

MINUTES OF THE 38TH MEETING OF THE RULES CHANGE COMMITTEE

Date : 18 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
Robinson P. Descanzo	-	Market Operator – PEMC
Conrado D. Pecjo	-	Supply Sector – Angeles Power, Inc.

MEMBER/S NOT PRESENT:

Raul Joseph G. Seludo	-	System Operator – NGCP
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OBSERVER/S PRESENT:

Eduardo B. Fernandez	-	DOE (Alternate)
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OBSERVER/S NOT PRESENT:

Debora Anastacia T. Layugan	-	ERC
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OTHERS PRESENT:

Ruth C. Perez	-	DOE
Ferdinand B. Binondo	-	DOE
Atty. Salvador S. Panga, Jr.	-	Dispute Resolution Administrator (DRA)
Prof. Alfredo Tadiar	-	Dispute Resolution Group
Engr. Rogelio M. Avenido	-	Dispute Resolution Group
Rachel P. Anosan	-	PEMC – MO
Isidro E. Cacho	-	PEMC – MO
Senen D. Fenomeno	-	PEMC – MO
Roel B. Calano	-	PEMC – BSMD
Celina R. Encarnacion	-	PEMC – Legal
Gladys G. Nebab-Zamora	-	PEMC – Legal
Ma. Cristina T. Suralvo	-	PEMC – ECO
Mark Anthony C. Andrada	-	PEMC – ECO
Hilary Romeli C. Florendo	-	PEMC – ECO
Phillip C. Adviento	-	PEMC – MAG
Orlando M. Pedarse	-	NGCP
Michael L. Pascual	-	NGCP
Henry V. dela Cruz	-	NGCP
Yari Miralao	-	AES – MPPCL

SECRETARIAT

Chrysanthus S. Heruela	-	PEMC – MAG
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Elaine D. Gonzales	-	PEMC – MAG
John Mark S. Catriz	-	PEMC – MAG
Karen D. Abregana	-	PEMC – MAG
Rheinhardt O. Banogon	-	PEMC – MAG

After determining the presence of a quorum, the 38th Rules Change Committee meeting was called to order by the Acting Chairperson Prof. Epictetus E. Patalinghug, at about 9:20 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, as amended. The RCC agreed to discuss the Main Business Items in the agenda in the following order:

- a. Proposed Urgent Amendments to the WESM Rules concerning Dispute Resolution Provisions and Dispute Resolution Market Manual (DRMM);
- b. Presentation on Automatic Load Dropping (ALD) and Manual Load Dropping;
- c. Proposed Changes to the WESM Dispatch Protocol Manual; and
- d. Update on the Must-Offer Rule.

2. Reading and Approval of the Minutes

The Minutes of the 37th RCC Meeting was presented and approved, as amended. The changes are clerical in nature.

3. Matters Arising from the Minutes of the 37th RCC Meeting

- a. **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.**

Mr. Roel B. Calano of the PEMC Billing, Settlement and Metering Department (BSMD) presented its proposed settlement mechanism for the regional application of Price Substitution Methodology (PSM) upon integration of Visayas grid in the WESM and in the event where network congestion exists in either Luzon or Visayas region or both.

As a background, Mr. Calano provided a brief explanation on the current settlement mechanism of PSM. Thereafter, he presented the proposed settlement mechanism for each of the following case (copy of the presentation attached as Annex "A"):

1. Case 1 – Visayas with normal market conditions is exporting power to Luzon which is subject to PSM.
2. Case 2 – Luzon, which is subject to PSM, is exporting power to Visayas with normal market conditions.
3. Case 3 – Visayas, which is subject to PSM, is exporting power to Luzon with normal market conditions.
4. Case 4 – Luzon with normal market conditions is exporting power to Visayas, which is subject to PSM.

Upon deliberation, the RCC agreed that only the basic principle of the proposed settlement mechanism, as presented by Mr. Calano, will be incorporated in the PSM Manual and that the details of the settlement formula and processes will be subject to further review and study by the BSMD. It was further agreed that MO will finalize the language of the regional application of the PSM, for presentation to and approval by the RCC in the next meeting.

b. Proposed Amendments to the WESM Rules regarding the Creation of IPP Administrator as Another Category of WESM Membership.

In order to come up with a resolution on the AES-MPPCL's proposal to create additional category for IPPA, the RCC continued the discussion on the same.

While Mr. Vicente Sioson acknowledged that there is a need to review the current representation of the PEM Board given the changes in the structure and ownership of the plants, he viewed that there is no need to amend the WESM Rules to create a separate category for IPPA. Moreover, he questioned whether it is within the authority/scope of the RCC to decide this matter considering it is a governance matter. He suggested for the proponent to bring their case to the Department of Energy (DOE).

Likewise, Atty. Liberty Dumlao opined that there is no need to change the allocation or the composition of the PEM Board.

Mr. Eduardo Fernandez shared that the PEM Board was reconstituted by the DOE precisely because there were WESM members with dual sectoral representation in the Board, which violates Section 1.4.2.6 of the WESM Rules that reads as follows: *"A company, firm or business, which is represented on the PEM Board in one category under clause 1.4.2.4, may not be represented by an individual in any other category under clause 1.4.2.4, regardless of whether the company, firm or business has interests in more than one sector of the Philippines electricity industry."*

On Mr. Ralph Crisologo's comments that the IPPA should fall under the generator, Mr. Yari Miralao rationalized that what might be detrimental to the generator who owns and operates the asset may not be the case for the IPPA.

Ms. Cherry Javier proposed for the RCC to consider the AES-MPPCL's proposal to add a separate category for the IPPA in the WESM Rules. However, on the issue on representation in the PEM Board, she suggested to place the burden of proof on the IPPA should they request/require for a seat in the PEM Board

Mr. Sioson commented that the "Generation Company" can be redefined for the purposes of defining the obligations to include that of the IPPA.

