

PEM Audit Committee

2014 Annual Report

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A. 2014 ACCOMPLISHMENTS**1. Submission of PAC Reports**

In accordance with the PEM Audit Manual, the PAC submitted to the PEM Board, for information, the following reports:

a. PAC 2013 Annual Report¹

- This provides a summary of the accomplished activities of the PAC in 2013 and its work plan for 2014.

b. PAC 4th Market Operations Audit Summary Report²

- This provides the objectives, scope and results of the Independent Operational Audit of the Systems and Procedures on Market Operations (4th MO Audit) covering the period 26 June 2012 to 25 June 2013 (AP2013-01) conducted by PA Consulting Services Ltd. (PA) of New Zealand.

2. 2nd Metering Arrangements Review ("AP2014-01")

Subsequent to the completion of the 1st Metering Arrangements Review and in accordance with its mandate³ to conduct an annual review of the metering arrangements, the PAC and the Technical Working Group (TWG) headed by the Department of Energy (DOE) commenced with the 2nd Metering Arrangements Review (Audit Project 2014-01) covering the period 26 December 2011 until 25 December 2013.

The PAC conducted the following activities to kick-off the 2nd Metering Arrangements Review:

- Consultation Meeting with the National Grid Corporation of the Philippines (NGCP) on 12 December 2013;
- Consultation Meeting with 23 registered Retail Competition and Open Access registered Metering Services Providers on 06 February 2014; and
- Publication of the draft Terms of Reference in the WESM Website from 27 December 2013-15 January 2014, for solicitation of comments of all participants.

In consultation with PEMC, DOE, Metering Service Providers, and market participants, the PAC approved the proposed scope of work for the 2nd Metering Arrangements Review. The PAC then conducted the following activities for the selection of external auditor for the said project:

- Publication of Request for Expression of Interest from 28 February until 06 May 2014;
- Shortlisting of Interested Firms on 15 May 2014

¹ COR-INT-PAC-2014-02 Submission of PAC 2013 Annual Report to the PEM Board dated 07 February 2014

² COR-INT-PAC-2014-04 Submission of PAC Report on Audit Project 2013-01 to the PEM Board dated 29 May 2014

³ Clause 4.5.5.4 of the WESM Rules, Clause 4.8 of the Retail Rules and PEM Audit Manual Section 11

- Issuance of Request for Proposal to six (6) qualified firms on 16 May 2014;
- Pre-Bid Conference on 30 May 2014;
- Opening of Technical Proposal on 16 June 2014;
- Evaluation of Technical Proposal on 17-22 June 2014
- Opening of Financial Proposal on 23 June 2014; and
- Negotiation Meeting on 09 July 2014

After completing the requirements of the general bidding process for the selection of an external auditor for the Metering Review, the audit service contract was awarded to Intelligent Energy Systems Pty (IES) in partnership with Alliance of Power and Energy Xponents and Deloitte Philippines on 11 July 2014.⁴

The 2nd Metering Arrangements Review commenced on 21 July 2014 and included the same scope work as that of the 1st Metering Arrangements Review, except for the inclusion of Retail Competition and Open Access (ROA) processes and systems. The following entities were covered by the review:

- a. WESM-MSP - National Grid Corp. of the Philippines (NGCP)
- b. ROA MSPs
 - i. Manila Electric Company (MERALCO)
 - ii. San Fernando Electric Power and Light Corp. (SFELAPCO); and
 - iii. Angeles Electric Company (AEC)
- c. Market Operator- PEMC

The Metering Arrangements Review intends to accomplish the following:

- a. assess the adequacy of the metering standards and security systems and processes in the WESM and ROA; and
- b. confirm that the actual metering arrangements comply with the WESM Rules, ROA Rules and associated manuals and relevant provisions of the Philippine Grid Code (PGC) taking into consideration actual performance in relation to matters, which include but are not limited to:
 - i. timeliness in addressing Meter Trouble Reports (MTRs);
 - ii. adequacy and conformance to good utility practice of preventive maintenance performed on metering equipment, including completeness of maintenance programs, test results and sealing records;
 - iii. availability and reliability of the meter communication links and interfaces to the meter data collection of system of MSP;
 - iv. adequacy of the process used by the Market Operator in estimating and editing of meter data;
 - v. reliability of communication link and interfaces between MSP and Market Operator; and
 - vi. security of meter data during transmission and receipt between the MO and MSP.

