

MINUTES OF THE 40TH MEETING (SPECIAL) OF THE RULES CHANGE COMMITTEE

Date : 04 October 2010
Time : 9:00 A.M.
Venue : PEMC Board Room
18th Floor, Robinsons-Equitable Tower
Ortigas Center, Pasig City

MEMBERS PRESENT:

Epictetus E. Patalinghug	-	Acting Chairperson/Independent – UP
Cherry Aquino-Javier	-	Generation Sector – AES
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.

MEMBER/S NOT PRESENT:

Ralph T. Crisologo	-	Generation Sector – SNAP
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OTHERS PRESENT:

Ferdinand B. Binondo	-	DOE
Eduardo B. Fernandez	-	DOE
Isidro E. Cacho, Jr.	-	PEMC
Senen D. Fenomeno	-	PEMC – MO
Celina R. Encarnacion	-	PEMC – Legal
Gladys G. Nebab-Zamora	-	PEMC – Legal
Hilary Romeli C. Florendo	-	PEMC – ECO
Bienvenido C. Mendoza	-	PEMC – MAG
Roel B. Calano	-	PEMC – BSMD
Pablo B. Anido	-	PSALM
Abner B. Tolentino	-	PSALM
Arnold C. Francisco	-	PSALM

SECRETARIAT

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

After determining the presence of a quorum, the 41st Rules Change Committee meeting was called to order by the Acting Chairperson Prof. 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 40th RCC Meeting was presented and approved.

2. Business Arising from the 39th 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. Isidro Cacho presented, for discussion and approval, the following revised proposed settlement of export and import generator trading amounts which is detailed in Section 8 of the PSM Manual:

"8.2.1. Where generation quantity is exported from the region with congestion ("congestion region") to the region without congestion ("non-congestion region"), the following shall apply –

- a) The generator trading amount corresponding to exported quantity ("export trading amount") shall be deducted from the generator total trading amounts that will be allocated and collected from the customers of the congestion (i.e., exporting) region. The export trading amount will be collected from the customers of the non-congestion (i.e., importing) region.*
- b) The export trading amount is determined pursuant to the methodology for determining customer trading amounts provided for in Section 7 of this Manual, using the export metered quantities as basis for allocation.*

8.2.2. Where generation quantity is imported from non-congestion region, the following shall apply –

- a) The trading amount corresponding to such quantity ("import trading amount") will be added to the generator total trading amounts that will be allocated to and paid for by the customers in the congestion (i.e., importing) region following the methodology provided for in Section 7 of this Manual.*
- b) The import trading amount shall be determined by multiplying the import metered quantities by the nodal price at an assigned reference market trading node in the non-congestion region. The appropriate reference market trading nodes shall be determined by the Market Operator and shall be published at the market information website."*

Mr. Cacho further clarified that initially the reference market trading nodes that will be used are the market trading nodes located at Naga, Camarines Sur for Luzon and Ormoc, Leyte for Visayas.

Mr. Roel B. Calano presented, for approval, the manner of calculation for the regional settlement of PSM, using actual figures for better understanding. To summarize, during instances where the congested region is exporting power to the non-congested region, the following methods shall apply:

- The generator total trading amount in the congested region shall be calculated using the substitute (PSM) price
- The generator trading amount corresponding to the exported quantity (export trading amount) will be deducted from the generator total trading amount that will be collected from the customers of the congested region.
- The export trading amount shall be determined by multiplying the export metered quantities by the nodal or normal price of the non-administered region
- The export trading amount will be collected from the customers of the non-congestion region
- The non-congested or normal region will be settled using the normal price.

Mr. Calano clarified that if the condition is reversed and that the congested region is importing power from the non-congested region, the same method of calculation shall be applied except that the import trading amount (trading amount corresponding to the

imported quantity) will be added to the generator total trading amount that will be collected from the customers of the congested region. The import trading amount will be determined by multiplying the import metered quantities by the nodal price of the non-administered region and will be paid to the generators of the said region.

Mr. Robinson Descanzo noted that the policies being proposed for the two cases differ from one another, where, for the first case, the exported power is being priced using the price of the importing region. On the other hand, the exporting power is being priced using the price of the exporting region for the second case. He opined that the settlement should adopt the same policy, regardless of the conditions.