The RCC, upon review, viewed that the current definition of the "Generation Company" in the WESM Rules encompasses the functions of the IPPA; thus, there is no need to amend the WESM Rules to create a separate category/sector for IPPA. The WESM Rules defined the Generation Company as *"A person or entity authorized by the ERC to operate facilities used in the generation of electricity, and registered with the Market Operator in that capacity in accordance with clause 2.3.1."*

Moreover, the RCC viewed that the decision on restructuring the current composition of the PEM Board to include the IPPA is a governance issue/concern that is beyond its authority and must therefore be elevated to a higher authority, i.e. DOE.

Following the position expressed by the RCC, the AES-MPPCL conveyed their decision to withdraw their proposal, which the RCC accepted.

c. Update on the Market Participant Deregistration Procedures.

Atty. Rachel P. Anosan, the Chairman of the PEMC Technical Working Group (TWG) on the Market Participant Registration, Suspension and Deregistration apprised the RCC that

the procedures are still being finalized to harmonize with the disconnection guidelines that are likewise being finalized. The RCC Acting Chairperson requested that the procedures be presented to the RCC by September.

d. Clarification on the DOE Circular No. 2010-03-0004 concerning the Review of Classification of Rules Change Proposals.

This discussion arose out of the inconsistency in the wording of Section 8.6.4.2 as found in the DOE Circular No. 2010-03-0004 with that of the Section 8.6.4.2 that was approved by the RCC in RCC Resolution No. 2008-06 dated 14th October 2008.

Atty. Dumlao expressed her reservation on the new provision introduced in Clause 8.6.4.2 which reads as follows: *"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."* She viewed that the clause is prone to abuse, considering that the rules change shall only be implemented for a period of 6 months.

In response, Ms. Ruth Perez explained that is precisely the reason why the RCC must process and render and submit its decision within 6 months of the PEM Board's approval of the WESM Rules change.

Atty. Dumlao manifested and requested to be put on record that the RCC (then and now) did not pass any resolution approving and adopting the provision that eventually became Section 8.6.4.2 as found in the DOE Circular No. 2010-03-0004.

4. Main Business

Issues/ Topics Discussed	Remarks	Agreement/ Action Item
A. Proposed Amendments to the WESM Rules concerning Dispute Resolution Provisions and Dispute Resolution Market Manual (Urgent)	<p>The Dispute Resolution Administrator (DRA) Atty. Salvador S. Panga presented, for discussion and approval, the Dispute Resolution Group's (DRG) proposed urgent amendments to the WESM Rules and Dispute Resolution Market Manual (DRMM).</p> <p>Atty. Panga explained that the proposed amendments aim to address the procedural gaps in the WESM Rules and DRMM by incorporating appropriate/pertinent provisions in the Implementing Rules and Regulations (IRR) of the Alternative Dispute Resolution (ADR) Act of 2004 and the Special ADR Rules of Court, as well as to clarify and streamline the existing dispute resolution processes in the DRMM. He stressed that the proposed amendments are urgent in character in light of the first case that was filed before the DRG on 06 August 2010. Subsequently, the DRG has determined that the current dispute resolution set up in the WESM would entail procedural problems moving forward and so as to ensure that the case will move forward smoothly and appropriately, the DRG has decided to recommend immediate amendments.</p>	<p>The RCC approved in full the proposed amendments subject to the comments of the ERC considering the procedural mechanisms introduced by the DRG. Accordingly, the RCC signed the Resolution 2010-10 approving the proposed amendments for endorsement to the PEM Board (attached as Annex "B").</p>

To further enlighten the body, Atty. Panga provided an overview of the current dispute resolution set-up under the WESM Rules, which is governed by three-stage process: negotiation, mediation, and arbitration.

Atty. Panga briefly explained the dispute resolution process as follows:

If there is a dispute between WESM participants, the WESM Rules require them to undergo the negotiation process for a particular period. In the event that the negotiation is unsuccessful, then the concerned participants may file a dispute resolution before the DRA. Upon receipt of the DRA of that request, the DRA shall request, in writing, the MO for a list of other market participants, if any, who will be potentially affected by a resolution of the case. After which, the DRA shall furnish copies of the claim to the main respondent and to the other market participants who were identified by the MO as potentially being affected. The DRA will then assist the parties in appointing a mediator from among the members of the DRG and a mediation process shall then be conducted. Mediation is a process in which a neutral person tries to help the parties come up with a settlement. If the mediation process is successful, then the dispute is over. The parties shall accordingly submit a settlement agreement to the DRA and the DRA will in turn submit it to the MO for implementation. Otherwise, if the mediation process is unsuccessful, then the disputing parties shall have to undergo the arbitration process. In arbitration, a panel, which is constituted from among the members of the DRG, shall be tasked to conduct hearings and come up with a binding award that shall be enforceable upon the parties.

Atty. Panga stressed that before the case goes into arbitration, all documents/records/discussions relevant to the mediation process are deemed to be torn up. Moreover, a mediator is kept isolated and kept prevented from discussing mediation proceedings with the other DRG members so as to prevent undue influence on their judgment, thus preserving impartiality in the resolution of the case.

Atty. Panga highlighted the following revisions to the WESM Rules and DRMM:

- Removal of Sections 7.3.4.2 to 7.3.14 which provide for/detail the dispute resolution process and insertion of provision that the dispute resolution will be governed by the DRMM. This is so as to remove inconsistencies between the WESM Rules and the DRMM as well as to avoid confusion and address

potential problems that will arise in handling of any case that is going to be filed before the DRG.

- Deletion of Section 7.3.10.4 from the WESM Rules, which states that: *"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."* The DRG has ascertained that the said provision in the WESM Rules is no longer applicable under the current legal framework. This is in view of the issuances of the IRR of the ADR Act of 2004 and the Special ADR Rules of Court in late 2009 which basically say that when an arbitral award has been issued by the tribunal, the award becomes final and binding and no appeal or petition for certiorari in order to review the merits of the award will be allowed.
- Revisions to the DRMM to introduce a definition of costs and expenses, as defined by the IRR of ADR Act, which will constitute/form part of the arbitral award. While the WESM Rules and DRMM provide that an award by the DRP should also contain the costs that the losing party will suppose to pay, they do not define as to what the costs entail.
- Incorporation of the schedule of fees in the DRMM. The schedule of fees, Atty. Panga clarified, is copied from the schedule of arbitration fees of the Philippine Dispute Resolution Center which is the sole commercial arbitration institution in the Philippines.

