

## MINUTES OF THE 35<sup>TH</sup> MEETING OF THE RULES CHANGE COMMITTEE

Date : 16 June 2010  
Time : 9:00 A.M.  
Venue : PEMC Training Rooms 2 & 3  
9<sup>th</sup> Floor, Robinsons-Equitable Tower  
Ortigas Center, Pasig City

### **MEMBERS PRESENT:**

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

### **MEMBER/S NOT PRESENT:**

Gloria P. Gerilla-Teknomo	-	Independent – CPI Energy Phils., Inc.
Augusto D. Sarmiento	-	Distribution Sector – DECORP
Raul Joseph G. Seludo	-	System Operator – NGCP

### **OBSERVER/S PRESENT:**

Eduardo B. Fernandez	-	DOE (Alternate)
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### **OTHERS PRESENT:**

Rachel P. Anosan	-	PEMC – MO
Isidro E. Cacho, Jr.	-	PEMC – MO
Patrick S. Fernandez	-	PEMC – IMD
Celina R. Encarnacion	-	PEMC – Legal
Gladys G. Nebab-Zamora	-	PEMC – Legal
Ma. Cristina T. Suralvo	-	PEMC – ECO
Mark Anthony C. Andrada	-	PEMC – ECO
Phillip C. Adviento	-	PEMC – MAG
Elizabeth F. Milo	-	PEMC – MAG
Angelica C. Segarra	-	PEMC – IAD
Nica C. Aguila	-	PEMC – OP

### **SECRETARIAT**

Ma. Delia B. Arenos	-	PEMC – MAG
Karen D. Abregana	-	PEMC – MAG
Rheinhardt O. Banogon	-	PEMC – MAG

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After determining the presence of a quorum, the 35<sup>th</sup> Rules Change Committee meeting was called to order by the Acting Chairperson Mr. Epictetus E. Patalinghug, at about 9:32 A.M. The following agenda items were discussed:

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

The Provisional Agenda for the 35<sup>th</sup> RCC Meeting was presented and approved, as amended.

## 2. Reading and Approval of the Minutes

The reading and approval of the Minutes of the 34<sup>th</sup> RCC Meeting was deferred by the Acting Chairperson, considering that the Secretariat was not able to prepare the same in time for the 35<sup>th</sup> RCC meeting.

## 3. Main Business

Issues/ Topics Discussed	Remarks	Agreement/ Action Item
<p>A. Proposed Changes to the WESM Manual on the Methodology for Determining Pricing Errors and Price Substitution due to Congestion for Energy Transaction in the WESM</p>	<p>Mr. Isidro Cacho presented the details of the proposed changes to the WESM Manual on the Methodology for Determining Pricing Errors and Price Substitution due to Congestion for Energy Transaction in the WESM, for discussion of the body.</p> <p>The following were the salient points raised by the RCC in the course of his presentation:</p> <ul style="list-style-type: none"> <li>On section 2.2 (b) which enumerates the constraint violation coefficients arising due to network congestion, Mr. Vicente Sioson suggested replacing the term "base case" as it may not be fully associated with thermal limits. Mr. Cacho replied to look into the suggestion as it will also entail changes in succeeding sections of the Manual as well as other WESM Manuals in which the term "base case constraint" is mentioned.</li> <li>Mr. Ralph Crisologo reiterated the concern that was raised by Mr. Augusto Sarmiento during the previous RCC meeting held on 02 June 2010 as regards the use of 0.0001 value when the market clearing price equals to zero. He concurred with Mr. Sarmiento's suggestion that a threshold figure greater than 0 should be set instead.</li> <li>Mr. Sioson remarked that dividing a number by 0.0001 would result to a value which is higher than the price trigger factor of 1.2 which automatically entails application of the price substitution methodology.</li> <li>Mr. Crisologo suggested revising the proposed provision in Section 4.1 (b) which reads: "It is provided, however, that if the resulting <math>MCP_H</math> is equal to zero "0" but the results of the market runs indicate network congestion, pricing error due to congestion is still considered to have occurred and the methodology provided in this Manual shall apply", to consider RCC's suggestion to establish a price spread threshold value that will validate first whether the price substitution methodology shall still</li> </ul>	<ul style="list-style-type: none"> <li>Upon the request of the RCC, MO shall study and validate the price spread threshold value that will be used to determine whether the Price Substitution Methodology shall apply when the Market Clearing Price is zero.</li> <li>The RCC approved the publication of the Proposed Changes to the WESM Manual on the Methodology for Determining Pricing Errors and Price Substitution due to Congestion in the RCC web forum to solicit comments from the market participants and other interested parties.</li> </ul>

