled out are not related to WESM transactions. Thus, the party could only avail of the WESM dispute resolution procedure if the grounds are directly connected with WESM transactions. Atty. Layugan responded that that is precisely why the enumeration was included notwithstanding the fact that it is not WESM-related, in recognition of the facility in resolving disputes.

Mr. Castro inquired on whether the enumeration has been put to a test, and if that is the case, whether the experience is enough to decide or recommend for the removal. Atty. Morillos replied that the proposed removal was made on the basis of logic and not from experience. On the contrary, Atty. Adviento clarified that it is based on experience, citing that some disputes were lodged not because of an alleged violation but more of interpretation.

Noting the conflicting positions expressed, Dr. Guevara suggested putting the proposed removal of the abovementioned WESM clause to a vote. On the other hand, Ms. Javier requested that the voting be made in the next meeting to give the RCC time to further contemplate on it, to which Mr. Descanzo seconded.

In light of the pending case before the Supreme Court among PSALM, ERC and PEMC regarding the issue of jurisdiction, Atty. Dumlao conveyed that she will inhibit from voting.

- Upon the suggestion of Ms. Cynthia Encarnacion and Atty. Layugan, the RCC decided to extend the required minimum number of years in electric power industry experience that the DRA must hold. Thus, in order to qualify, the DRA should have at least five years' (instead of two as originally proposed) experience in the electric power industry.
- On the establishment of Dispute Management Protocol (DMP) as laid out in proposed Section 7.3.3

Atty. Adviento explained that the protocol will provide the guidelines for the negotiation before the parties will go to mediation and before they file a notice of dispute. The purpose of which is to provide the parties a venue to thresh out their issues among themselves. He apprised the body that the PEMC already had conducted a briefing on the DMP with the market participants, who in turn submitted their respective procedures for the DMP as well as their DMP focal persons. In response to Atty. Maila de Castro's inquiry, he clarified that the DMP is not approved by the PEM Board. He likewise clarified that it is the discretion of the WESM member whether to nominate the same DMP focal person as the WESM Compliance Officer.

- On the proposed revisions to Section 7.3.9

Mr. Crisologo expressed his disagreement with the proposed addition of the following provision:

"The payment by the Market Operator of the reasonable costs of proceedings shall be made only upon determination by the mediator or arbitration panel that the Market Operator's liability arose out of conduct involving malice, manifest partiality, bad faith, gross incompetence

or gross negligence.”

He wanted to know the reasons why the payment by the MO should be made contingent on the establishment malice, partiality, bad faith, gross incompetence or gross negligence.

Atty. Morillos explained that the MO is operating on a budget unlike the other parties. Further, the MO is an indispensable nominal party but not because it is liable for some acts. He stressed that the MO is neither the initiator nor the violator.

Mr. Crisologo argued however that the MO being a nominal party is not good enough justification to allow them special consideration. Such provision implies something negative of the other participants, that their liability arose because of their actions which were done with malice, bad faith, etc.

Atty. Adviento clarified that the intent of such provision is to preserve the integrity of the market. He added that the budget of the MO is approved by the ERC and that the market fees do not indicate cost of dispute resolution proceedings, to which Mr. Crisologo replied that if that is the case, then everybody can stop complaining against each other as the Distribution Utilities (DUs) could claim as well that they do not have an allocated budget for such proceedings.

To get a clearer picture of the implementation process, Atty. Layugan cited gross errors (but made without malice, bad faith, etc.) in settlement computation by the MO as an example. In this instance, she inquired on who will pay for the expenses incurred for the arbitration, to which Atty. Adviento replied that the MO will not pay for the cost of the proceedings. On Atty. Layugan's question on who will therefore bear the cost, Atty. Adviento clarified that the allocation of the cost of proceedings will then be determined by the mediator or arbitrators.

In view of the foregoing, Dr. Guevara recommended the deletion of the subject provision, to which the RCC agreed.