The following are the salient points/issues raised by the body:

- On Ms. Javier's inquiry as to who will pay for the costs, Atty. Panga clarified that initially, the costs will be shared by the parties. But as part of the final award, the DRP will have to make an assessment of cost. In the assessment, it is usually the losing party who is required to pay; however, the panel is free to allocate such costs in whatever manner it feels is equitable. Atty. Panga further emphasized that the fees are not going to be shouldered by the market participants, only by the parties to the dispute. And if PEMC is a party, then PEMC will also have to pay its share of the cost.
- Atty. Celina Encarnacion viewed that the amount proposed under the schedule of fees might discourage the parties to file a case before the DRA.
- If such is the case, Atty. Panga responded that the

recourse of the market participant that is in dispute with other participant is to go to the ERC which is cheaper. However, based on the facts and figures gathered from the ERC's 2008 Annual Report, the ERC had resolved 501 cases in 2008. Of the 501 cases, 176 were filed in 2006 or earlier, 268 were filed in 2007, 57 were filed in 2008 and 418 additional cases were filed in 2008 that remained pending by the date of the annual report. The figures entail that 92.6% of all the cases that were filed had been pending at least a year before the decision, there is a 93% chance that it will be resolved after a year and 88% chance that it will be resolved after two years. Atty. Panga added that under Rule 43 of the Rules of Court, the decision of the ERC is appealable to the Court of Appeals (CA). While he acknowledged that the regular litigation cost in the ERC is very low, the probability that a final, binding and enforceable award shall be given after six (6) years might not be considered a cost-effective mechanism. In contrast, he explained, it takes between three (3) to nine (9) months for an arbitral proceeding to be decided from the time it is filed to the time of the final award, depending on the complexity of the case. Furthermore, the award issued by the DRP is final, binding and enforceable.

Atty. Panga wanted to stress that it is not his intention to diminish the capability of the ERC to settle disputes. He clarified that under Section 43 of EPIRA, the ERC has been conferred 21 different functions, of which the 21st function is to decide disputes.

- On Ms. Javier's inquiry as to whether the market participants have a choice not to go into the dispute resolution process, Atty. Panga explained that when a member applies for membership before the WESM, it signs a Market Participation Agreement in which it binds itself to participate in the dispute resolution process provided by WESM.
- Mr. Fernandez wanted to be clarified as to whether there is a need for PEMC and ERC to go into a formal agreement concerning the dispute resolution process.
- Atty. Panga replied that the ERC-PEMC Protocol already provides for such. Further, he pointed out that the DRG's jurisdiction over disputes is confined only to matters specifically covered by WESM Rules (i.e. dispute regarding settlement and payment, dispute regarding registration of market participants, dispute involving MO and SO with the other market

participants).

- On Mr. Crisologo's query as to whether the ancillary services agreement/contract between the SO and the participant should fall under the WESM Rules, Atty. Panga asserted that the Board might consider it self-serving for DRG to contemplate over what types of dispute ought to be part of the system. The DRG, however, will try to incorporate all possible revisions in the coming months.
- Just in case the RCC and PEM Board approve the proposed amendments by the DRG, the RCC Acting Chairperson wanted to know which rules, the existing or the amended, shall apply in deciding the case that is now before the DRA considering that it was filed on 06 August 2010.
- Atty. Panga replied that there are rules that can be implemented as soon as the PEM Board renders its approval.
- Atty. Celina Encarnacion expressed her concern on the possible impact on the market fees with the incorporation of arbitration fees. She explained that the market fee, which is paid by the market participant, is a cost recovery for all the services under the PEMC, which includes dispute resolution. She also expressed her concern over the fact that PEMC, which can be a party to a dispute, houses the DRG.
- Atty. Panga explained that in many of the cases particularly on billing and settlement issues, PEMC is acting not only on its behalf but also in behalf of certain unpaid market participants.
- On Mr. Sioson's suggestion to give the RCC further time to review the proposal and on the RCC's decision to have it provisionally approved, Mr. Heruela advised that Section 7.2 (b) of the Manual of Procedures for Changes to the WESM Rules (Rules Change Manual) requires the RCC to render its decision within 48 hours upon receipt of the urgent proposal, which was transmitted to the RCC on 16 August 2010.
- While Mr. Sioson has no particular objections to the proposed amendments, he viewed that ERC's comments/views must be sought considering the procedural mechanisms introduced by the DRG.
- Upon deliberation, the RCC determined that, in light of the filing of the first dispute case before the DRA,