	<p>apply during instances where there is zero price due to congestion.</p> <ul style="list-style-type: none"> <li>• For purposes of clarity, Mr. Robinson Descanzo remarked that for MCP greater than zero, the price trigger factor is still valid. He added that the price spread threshold value will be subject to study and validation by the Market Operator.</li> <li>• On the proposed Section 4.2.2, Mr. Crisologo recommended expounding the definition of localized constraint to include nodal, ownership of and customer connected to the node, as well as geographical locations.</li> <li>• Mr. Descanzo expressed his concern on who will rightfully undertake the review of the commercial aspect of the price trigger factor. He viewed that aside from the Technical Committee whose review of the price trigger factor is confined to its technical aspect, there must be a group who will study and determine the commercial capability of the generators to absorb the price spread, to which Mr. Sioson suggested that it be tackled by the RCC.</li> <li>• Ms. Delia Arenos commented that PEMC could seek assistance from other group to address the commercial issues associated with the price trigger factor. Following Ms. Arenos' suggestion, the RCC agreed to retain the proposed provisions contained in Section 4.3 on the Review and Revision of the Price Trigger.</li> <li>• Mr. Crisologo suggested for the proponent to clarify what does the "pricing error categories" mentioned in Appendix A pertain to.</li> <li>• Mr. Crisologo raised his concern on the use of "no load prices" in the proposed Section 7.4.4, to which Mr. Cacho assured that the matter will be consulted with the PEMC Legal.</li> <li>• On Section 8.2, Atty. Liberty Dumlao recommended setting a definite timetable (i.e. number of hour/s or day/s) for the trading participants to be notified of the generator substitute prices and estimated average load prices instead of just using the qualifier "immediately".</li> <li>• The Acting Chairperson moved for the publication of the proposal in the RCC web forum so as to solicit comments from the market participants and other interested parties.</li> </ul>	
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<p>B. WESM Visayas Implementation Issues/Concerns</p>	<p>Mr. Eduardo Fernandez apprised the body of the joint activities undertaken by the DOE and PEMC to assess and address the state of readiness of the Visayas WESM, which include the following:</p> <ul style="list-style-type: none"> <li>✓ Meeting with Visayas WESM Participants to gather pertinent information and solicit specific concerns and issues</li> <li>✓ Identification and analyses of issues</li> <li>✓ Assessment of Visayas WESM Readiness</li> <li>✓ Presentation meeting with Visayas Stakeholders on the setup of specific dates and timelines of compliance</li> <li>✓ Compliance monitoring</li> </ul> <p>He likewise informed that as an offshoot of the meeting conducted last March with Visayas WESM Participants, the PEMC and DOE will be conducting a meeting with the Visayas Stakeholders (i.e. Generators, Service Providers, Distribution Utilities, and Electric Cooperatives) on 18 June 2010 in Cebu City in order to:</p> <ul style="list-style-type: none"> <li>✓ Assess stakeholders' readiness to participate trading in the market</li> <li>✓ Gauge whether all market system infrastructure are in place to operate on a 24/7 basis</li> <li>✓ Assess whether a level of work in progress were achieved compared with the 2007 initiatives</li> <li>✓ Identify outstanding preconditions affecting integration before a market launch can be considered.</li> </ul> <p>Coupled with the preparatory activities on the launching and implementation of Visayas WESM is the identification of issues that need to be addressed through refinement and/or formulation of new rules and manuals. Mr. Descanzo presented the following predetermined rules and regulatory issues relative to the implementation of WESM in the Visayas:</p> <ul style="list-style-type: none"> <li>• Price Determination and Treatment of HVDC <ul style="list-style-type: none"> <li>- Since the WESM Rules and the Price Determination Methodology Manual do not provide for separate price determination and settlement for Luzon and Visayas, Luzon and Visayas will thus operate as a single market and the HVDC will be treated as a free flowing link between the two islands. However, to contain the operational issues that may arise in the Visayas, there may be a need to enhance the HVDC functionality – i.e., setting the HVDC flow to predetermined values.</li> </ul> </li> </ul>	<p>The RCC agreed to await policy direction from the DOE and endorsement from the PEMC before taking any action to address the rules and regulatory issues identified relevant to the implementation of Visayas WESM.</p>
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However, Mr. Descanzo remarked that because of expected problems and start-up issues, it may be more practical to operate Luzon and Visayas WESM as two separate markets.