- On the proposed deletion of Section 7.3.10.4, which reads as follows:

"If a party to a dispute is not satisfied with the resolution of the dispute resolution panel, the party may file a formal complaint to the ERC."

Atty. Morillos clarified that the deletion does not mean taking out, but rather making silent the jurisdiction of the ERC.

Atty. Layugan expressed her disagreement with the proposed deletion. She cited that it is better to retain the above provision in order to retain the original intention of the framework of the market. She asserted that making the jurisdiction of the ERC silent is taking away the right of the parties to file a formal complaint with the ERC.

Atty. Morillos maintained that the existing language will clash fundamentally with the principle of the arbitration that the arbitral award is final and binding. While he believed that the ERC has the primary jurisdiction, the current law says however that it is the Regional Trial Court (RTC). That conflict of jurisdiction or concurrence of jurisdiction, therefore, has to be resolved.

On the other hand, Atty. Layugan remarked that such was the language of the provision because it was never the intention then for the DRG to have an arbitration of the dispute. The original contemplation then was to limit to mediation proceedings. Because of the inclusion of arbitration process in the WESM dispute resolution processes, there appears to have conflict. She added that the ERC is not an appellate body and thus filing a formal complaint is treated as original case filed before the ERC. She reiterated her request not to take out the authority of the ERC over all disputes, although she shared that the ERC recognizes the fact that the WESM processes will be able to resolve disputes swiftly as against the ERC processes due to limited resources.

Citing that the DUs are highly regulated by the ERC, Mr. Sarmiento inquired whether the DUs, in case of disputes, could go directly to the ERC. He expounded that even if the award is final and binding, but if it will impact on rates, the DUs would have to go to the ERC eventually.

In response, Atty. Morillos enlightened that the ERC-PEMC protocol provides that all cases filed before the ERC will have to be remanded to the

DRA. He cited Section 3.2 of the ERC-PEMC protocol, as follows:

"Disputes falling within the provisions of Section 3.1 shall be subject to the Dispute Resolution Process of PEMC. The ERC shall not entertain any such Disputes until the matter has been resolved under the Dispute Resolution Process of the PEMC, pursuant to the WESM Rules and/or the WESM Market Manuals. Any action filed before the ERC contrary to this provision shall be dismissed outright for failure to comply with the dispute resolution provisions of the WESM Rules...."

In that regard, Atty. Layugan opined that the ERC-PEMC protocol will have to be amended in consideration of DUs who would want to submit directly to the ERC.

After due deliberation, the RCC agreed to retain said provision in the WESM Rules.

- There were no particular objections or significant issues raised on the other proposed revisions.

After due deliberation and in consideration of the comments/recommendations raised, the RCC agreed to revise certain aspects of the proposed changes to WESM Rules Change proposal to incorporate the following:

- Retain Section 3.3.3.7 on dispute in relation to the determination of payment under the Ancillary Services Procurement Agreement (ASPA), but subject to the addition of the following colatilla:

"....unless otherwise provided in the Ancillary Services Procurement Agreement (ASPA)."

- Retain the PEM Board and its Working Groups as possible parties to dispute.
- Revise Section 7.3.2.2 (b) on the qualification of the DRA. The RCC viewed that the DRA should have a minimum five years' experience in the electric power industry.
- Delete the proposed new provision which provides that the payment by the Market Operator of the reasonable costs of proceedings is made contingent upon the establishment of malice, manifest partiality, bad faith, gross