	<p>the proposal falls within the definition of an urgent amendment set forth in Section 3.1 (c) of the Rules Change Manual.</p> <ul style="list-style-type: none"> After due deliberation, the RCC approved in full the proposed amendments subject to the comments of the ERC considering the procedural mechanisms introduced by the DRG. Accordingly, the RCC signed the Resolution 2010-10 approving the proposed amendments for endorsement to the PEM Board. 	
<p>B. Presentation on Automatic Load Dropping (ALD) and Manual Load Dropping (MLD)</p>	<p>Mr. Robinson Descanzo wanted to emphasize that the purpose of the presentation on the Automatic Load Dropping (ALD) and Manual Load Dropping (MLD) procedures is to gather inputs/suggestions from the body in order to come up with or enhance an existing manual.</p> <p>Mr. Orlando Pedarse from the Network Operation Division-Luzon Systems Operation (NOD-LSO) of NGCP presented the MLD procedures currently being practiced by SO during shortage of energy and/or line or equipment overloading as a result of line/equipment tripping. The procedures apply to the SO, DUs and directly connected customers in the Luzon Grid.</p> <p>The following were the highlights of the presentation:</p> <ul style="list-style-type: none"> General requirements for the implementation of MLD: <ol style="list-style-type: none"> Shortfall of electricity supply (under-generation) on the Day Ahead Projections (DAP) as performed by the Market Operators. Shortfall of electricity supply during a trading interval unpredictably happened. The system is in a state of emergency or extreme condition. The System Operator issued Red Alert Notice or Demand Control Imminent Warning Notice. There is a threat to system security. The amount of load to be dropped is shared by NGCP (25%) and MERALCO (75%). NGCP and MERALCO loads that are scheduled in Automatic Load Dropping shall not be included in the brownout schedule. Details of the MLD Procedures were discussed as follows: <ol style="list-style-type: none"> NOD/PNPD-LSO shall assess the Day Ahead Projection (1200H) provided by MO to determine 	<p>The RCC reached the following agreements:</p> <ul style="list-style-type: none"> NGCP to study the possibility of prioritizing dropping the load of DUs without BCQs. SO to submit a discussion paper explaining why it is not technically feasible to prioritize/select bilateral over spot during load shedding. The discussion paper to include the required cost in order to implement such procedure. Mr. Seludo to spearhead the review of the current ALD and MLD procedures to incorporate the best practices for the existing market design/structure.

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	<p>whether there is an electricity supply shortfall.</p> <ol style="list-style-type: none"> 2. If there is a generation deficiency, NOD-LSO shall determine whether the power supply shortfall is system wide or confined to a region. 3. Upon determination that the power supply shortfall is system wide, then NOD-LSO shall issue Red Alert Warning Notice to all affected Grid users by 1600H, a day ahead. The Red Alert Warning Notice shall specify the amount and the period during which the demand reduction will be required. 4. NOD-LSO shall identify the appropriate brown-out schedule to be implemented. If the power supply shortfall is confined to a region, only the areas affected shall be identified. <p>It was stressed that the maximum load to be dropped is 330 MW.</p> <ol style="list-style-type: none"> 5. NOD-LSO shall furnish copy of the brownout schedule to the affected Area Control Centers (ACCs) and DUs for dissemination. 6. NOD-LSO shall issue Demand Control Imminent Warning when a Demand reduction is expected within the next 30 minutes. The Demand Control Imminent Warning shall be effective for one (1) hour and shall be automatically cancelled if it is not re-issued by the System Operator. 7. NOD-LSO shall advise ACCs and DUs to implement MLD. 8. NOD-LSO shall declare Market Intervention. 9. NOD-LSO shall prepare Incident Report and issue System Advisory <ul style="list-style-type: none"> • In case of an occurrence of contingency (i.e. overloading of transmission line/equipment, voltages at connection points are beyond \pm of the nominal value, rearm ALD) that requires MLD as the corrective action, the following procedures shall be followed: <ol style="list-style-type: none"> 1. NOD-LSO shall first run a contingency analysis. 2. NOD-LSO shall implement Manual Load Dropping. 3. NOD-LSO shall prepare Incident Report and 	
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issue System Advisory.

The following were the issues/concerns raised in the course of the presentation:

- Mr. Pedarse disclosed that in order to prevent certain generators from bidding at a higher price, the SO usually does not divulge that there is a deficiency in the system. Mr. Heruela, on the other hand, viewed that the SO is trying to implement/impose an anti-competitive mitigating measure that is beyond its authority and that is supposed to be the role of the ERC.
- Mr. Augusto Sarmiento expressed his concern over the fact that DUs with bilateral contracts are affected by the manual load dropping and thus suggested for SO to review this particular procedure.
- Mr. Pedarse requested the MO to furnish them with a copy of the bilateral contracts so that they can review and revise the current MLD scheme and thus address the concern raised by Mr. Sarmiento.
- Mr. Descanzo shared that there have been initiatives to draft procedures with regard to the prioritization of bilateral over spot during shortage of supply. However, the SO will still have to assess the extent of such procedure. Mr. Crisologo added that one of the reasons given by SO as to why such procedure could not be implemented was that the equipment is not technically capable of carrying out such.
- Mr. Henry Dela Cruz explained that one of the technical limitations is that there are multiple users connected to one feeder. He added that there are feeders that are shared by DUs with non-bilateral and DUs with bilateral.
- Ms. Javier suggested for SO to prioritize dropping the load of DUs without Bilateral Contract Quantities (BCQs).
- Mr. Heruela expressed that restricting the MLD to DUs with bilateral contracts will have implications on the market:
 - First, are the generators and distributors willing to divulge all of their contracts to the SO?
 - Second, do the generation companies want to be prevented from carrying out their bidding or business strategies?

	<ul style="list-style-type: none"> • Mr. Sarmiento opined that since all DUs have already submitted their compliance plans to the ERC, there should be no reason as to why the equipment is not at par with the current requirements. He clarified that these compliance plans are in connection to the requirement for all DUs to install circuit breakers at all connection points. • Mr. Descanzo suggested to request Mr. Raul Seludo, as the SO representative in the RCC, to coordinate the process of reviewing and refining the current ALD and MLD procedures to consider/incorporate the best practices for the existing market structure. • Mr. Crisologo proposed that a brief discussion paper explaining why it is not technically feasible to select bilateral over spot be submitted to the RCC. <p>Noting the issues and suggestions raised, the RCC reached the following agreements:</p> <ul style="list-style-type: none"> • NGCP is requested to study the possibility of prioritizing dropping the load of DUs without BCQs. • The RCC requested a brief discussion paper from the SO, explaining why it is not technically feasible to prioritize/select bilateral over spot during load shedding. Likewise, the RCC requested for the discussion paper to include the required cost in order to implement such procedure. • Mr. Seludo is requested to spearhead the review of the current ALD and MLD procedures to incorporate the best practices for the existing market design/structure. 	
C. Proposal to Amend the WESM Dispatch Protocol Manual	<p>Mr. Senen D. Fenomeno of PEMC presented, for discussion, the proposed amendments to the WESM Dispatch Protocol Manual.</p> <p>The following were the highlights of the presentation:</p> <ul style="list-style-type: none"> • Description of the proposed amendments: <ul style="list-style-type: none"> • Enhance the MMS Security Limits Functionality to enable the use of security limits to set the HVDC schedule • Requires MMS software enhancement • Rationale of the proposed amendments: 	The RCC approved, as amended, the Proposed Amendments to the WESM Dispatch Protocol Manual.

