

MINUTES OF THE 56TH MEETING OF THE RULES CHANGE COMMITTEE

Date : 05 December 2011
Time : 9:00 A.M.
Venue : PEMC Training Rooms 2&3
9th 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
Ciprinilo C. Meneses	-	Distribution Sector – MERALCO
Jose P. Santos	-	Distribution Sector – INEC
Sulpicio C. Lagarde Jr.	-	Distribution Sector – CENECO
Conrado D. Pecjo	-	Supply Sector – Angeles Power, Inc.

MEMBERS NOT PRESENT:

Robinson P. Descanzo	-	Market Operator – PEMC
Raul Joseph G. Seludo	-	System Operator – NGCP

OBSERVERS PRESENT:

Ferdinand B. Binondo	-	DOE (<i>Alternate</i>)
Luningning G. Baltazar	-	DOE

OTHERS PRESENT:

Jesusito G. Morillos	-	Dispute Resolution Administrator
Caryl Miriam Y. Lopez	-	PEMC – Legal
Edwin N. Mosa	-	PEMC – TOD
Edward I. Olmedo	-	PEMC – TOD
Jon Padilla	-	TPEC
Najah Estrella	-	PJS Law, for APRI/TLI
Joan Baron	-	1590 Energy Corporation

SECRETARIAT

Chrysanthus S. Heruela	-	PEMC – MAG
Geraldine A. Rodriguez	-	PEMC – MAG
Ma. Delia B. Arenos	-	PEMC – MAG
Rheinhardt O. Banogon	-	PEMC – MAG

After determining the presence of a quorum, the 56th RCC meeting was called to order by Chairperson Dr. Rowena Guevara, at about 9:20 A.M.

1. Adoption of the Proposed Agenda

The Proposed Agenda for the 56th RCC Meeting was presented and approved.

2. Review, Correction and Approval of the Minutes of the 55th RCC Meeting

The Minutes of the 55th RCC Meeting was approved, as presented.

3. Business Arising from the Previous Meeting

a. MERALCO's Proposed WESM Rules Change on Prudential Requirements

With reference to the Minutes of the 55th RCC Meeting where the RCC agreed to retain in the 2011 RCC Work Plan the matter on prudential requirement with MERALCO as the identified proponent notwithstanding MERALCO's intention to withdraw the same, Mr. Ciprinilo Meneses relayed that the matter is apparently no longer an issue for the MERALCO's Finance Department, thus the need to withdraw. Dr. Guevara requested that a formal letter be submitted in this regard.

b. RCC-Approved Proposed Changes to the WESM Rules on Various Audit Provisions

Mr. Ralph Crisologo wanted to put on record that he signed the RCC Resolution approving the Proposed WESM Rules Change on Audit Provisions with reservations particularly on the proposal to change the word "audit" to "review" and to conduct reviews on System Operations only when directed by the ERC or DOE, to which the RCC accordingly noted. While he posed no objection to the proposed WESM Rules Change, he expounded that the rules should have been crafted in such a way that is fair for both MO and SO, without giving any special consideration or exemption to the SO. To recall, the RCC approved the proposal to change the word "audit" to "review" in concession to the NGCP and its Chinese partner.

c. RCC-Approved Proposed Amendments to the WESM Manual on Criteria and Guidelines for the Issuance of Pricing Error Notices and Conduct of Market Re-Run (PEN-MRR Manual)

While it may be recalled that the RCC already approved the proposal to define the Localized Non-Congestion Pricing Error due to N-1 contingency violation and its corresponding price substitution methodology in the previous meeting, the same was included in the agenda to resolve issues on the need to include and define such category in the WESM Rules, as suggested by Mr. Ferdinand Binondo through his email dated 23 November 2011.

To clarify, Mr. Binondo remarked that he observed procedural gaps in the RCC's approval of the proposed amendments, citing RCC's failure to take into account the matter on consistency of the proposed amendments to PEN-MRR Manual to the provisions of the WESM Rules Section 3.10.5.

Dr. Guevara informed the body that the MAG also raised similar concerns as Mr. Binondo's, in relation to which, Atty. Liberty Dumlao inquired what level of authority MAG has, as the RCC Secretariat, and whether its role is ministerial or not.

Ms. Cherry Javier also wanted to be clarified on the process, considering that it was already approved by the RCC, to which Mr. Crisologo seconded adding that the issues of MAG and Mr. Binondo should have been brought out during the discussion rather than raising them after the RCC has expressed its agreement with and approval of the proposed amendments. Thus, he requested that a reassessment be made on the RCC procedures in order for the RCC to be guided in the future when faced with similar situations.