The Acting Chairperson commented that the EPIRA made no distinction between Luzon and Visayas market. He added that a minimum number of generators is required in order for an electricity market to work and that as a stand-alone market, Visayas is not competitive. Thus, to be competitive, it needs to be linked with Luzon.

Mr. Descanzo clarified that once the Visayas WESM is stabilized, Luzon and Visayas can then operate as a single market. He also confirmed, in response to the Acting Chairperson's query, that the MO has done simulations on the Visayas market, using prices based on production cost however, instead of strategic bidding.

- Pricing Error Declaration
  - Pricing error should be declared for the grid affected. Where interconnection exists between two grids, the pricing error is confined in one region and does not affect the other region when the market results show any of the following conditions: (a) the schedule in the interconnection is binding or equal to its nominated schedule provided that the direction of nominated interconnection flow is correct; and (b) The contingency constraint violation or base case constraint violation is localized and exists in one region only.
- Management of Must Run Units (MRUs)
  - The nomination and dispatch of MRUs should be location- or grid-specific except for some cases where the need for MRU in one grid can be addressed by an MRU in another grid and vice versa.
- Management of Market Intervention
  - To include in the WESM Dispatch Protocol the discretion of the System Operator to declare market intervention on a regional (or grid) basis, as it deems appropriate given the reason that gives rise to the intervention.
- Application of Administered Price Determination Methodology (APDM)
  - It is proposed that the administered price for the quantity exported to the grid where APDM is applied be equal to the generator weighted