- Reduce the HVDC related pricing errors
- Provide flexibility for future policies on HVDC operation (i.e. HVDC can be fixed at certain level such the results of one island will not result the other)

✚ Before proceeding with the discussion on the details of the proposed amendment, the current treatment of HVDC was briefly explained:

- Import/export between Luzon and Visayas is allowed and is nominated by the System Operator through security limits
- When HVDC nomination is not met
 - Pricing error is issued for the affected interval
 - With integrated Luzon-Visayas market
 - Offer prices in one island influences prices on other island
 - Pricing error in one island may affect the other island

✚ Features of the Enhanced HVDC Nomination:

- An enhancement that extends the capability of the System Operator to nominate fixed HVDC level and direction
- HVDC market schedule is independent of market condition (meaning not dictated by the supply and demand)
- Luzon and Visayas market prices are independent and cannot influence each other
- Pricing error is only confined in the affected region

Mr. Fenomeno presented the details of the proposed revisions on the following Sections of the Dispatch Protocol Manual:

- Section 4.4 (Submission of Contingency List) of Appendix A.4 (Contingency Planning);
- Section 4.2.8 (Security Limits) of Appendix A.5 (Pre-Dispatch Market Projection);
- Section 4.2.8 (Security Limits) of Appendix A.6 (Real Time Dispatch Schedule); and
- Attachment A.8 (Data Format for Security Limits).

Accordingly, the RCC approved the proposal, subject to the following revision:

- Certain provision in Section 4.2.8 of Appendices A.5 and A.6 in the Manual is further amended to read as follows: "HVDC

	<p><i>transmission limits may vary constraining power transmission <u>or allowing a fixed power transfer</u> from one region to another. The HVDC limits are modeled. <u>These limits will be used as the new HVDC limit.</u></i></p>	
D. Update on the Must-Offer Rule	<p>Following the RCC's request in the previous meeting to trace past discussions on the Must-Offer Rule and Security Limit Considerations, Ms. Elaine D. Gonzales clarified that both issues were included in the list of Market Dysfunctionalities submitted by the Special WESM Rules Review Committee (SWRRC) to PEMC on 14 August 2008. She noted that while the must-offer was previously discussed in the RCC, no corresponding rules change proposal was submitted, however. She further informed that in response, the MO submitted its report to the PEM Board on 27 October 2008 and RCC on 18 November 2008 to clarify and propose resolutions to the operational issues and market dysfunctionalities cited by the SWRRC.</p> <p>To further shed light on the matter, Ms. Gonzales presented to the RCC excerpts of both SWRRC and MO Report.</p> <ul style="list-style-type: none"> Excerpt of the SWRRC report entitled, "Problems and Operational Issues Learned from Philippines WESM", on the issue of Must-Offer Rule and Maximum Available Capacity: <p><i>Allegations of breach of the "Must Offer" Policy often crop up due to the contentious definition of "maximum available capacity". The current definition curtails competitiveness as it does not consider valid constraints that prevent generators from complying with the Must Offer Policy. There is an existing misinterpretation on the definition of the "Maximum Available Capacity".</i></p> Excerpt of the MO's report entitled, "Clarifications and Proposed Resolutions to the Operational Issues and WESM Problems Cited by the DOE SWRRC": <p><i>The issue of not knowing the definition of "Maximum Available Capacity" is more of an excuse for withholding capacity. The generators are expected to know how much they could commit for each interval of a trading day. To our mind, the valid issue against the "must offer" rule is the application of the "price-taker at Pmin" when spot prices are extremely depressed due to very low offer prices for quantities covered by</i></p> 	<p>The RCC Acting Chairperson requested the RCC members to submit their inputs/suggestions concerning the Must-Offer to the MO representative in the RCC, for consolidation.</p>

bilateral contracts.

On Mr. Crisologo's comment that the must-offer policy is not clearly spelled out in the WESM Rules, Ms. Javier cited Appendix A.1.1 (c) of the WESM Rules which contains the following provision: "*The maximum combined capacity of generation and reserve offers must not be less than the maximum available capacity of the generator.*"

Likewise, Ms. Gonzales cited clause 3.5.51 of the WESM Rules which states that: "*Each Scheduled Generation Company including Generation Companies with bilateral contracts shall submit a standing generation offer for each of its scheduled generating units for each trading interval in each trading day of the week in accordance with the timetable.*"

Mr. Crisologo viewed that the provision stated in Appendix A.1.1 (c) does not denote mandatory requirement for the generators to offer their capacities, but only says that when they do offer, the offered capacity must not be less than the maximum available capacity of the generator.

Mr. Crisologo opined that the Must-Offer policy should be reviewed and revisited so as to come up with a policy that will be beneficial to both generators and consumers. He also noted that in the absence of penalty, there is no means of enforcing such policy.

In order to resolve the issues surrounding the Must-Offer Rule, Mr. Descanzo suggested for the members to submit their respective recommendations/proposal, for consolidation, to which the RCC Acting Chairperson agreed. Thereupon, the RCC Acting Chairperson requested the RCC members to submit their inputs/suggestions concerning the Must-Offer Rule to Mr. Descanzo.

5. Next Meeting

The RCC Acting Chairperson suggested to set the next meeting on the 1st Wednesday of September considering that the RC was not able to agree on the schedule of its next meeting.

6. Adjournment

There being no matter to be discussed, the meeting was adjourned at 5:10 P.M.