⁴ PAC-RESO-2014-02 PAC Approval of Final Evaluation Result for the Audit Project 2014-01

The Auditors have completed their on-site review of 196 metering installations and the process compliance review for all concerned Metering Service Providers (MSP) as of end of 2014. The Review is on its final stage of completion and is expected to be concluded by the 1st Quarter of 2015.

3. 4th Independent Operational Audit of the Systems and Procedures on Market Operations (AP2013-01)

The 4th MO Audit was concluded with the PAC-TWG's acceptance on 30 March 2014 of the final deliverables of the External Auditors, PA Consulting Group. The PAC, together with the External Auditors, presented the results of the said review to the PEM Board during the PEM Board Meeting on 30 April 2014. The final report was published in the WESM Website for the reference of all market participants and other interested parties. The same was also submitted to the ERC and DOE.

Relative to this, the PEMC- Office of the President (OP), monitors the completion of committed deliverables as reflected in the agreed upon PEMC Action Plan to address the audit findings and recommendations in a timely and responsive manner. The OP, through its WESM Compliance Senior Specialist, regularly reports to the PAC, PEMC updates on the implementation of the action plan.

4. Bidding for the 5th Operational Audit of the Systems and Procedures on Market Operations (“AP2014-02”)

In compliance with its mandate to undertake an annual audit of the Market Operations, the PAC commenced in October 2014, with the preparatory activities for the conduct of the 5th Market Operations covering the period from 26 June 2013 to 25 December 2014. Since PEMC's three-year engagement with PA Consulting Group, as External Auditor ended in 2013, the PAC and the Technical Working Group (TWG) headed by the Department of Energy (DOE), selected the External Auditor for the said project through a competitive bidding.

The draft Terms of Reference (TOR) for the 5th MO Audit was published in the WESM website from 03-21 October 2014, for comments of all concerned. Subsequently, on 31 October 2014, the PAC informed the PEM Board of the following⁵:

- a. Conduct of the 5th Independent Operational Audit of the Systems and Procedures on Market Operations (Audit Project 2014-02)
- b. The Selection process, which is similar to the process used for the hiring of an External Auditor in previous audit projects; and
- c. Request for Proposal including the Terms of Reference (TOR)

The PAC conducted following activities for the selection of External Auditor for the 5th MO Audit”

- Publication of Request for Expression of Interest from 28 October to 07 November 2014;
- Shortlisting of Interested Firms on 11 November 2014;

⁵ COR-INT-PAC-14-06 PAC Memorandum to the PEM Board dated 31 October 2014

- Issuance of Request for Proposal to six (6) qualified firms on 11 November 2014;
- Pre-Bid Conference on 24 November 2014;
- Opening of Technical Proposal on 11 December 2014;
- Evaluation of Technical Proposal on 06-13 January 2015
- Opening of Financial Proposal on 20 January 2015; and
- Negotiation Meeting on 09 February 2015

After a successful competitive bidding, the audit service contract was awarded to RSM Bird Cameron Australia in partnership with Reyes Tacandong & Company, Philippines and Market Reform on 07 February 2015.⁶

The audit, which will commence on 21 February 2015, covers a similar scope of work as that of the 4th MO Audit except for the addition of RCOA operations and processes review.

5. Proposed conduct of the 1st System Operations Review

Recognizing the significance of SO's operations, processes and input data to the over-all efficiency and effectiveness of the WESM, the PAC continued its efforts in pursuing the review of the System Operations (NGCP) by seeking the support and further instructions of the Tripartite Committee composed of the Department of Energy (DOE), Energy Regulatory Commission (ERC) and PEMC. In April 2014, the PAC drafted the Terms of Reference (TOR) for the said project and forwarded the same to the DOE for consideration.