	<p>incompetence or gross negligence.</p> <ul style="list-style-type: none"> Retain Section 7.3.10.4 which provides the right of a party to file a complaint with the ERC if a party to a dispute is not satisfied with the resolution of the dispute resolution panel. <p>The RCC likewise agreed to subject to further study the DRA's proposal to eliminate Section 7.3.1.1 (f), Items 1-6, which enumerates other grounds for dispute and thus agreed to defer rendering a decision on the same.</p> <p>Accordingly, the RCC approved the publication of the proposed WESM Rules Change in the WESM website for comments from the market participants and other interested parties.</p>	
B. PEMC Comments on the Issues of NGCP-SO Visayas	<p>Noting the absence of NGCP-SO representatives, the RCC agreed to defer the discussion on PEMC's comments on the issues of NGCP-SO Visayas as raised during the 06 July 2011 meeting of the RCC.</p>	<ul style="list-style-type: none"> Deferred.
C. Market Surveillance Committee (MSC) Response to RCC Memo on ERC-PEMC Protocol	<p>Dr. Guevara read the MSC's response dated 17 October 2011 to RCC's request for comments on the Exhaustive List of Suggested Revisions to the WESM Rules and the Market Surveillance, Compliance and Enforcement Market (MSCEM) Manual relating to the ERC-PEMC protocol. In its letter, the MSC is recommending for the RCC to initiate a Consultative Workshop which will gather in one venue all PEMC units and governance committees which may be involved with the ERC-PEMC Protocol implementation.</p> <p>Accordingly, the RCC accepted the recommendation of the MSC for the RCC to conduct a Consultative Workshop with PEMC Units and other WESM Governance Committees to ensure that a common understanding is reached on the provisions of the ERC-PEMC Protocol.</p> <p>Prior to the conduct of the aforementioned workshop, the RCC agreed to first seek PEMC-Legal's assistance in updating the Exhaustive List of Suggested Revisions of the WESM Rules and MSCEM Manual, being the original author of the same to incorporate recent developments, if applicable. The updated list will then be sent out to the respective PEMC groups for review and comments.</p>	<ul style="list-style-type: none"> The RCC agreed to first seek PEMC-Legal's assistance in updating the Exhaustive List of Suggested Revisions of the WESM Rules and MSCEM Manual, being the original author of the same to incorporate recent developments, if applicable.

	<p>The RCC likewise agreed to divide the list into areas of concern (e.g. DUs', Supplier's, etc.) and distribute among RCC members, for review, prior to the workshop proper.</p>	
<p>D. PEM Audit Committee (PAC) Memo to RCC re 1590 Energy Corporation Concerns</p>	<p>In response to RCC's request to the PAC to include in the 2nd Independent Operational Audit the concerns of 1590EC, the PAC wrote the RCC on 19 October 2011 informing the latter that the 1590EC concerns were referred by the PAC to the PA Consulting Group Ltd., the External Auditor for the said audit, results of which are provided in the Final Audit Report and Software Certificates that are currently being posted in the WESM website.</p> <p>While Ms. Javier and Mr. Jess Garcia of 1590EC relayed that the findings of the External Auditors' Report might not have fully addressed the concerns of the 1590EC, the RCC agreed to close the subject matter, considering that some of the concerns are already being addressed by the proposed changes to the MRU Manual and Dispatch Protocol Manual currently being deliberated by the RCC, as well as the proposed changes on RTD PEN Issuances that the RCC already approved.</p>	
<p>E. Proposed Changes to the WESM Rules on Various Audit Provisions</p>	<p>It may be recalled that during the 45th RCC Meeting held on 09 March 2011, the RCC agreed to defer the discussion on and approval of the PAC's Proposed WESM Rules Change on Audit provisions, subject to the result of the coordination meeting between NGCP and PAC on the implementation of audit on SO and Metering Service Provider (MSP). Likewise, during the said meeting, it was agreed that revisions be made where the word "audit" will no longer be mentioned to the effect that the essence would be validation of information emanating from SO and MSP.</p> <p>PAC's memo to the RCC dated 19 October 2011, however, enlightened that the efforts of the PAC and NGCP to conduct a meeting pursuant to the request of the RCC did not push through due to conflicting schedules and thus as a way forward, the PAC resolved to submit revisions to the rules change proposal in order to address the agreements and issues raised during the 45th RCC meeting.</p> <p>The RCC then proceeded to discuss the rules change proposal as updated by the PAC. Highlights of the discussion are as follows:</p>	<ul style="list-style-type: none"> • The RCC approved the PAC's WESM Rules Change proposal on audit provisions, as amended. • For endorsement to the PEM Board, for approval.