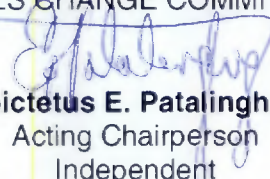
Prepared by:


Rheinhart O. Banogon


Noted by:



Elaine D. Gonzales

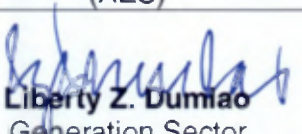
Approved by:
RULES CHANGE COMMITTEE

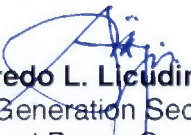

Epictetus E. Patalinghug
Acting Chairperson
Independent
University of the Philippines
(UP)

Members:



Cherry Aquino-Javier
Generation Sector
AES Philippines
(AES)

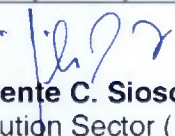

Ralph T. Crisologo
Generation Sector
SN Aboitiz Power
(SNAP)



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


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

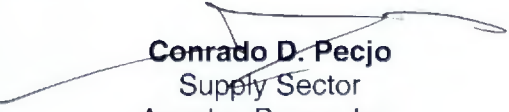
Raul Joseph G. Seludo
Transmission Sector
National Grid Corporation of the Philippines
(NGCP)

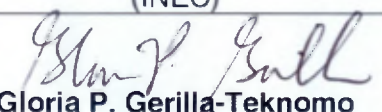

Robinson P. Descanzo
Market Operator
Philippine Electricity Market Corporation
(PEMC)


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.

ANNEX "A"



Wholesale Electricity
Spot Market

Application of Price Substitution Mechanism With Visayas Commercial Operation

Outline

- Settlement Background – PSM
- Proposed settlement mechanism on regional application of PSM

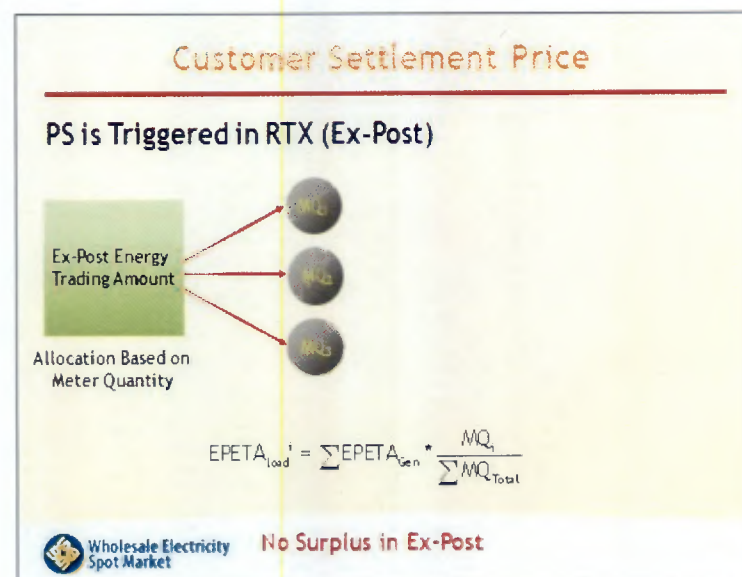
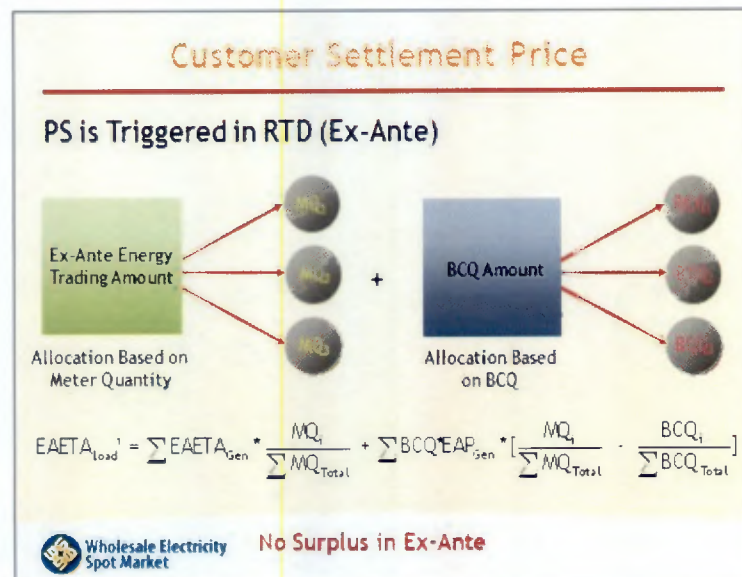
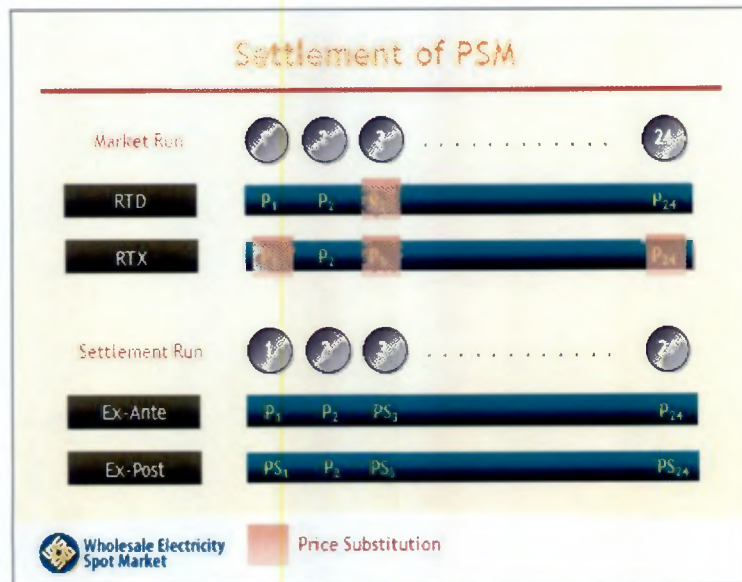


