MINUTES OF THE 37TH MEETING OF THE RULES CHANGE COMMITTEE

Date	:	04 August 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
Liberty Z. Dumlao	-	Generation Sector – PSALM
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.

OBSERVER/S PRESENT:

Wilbert S. Balilia	-	ERC (Alternate)

OTHERS PRESENT:

Melinda L. Ocampo	-	PEMC – OP
Criselda M. Funelas	-	PEMC – OP
Rachel P. Anosan	-	PEMC – MO
Patrick S. Fernandez	-	PEMC – IT Group
Gladys G. Nebab-Zamora	-	PEMC – Legal
Sheila P. Ingco	-	PEMC – ECO
Ma. Cristina T. Suralvo	-	PEMC – ECO
Phillip C. Adviento	-	PEMC – MAG
Yari Miralao	-	AES – MPPCL
Jennifer C. Go	-	AES – MPPCL
R. Gutierrez	-	AES – MPPCL

SECRETARIAT

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

After determining the presence of a quorum, the 37th Rules Change Committee meeting was called to order by the Acting Chairperson Mr. Epictetus E. Patalinghug, at about 9:30 A.M. The following agenda items were discussed:

1. **Adoption of the Proposed Agenda**

   The Proposed Agenda for the 37th RCC Meeting was presented and approved.

2. **Reading and Approval of the Minutes**

   The Minutes of 36th RCC Meeting was presented and approved.

3. Matters Arising from the Minutes of the 36th RCC Meeting

a. Proposed Changes to the WESM Rules and PEM Audit Manual concerning Software Changes.

Following the RCC's recommendation in the previous meeting to define the Information Communication and Technology (ICT) Change Management Process in the WESM Rules and PEM Audit Manual, Mr. Patrick S. Fernandez presented to the body the proposed revisions to Sections 5.2.6.2 of the WESM Rules and 10.1.1 of the PEM Audit Manual where the ICT Change Management Process is defined as follows:

"The ICT Change Management Process is an internal PEMC procedure that ensures proper and timely review, approval, monitoring of all activities on all stages of the change management process. Control points are introduced in each critical stage in order to ensure that the proper level of review and approval is enforced. A corresponding ICT Change Management Manual of Approvals explicitly defines the respective reviewing and approving authority for each type of change for a given critical stage."

Mr. Vicente Sioson expressed his concern on the manner the ICT Change Management Process is being spelled out and defined in the WESM Rules and PEM Audit Manual. He commented that defining the process in such a manner connotes RCC's approval of a procedure that is internal within PEMC, which the RCC has no jurisdiction over. Thus, the WESM Rules and Manual should only provide a brief and general overview of the change management process.

Following the concern raised by Mr. Sioson, Atty. Rachel Anosan suggested to indicate in the WESM Rules the obligation of the Market Operator to come up with a change management process. Thus, she proposed to have the description of the process rephrased as follows: *"The Market Operator shall institute an Information and Communication Technology (ICT) Change Management Process that ensures proper and timely review, approval, and monitoring of all activities on all stages of the change management process."*

Upon deliberation, the RCC agreed to adopt the language proposed by Atty. Anosan. Thus, Section 5.2.6.2 (b) of the WESM Rules is amended to read as follows: *"All new software or modifications to the existing software implemented through an ICT change management process, provided these are subject to post audit within one year from deployment. The Market Operator shall institute an Information and Communication Technology (ICT) Change Management Process that ensures proper and timely review, approval, monitoring of all activities on all stages of the change management process."*

So as to harmonize with the proposed revisions to the WESM Rules as described above, the proposed definition of the ICT Change Management Process in the PEM Audit Manual is amended to read as follows: *"The ICT Change Management Process is a procedure developed by the Market Operator that ensures proper and timely review, approval, and monitoring of all activities on all stages of the change management process."*

The RCC approved, as amended, the Proposed Changes to the WESM Rules and PEM Audit Manual concerning Software Changes, for endorsement to the PEM Board.

b. Proposed Amendments to the WESM Manual on the Methodology for Determining Pricing Errors and Price Substitution due to Congestion for Energy Transaction in the WESM.

