



Market Surveillance Committee Quarterly Accomplishment Report

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January 2024

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Philippine Electricity Market Corporation –
Market Assessment Group
and approved by the
Market Surveillance Committee

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The information contained in this document is based on data that are subject to continuous verification by the Philippine Electricity Market Corporation (PEMC). The same information is subject to change as updated figures come in.

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1.0 Introduction

Pursuant to Section 1.6.2 of the WESM Rules and Section 3.1 of the Market Surveillance Manual (MSM) Issue 1, the Market Surveillance Committee (MSC) carried-out its mandate for the monitoring and assessment of market outcomes in the WESM and the Retail Market¹, with the PEMC-Market Assessment Group (MAG) as its primary support unit.

In performing its responsibilities, the MSC conducted regular and special monthly meetings (as necessary), and frequently communicated through email and other platforms to deliberate on various matters under its jurisdiction and other market issues.

For the covered period, the MSC transitioned to a hybrid setup in conducting its meetings, where at least once every quarter, the meeting will be held physically at the PEMC Office, while the rest shall be conducted through online platforms (e.g., Microsoft Teams or Zoom). Accordingly, during the 4th quarter of 2023, the MSC conducted the following regular and special meetings:

- Regular Meeting No. 2023-12 held on 12 October 2023 (Online)
- Special Meeting No. 2023-13 held on 23 October 2023 (Online)
- Regular Meeting No. 2023-14 held on 20 November 2023 (Online)
- Special Meeting No. 2023-15 held on 28 November 2023 (Online)
- Regular Meeting No. 2023-16 held on 14 December 2023 (Hybrid²)

The MSC Accomplishments during the covered period are outlined in the succeeding sections of this Report.

2.0 Activities on Market Monitoring and Assessment

2.1 Assessment of Market Outcomes in the Wholesale Electricity Spot Market

2.1.1 Monitoring and Assessment of Market Outcomes in the WESM

Pursuant to its mandate under Section 3.1 (b)³ of the MSM, the MSC continued with its monitoring and assessment of market outcomes, as well as the bidding behavior of generator-trading participants (TPs).

¹ Section 1.5.1, Retail Rules: *The provisions of Chapter 1 of the WESM Rules shall apply with respect to the governance of the integration of retail competition in the WESM, the operations of the Central Registration Body, and the participation and transactions in the WESM of Suppliers and Contestable Customers.*

² With attendees present both at PEMC Office and via Zoom

³ MSM Section 3.1(b): *The MSC shall have following responsibilities: (a) xxx; (b) prepare and submit monthly monitoring reports, quarterly retail market monitoring reports, annual reports; xxx*

The Market Assessment Report (MAR) is prepared for the purpose of monitoring and assessing the efficiency and competitiveness of the WESM under different timescales and market conditions. The periodic reports include an assessment of market behavior, through the analysis of market monitoring indices, as contained in the Catalogue of Market Monitoring Data and Indices (CMMDI).

2.1.1.1 Monthly Market Assessment Reports

During the quarter, the MSC assessed WESM results for the billing periods of September 2023 to November 2023, as discussed in the Monthly Market Assessment highlights prepared by MAG. The highlights of which are as follows:

Billing Period	MSC Assessment Highlights
September 2023	<p>For Luzon and Visayas grids, average system demand has decreased slightly, from 11,531 MW to 11,410 MW, which was attributed to lower temperature brought about by the rainy season. An increase in capacity offered was noted from 13,909 MW to 14,114 MW resulting in higher effective supply from 12,695 MW to 12,802 MW, and an average supply margin of 788 MW from 726 MW. Also, an observation of a decrease in the WESM average price from PHP5,346/MWh to PHP4,937/MWh was noted during the billing period.</p> <p>Meanwhile, the Mindanao region experienced a decline in the system demand from 1,840 MW to 1,830 MW. Despite the observed decrease in the demand, the prices in the region still increased from PHP4,607/MWh to PHP5,488/MWh. Furthermore, a higher effective supply was observed from 2,112 MW to 2,222 MW despite the surge in average capacities on outage during the period from 299 MW to 706 MW.</p>
October 2023	<p>For Luzon and Visayas regions, average system demand slightly increased, from 11,410 MW to 11,570 MW, despite the lower temperature brought about by the rainy season. On the other hand, a decrease in the capacities offered was noted from 14,114 MW to 13,070 MW. Despite this, the effective supply still increased from 12,802 MW to 12,853 MW. Meanwhile, a dip in the average supply margin of 810 MW from 788 MW was noted during the billing period. Consequently, WESM average price was noted to have increased from PHP4,937/MWh to PHP6,485/MWh.</p> <p>For the updates on the market outcomes in WESM Mindanao, there was an observed increase in the system demand from 1,830 MW to 1,905 MW. Furthermore, a higher effective supply was likewise observed from 2,178 MW to 2,443 MW due to the notable decline in the capacities on outage during the period from 706 MW to 597 MW. In view of this, prices in the region decreased from an average of PHP5,488/MWh to PHP4,306/MWh.</p>
November 2023	<p>The average system demand in Luzon and Visayas experienced a slight decline, dropping from 11,570 MW to 11,228 MW, due to the onset of rainy season. An increase in the capacities offered from 13,070 MW to 13,339 MW was noted during the covered period. Despite this, the effective supply still decreased from 12,853 MW to 12,762 MW due to the increase in ramp limited capacities. Meanwhile, there</p>