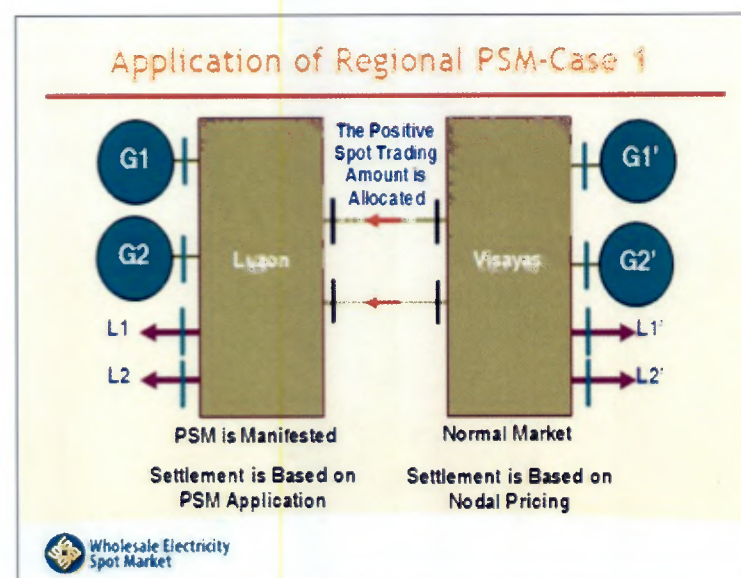
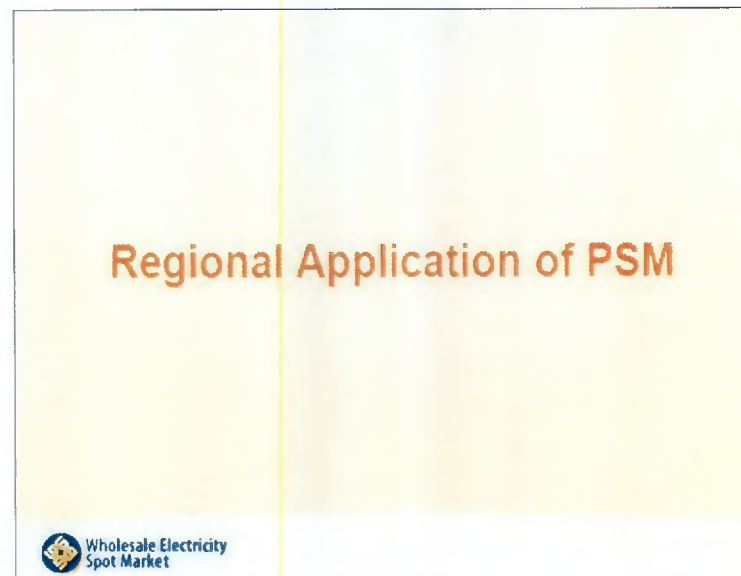
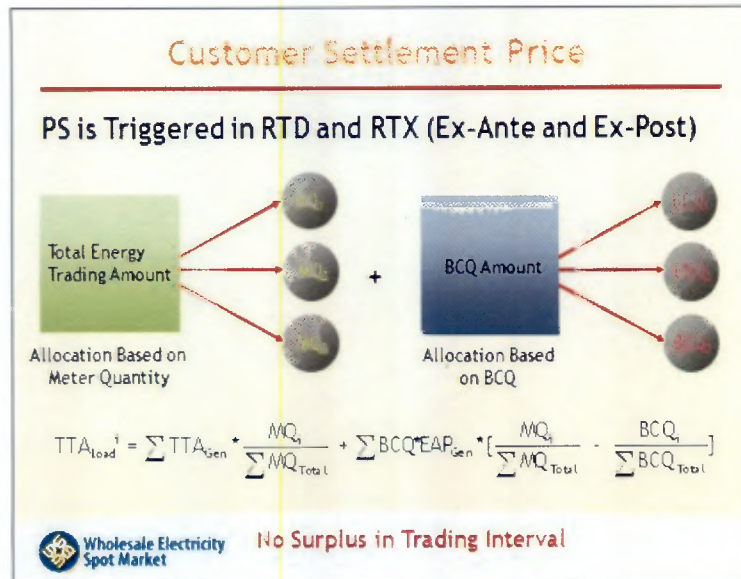
Wholesale Electricity
Spot Market