Taking into consideration the recommendations made by the RCC during its previous meeting, Atty. Anosan presented the proposed solution for the determination of the price spread threshold value during conditions when the Market Clearing Price (MCP) is zero. The following provision in Section 4.1 which originally read as: *"It is provided, however, that if the resulting MCP_H 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"* is revised to read as follows: *"It is provided, however, that if the resulting MCP_H 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 if the resulting price spread between the highest nodal price and lowest nodal price for a trading interval with congestion is equal to or more than the average price spread between the highest and lowest nodal prices in the 1400H trading interval of the previous trading year (26 December – 25 December), excluding those intervals that were subjected to price substitution due to congestion, plus additional price adjustment of 20%"*, which is translated into the following mathematical formula:

$$\text{PriceThreshold}_j = 1.20 \quad \frac{\sum (\text{LMPhigh}_{i,j-1} - \text{LMPlow}_{i,j-1})}{\text{Total No. of 1400 H Trading Intervals}}$$

where:

Price Threshold$_j$ – Price threshold for the current trading year j
LMPhigh – highest nodal price for 1400H Trading Hour of trading day i of the previous trading year, j-1
LMPlow – lowest nodal price for 1400H trading hour of trading day i of the previous trading year, j-1

Ms. Cherry Javier posed her objection to add price adjustment of 20%. She remarked that the 20% already accounts for the transmission loss and impact of congestion and since what is being used in the formula is the largest price spread which already takes into account the impact of congestion, it is thus redundant to have additional price adjustment of 20%. Mr. Ralph Crisologo commented, however, that omitting the price adjustment of 20% would imply changing the ERC Ruling pertinent to the Price Substitution Methodology.

Mr. Sioson, on the other hand, suggested using the average of the maximum of normal prices (highest nodal price for normal peak intervals) as the price threshold value instead of the average price spread.

Mr. Robinson P. Descanzo replied that the purpose of using the average price spread is to preserve the price separation as well as to filter outliers.

Giving due consideration to the concern raised by Ms. Javier, the RCC agreed to remove the additional price adjustment of 20%. Thus, the proposed solution is further amended to read as follows: *"It is provided, however, that if the resulting MCP_H 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 if the resulting price spread between the highest and lowest nodal prices for a trading interval with congestion meets the price threshold. The price threshold is the average price spread in all the 1400H trading interval of the previous trading year (twelve-month period between 26 December of the previous year and 25 December of the following year), excluding those intervals that are subject to price*

substitution under this Manual and the Administered Price. Price Spread is the difference between the highest nodal price and lowest nodal price." The corresponding mathematical formula will be amended to reflect the above revisions, for presentation to and approval by the RCC in the next meeting.

On the issue of regional application of PSM upon integration of the Visayas grid in the WESM, Atty. Anosan requested RCC's views/recommendations on the treatment of import and export price during conditions where network congestion exists in one region only. As an example, Luzon, which is subject to PSM, is exporting to Visayas. Such condition would result to disjunction since the generators in Luzon are expecting to be paid based on the PSM price while the customers in Visayas are expecting to be paying based on the nodal price. If such is the case, Mr. Sioson suggested to price the export quantity (i.e. exact amount of power flow that is being exported) based on the PSM and to allocate it among the customers in the valid region.

The RCC requested the proponent to finalize the language of the treatment of import and export price, for presentation to and approval by the RCC in the next meeting.

4. Main Business

Issues/ Topics Discussed	Remarks	Agreement/ Action Item
A. Market Participant Deregistration Procedures	As a background, Atty. Anosan informed the body that the PEMC formed a Technical Working Group (TWG) to develop the WESM Manual which will cover procedures on registration, post registration changes, suspension, deregistration and cessation of membership. She clarified that the deregistration procedures currently being developed are tied up with the disconnection policy issued by the Department of Energy (DOE). On the other hand, the development of the registration procedures intends to institutionalize the registration processes that are currently being practiced in the WESM. The following were the highlights of the presentation on the draft deregistration procedures: ➧ Summary of provisions relevant to deregistration which can be found in chapter 2 of the WESM Rules: • If the Market Operator issues deregistration notice, the participant is deemed deregistered from the date specified in the notice. • Deregistered trading participant shall not be allowed to re-register within a certain prescriptive period and until it has demonstrated that such infraction will not occur again. • Deregistered person's or entity's obligations and liabilities arising prior to deregistration remain unaffected by the deregistration.	

- Market Operator shall develop procedures for deregistration including grounds for deregistration and prescriptive period.

- Grounds for deregistration for WESM-related:

  - Member notifies Market Operator of cessation of WESM registration
  - Market Operator has issued suspension notice to the Member and its (MO's) reasonable opinion, the WESM member is incapable of rectifying cause of suspension
  - WESM member is found to be in breach of the WESM Rules and/or any of its manuals, and deregistration is imposed as penalty
  - WESM member is no longer eligible to be registered due to loss of some or all membership criteria under the WESM rules

- Grounds for deregistration for Non-WESM related:

  - Member has been issued disconnection order and has been physically disconnected from the grid, notwithstanding that it is not in default or in breach of its obligations in the WESM. (Alternatively, Member will only be suspended from the WESM until reconnected.)

