

MINUTES OF THE 36TH MEETING OF THE RULES CHANGE COMMITTEE

Date : 21 July 2010
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
Gloria P. Gerilla-Teknomo	-	Independent – CPI Energy Phils., Inc.
Cherry Aquino-Javier	-	Generation Sector – AES
Ralph T. Crisologo	-	Generation Sector – SNAP
Alfredo L. Licudine, Jr.	-	Generation Sector – NPC
Vicente C. Sioson	-	Distribution Sector – MERALCO
Augusto D. Sarmiento	-	Distribution Sector – DECORP
Jose P. Santos	-	Distribution Sector – INEC
Raul Joseph G. Seludo	-	System Operator – NGCP
Robinson P. Descanzo	-	Market Operator – PEMC
Conrado D. Pecjo	-	Supply Sector – Angeles Power, Inc.

MEMBER/S NOT PRESENT:

Liberty Z. Dumlao	-	Generation Sector – PSALM
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ALTERNATE MEMBER/S PRESENT:

Ronald V. Siquioco	-	Generation Sector – PSALM
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OBSERVER/S PRESENT:

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

Criselda M. Funelas	-	PEMC – OP
Rachel P. Anosan	-	PEMC – MO
Isidro E. Cacho, Jr.	-	PEMC – MO
Carlito C. Claudio	-	PEMC – IT Group
Patrick S. Fernandez	-	PEMC – IT Group
Celina R. Encarnacion	-	PEMC – Legal
Gladys G. Nebab-Zamora	-	PEMC – Legal
Ma. Cristina T. Suralvo	-	PEMC – ECO
Hilary Romeli C. Florendo	-	PEMC – ECO
Mark Anthony C. Andrada	-	PEMC – ECO

SECRETARIAT

Karen D. Abregana	-	PEMC – MAG
Rheinart O. Banogon	-	PEMC – MAG

After determining the presence of a quorum, the 36th Rules Change Committee meeting was called to order by the Acting Chairperson Mr. Epictetus E. Patalinghug, at about 9:15 A.M. The following agenda items were discussed:

1. Adoption of the Proposed Agenda

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The Proposed Agenda for the 36th RCC Meeting was presented and approved.

2. Reading and Approval of the Minutes

The minutes of the 34th and 35th RCC Meeting were presented and approved.

3. Matters Arising from the Minutes of the 34th RCC Meeting

As a matter arising from the previous minutes, the Secretariat clarified a statement made by Mr. Ralph Crisologo during the 34th RCC meeting. In the said meeting, Mr. Crisologo stated that the MAG declined the agreement of the RCC to hold bimonthly meetings. The Secretariat clarified that, upon verifying with the audio recordings and minutes of the past RCC meetings, the MAG did not beg off from holding twice a month meeting of the RCC, to which the RCC acknowledged.

4. Main Business

Issues/ Topics Discussed	Remarks	Agreement/ Action Item
A. PEMC ICT Change Management Process	<p>To facilitate the RCC's deliberation of the subsequent agenda item, Mr. Patrick S. Fernandez presented the details of the Information Communication and Technology (ICT) Change Management Process, which was approved by the Board during its meeting on 24 June 2010.</p> <p>The ICT Change Management Manual was developed in order to:</p> <ul style="list-style-type: none">• Facilitate and simplify the process of software changes;• Clearly define the reason for the software change;• Assess the technical feasibility, determine the costs and benefits for the company and analyze impact of proposed software change;• Establish software change control points (approval, endorsement and certification);• Ensure software change implementation; and• Monitor software change progress and update software change documentation in compliance with the WESM Rules. <p>The Manual also reflects the following policies:</p> <ul style="list-style-type: none">• Establish a process that ensures proper and timely review, approval, monitoring and control points on all stages of the change management;• All ICT changes shall observe and go through this change management process;• Development and control of software versions shall be centralized to the IT Group;	