Mr. Chrysanthus Heruela reminded the body that in one of the RCC meetings, Mr. Robinson Descanzo already raised that the proposed amendments entail changes to the WESM Rules, thus the need for the RCC to review the relevant provisions of the WESM Rules.

Dr. Guevara put forward two options that the RCC may wish to proceed with: first, for the RCC to work on the suggestion that a WESM Rules change needs also to be proposed; and second, for the RCC to maintain its previous position and submit to the PEM Board the proposed amendments without the corresponding WESM Rules Change.

Mr. Crisologo believed that as a standard procedure, any decision reached by the RCC should have been final. Mr. Augusto Sarmiento suggested otherwise, saying that if the RCC overlooked an important step in the rules change process, then the RCC will just have to do the process over again, to which Ms. Cynthia Encarnacion agreed.

For her part, Atty. Maila de Castro inquired whether there is some sort of Manual that the MAG can provide the RCC so that the latter will be apprised of all these technicalities and thus be able to prevent future RCC-approved proposals being put on the table again. She suggested that the RCC, as a compromise, could push through with its submission to the PEM Board of the approved proposed amendments and at the same time work on the corresponding rules change proposal. Ms. Javier argued however that changing the WESM Rules to include the Localized Non-Congestion Pricing Error due to N-1 contingency violation will entail specifying all types of PEN, which is already provided for in a separate Manual. And that being the case, then there is also a need to amend the WESM Rules to define Pricing Error due to congestion.

On the matter regarding whether or not a rules change is necessary, Atty. Najah Estrella, the Legal representative of Aboitiz Power Renewable Inc./Thermal Luzon Inc. and now speaking on behalf of the Merchant Generators, stated that as previously discussed, when the Price Substitution Methodology (PSM) due to congestion was filed, it was indeed accompanied by a proposal for rules change. However, no rules change was effected and the PSM was merely effected by the methodology as embodied in the PSM Manual. She noted that the PEN-MRR Manual states that in general, it is the WESM Rules that prevails; but for congestion pricing errors, it is the PSM Manual. She is of the opinion, therefore, that these Manuals, which provide for separate price substitution methodologies, are really meant to be exemption to the rules. She also informed the body that the PEMC filed a manifestation with the ERC seeking to just marry the link between the WESM Rules and the PSM Manual, because, she believed, there are really meant to have certain cases that aren't covered by the general rule of the WESM Rules and that the substitution methodology embodied in the latest RCC resolution is not meant to be an amendment to the WESM Rules but is an amendment to the Price Determination Methodology (PDM) Manual as a supplement similar to the previous price substitution methodologies.

A copy of the detailed opinion of the Merchant Generators' Legal representative was disseminated to the RCC.

After due deliberation, the RCC agreed that no rules change is necessary and resolved to proceed with the submission to the PEM Board of the proposed amendments to the PEN-MRR Manual as approved during the previous meeting.

In order to address the gaps in the RCC and PEM Board processes as identified during the discussion, the RCC agreed to write the PEM Board a letter requesting for steps and procedures which the RCC has to follow for RCC-approved proposed changes. Said letter will likewise seek to clarify on the role and functions of MAG as the RCC Secretariat (whether ministerial or recommendatory) and the Board Review Committee (BRC).

PEMC-TOD issues on the price substitution methodology:

Mr. Edward Olmedo of PEMC-TOD raised to the body further issues on the RCC-approved pricing mechanism, which cropped up after conduct of further evaluation by the PEMC-TOD of the impact of its implementation. Highlights of the presentation are as follows:

- The criterion for selecting the five (5) nearest was initially proposed to be directly based on the absolute difference of the Transmission Loss Factor (TLF). However, based on the formulation of the Locational Marginal Price (LMP), the PEMC-TOD deemed that it is more appropriate to determine the 5 nearest nodes based on the difference of the inverse of the Transmission Loss Factor (TLF) between a customer node not affected by load-end contingency CVCs and the affected node. In mathematical form:

$$Diff_{A,i} = ABS \left[\frac{1}{TLF_i} - \frac{1}{TLF_A} \right]$$

- Similarly, PEMC-TOD raised its concern on the use of weighted average of LMP, as originally proposed, since the use of weighted averages will cause the resulting price to lean towards the value with the higher MW quantity. In order to put significance to prices which are of closer proximity to the affected node, the PEMC-TOD proposed using the percentage of weight.
- A table comparing the resulting prices of the enhanced and original proposed pricing formulation was shown. The result shows that the price as computed using the enhanced formula would result in a price much closer to the actual LMP if there was no pricing error.
- Possible scenarios for Binding Congestions without PSM were also presented, as follows:
 - In conditions when there is a simultaneous occurrence of a localized non-congestion pricing error and a binding congestion, issues may arise upon application of proposal of 5 nearest nodes. A probable solution shall be to associate the proximity or closeness of prices. If a trading node was selected based on its TLF, and its price is far from the other nodes selected due to congestion, it shall not be considered and another node shall then be selected.
 - The criteria for determining if a node should not be included due to congestion shall be based on a certain threshold, which has to be further evaluated.
 - On conditions with simultaneous binding congestion and localized non-congestion pricing error, there is a possibility that most of the selected nodes are affected with binding congestion. The affected node may reflect the prices of the nodes with congestion, when it shouldn't have, or vice versa.

Accordingly, after due deliberation, the RCC agreed to revise the proposed pricing mechanism that was approved by the RCC in its previous meeting to incorporate PEMC-TOD's proposed enhancement. The RCC Resolution approving the proposed amendments was likewise revised to reflect the said agreement, for endorsement to the PEM Board.

d. Proposed Amendments to the WESM Manual on Management of Must Run Units

On the Generators' Proposed New MRU Pricing Mechanism:

Ms. Javier presented the details of the proposed new MRU Pricing Mechanism, which was formulated as a result of a meeting attended by the following Generators: SN Aboitiz Power, AES-MPPCL, Aboitiz Power Inc., First Gen Corporation, Global Power and SEM-Calaca. She explained that the new mechanism, which is different from what was previously submitted, is based on ancillary pricing where the Must-Run price or Must-Stop price is the function of the minimum of the quantity Nominated Price and the maximum of the Market Clearing Price and the Average Offer Price for the corresponding block of energy used. With the proposed mechanism, it is envisioned that it will prevent the generators from increasing its nominated price.

On the other hand, Mr. Meneses suggested not doing the averaging and use instead the offer price for that particular trading interval, citing that the previous days might have conditions that are not present in that particular trading day. Ms. Javier clarified that Must Run Units are those units with no offers for that particular trading interval, thus the proposed use of the average of previous price offers.

Likewise, Mr. Jose Santos suggested to use the winning bids instead of the Average Offer Price to prevent the possibility of having a high MRU price, to which Ms. Javier clarified that it is specifically for that reason that part of the price formulation is the minimum of Nominated Price.

For his part, Mr. Lagarde proposed to consider putting a safety net by establishing certain levels of market price fluctuations where the Distribution Utilities (DUs) are given discretion whether to accept the nomination of MRUs or to load shed especially when prices are too high that they could no longer afford to pass them on to their consumers. He added that there will be consumers who would rather prefer to experience rotating brownouts for a short period of time than suffer the spikes in electricity prices. He opined that not giving the DUs a choice in this regard does not speak of an open market and the market therefore is still dictated by the generators.

Mr. Crisologo pointed out that the MRUs do not only serve to address the lack of energy but to address system issues as well such voltage requirements, etc. In that regard, Mr. Lagarde acknowledged that the DUs do not have a choice as it already involves system security. However, he reiterated his issue that the DUs be given a choice during instances involving lack of energy supply. In this connection, he informed the RCC that a committee was formed for the purposes of coming up with the safety net to establish the level that is acceptable to the Electric Cooperatives (ECs).

Mr. Heruela also raised his comments. First, on Mr. Crisologo's comment that one of the purposes of MRUs is to support the voltage requirement, he remarked that the market is an energy market and thus MRU for voltage support should not be made part of the market. Second, on the statement made by Ms. Javier that MRUs are those units with no offers. He reminded the body that the WESM is a mandatory market where generators are required to submit offers and non-submission entails a breach or violation of the WESM Rules. He

added that the proposed pricing mechanism connotes compensating those generators that are in violation of the WESM Rules.

To assist the RCC in assessing and determining its impact on market prices, particularly its impact on the consumers, Dr. Guevara requested the PEMC-TOD to conduct a simulation on the proposed pricing mechanism according to different types of generation resource, covering the previous year up to the present. Ms. Javier remarked that the PEMC-TOD will be provided with the data on Nominated Prices per plant type, which are based on ERC-approved contract rates for energy or ancillary, to be used for the simulation.