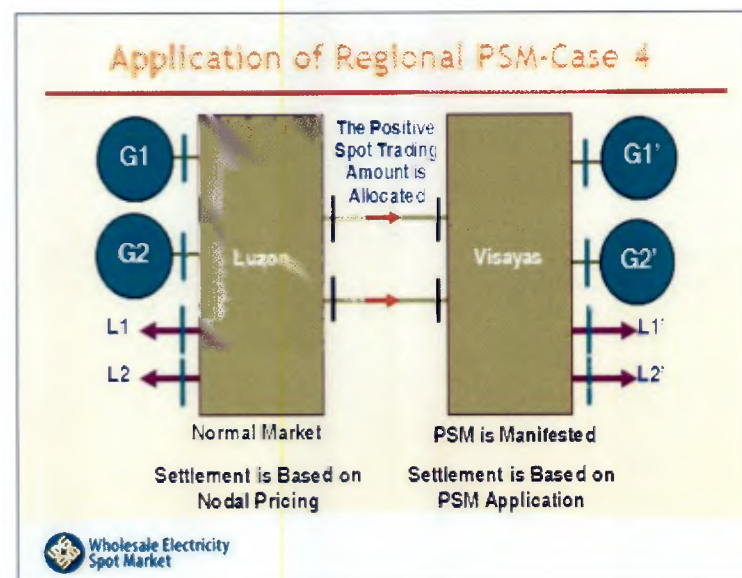
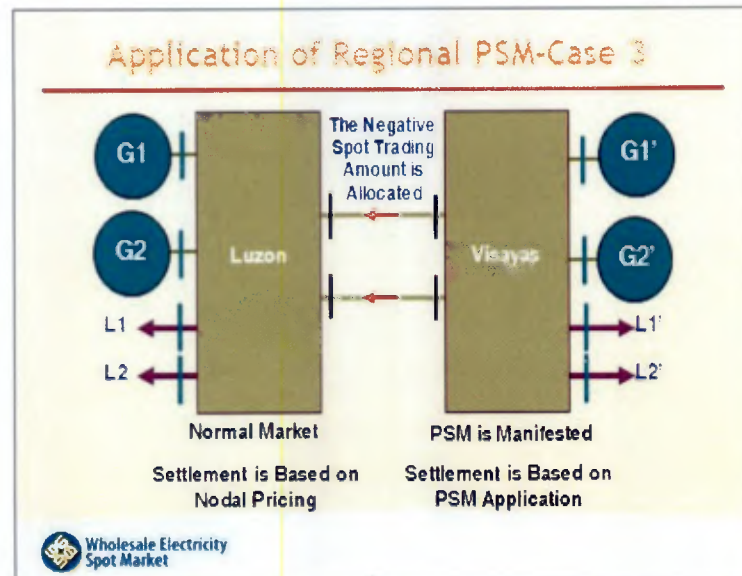
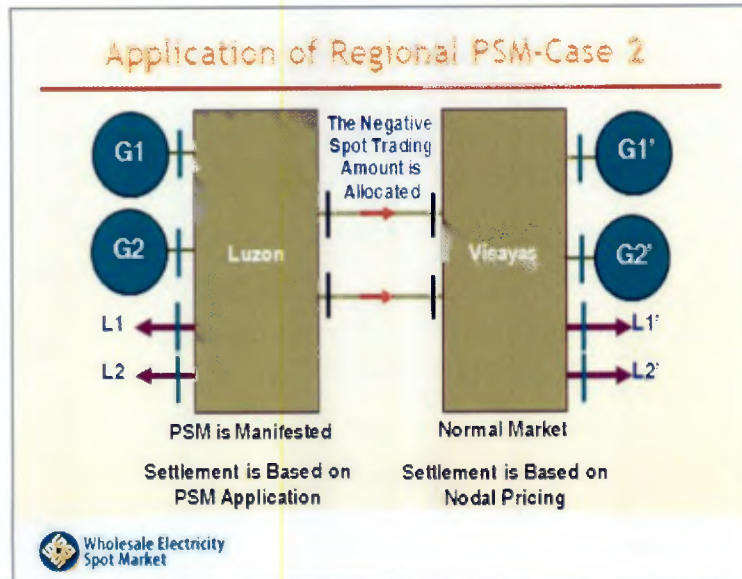
Settlement Background



Wholesale Electricity
Spot Market







Annex "B"



**WHOLESALE ELECTRICITY SPOT MARKET
RULES CHANGE COMMITTEE**

RESOLUTION No. 2010- 10

**Proposed Amendments to the WESM Rules
and Dispute Resolution Market Manual**

WHEREAS, the Proposed Amendments to the WESM Rules concerning Dispute Resolution Provisions was approved by the previous Rules Change Committee (RCC) on 10 December 2008;

WHEREAS, during the 44th PEM Board (the "Board") Meeting on 24 February 2010, the Board remanded to and directed the newly-constituted RCC to further deliberate on the proposed rules change to incorporate new developments in the market and the power industry;

WHEREAS, during the 32nd RCC Meeting on 07 April 2010, in compliance with the Board's directive, the proposed rules change was presented to the RCC, for further discussion;

WHEREAS, during the 33rd RCC Meeting on 05 May 2010, the RCC agreed to approve the proposed rules change, incorporating the RCC comments and suggestions;

WHEREAS, during the 50th Board Meeting on 29 July 2010, the Board referred the RCC-approved rules change in the WESM Rules to the new members of the Dispute Resolution Group (DRG) for their appropriate inputs and comments;

WHEREAS, the DRG submitted their proposals to amend the WESM Rules and the Dispute Resolution Market Manual (DRMM) on 13 August 2010 to address the procedural gaps in the WESM Rules and incorporate the latest legal developments and requested the President of the PEMC for certification of the proposals as URGENT Amendments ;

WHEREAS, the DRG proposed that the dispute resolution procedures relative to all matters governed by Clause 7.3.1.1 shall be governed by the Dispute Resolution Market Manual, which is to be incorporated as an integral part of the WESM Rules;

WHEREAS, on 16 August 2010, the President of PEMC certified the DRG proposals as URGENT Amendment pursuant to Section 3.1 of the Manual of Procedures for Changes to WESM Rules;

NOW THEREFORE, we, the undersigned and in behalf of the sector we represent, hereby resolve as follows:

RESOLVED, that the proposed amendments to the WESM Rules and DRMM (attached as Annex "A") is adopted and approved in full subject to the comments of the ERC;

RESOLVED FINALLY, that the proposed amendments to the WESM Rules be endorsed to the PEM Board for approval.

Done this 18th day of August 2010, Pasig City.

Rules Change Committee
Resolution No. 2010-10
Proposed Amendments to the WESEM Rules and Dispute Resolution Market Manual

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 Abotiz Power (SNAP)
<i>PSALM has issues on time / OAB's jurisdiction</i> Liberty Z. Dumlaog 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)	<i>10.9.9</i> Vicente C. Sison <i>with recommendations for review by our lawyer</i> Distribution Sector (PDU) Manila Electric Company (MERALCO)
Jose P. Santos Distribution Sector (EC) Ilocos Norte Electric Cooperative (INEC)	Conrado D. Pecjo Supply Sector Angeles Power, Inc.
Robinson P. Descanzo Market Operator Philippine Electricity Market Corporation (PEMC)	<i>Glenn Z. Brill</i> Gloria P. Gerilla-Teknomo Independent CPI-Energy Phils., Inc.
Augusto D. Sarmiento Distribution Sector (PDU) Dagupan Electric Corporation (DECORP)	
	Certified True and Correct: <i>Elaine D. Gonzales</i> Elaine D. Gonzales RCC Secretary PEMC