During the ERC- Market Assessment Group (MAG) and Enforcement and Compliance Office (ECO) 2nd Quarter 2014 Meeting, the PAC, through the MAG again discussed the possibility of conducting the 1st SO Review, subject to the direction of ERC.

Following the meeting agreements during the ERC-MAG-ECO Meeting, the ERC requested the PAC to present the proposed TOR for the 1st SO Review before the Commission en banc on 18 September 2014. As a result of that meeting, the ERC resolved to undertake the following-

- a. ERC to incorporate in the scope of its technical audit of the SO operations, the terms of reference for the SO Review;
- b. ERC to coordinate with PEMC and the Grid Management Committee (GMC) for the finalization of the TOR, which includes among others the qualifications of the external auditors and project timetable; and
- c. ERC-Regulatory Operations Service (ROS) to draft a resolution for the creation of a TWG and a directive for the conduct of the SO review.

Subsequent to the above meeting, the ERC again invited the PAC to the Commission en banc meeting on 18 December 2014, where the Commission approved a resolution authorizing the PAC, through an External Auditor, to conduct the 1st SO Review. The draft TOR has been circulated by the ERC to all

⁶ PAC-RESO-2015-01 Approval of the Final Evaluation Results for the 5th MO Audit

concerned entities for comments. Currently, the PAC is awaiting further instructions from the ERC in relation to the work plan of the 1st SO Review.

6. Meetings and Other Activities

The PAC conducted 18 meetings, seven (7) Regular, eight (8) Special and (3) Conferences, during the year to deliberate on audit projects and other activities in relation to its responsibilities under the WESM and RCOA Rules.

In addition, the PAC attended two (2) meetings of the ERC in relation to the proposed conduct of the 1st SO Review and attended the WESM Annual Participants meeting in July.

Further, the PAC joined the metering review field inspections held on various dates.

B. 2015 ACTION PLAN

The PAC action plan for 2015 includes the following:

Item	Activity	Tentative Timetable	Deliverable/s
1.	Submission of the PAC 2014 Annual Report	1Q 2015	Report
2.	Submission of the 2 nd Metering Arrangements Review Report	1Q 2015	Report
3.	Conduct of the 5 th Market Operations Audit	February 2015 -May 2015	Reports
4.	Conduct of the 1 st System Operations Review	Based on the ERC timetable	Reports
5.	Submission of proposed amendments to WESM Rules on audit provisions and PEM Audit Manual to the Rules Change Committee	March 2015	Proposed Amendments
6.	Conduct of Meetings	At least once a month	

C. MEMBERSHIP

The membership of the PEM Audit Committee (“PAC”) for the year 2014 is as follows:

- PEM Auditor and Chairman : Felixberto U. Bustos, Jr.
- Members : Eduardo Alejandro O. Santos
: Christian M. Orias

The Market Assessment Group (“MAG”) provides technical and administrative secretariat support to the PAC.


D. RESPONSIBILITIES

The responsibilities of the PAC are set out in the WESM Rules and the WESM Manual on PEM Audit ("Audit Manual"), which include the following:

- Conduct annual audits of the Market Operator, settlement system and any other procedures, persons, systems or other matters relevant to the spot market;
- Test and check any new items or versions of software provided by the Market Operator for use by WESM members;
- Review any procedures and practices which are covered by the WESM Rules at the direction of the PEM Board
- Review the metering installations and security arrangements annually;
- Recommend changes to the WESM Rules where the PEM Auditor detects deficiencies as a consequence of an audit, review, test, check or other form of review; and
- Publish on the market information website the results of any findings and recommendations under WESM Rule 1.5.1.

Submitted By:

PEM AUDIT COMMITTEE



Felixberto U. Bustos, Jr.
Chairperson / PEM Auditor



Eduardo Alejandro O. Santos
Member



Christian M. Orias
Member