Mr. Sarmiento remarked that he has no objections to the proposed pricing mechanism as long as the Nominated Prices are approved by the ERC.

Ms. Javier suggested posting in the WESM website the proposed new MRU Pricing Mechanism, to which the RCC agreed.

On the Proposed MRU Data Validation/Verification Process:

Ms. Javier explained that the Generators are likewise proposing for a real-time validation of the MRU data by the Market Operator. She mentioned that at present, the MO is already communicating with SO during real-time with regard to deviation from the dispatch schedule, to which Mr. Edwin Mosa agreed.

Mr. Mosa clarified, however, that the communication, in this case through telephone conversation, only covers discussion on deviation and not on the MRU. He also stressed that the telephone conversation between the SO and MO, which the RCC is requesting to put into writing for dissemination to all Trading Participants, is always subject to interpretation and contention by the SO. As a case in point, he recalled an instance where the SO contested one of their telephone conversations, notwithstanding the fact that it was recorded as are all communications between the SO and MO. Thus, he viewed that the data that will really matter is the report submitted by SO after one week, which is also the same data used by the PEMC-Billing and Settlement Unit. He explained that MO will have no issue as far as publication is concerned, so long as it will be provided by the SO itself through the existing facility on advisory. In this manner, situations similar to what was cited can be prevented. Another option, he added, is for the SO to provide the MO with a copy of the end-of-the-day MRU report submitted to the Market Surveillance Committee (MSC), which the MO could publish the day after.

Dr. Guevara inquired whether the end-of-the-day deviation summary report will suffice in response to the generators' verification requirement. Subsequently, she requested Ms. Javier to rephrase Section 9.2 to include the concerns of PEMC-TOD.

e. Proposed Amendments to the WESM Rules on Dispute Resolution Provisions

The RCC continued its deliberation on the proposed WESM Rules change on dispute resolution provisions, picking up from the items left unresolved during the previous meeting. To recall, the RCC agreed to subject to further study the Dispute Resolution Administrator's (DRA) 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.

DRA Atty. Jesusito Morillos, who was invited once again to serve as a resource person, maintained that Item f is redundant since it is already covered by the proposed language of

Section 7.3.1.1 which provides that the scope of the WESM dispute resolution process applies to all disputes relating to transactions of WESM, thus the proposed removal of the enumeration.

Atty. de Castro opined that as a lawyer, she tends to be on the side of redundancy and thus suggested for the retention of the enumeration, to which the RCC agreed.

The RCC likewise considered additional comments raised by the body on some of the items already approved:

- The RCC took note of SPC Global's comments (submitted through electronic mail dated 16 November 2011) on Section 3.3.3.7.

On the same section, Mr. Crisologo posed his reservations concerning the addition of the following colatilla: **"...unless otherwise provided in the Ancillary Services Procurement Agreement (ASPA)."** He suggested retaining the original provisions, without the additional colatilla, citing that that the coverage of the disputes under the ASPA only pertains to the contracted portion. He believed that disputes relating to ancillary services under the co-optimization market should still fall under the purview of the WESM DRA.

Atty. Caryl Lopez remarked that the provision is specific on the ASPA, which purpose is not achieved by taking out the colatilla. She thus suggested revising the provision to clarify its intention. Accordingly, Dr. Guevara requested Atty. Lopez to craft the language of Section 3.3.3.7.

- The RCC accepted the PEMC-Legal's amended rationale for the proposed Section 7.3.4.
- The RCC noted the clarifications and accepted the minor revisions suggested by the Secretariat.
 - Proposed Section 7.3.4.2 is not meant to replace Section 7.3.5.6 and thus, should be taken as a new provision, while revisions to Section 7.3.5.6 should be retained.
 - Consistent with the removal of Dispute Resolution Group as one of the PEM Board Committees, reference to DRG in the Glossary should likewise be removed.
 - Other revisions are clerical in nature (numbering).

There being no further comments, the RCC approved the proposed amendments to the WESM Rules on dispute resolution provisions, as amended, for endorsement to the PEM Board subject to the PEMC Legal's drafting of the appropriate language for Section 3.3.3.7 to qualify the term ancillary services in relation to the spot market.

f. PEMC Comments on the Issues of NGCP-SO Visayas

Noting the absence of NGCP-SO representatives, the RCC agreed to defer again the discussion on PEMC's comments on the issues of NGCP-SO Visayas as raised during the 06 July 2011 meeting of the RCC.