- Deregistration procedures:

  - Initiation of deregistration procedures
    - Submission by WESM member of notice of cessation
    - Submission by the Market Operator of its report that a suspended WESM member is incapable of rectifying default event or satisfying prudential requirements
    - For Members found in breach, ECO has determined existence of breach and has recommended penalty of de-registration and PEM Board imposes de-registration as penalty
    - For disconnected Members, from receipt by the Market Operator of disconnection order and NGCP report
    - For Metering Services Provider, upon submission by MO of its report of MSP's breach/unethical behavior

  - Approval and issuance of deregistration notice
    - By PEM Board
    - Notice to include: (1) grounds; (2) date of effectivity; and (3) notice that member is still liable for outstanding obligations

- Issuance of notice of disconnection and disconnection order (for WESM-related grounds)

- Dissemination and publication of notices
  - Copies furnished to ERC, DOE, NGCP/NSP
  - Publication in website and newspapers

- Effectivity of deregistration
  - The later of the date in the notice or on date of receipt

- Effects of deregistration
  - Rights of WESM member, including trading in spot market, are immediately terminated upon effectivity
  - Outstanding liabilities and obligations shall remain valid and subsisting until fully settled

- Conditions for Re-registration:

  - Prescriptive period (for re-registration)
    - Prescriptive period or period when the deregistered member shall not be allowed to re-register
    - 6 months from deregistration

  - Conditions (WESM-related grounds)
    - After prescriptive period
    - Member has demonstrated to the satisfaction of the MO that the infraction will not occur again (MSCEM Manual)
    - Member has settled all obligations and liabilities to the WESM

- Re-registration Procedures

  - Publication and dissemination
    - Dissemination of WESM registry list and reconnection order to NGCP, DOE and ERC
    - Publication of registry list and reconnection order

  - Procedures (WESM-related)
    - Member to re-apply and notify ECO in writing
    - ECO, upon recommendation by MSC and approval by PEM Board, may impose additional conditions on right of member to register. Additional conditions approved by

PEM Board
- Application to be processed in usual manner, and upon approval, Re-connection Order shall be issued

- If due to disconnection, re-registration upon receipt of the Reconnection Order.

The following were the issues/concerns raised by the body:

Mr. Crisologo inquired whether PEMC, as part of the registration process, conducts an investigation to check whether the registrant has pending liabilities/obligations with other parties.

Atty. Anosan replied that PEMC does not conduct an investigation as obligation has nothing to do with registration. Only that one of the membership criteria set forth in the WESM Rules requires the entity not to be under external administration.

On Ms. Javier's query on whether a Customer is required to settle its financial obligations first before becoming a WESM member, Atty. Anosan clarified that it is not a precondition for registration. It would become a ground for disconnection which would eventually lead to deregistration from the WESM.

In response to Mr. Crisologo's inquiry on whether PEMC conducts a company study, Atty. Anosan explained that part of the procedures being developed is for the member to establish that it is continuously complying with the membership criteria.

Mr. Crisologo sought clarification if suspension entails deregistration from the WESM where a member can no longer draw power from the WESM. Atty. Anosan replied that suspension becomes effective upon disconnection.

Ms. Javier stressed the need to define conditions where the obligation lies, whether on the direct member counterpart or on the Market Operator, to disconnect indirect members whose contracts have been terminated.

President Melinda Ocampo and Atty. Criselda Funelas participated in the RCC discussion to address/clarify the issues/concerns raised by the RCC on the DOE Circular terminating the DWS and declaring a disconnection policy.

To address the concern previously raised by Ms.

	Javier on whether there is a requirement for the Customer to settle its financial obligations with its Supplier first before it can register as WESM Member, Atty. Funelas cited Section 3.2 of the DOE Circular which states that: *"Any DU, i.e. privately-owned utilities and electric cooperatives, which has arrearages with NPC and PSALM at the time of the effectivity of this Circular, shall be allowed to register with WESM; Provided, that such DU shall settle its arrearages or enter into a restructuring agreement with NPC and PSALM within ninety (90) days from the effectivity of this Circular. The failure of any electric power industry participant to comply with the requirement within the prescribed period shall constitute a violation of this Circular and shall result in the disconnection of the participant from the grid. For this purpose, the subsequent settlement or restructuring of the arrearages with NPC and PSALM is hereby considered a condition for the reconnection of the participant."* Ms. Javier requested further clarification on whether a generator can request disconnection of its customer which has financial obligations with the former but is registered with another supplier. Atty. Funelas confirmed that the customer can be disconnected provided that there is a provision in the contract between the two parties that says services will be terminated upon violation of the payment obligation. Otherwise, in the absence of such provision, there is no ground to request for disconnection. Likewise, Section 3.3 of the DOE circular was cited which states that: *"In the case of private entities, i.e. generation companies, distribution utilities, transmission service providers and other service providers, settlement arrangement of the outstanding obligations, if any, shall be governed by their existing bilateral contracts."* On Mr. Crisologo's query on whether NGCP has the discretion not to disconnect, Atty. Funelas explained that NGCP is not the deciding factor and that its obligation is only ministerial, in which case it is obliged to follow the request of the entity provided that the requesting entity has shown proof that it has complied with all the requirements and obligations under the Rules. On the matter of registration, Mr. Crisologo wanted to know whether the intending WESM member's history on non-payment can be made basis for non-registration. Atty. Funelas replied that PEMC does not question or look into the past obligations as long as it complies with all the requirements of the Market. Noting Mr. Crisologo's concern, President Ocampo	