- Mr. Crisologo expressed his reservations on the PAC's proposal that the review of the SO is contingent on the direction of the ERC or DOE. He asserted that any information related to the market operation should be audited and as such, the SO should be audited as well being one of the major components of the market. Thus, he suggested that the PAC's original proposal be retained but with clarification that the scope of the audit will cover all relevant information to and interfaces with the market.

Atty. Layugan was quick to note that in the revisions submitted by the PAC, the audit of the SO has not been taken out, although the provisions are not clear as to who will oversee such undertaking.

Referring to the Minutes of the 45th RCC Meeting, Mr. Castro cited that during the said meeting there was a resistance offered by the lawyers of the NGCP who maintained that the SO audit could only happen upon the direction of the ERC. Dr. Guevara surmised that this is perhaps the reason why the PAC made revisions to their original proposal.

- Asserting that her comments may not reflect the position of the Commission, Atty. Layugan remarked that while NGCP is under the regulation of ERC as network service provider, NGCP's actions related to the market are not monitored by the ERC on a regular basis. However, she relayed that the Market Operations Service of the ERC views that the SO should still be subject to audit or review.

At this juncton, PAC Members Prof. Felixberto Bustos, Mr. Christian Orias and Mr. Eduardo Santos joined the meeting to provide clarifications and inputs on their proposal.

- On Atty. Layugan's request for clarification as to the difference in the course of actions taken by PAC when the word "review" is used instead of "audit", Prof. Bustos clarified that there really is no difference. The change of term was meant as a concession to the SO. Further, he explained that in order to get around the NGCP's legal argument that the PAC is not the appropriate entity to conduct the SO audit, the PAC revised their original proposal to clarify that it shall only conduct reviews of the SO only if directed by the

	<p>DOE or ERC.</p> <ul style="list-style-type: none"> On Dr. Guevara inquiry on whether it is within the purview of the ERC to compel the audit of SO, Atty. Layugan responded that it is although she cannot commit on a perpetual basis. On the PAC's proposed revisions, she commented that "if directed" connotes that the review may not happen and thus suggested using "when directed" instead. <p>Atty. Maila de Castro likewise suggested adding a provision that will clarify who will trigger the ERC or DOE direction.</p> <p>After due deliberation, the RCC reached consensus to approve the PAC's proposed WESM Rules Change on Various Audit provisions, incorporating the revisions of the RCC, as follows:</p> <ul style="list-style-type: none"> Consistent with the current practice, change the "PEM Auditor" to "PEM Audit Committee" being the working group tasked to oversee the conduct of audits (<i>as suggested by Atty. Adviento</i>). Revise the proposed Section 1.4.6 to clarify that the PAC shall conduct reviews of the System Operator only upon the PAC's request and upon the direction of the ERC or DOE. 	
F. Review of 2011 RCC Work Plan	<p>The RCC went over each item in the 2011 Work Plan (excluding items that have already been resolved and approved in the previous months) and update the status of each. Upon review, the 2011 Work Plan was updated, as follows:</p> <ul style="list-style-type: none"> Done <ul style="list-style-type: none"> ✓ Proposed Changes to the WESM Rules on Various Audit Provisions ✓ Proposed Amendments to Various WESM Manuals re Pricing Error Notices (PEN) Issuances during Ex-Ante Runs 6 items currently being deliberated <ul style="list-style-type: none"> ✓ Proposed Changes to the MRU Manual ✓ Ramp rate, consideration of shorter trading period ✓ Proposed WESM Rules Change on Dispute Resolution Provisions ✓ Proposed Changes to the WESM Rules and 	<ul style="list-style-type: none"> The 2011 RCC Work Plan was updated, to reflect the latest/current status of each item.