Billing Period	MSC Assessment Highlights
	<p>was an observed increase in the average supply margin from 710 MW to 745 MW during the billing period. Due to the interplay between the supply and demand, WESM average price was noted to have decreased during the billing period, from PHP6,485/MWh to PHP4,005/MWh.</p> <p>In Mindanao, there was an observed decrease in the system demand from 1,905 MW to 1,878 MW. Furthermore, a higher effective supply was observed from 2,178 MW to 2,443 MW due to the notable decline in the capacities on outage during the period from 597 MW to 406 MW. In view of this, prices in the region decreased from an average of PHP4,306/MWh to PHP 3,471/MWh.</p> <p>During the billing period, the Committee has noted the following significant incidents:</p> <ul style="list-style-type: none"> • Tripping of Negros-Panay 138kV submarine cable that led for the automatic-shifting of Panay sub-grid to islanding operations on 17 November 2023. • Tripping of multiple feeders and power plants due to 7.2 magnitude earthquake in Mindanao on 27 October 2023.

MARs are prepared upon availability of the processed and validated data received from both Market Operator and System Operator.

2.1.1.2 Quarterly Market Assessment Reports (Q3 2023)

Aside from the monthly assessment of market outcomes, the MSC has likewise reviewed and approved the results of the assessment for the 3rd quarter of 2023 which outlines the results of market performance, trends, and drivers for the covered period. Highlights of the observations during the covered period are as follows:

- System Demand increased despite the onset of Rainy season during the 3rd Quarter of 2023.
- High utilization of the Geothermal Plants as they are now recategorized as preferential dispatch plants.
- Consistent lower prices were observed during the quarter despite high demand level, due to relatively high level of supply margin and lower offered prices.

The report was then approved and published in the WESM website and subsequently submitted to DOE and ERC, for their information and reference.

2.1.2 Review of Over-riding Constraints

Pursuant to MSM Section 3.1 (b.iii)⁴, the MSC reviewed the assessment results on the over-riding constraints which provides for a summary of impositions from the System Operator (SO) to generator-TPs for the September to November 2023 billing periods.

2.1.2.1 Monthly Over-riding Constraints

Luzon & Visayas

- Majority of the events were categorized under non-security limit, mainly related to the conduct of commissioning tests.
- The noted security limit impositions were mainly for the designation of generators as Must-Run Units (MRUs) to address real power balancing and frequency control in the grid. There was a total of 2,355 events imposed during the billing periods, all of which were imposed during October 2023.
- The increase in impositions experienced during the November 2023 billing period was mainly related to the commencement of commissioning tests of solar plants, as well as the conduct of performance test of natural gas plants.

Mindanao

- Similar with the previous quarter, majority of the events were imposed as MRU to address system voltage requirements of the grid.

The Committee likewise discussed the recent updates from IEMOP on the status of plants under commissioning test. The complete and approved reports were duly published on the PEMC website for information.

2.1.2.2 Quarterly Over-riding Constraints (Q3 2023)

In addition to the monthly reports prepared by the Committee, the MSC likewise conducted monitoring of the over-riding constraints impositions for longer periods. During the covered period, the Committee submitted the 3rd quarter report which presents the assessment on the over-riding constraints imposed by the System Operator to all three (3) regions. Highlights of the report are as follows:

⁴ MSM Section 3.1(b) The MSC shall have following responsibilities: (a) xxx; (i) Review Over-Riding Constraints; xxx

- Decrease in the overall impositions due to the decrease in impositions of Must Run Unit (MRU) in Mindanao and completion of commissioning test of a solar plant.
- Majority of the impositions were due to the conduct of commissioning tests of new plants which was the trend for the past few years.
- Increase in the total impositions was primarily a result of commencement of commissioning tests of new plants and extension of Provisional Certificate of Approval to Connect (PCATC).