	expressed that she will request the Implementation Review Committee (IRC) to consider making past obligations/liabilities of an entity as basis for non-registration in the WESM. On the issue on whether the policy promulgated by the DOE will automatically entail changes in the WESM Rules, Atty. Funelas opined that rules change process should be undertaken to align the rules with the DOE policy. President Ocampo shared with the body that the PEMC has already submitted to the ERC its proposed amendments to the OATS Rules which incorporate the disconnection policy.	
B. Proposed Changes to the WESM Rules regarding the Creation of IPP Administrator as Another Category of WESM Membership	The Secretariat furnished the body a copy of the consolidated comments received from various interested parties and from RCC members on the Proposed Changes to the WESM Rules regarding the Creation of IPP Administrator as Another Category of WESM Membership. The RCC noted that the rules change proposal will have an effect on the current composition of the PEM Board. In view of this and noting the differences of views/comments from the parties as well as from the RCC members, the RCC agreed to draft a resolution recommending for IPPA representation in the PEM Board and requesting the PEM Board to decide from which of the following group/sector does the IPPA belong to: (a) Generator; (b) Supply; (c) Create Another Category solely for IPPA; or (d) No separate category for IPPA.	The RCC agreed to draft a resolution recommending for IPPA representation in the PEM Board as well as leaving to the discretion of the Board the categorization of the IPPA.
C. Update on the 2010 RCC Work Plan	The RCC reviewed their 2010 RCC Work Plan to look into issues/items that the RCC has not addressed or discussed yet. Upon review, the RCC agreed to request the System Operator (SO) to present in the next meeting the issues/concerns relevant to the review on the Automatic Load Dropping (ALD) and Manual Load Dropping (MLD), which was directed by the PEM Board as one of the items to be prioritized for discussion/deliberation.	The RCC requested the System Operator (SO) to present in the next meeting the issues/concerns relevant to the review on the Automatic Load Dropping (ALD) and Manual Load Dropping (MLD), which was directed by the PEM Board as one of the items to be prioritized for discussion/deliberation.

5. Other Matters

a. Mr. Crisologo requested for the MAG to discuss in the next meeting the details of the secretariat support that will be provided by Generators.

b. The Secretariat showed to the RCC an article written by Ms. Myrna Velasco which was published in the Manila Bulletin on 04 August 2010. The article cited the RCC's lack of action on must-offer rule and security limit considerations.

Mr. Descanzo recalled that there were previous discussions by the RCC on the must-offer rule. Thus, he requested for the Secretariat to trace past discussions and resolution by the RCC on the must-offer rule. Likewise, he noted that the issue on security limit considerations is included in the 2010 RCC Work Plan, which the RCC has not addressed or discussed yet.

c. The RCC agreed to request clarification from the DOE on the DOE Circular No. 2010-03-0004 approving various amendments to the WESM Rules, particularly on the approved amendments to Section 8.6.4.2. Per the said DOE Circular, clause 8.6.4.2 is amended to read as follows:

"Upon recommendation of the Rules Change Committee, the PEM Board shall ratify the classification system of rule change proposals developed by the Committee pursuant to clause 8.2.9 that will delineate proposals ***that can be implemented upon PEM Board's approval and proposals that will require DOE's approval prior to implementation.***

All WESM Rules changes implemented prior to DOE's approval shall be processed and submitted to the DOE for approval; otherwise, the effectivity of such WESM Rules changes shall be no more than six (6) months.

Every year, such classifications shall be reviewed and amended, if necessary.

This classification shall be approved by the DOE."

Further, in order to understand the context of the rules change, the RCC requested the Secretariat to send through electronic mail the documentation relevant to the DOE Circular, which includes the original proposal submitted by the Special WESM Rules Review Committee (SWRRC).

6. Next Meeting

As agreed in the previous meeting, the RCC will hold its 38th meeting on 18 August 2010.

7. Adjournment

There being no matter to be discussed, the meeting was adjourned at 2:10 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)

Members:

Cherry Aquino-Javier Generation Sector AES Philippines (AES)	**Ralph T. Crisologo** Generation Sector SN Aboitiz Power (SNAP)
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 Angeles Power, Inc.
Gloria P. Gerilla-Teknomo Independent CPI-Energy Phils., Inc.	