Mr. Calano rationalized that the principle being derived in the proposed regional application of PSM is to prioritize the normal prices or to preserve the prices of the normal region. Thus, it was proposed that during conditions where the congested region is exporting to and importing power from the non-congested region, the power flow through HVDC shall be settled using the normal price of the non-congested region.

Based on the proposed settlement mechanism as presented by Mr. Calano, Ms. Javier deduced that the principle being derived in the proposed regional application of PSM is to prioritize the normal prices or to preserve the prices of the normal region. Thus, during conditions where the congested region is exporting to and importing power from the non-congested region, the power flow through HVDC shall be settled using the normal price of the non-congested region.

Mr. Descanzo raised his concern on which region should rightfully shoulder the incremental cost as a result of the price difference between the congested and non-congested region.

Mr. Vicente Sioson remarked that the issue, if there is a cross-subsidization, will be the magnitude of the cross subsidy and whether or not the other region will accept such.

Mr. Descanzo replied that the magnitude will depend on the difference between the PSM price and the normal price. He added that the scenario could also be reversed where the normal price is higher than the normal price.

Mr. Bienvenido Mendoza sought clarification on the impact of cross declaration of Bilateral Contract Quantities (BCQs) on the regional settlement, to which Mr. Calano clarified that there is none.

Mr. Descanzo expressed his concern that the principle that must be adopted is that the cost recovery should match the cost of production where the settlement system will not distinguish whether the price is normal or falls under the PSM. However, the current settlement system does not allow for such, as asserted by Mr. Calano and additional processes are needed in order to implement such concept. Noting the limitation of the current settlement system, Mr. Descanzo suggested for the RCC to approve the proposed regional settlement mechanism, as presented by Mr. Calano. Further, he suggested including in the PSM Manual the detailed formulation and sample computation for the different cases.

The RCC agreed to defer for the next meeting the approval of the proposed revised PSM Manual pending the inclusion of the detailed formulation (to include detailed explanation and sample computation) which will be attached as Appendix of the PSM manual. The detailed formulation should also take into account the cross declaration of Bilateral Contract Quantities (BCQ) between Luzon and Visayas regions.

3. New Business

Issues/ Topics Discussed	Remarks	Agreement/ Action Item
<p>A. Proposed Amendments to the WESM Dispatch Protocol Manual, Issue 5.0 and Procedure for Determining Ex-Post Nodal Energy Prices, Issue 1.0 regarding the Exclusion of Contingency List from the RTX Process</p>	<p>Mr. Senen Fenomeno presented, for discussion, the PEMC's proposed removal of contingency list as input in the Ex-Post (RTX) process. The proposed amendments were presented as follows:</p> <ul style="list-style-type: none"> • Background on the Grid Operating Criteria <p>The Security and Reliability of the Grid shall be based on the Single Outage Contingency Criterion (Philippine Grid Code).</p> <ul style="list-style-type: none"> - Single Outage Contingency criterion specifies that the Grid shall continue to operate in the Normal State following the loss of one Generating Unit, transmission line or transformer. - Normal State – the grid operating condition when the system frequency, voltage and transmission line and equipment loading are within their normal operating limits, the Operating Margin is sufficient, and the Grid configuration is such that any fault current can be interrupted and the faulted equipment isolated from the grid. • Background on the Scheduling Process <p>Probable contingencies are imposed in the scheduling and pricing process to ensure that the system will remain in normal operating condition when such contingency event happened given the schedules generated by the MMS. The System Operator (SO) submits probable contingencies in the form of Contingency List</p> • PEMC's Proposed Amendments <ul style="list-style-type: none"> - Exclude contingency list as input in the ex-post process with the following rationale: <ul style="list-style-type: none"> ✓ To be Consistent with WESM Rules Clause 3.10.6 (d) where the ex-post nodal energy price for each market trading node shall be determined assuming "a market network configuration and network state which the Market Operator, in consultation with the System Operator, in its reasonable option determines to best represent network 	