The report was then approved by the Committee and was published in the WESM website and submitted to DOE and ERC, for their information and reference.

2.1.3 Market Trigger and Interesting Pricing Events

On a regular basis, the MSC was apprised on the summary of facts and observations on the market triggers monitored for a particular billing period in consideration of the thresholds used for the monitoring activities, as reviewed, and revised by the Committee. The highlights of the reports were as follows:

Billing Period	Luzon & Visayas Highlights	Mindanao Highlights
September 2023	A total of fifty-nine (59) price spike events in the Luzon and Visayas regions – nineteen (19) of which happened during peak hours. During the billing period, no intervals were observed to have been issued with secondary price cap (SPC).	A total of one hundred eighty-two (182) price spike events during the billing period, one hundred seventy-six (176) of which occurred during peak hours. Same with the Luzon and Visayas, no intervals were observed to have been issued with SPC.
October 2023	A total of 267 price spike events in the integrated Luzon, Visayas, and Mindanao regions – seventy-seven (77) of which happened during off-peak hours.	
November 2023	A total of sixty-seven (67) price spike events in the integrated Luzon, Visayas, and Mindanao regions – forty-seven (47) of which happened during off-peak hours with Thursdays having the highest number of events.	

2.1.4 Review of Market Intervention Events

The MSC discussed the results of MAG's assessment on Market Intervention (MI) events which occurred in September to November 2023 in consideration of the available information provided on the submitted reports and supporting documents by either the National Grid Corporation of the Philippines – System Operator (NGCP-SO) or the Independent Electricity Market operator of the Philippines – Market Operator (IEMOP-MO).

The summary of the incidents is provided in the table below, which were all found to be justified:

Initiated by	Date	Intervals	Region/s Affected	Classification	Reason
SO	12 September 2023	1935h – 2005h (7 intervals)	Luzon, Visayas, and Mindanao	Force Majeure	Unimplementable Real-time Dispatch (RTD) schedule arising from multiple OPEN generator breaker status in Luzon and Visayas
SO	17 September 2023	1115h-1130, 1200h-1215h, 1230h, 1400h-1430h, 1450h-1525h, 1600h-1610h (27 intervals)	Luzon, Visayas, and Mindanao	Force Majeure	Unimplementable RTD schedule arising from multiple OPEN generator breaker status in Luzon and Visayas
SO	18 September 2023	1255h-1305h (3 intervals)	Luzon, Visayas, and Mindanao	Force Majeure	Unimplementable RTD schedule arising from multiple OPEN generator breaker status in Luzon and Visayas
SO	23 September 2023	1310h-1345h (8 intervals)	Visayas and Mindanao	Force Majeure and Threat to System Security	Unimplementable RTD posing a threat to system security
SO	01 October 2023	6 intervals (1915h–1940h)	Luzon	Threat to System Security	Unimplementable RTD schedule caused by multiple tripping of transmission lines and power plants in Luzon
MO	29 October 2023	0005h – 0010h (2 intervals)	Luzon, Visayas, and Mindanao	Force Majeure	Stoppage of Real Time Dispatch (RTD) Run arising from the software failure of Bid Transfer Program to provide complete input data to the Market Dispatch Optimization Model (MDOM)

The corresponding review reports which detailed the MSC's assessment and recommendations on the abovementioned MI events were duly submitted to the PEM Board, for approval and submission to the Department of Energy (DOE) and Energy Regulatory Commission (ERC) ⁵.

⁵ Market Surveillance Manual Issue 1.0 Sections 5.3.6 and 5.3.7.

2.2 Assessment of the Retail Market (Retail Competition and Open Access or RCOA and Green Energy Option Program or GEOP)

Pursuant to the Catalogue of Retail Market Monitoring Data and Indices (CRMMDI) Section 3.1.2, the MSC regularly monitored and assessed the performance of the Retail Market, as provided for under the Retail Market Assessment Report, which discusses the results of monitoring indices and provides indications on how the retail market, both the RCOA and GEOP, performed during the period in review.

During the covered period, the MSC reviewed the Retail Market Assessment Report on the RCOA and GEOP for the 26 July 2023 to 25 September 2023 billing period, as submitted by MAG. Some highlights of the report are as follows:

2.2.1 Q3 2023 Retail Market Assessment Report

RCOA

- There were twenty-two (22) recorded initial switches and seven (7) cessations yielding to an additional fifteen (15) registered Contestable Customers (CCs) when coming from 2023-Q2, thereby raising the total tally of registered CCs in the market to 1,965, equivalent to a 61% of the entire population of eligible end-users.
- 33 out of 39 registered Retail Electricity Suppliers (RES) and 3 out of 15 registered Local RES have active contracts with CC/s.
- Calculations based on the Herfindahl-Hirschman Index (HHI) indicated that the 2023-Q3 remained to be a concentrated market in both the no. of CCs engaged and the energy consumptions served. On a per RES basis, the HHI was recorded to be a moderately concentrated market.