	<p>MSCEM Manual arising from the ERC-PEMC Protocol</p> <ul style="list-style-type: none"> ✓ Proposed Changes to the WESM Rules on Trading Amount and Line Rental Computation (as proposed by VECO) ✓ Proposed Inclusion of MOT in the Dispatch Protocol <p>The RCC noted that PEMC's comments on NGCP-SO Visayas' proposed shorter trading period likewise address VECO's proposed 15-minute pricing interval. Nevertheless, the RCC still needs to await PEMC's response/comments on VECO's proposed single market nodal pricing mechanism and changes to the line rental computation.</p> <ul style="list-style-type: none"> • Awaiting the submission of proposals on: <ul style="list-style-type: none"> ✓ Proposed WESM Rules Change on Prudential Requirement ✓ Reserve Market Protocols ✓ WESM Rules Change on Retail Electricity Supplier (RES) <p>Ms. Rheinart Banogon relayed the MERALCO's intention, as per telephone conversation with Mr. Ciprinilo Meneses, to withdraw its intention to submit a rules change proposal on prudential requirement. Ms. Javier expressed her disagreement, however, citing that MERALCO is one of the entities involved with the issues on prudential requirement. Accordingly, the RCC agreed to retain the said item/topic in the Work Plan and to maintain MERALCO as the proponent.</p> <p>On the same item, Dr. Guevara requested Mr. Jose Santos, being one of the Electric Cooperatives (ECs) representatives to the RCC, to facilitate the submission of PHILRECA's (in coordination with NEA) rules change proposal on prudential requirement to the RCC by 25 November 2011, to which Mr. Santos agreed.</p> <p>The RCC likewise acknowledged the fact that the submissions of the 2nd and 3rd items are dependent on ERC rulings.</p> <ul style="list-style-type: none"> • Mr. Sarmiento conveyed that DECORP will be withdrawing its intent to submit a proposed rules change on the day-ahead declaration of Bilateral Contract Quantities (BCQs). Dr. Guevara requested that a formal letter be written to the 	
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	<p>RCC in this regard, to which Mr. Sarmiento acquiesced.</p> <ul style="list-style-type: none">• Considering the extent of the study required, the RCC agreed to move to 2012 the discussion on:<ul style="list-style-type: none">✓ Minimum Bid Block✓ Study on the possible implementation of price cap, alternative pre-emptive mitigating measure, absence of market power mitigation mechanism✓ Value of Load Loss (VoLL) Pricing✓ Net Settlement Surplus (NSS)	
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4. Next Meeting

The RCC agreed to schedule its future meetings, as follows:


- 56th RCC Meeting - 05 December 2011, 9AM (to coincide with the Annual WESM Governance Christmas Party)
- 57th RCC Meeting - 11 January 2012

The RCC likewise agreed to hold its 2012 Planning Session on 18 January 2012.

5. Adjournment

There being no other matter to be discussed, the meeting was adjourned at 3:05 P.M.

Prepared by:



Rheinart O. Banogon

Reviewed by:



Geraldine A. Rodriguez


Noted by:


Elaine D. Gonzales


Approved by:
RULES CHANGE COMMITTEE

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


Members:

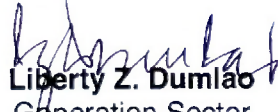

Epictetus E. Patalinghug
Independent
University of the Philippines
(UP)


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

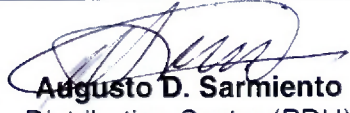

Maila Lourdes G. de Castro
Independent
Unitel Productions, Inc.



Cherry Aquino-Javier
Generation Sector
AES Philippines
(AES)



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

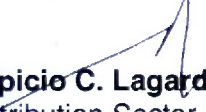

Liberty Z. Dumlaog
Generation Sector
Power Sector Assets and Liabilities Management
Corporation (PSALM)



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


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

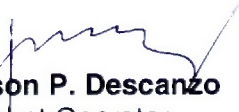

Ciprinilo C. Meneses
Distribution Sector (PDU)
Manila Electric Company
(MERALCO)


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)

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