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	<p>conditions pertaining for the duration of the trading interval, as provided for by the procedures developed under clause 3.10.7;".</p> <ul style="list-style-type: none"> ✓ To ensure timely provision of market information by: <ul style="list-style-type: none"> ○ Reducing pricing error issuance ○ Automating the current market re-run process <p>Since the proposal is deemed necessary to the launching of the WESM Visayas commercial operations, Ms. Javier suggested for PEMC to resubmit it as URGENT AMENDMENTS.</p>	
<p>B. Proposed New WESM Manual on the Criteria and Guidelines for the Issuance of Pricing Error Notices and Conduct of Market Re-Run</p>	<p>Mr. Fenomeno presented, for discussion, the PEMC's proposed new WESM Manual on the Criteria and Guidelines for the Issuance of Pricing Error Notices (PEN) and Conduct of Market Re-Run (MRR).</p> <p>Like the rules changes proposal in the preceding item, the proposed new WESM Manual is likewise identified as relevant to the commercial operations of WESM Visayas.</p> <p>The details and contents of the new WESM Manual were presented as follows:</p> <ul style="list-style-type: none"> • Rationale <p>WESM Rules Clause 3.10.5 (a), as amended by Department of Energy (DOE) Circular No. DC 2010-03-004 dated 21 March 2010, requires the MO to develop and publish the procedures for the determination of market re-run prices. Such procedures shall provide the criteria and conditions for the market re-run and the timetable for implementation.</p> <p>Mr. Fenomeno clarified that the proposed new WESM Manual intends to institutionalize the internal processes currently being followed by the MO on the issuance of PENs and conduct of MRR. This is in view of the abovementioned amendments to the WESM Rules.</p> <ul style="list-style-type: none"> • Purpose <p>The Manual establishes the –</p> <ul style="list-style-type: none"> - Criteria that will guide the MO in determining whether or not the market prices are in error as 	

	<p>would warrant the issuance of a pricing error notice and the application of the corresponding substitute prices;</p> <ul style="list-style-type: none"> - Guidelines for the performance by the MO of a re-run of the Market Dispatch Optimization Model (MDOM) in cases where a pricing error notice is issued for the ex-post market runs; - Guidelines for applying the rules on price substitution as set forth in the WESM Rules and in the PSM Manual; and - Guidelines for application of the WESM Rules Clauses 3.9.6 and 3.10.5 and the Manual when either the Visayas or the Mindanao grids are integrated in the WESM <ul style="list-style-type: none"> • Categories of Pricing Errors <ul style="list-style-type: none"> - Network Congestion Pricing Errors (all relevant details pertaining to this type of pricing error are being referred to the PSM Manual) - Non-Congestion Pricing Errors • Criteria for Determining Non-Congestion Pricing Errors <ul style="list-style-type: none"> - Resulting prices are reflective of constraint violation coefficients (CVCs) which include under-generation, over-generation, base case, contingency, transmission constraint group, reserve - Ex-post market run did not generate prices and schedule due to stoppage of, non-completion of or non-convergence of the ex-post workflow. The Manual provides clarification that there is no pricing error when no feasible prices and schedules are generated in the ex-ante, and that market intervention is declared instead. - Erroneous, inconsistent and inappropriate input data - No HVDC nomination is submitted by SO or the nominated flow is inconsistent with the actual flow • List of erroneous and inconsistent data that can result to a pricing error <ul style="list-style-type: none"> - Improper use of security limits which may cause generators to be scheduled more than their offered quantity or capability - Conflicting outage schedule and security limit nomination which may cause generator scheduling of a generator even on outage - Outage schedule is inconsistent with actual outages where generators included in the 	
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	<p>outage schedule will not be scheduled even when connected to the grid and has valid offers</p> <ul style="list-style-type: none"> - Bad and non-updating system snapshot data (e.g. breaker status, load levels, etc.) - Errors resulting from limitations of Market Network modeling <ul style="list-style-type: none"> • Regional Occurrence of Pricing Error <ul style="list-style-type: none"> - Pricing error shall only be applied in the region where the pricing error have occurred - For interconnected regions, pricing error is considered confined in one region when – <ul style="list-style-type: none"> ○ The scheduled flow in the HVDC is binding or equal to the value nominated by SO, the direction of flow is as nominated and is consistent with the actual flow; or ○ The contingency constraint violation or base constraint violation is localized and exists in one region only as reflected in the market results • Performance of Market Re-Run <ul style="list-style-type: none"> - Market re-run shall be performed using the same set of input data used in the original ex-post run with corresponding adjustments or corrections as may be appropriate and performed in the offline mode of MMS using the same software release and market network model version - MRR shall be performed and completed within reasonable time after the relevant trading interval - MRR cases and solutions included in the proposed Manual are based on experience and actual practice • Application of Substitute Prices <ul style="list-style-type: none"> - Non-congestion pricing errors <ul style="list-style-type: none"> ○ When there is pricing error in ex-ante market runs, the valid ex-post prices shall serve as the ex-ante prices ○ When there is pricing error in the ex-post market run, the prices are determined in the market re-run - Application of substitute prices shall be in accordance with the PSM Manual when there is an occurrence of congestion pricing errors and simultaneous occurrence of congestion and non-congestion pricing errors 	
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	<ul style="list-style-type: none"> • Issuance and Publication of Pricing Error and MRR Results <ul style="list-style-type: none"> - Pricing Error Notices <ul style="list-style-type: none"> ○ issued immediately after each trading interval when the pricing error occurs ○ issued by electronics means or other alternative means ○ the Market Operator shall inform the TPs of corrections of pricing error notices previously issued - Daily Summary of Pricing Errors is published in the market information website within two (2) business days - Summary of pricing errors for the billing month and results of market re-run are published after each billing period and upon completion of market re-runs <p>On Atty. Liberty Dumlao's request to clarify the word "binding" as used in the Manual, Mr. Fenomeno replied that the term pertains to condition when the power flow is equal to the HVDC limit. Mr. Fenomeno also clarified that even when the HVDC is binding which means that one region is in normal state, there is still the possibility of pricing error occurrence; however, the MO could not issue a regional pricing error.</p> <p>On Ms. Javier's query on whether the NSS will be computed by region or as a whole when the HVDC is not binding, Mr. Calano replied that the NSS will be computed as a whole.</p> <p>Mr. Vicente Sioson suggested to consolidate all WESM Manuals relating to pricing into one Manual.</p>	
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4. Other Matters