GEOP

- There were twenty-seven (27) additional recorded initial switches to become GEOP End-Users which is equivalent to an 11% increase from 2023-Q2 resulting in a total tally of registered GEOP End-Users in the market at 263.
- By region, majority (71%) of GEOP End-users were located in Luzon, while the remaining 29% were Visayas-based.
- There were 17 registered RE Suppliers and 12 Suppliers of Last Resort (SoLRs), all of which were also registered under the RCOA.

The MSC likewise noted the activities currently undertaken by the RCOA Technical Working Group (TWG) which envisions, among others, a streamlined process for the participation to the RCOA.

The Quarterly Retail Market Assessment Report was approved by the MSC, submitted to the PEM Board, the DOE, and the ERC, and was likewise published on the PEMC website.

3.0 Coordination with Various Agencies and Entities

3.1 Meeting with Market Operator (MO)

3.1.1 Discussion regarding Market Intervention Events

Pursuant to its mandate under the WESM Rules to monitor the occurrence of MI events, the MSC invited the MO for a coordination meeting to discuss the details of the MI event initiated by the MO that occurred last 23 September and 29 October 2023. The details of the discussion were used to supplement the assessment of MSC to the aforementioned events.

After a series of coordination and discussion, the MSC completed its review of the events and has submitted its report to the PEM Board.

4.0 Proposed Amendments to WESM Rules and Market Manuals

4.1 Proposed Amendments related to the Market Intervention / Market Suspension Procedures

The MSC received updates on the final revisions to proposed MI/MS procedure amendments, incorporating insights from recent Rules Change Committee (RCC) deliberations. The discussion covered the submission process for impact and actual costs from MI/MS, the MO's role in declaring MI during unimplementable RTD in coordination with NGCP-SO, and the wording for force majeure events affecting grid security.

Detailed consideration was given to the definition of force majeure, leading the MSC to propose specific wordings emphasizing the unforeseen and uncontrollable nature of such events. Ultimately, the MSC recommended maintaining the declaration process, with categorization serving as a reference if events are deemed justifiable. Following this comprehensive discussion, the MSC approved the final proposal for submission to the RCC.

4.2 Proposed Amendments to the WESM Penalty Manual

- **On Pricing Error Notice (PEN)**

The MSC was briefed on the outcomes of the coordination meeting held with the MO and SO concerning concerns raised about the issuance of PEN. During the said meeting, it was underscored that the complete elimination of PEN is not feasible. The proposal made by a participant suggesting PEN as a Pricing Condition Category for claiming Additional Compensation was reiterated but had already been dismissed by the Department of Energy (DOE) due to insufficient merit. The MO and SO reached a consensus to issue a joint statement or response to address the MSC's inquiries, subject to its consideration in the proposal.

During the Committee's regular meeting, the MSC confirmed its decision to still proceed with drafting the proposed amendments for submission to the DOE. This decision considers preventive measures provided by the MO and SO.

- **Penalty Provisions on the Ancillary Services Monitoring Manual**

The MSC extensively reviewed the proposed Ancillary Service Monitoring (ASM) Manual, focusing on penalty provisions for the upcoming Reserve Market launch in December 2023. Concerns were raised about the effectiveness of a PHP 10,000 financial penalty, leading to discussions on the MSC's authority for higher penalties as clarified by the Enforcement and Compliance Office (ECO). Contractual matters with Ancillary Services Providers were addressed, confirming NGCP's exclusive role in the Reserve Market. After thorough deliberations, the MSC approved the proposed penalty framework for submission to the RCC and PEM Board.

In a special meeting on 23 October 2023, discussions centered on amendments to Section 8 of the ASM Manual, emphasizing criteria for contract rate utilization and suggesting an illustration for penalties computed over a full day of continuous breach. In view of the Committee's mandate related to penalties, the Committee consulted the PEM Board on the proposal. Upon further deliberation, the MSC endorsed the proposed amendments to the DOE for consideration.