	<ul style="list-style-type: none"> • Segregation of software development and operational functions; • Developer shall be different entity from the testing functions to ensure that there are no biases; and • Create a committee to oversee the development and implementation of the change management process. <p>The process involves the following three major stages:</p> <ol style="list-style-type: none"> 1. Requirement Preparation and Business Analysis/Assessment – comprises the following sub processes: <ul style="list-style-type: none"> ✓ Change identification and request ✓ Review and evaluate ✓ Provide technical analysis/assessment and solution requirements ✓ Change approval and prioritization ✓ Solution specifications and detailed change requirements 2. Implementation <ul style="list-style-type: none"> ✓ Procure/contract ✓ Develop ✓ User acceptance test ✓ Quality assurance testing 3. Deployment/Migration <ul style="list-style-type: none"> ✓ Turn-over and acceptance ✓ Endorsement to PEM Audit Committee ✓ Post-Audit Certification <p>The following were the salient points raised by the body:</p> <ul style="list-style-type: none"> • Mr. Fernandez noted that with the change management process, the liability on the implementation of software change now falls solely upon the management. • Mr. Vicente Sioson inquired whether there are existing company standards in testing and auditing software change which are in accordance with international standards. • Mr. Fernandez replied that there is an existing industry standard for testing different types of software. Internally, however, the standards have not been clearly set as the group who will be tasked to conduct the testing of new or modified software is yet to be formed. • Mr. Crisologo requested clarification whether the RCC gets involved at any stage of the process. 	
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	<ul style="list-style-type: none"> • Mr. Fernandez clarified that the RCC will be involved if the software change requires corresponding changes in the WESM Rules, i.e. rules change process. The change management process will then commence once the corresponding rules changes relevant to the proposed software change are approved by the RCC and the PEM Board. • Mr. Sioson commented that since the ICT Change Management Process is internal within PEMC, perhaps the RCC can request for a certification confirming that the software has indeed undergone the process. • Mr. Crisologo opined that it is not the certification of the implementation of the process that is important, but the certification attesting that there will be no WESM Rules violation in the implementation of the software change. • Mr. Sioson suggested incorporating the change management process in another WESM Manual where the RCC's approval is required. • Mr. Fernandez clarified that the Proposed Changes to the WESM Rules and PEM Audit Manual concerning Software Changes submitted by the IT Group already reflect the Change Management Process. <p>Following Mr. Fernandez's presentation on the PEMC ICT Change Management Process, the RCC agreed to look into the proposal submitted by the IT Group, which already incorporates the said process.</p>	
B. Proposed Changes to the WESM Rules and PEM Audit Manual concerning Software Changes	<p>As a background, the proposal was submitted by the IT Group on 18 June 2010 upon the directive of the RCC to withdraw their original proposal and submit a new one. The directive was made after the RCC noted that most of the provisions originally submitted by the IT Group and subsequently approved by the RCC were removed.</p> <p>Upon review of the proposal, the RCC noted that the proposed changes to the WESM Rules and PEM Audit Manual only mention that the new or modified software will not be implemented if it did not go through the change management process; however, the process itself is not clearly defined. Thus, the RCC suggested to define the ICT Change Management Process in the WESM Rules and PEM Audit Manual.</p>	The RCC approved, in principle, the Proposed Changes to the WESM Rules and PEM Audit Manual concerning Software Changes subject to the revisions as suggested by the RCC.

	<p>After due deliberation, the RCC approved, in principle, the Proposed Changes to the WESM Rules and PEM Audit Manual concerning Software Changes subject to the inclusion of the definition of ICT Change Management Process.</p>	
<p>C. 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>	<ul style="list-style-type: none"> Following the suggestion raised by the RCC during its previous meeting on 16 June 2010 for the MO to establish a price spread threshold value during instances where the market clearing price is zero due to congestion, Mr. Isidro Cacho put forward three (3) alternative solutions, for the consideration of the RCC: <ol style="list-style-type: none"> Consider a threshold of 120% for the price spread of the highest LMP and lowest LMP with respect to their arithmetic average, to be carried out by the following mathematical equations: <p>IF $ABS LMP_{HIGH} \neq ABS LMP_{LOW}$</p> $FACTOR = ABS \left \frac{LMP_{HIGH} - LMP_{LOW}}{\left[\frac{LMP_{HIGH} + LMP_{LOW}}{2} \right]} \right$ <p>IF $ABS LMP_{HIGH} = ABS LMP_{LOW}$</p> $FACTOR = ABS \left \frac{LMP_{HIGH} - LMP_{LOW}}{LMP_{LOW}} \right$ Consider a threshold of 120% for the price spread of the highest LMP and lowest LMP with respect to the generator weighted average price (GWAP), to be carried out by the following mathematical equation: <p>FACTOR = $ABS \left \frac{LMP_{HIGH} - LMP_{LOW}}{GWAP} \right$</p> $= ABS \left \frac{LMP_{HIGH} - LMP_{LOW}}{\left[\frac{\sum (P_{Gk} \cdot Q_{Gk})}{\sum (Q_{Gk})} \right]} \right$ <p>where k is the Generator resource node</p> Consider historical price spread as benchmark 	<p>The RCC requested the MO to develop a formula which will be used for the computation of Price Spread threshold value during instances where there is zero (0) market clearing price due to congestion.</p>