	<p>average price in the exporting grid. When the market intervention is applied in the exporting region, the administered price as defined in the APDM shall apply. However, the amount corresponding to the exported quantity determined using the weighted average of the administered prices shall be deducted from the trading amount to be allocated to the customers in the region where market intervention is applied.</p> <ul style="list-style-type: none"> <li>• Application of Must-Run Unit (MRU) Compensation Methodology <ul style="list-style-type: none"> <li>- The application of the MRU compensation methodology should follow from the manner by which the designation of MRUs will be made. The designation and dispatch of MRU is location specific hence MRU prices and trading amounts should be calculated and allocated for each region.</li> </ul> </li> <li>• Substitute Prices in Cases of Pricing Errors – (a) Application of WESM Rules 3.10.5; and (b) Application of PSM <ul style="list-style-type: none"> <li>- It is proposed that the substitute generator price for the quantity exported to the grid where PSM is applied be equal to the generator weighted average price in the exporting grid. When the PSM is applied in the exporting region, the substitute generator price as defined in the PSM shall apply. However, the amount corresponding to the exported quantity determined using the weighted average of the substitute generator prices shall be deducted from the trading amount to be allocated to the customers in the region where PSM is applied.</li> </ul> </li> <li>• Value Added Tax (VAT) Calculations <ul style="list-style-type: none"> <li>- An applicable or effective VAT is imposed on all WESM transactions which is calculated based on a mix of VAT- and Zero-Rated energy sales through the WESM. The beneficiary of the Zero-Rated energy sales should be the consumers who consumed such energy. Therefore, the effective VAT should be computed on a per grid basis with due consideration to the Zero-Rated energy imported (or exported) from (to) the other grid.</li> </ul> </li> <li>• N-1 strict implementation <ul style="list-style-type: none"> <li>- It is proposed that the Grid Code shall be revised such that partial compliance to N-1 will be allowed.</li> </ul> </li> </ul>	
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	<p>Following the presentation, the RCC agreed to await policy direction from the DOE and endorsement from the PEMC before taking any action to address the abovementioned items/issues.</p>	
<p>C. Proposed Changes to the WESM Rules and PEM Audit Manual concerning Software Changes</p>	<p>Mr. Patrick S. Fernandez of the PEMC IT Group presented, for discussion and approval, the proposed revisions by the PEMC IT Group to the RCC-approved amendments on the WESM Rules and PEM Audit Manual concerning Software Changes. He explained that the proposed revisions essentially remove from the PEM Audit Manual the whole process of approval and implementation of new or modified software, which is now covered and explained in great detail in the PEMC IT Change Management Process. Thus, only Section 5.2.6.2 of the WESM Rules and Section 10.1.1 of the PEM Audit Manual are substantially amended to establish that the MO shall not implement a new or modified software without undergoing the PEMC IT Change Management Process. Moreover, only RCC-approved revisions to Sections 1.2.1, 3.2.1, and 10.3.1 of the Manual are retained.</p> <p>Ms. Arenos expounded that the PEMC Management, in consultation with the IT Group and the Internal Audit Department, developed the IT Change Management Process so as to address the concerns raised by the PEM Board on being made liable for acts which highly involve technical issues (i.e. evaluation of the nature of software change) which they may not be fully competent of. She further clarified that the process is internal within PEMC and will be presented to the Board on 24 June 2010, for approval.</p> <p>In addition, Mr. Fernandez informed the body that an IT Steering Committee will be formed to spearhead and oversee the said process.</p> <p>Considering that most of the proposed provisions originally submitted were removed, Atty. Dumlao suggested for the IT Group to withdraw their original proposal and submit a new one which will reflect the Change Management Process. This is as to avoid confusion given the series of deliberations done by the RCC on the previously submitted proposal.</p> <p>Following Atty. Dumlao's suggestion, the Acting Chairperson moved for the IT Group to withdraw its original proposal and submit a new one to the RCC, to which Mr. Fernandez acceded.</p> <p>Ms. Arenos requested the RCC to meet before the PEM Board meeting on 24 June 2010 should the IT Group be</p>	<ul style="list-style-type: none"> <li>• Upon the request of the RCC, the IT Group agreed to withdraw their original proposal and submit a new one, which will already reflect the PEMC Change Management Process.</li> <li>• Upon the agreement of the RCC, the IT Group shall submit its new proposal on 18 June 2010 to the RCC through electronic mail for the latter to determine if the proposal merits another meeting before the PEM Board meeting on 24 June 2010 or to move for its approval through ad referendum.</li> </ul>

	<p>able to finalize its proposal by 18 June 2010, so as to have it presented to and approved by the Board in parallel with the IT Change Management Process.</p> <p>Following Ms. Arenos' request, the RCC requested the IT Group to submit its new proposal on 18 June 2010 through electronic mail for the former to decide whether the proposal merits another meeting before the said Board meeting or to move for its approval through ad referendum.</p> <p>Mr. Sioson requested that the RCC be given an overview of the Change Management Process.</p>	
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#### **4. Other Matters**

In the interest of time, the RCC requested the Secretariat to send through electronic mail the updates on the Market Operator's delegated activities in the 2010 RCC Work Plan, as provided by Mr. Descanzo.


#### **5. Next Meeting**

As discussed in Item C of the Main Business in the Agenda, the RCC agreed to hold its next meeting before 24 June 2010, upon confirmation by the RCC through electronic mail. Otherwise, the previous agreement by the RCC to hold its next meeting on 21 July 2010 shall hold.

#### **6. Adjournment**

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

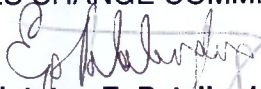
Prepared by:

  
**Rheinhart O. Banogon**


Noted by:


  
**Ma. Delia B. Arenos**


Approved by:  
RULES CHANGE COMMITTEE

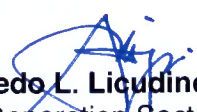
  
**Epictetus E. Patalinghug**  
Acting Chairperson  
Independent  
University of the Philippines  
(UP)


Members:


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

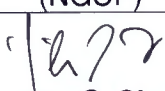
  
**Ralph T. Crisologo**  
Generation Sector  
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**Liberty Z. Dumlao**  
Generation Sector  
Power Sector Assets and Liabilities Management  
Corporation (PSALM)


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


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

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

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

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

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

  
**Conrado D. Pecjo**  
Supply Sector  
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**Gloria P. Gerilla-Teknomo**  
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CPI-Energy Phils., Inc.