Mr. Descanzo informed the RCC in advance of PEMC's intention to submit additional proposed urgent rules changes concerning Administered Price Determination Methodology (APDM) and Must-Run Unit (MRU) compensation as part of the preparations for the launching of the WESM Visayas commercial operations. Accordingly, the RCC agreed to include them in the agenda of the next RCC meeting.

5. Next Meeting

The RCC agreed to hold its next meeting on 13 October 2010 with the following agenda:

a. For Discussion/Approval:

- i. Proposed Amendments to the Price Substitution Methodology Manual
- ii. Proposed Changes to the Changes to the WESM Dispatch Protocol Manual Issue 5.0 and Procedure for Determining Ex-Post Nodal Energy Prices
- iii. Proposed new WESM Manual on the Criteria and Guidelines for the Issuance of Pricing Error Notices and Conduct of Market Re-Run
- iv. Proposed Changes to the Administered Price Determination Methodology
- v. Proposed Changes to the MRU Manual

b. For Discussion:

- i. Presentation on the refinement of the Automatic Load Dropping (ALD) and Manual Load Dropping (MLD) procedures
- ii. Market Participant Registration, Suspension and Deregistration Procedures

6. Adjournment

There being no matter to be discussed, the meeting was adjourned at 12:30 P.M.

Prepared by:

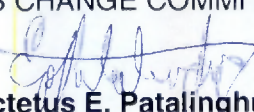

Rheinhart O. Banogon

Noted by:



Elaine D. Gonzales


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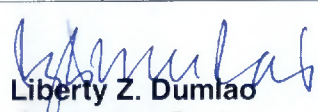
Approved by:
RULES CHANGE COMMITTEE

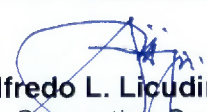

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Independent
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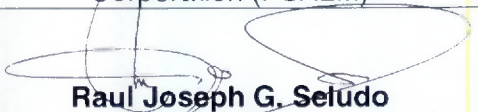
Members:

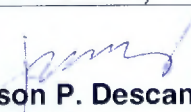

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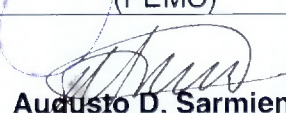

Liberty Z. Dumlao
Generation Sector
Power Sector Assets and Liabilities Management
Corporation (PSALM)

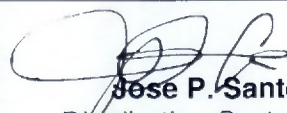

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