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	<p>for applying PSM. If the price spread $LMP_{HIGH} - LMP_{LOW}$ is greater than Php 1200/MWh, then the market run is subject to PSM. It was further explained how the figure of Php 1200/MWh was derived:</p> <ol style="list-style-type: none"> The historical price spread of all correct market runs for peak interval (1400H) from July 2008- June 2010, excluding those that were subject to the PSM, were assessed and it shows that the average price spread is around P1,000/MWh Allowing for the impact of congestion price, we add another P200/MWh. $P1000/MWh + P200/MWh = P1200/MWh$ (Thus, PhP1200/MWh is 120% of the average price spread for the past two years) <p>Mr. Robinson Descanzo commented that the Alternative Solution 3 is burdensome on the part of the Market Operator as it is to be expected that the ERC will request the MO to update the figure from time to time.</p> <p>Mr. Sioson suggested using moving average instead to obtain the price spread threshold value. He viewed that the fixed figure of 1200, which is based on historical data, may no longer be applicable in the succeeding years.</p> <p>Following the concern raised by Mr. Sioson, the RCC requested the proponent to develop a formula which will be used for the computation of price spread threshold value when there are zero prices due to congestion.</p> <p>On the type of sampling to be used, Mr. Descanzo recommended to use peak sampling (price spread from peak interval).</p> <ul style="list-style-type: none"> To clarify the regional application of pricing error, Mr. Cacho explained that further revisions were made to Section 5 of the Manual, to read as follows: <p>“5.1 Upon integration of the Visayas grid in the WESM, the methodology provided for in this Manual shall apply to both regions, i.e., Luzon and Visayas. It is provided, however, that the application of the methodology shall be limited to the region where the network congestion occurs if the following conditions occur –</p> <ol style="list-style-type: none"> a network congestion exists in one region only 	
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	<p>b) the impact of the congestion price is confined only to the region where the network congestion exists”</p> <ul style="list-style-type: none"> Upon the suggestion of the RCC during its previous meeting, the term “pricing error categories” is now defined and classified in Section 5.2 of the Manual, as follows: <ul style="list-style-type: none"> “a) Non-congestion pricing error – this category pertains to pricing errors that are not related to network congestion and in which WESM Rules 3.10.5 shall apply. b) Congestion pricing error – this category pertains to pricing errors that are associated with the application of the Price Substitution Mechanism for congestion in accordance with this Manual.” The term “immediately” in Section 8.2 of the Manual is replaced with the phrase “within the next trading interval”, to read as follows: “All Trading Participants shall be notified of the generator substitute prices and the estimated average load prices within the next trading interval after the end of the trading interval when the pricing error occurs.” 	
<p>D. PEMC Legal Position on the DWS and Disconnection Policy</p>	<p>Upon the RCC’s request in the previous meeting, Atty. Criselda Funelas of PEMC Legal Department was invited to provide views on the possible implication of DWS and Disconnection policy on the WESM Rules.</p> <p>On Mr. Crisologo’s inquiry on whether the disconnection policy will form part of the WESM Rules, Atty. Funelas informed the RCC that PEMC has formed a Technical Working Group to work on the WESM Deregistration Procedures. However, whether these procedures will be subject to the deliberation and approval by the RCC is something that she needs to discuss with Atty. Rachel Anosan who currently sits as the Chairman of the TWG.</p> <p>Mr. Crisologo commented that he would prefer that the procedures be discussed by the RCC. He viewed that issues will surface better with the type of composition the RCC has.</p> <p>Considering that there are several issues that cropped up in connection to the disconnection policy and deregistration procedures, Mr. Eduardo B. Fernandez supported Mr. Crisologo’s recommendation for the WESM Deregistration Procedures to be discussed by the RCC. This is so as to discuss and address all the issues in time for the promulgation of the Disconnection Policy on 24 August 2010.</p>	<p>In relation to the circular issued by the DOE on the DWS termination and Disconnection Policy, the RCC agreed to request the PEMC Technical Working Group on Deregistration to present its draft procedures on Deregistration.</p>

	The RCC agreed to request for a presentation on WESM Deregistration Procedures from the PEMC-TWG on Market Participant Deregistration in the next RCC meeting.	
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5. Other Matters

- a. Atty. Funelas relayed to the RCC the message of President Melinda Ocampo for the RCC to discuss the frequency of RCC meetings as well as how to institutionalize the Generation Companies' offer of Secretariat Support as conveyed by Mr. Crisologo in the previous meeting. Mr. Crisologo proposed to discuss the said matter during the next RCC meeting.
- b. The Secretariat apprised the body of the appointment of new members to the following WESM Governance Committees: Market Surveillance Committee (MSC), PEM Audit Committee (PAC), Technical Committee (TC), and the Dispute Resolution Group (DRG).
- c. The RCC Acting Chairperson requested the RCC members to give an update on the status of their delegated activities in the 2010 RCC Work Plan in the next RCC meetings.


6. Next Meeting

The RCC agreed to meet on 04 and 18 August 2010.

7. Adjournment

There being no matter to be discussed, the meeting was adjourned at 1:30 P.M.

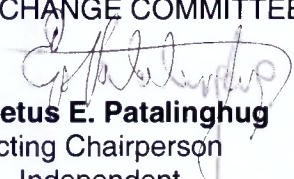
Prepared by:


Rheinhart O. Banogon


Noted by:



Elaine D. Gonzales

Approved by:
RULES CHANGE COMMITTEE



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

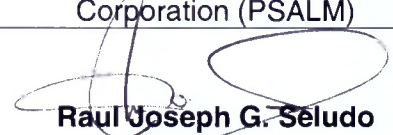
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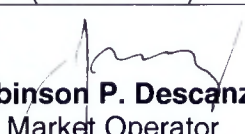

Cherry Aquino-Javier
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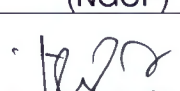

Ralph A. Crisologo
Generation Sector
SN Aboitiz Power
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Liberty Z. Dumlao
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Power Sector Assets and Liabilities Management
Corporation (PSALM)


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
Angeles Power, Inc.


Gloria P. Gerilla-Teknomo
Independent
CPI-Energy Phils., Inc.