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

Ms. Javier presented the consolidated proposed amendments on the inclusion of MOT in the Dispatch Protocol, as discussed and agreed upon during the SO-MO-Generators

Meeting held on 10 November 2011. She emphasized that one of the major agreements reached was to define the MOT as follows:

“Merit Order Table (MOT) – defined based on the Grid Code with an addition of unscheduled generating units arranged based on price offers.”

Dr. Guevara raised her concern on the possibility that the definition of the MOT as proposed will later on be cited as inconsistent with the Grid Code. Noting Dr. Guevara's concern, Atty. Dumlao proposed to qualify the definition of MOT and revised it as follows:

“Merit Order Table (MOT) – for purposes of dispatch protocol under the WESM, defined based on the Grid Code with an addition of unscheduled generating units arranged based on price offers.”

Ms. Javier likewise relayed to the body that the SO and the Generators were not able to reach an agreement on the proposed revisions to Section 4.2 as the SO viewed that there is a need for Trading Participants (TPs) to seek clearance from the SO as regards their respective target loading levels for each trading interval while the Generators viewed otherwise. To further shed light on the matter, Mr. Crisologo explained that one of SO's concerns is the late provision of RTD schedule of each TP, which the TPs receive in advance by 2 minutes. Thus, the SO prefers that the TPs make a call first to the SO for their dispatch instructions. On the other hand, the Generators are of the opinion that regardless of whether or not the SO already received the RTD schedule, each generator upon receipt of the same should already begin to ramp up to reach its target dispatch for the particular trading interval. While he understood where SO is coming from given its huge responsibility to maintain the security of the grid, he felt that SO is being too conservative to the point where market prices are already affected.

To give due consideration to the SO, whose representatives were not able to attend the RCC meeting, Dr. Guevara suggested for the RCC to defer rendering its decision on the proposed amendments, particularly on Section 4.2, to give the SO opportunity to defend and explain to the body its position. Ms. Encarnacion seconded, citing that as discussed during the November 10 meeting, SO representatives' agreement with some of the items in the proposed amendments may not speak for the position of and thus have to seek the approval of its Management.

Following Dr. Guevara's suggestion and cognizant of SO's crucial inputs to the proposed revisions, the RCC agreed to issue an invitation (with the SO-MO-Generators consolidated proposed amendments, as amended by the RCC, attached) to the SO to attend the next meeting of the RCC.

On another section, Mr. Sarmiento wanted to be clarified on the intent of proposed revisions to Section 4.1.5 (3), citing that the proposed language may not reflect the purpose of the said section. In response, Mr. Crisologo explained that the said section refers to instances where notwithstanding the increase or decrease in system demand, market conditions remain normal.

Following Mr. Crisologo's clarification, the RCC agreed to reword Section 4.1.5 (3) as follows:

“In cases of normal market conditions, however and there is was an increase or decrease in system demand or there are were forecast errors within the trading interval, SO shall follow Section 4.2 of Appendix A.7 of this Manual.”

The RCC likewise took note of the removal of the word "Merchant" from "Merchant Generators", as agreed during the special meeting following Ms. Encarnacion's suggestion. Ms. Encarnacion relayed that the special meeting was attended by other generators apart from the original proponents. Further, the WESM Rules does not make a distinction on the generation sector, i.e. whether merchant, government, etc.

4. Next Meeting

Dr. Guevara reminded the RCC of the schedule of its future meetings/activities, as agreed upon during the previous meeting:

- 57th RCC Meeting - 11 January 2012
- 2012 RCC Planning Session - 18 January 2012

5. Adjournment

There being no other matter to be discussed, the meeting was adjourned at 2:00 P.M.

Prepared by:

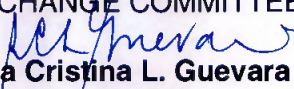

Rheinhart O. Banogon

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
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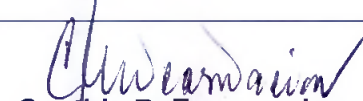
Members:



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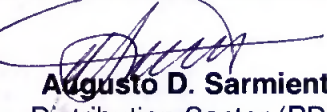

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Liberty Z. Dumlaog
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Augusto D. Sarmiento
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Dagupan Electric Corporation
(DECORP)


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(MERALCO)


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Raul Joseph G. Seludo
Transmission Sector
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Robinson P. Descanzo
Market Operator
Philippine Electricity Market Corporation
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