- **Transfer of Authority of Collecting and Utilization of Penalties**

Recognizing the Committee's jurisdiction over the WESM Penalty Manual, PEMC, as the lead proponent, submitted to the MSC its proposed amendments which mainly aims to:

- Transfer the responsibility to collect penalties from the Market Operator to the WESM Governance Arm;
- Reflect the proposed utilization of penalties collected;
- Remove the provisions relating to the enforcement remedies;
- Revise the timeline for the implementation of the enforcement sanction; and
- Reflect other changes which include clerical correction, removal of redundant provisions, use of common terminologies in reference to Market Rules and relevant Market Manuals and updating of glossary and rule references due to previous amendments.

During its committee meetings, the MSC deliberated the merits of the proposal and conducted a line-by-line review of the proposed amendments. The said proposal was published in PEMC website to seek for comments from any interested parties. Comments received from the proposal were likewise discussed by the MSC.

Following the MSM and the relevant provision of the Penalty Manual, the MSC will consult the PEM Board during its January 2024 meeting.

5.0 Other Activities and Accomplishments

5.1 Discussion on the Notice from PEM Board on the Investigation of SO

In response to the MSC Request for Investigation, the Compliance Committee (CC) conducted an investigation which focused on a potential breach of the SO's obligations outlined in the Market Surveillance Manual. The result of the said investigation was then presented and approved by the PEM Board.

As requested by the MSC, the Enforcement and Compliance Department (ECD), CC's technical and administrative support, presented the result of their investigation relative to the abovementioned request. After the discussion, the MSC has noted the result of the said investigation.

5.2 Discussion on the Outline for the Assessment on the Economic Impact of Market Intervention/Suspension

The MSC was apprised on the status of activities as well as the coordination with other markets relative to the Study on the Economic Impact of Market Intervention/Suspension (MI/MS). The study aims to explore practices in various jurisdictions through a survey, guiding the determination and quantification of MI/MS effects on electricity markets. In view of the recent updates, the Committee deliberated the outline and proposed roadmap for the study along with the issues encountered.

Further, concerns were raised regarding the tight timeframe to complete the study by the end of 2023. The MSC emphasized the exploration of existing mathematical models to quantify costs during MI/MS events.

To address the timeframe challenge, the MSC approved an extension of the timeline, which includes activities such as discussions with Australian representatives alongside MAG and survey on the other jurisdictions' best practice. The discussion with the Australian counterpart encompasses their existing processes, rules, frameworks, and methodologies related to 'Intervention' in the Australian electricity market. The following topics were discussed during the meeting:

- Frameworks and the process of declaring market intervention.
- Compensations and incentives for plants providing ancillary services in the grid.
- Methodologies in determining the price when the intervention occurred.

Upon deliberation, the MSC approved the outlined plan, incorporating suggestions and revisions and the updated timeline of completion until Q1 2024.

5.3 Discussion on the Issues Paper on Possible Improvement to Retail and Open Access

The MSC reviewed and approved the Issues Paper providing potential improvements to the operations of RCOA. The study's main objective is to identify best practices from other retail electricity markets, focusing on market structure, deregulation, consumer choice, price mechanisms, and safeguards.

Key recommendations include advocating for a full retail market rollout in the Philippines to align with the Electric Power Industry Reform Act of 2001 (EPIRA) objectives and empower consumers for increased market competition. The paper suggests giving consumers flexibility to revert to the regulated market, ensuring adaptability and access to suitable pricing options.

Inspired by Singapore and New Zealand, the paper proposes adopting diverse regulatory and market mechanisms to foster fair pricing, encourage innovation, and offer various pricing options based on market dynamics.

The paper recommends enhancing the regulatory framework, drawing parallels with Singapore's successful approach. It encourages the ERC to consider measures like requiring electricity retailers to hedge a significant portion (e.g., 80%) of their retail contract portion and providing a performance bond for any unhedged position to fortify resilience against market volatility.

The approved paper will be submitted to the DOE and ERC for consideration and will be published on the website.

5.4 Result of the MSC Presentation to the PEM Board regarding the Market Intervention

The MSC was apprised of the highlights of the discussions of the PEM Board regarding the market intervention event that occurred last 23 September 2023 MI which was initially attributed to the Market Operator (MO).

In response to the PEM Board's directives from the November meeting, further discussions with the Technical Committee (TC) and MO on the details of the event were conducted to further verify on whether the 23 September 2023 is indeed attributable to the MO. The revised report was presented and subsequently received approval from the PEM Board.

The MSC is currently composed of five (5) members, namely, Atty. Doroteo B. Aguila as the Chairperson, Engr. Arthur N. Escalante, Engr. Christian M. Orias, Engr. Ferdinand P. Villareal, and Dr. Justin Ranier S. Chan.