

MARKET SURVEILLANCE COMMITTEE

Quarterly Accomplishment Report

October to December 2019

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This Report is prepared by the
Philippine Electricity Market Corporation –
Market Assessment Group for the
Market Surveillance Committee

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I. Introduction

Pursuant to Section 1.6.2 of the WESM Rules and Section 6.2.1 of the Market Surveillance, Compliance and Enforcement Market Manual (MSCEMM), the Market Surveillance Committee (MSC) monitors and assesses the market outcome and the activities of the participants in the spot market, with the PEMC-Market Assessment Group (MAG) as the primary support unit.

In performing its responsibilities, the MSC conducts regular monthly meetings, and frequently communicates through email and other means to deliberate on various MSC topics.

During the fourth quarter of 2019, the MSC conducted three (3) regular monthly meetings¹. The MSC's accomplishments for the covered period are outlined in the succeeding section of this report.

II. Accomplishments

1. Activities on Market Monitoring and Assessment

1.1. Monitored and Assessed Market Outcomes in the WESM

Pursuant to MSCEM Section 6.2.1 (b)², the MSC monitored and assessed market outcomes, trends, and drivers, as well as the bidding behavior of generator-trading participants (TPs).

The Market Assessment Report is prepared for the purpose of monitoring and assessing the efficiency and competitiveness of the WESM under different time-scales and market conditions. The periodic Reports include an assessment of market behavior, including the analysis of the market monitoring indices, which are based on the market monitoring data that are collected primarily from the Market Operator (MO) and the System Operator (SO).

1.1.1. Monthly Market Assessment Reports

The MSC assessed the results of WESM operations for the billing months of August to October 2019, as provided under the Monthly Market Assessment Reports of the MAG (MMAR-2019-08, MMAR-2019-09 and MMAR-2019-10).

¹ MSC (Regular) Meeting No. 2019-13 held on 10 October 2019; MSC (Regular) Meeting No. 2019-14 held on 14 November 2019; and MSC (Regular) Meeting No. 2019-15 held on 11 December 2019.

² MSCEM Section 6.2.1(b) *The MSC shall have following responsibilities: (a) xxx; (b) Review market monitoring indices and Market Assessment Report prepared by the Market Assessment Group; xxx*

During the August 2019 billing month, wider supply margin was observed which was driven by the decrease in demand following cooler temperatures of the rainy season. Meanwhile, offered capacity increased, following the decrease in the level of capacity not offered. As a result, average effective supply was consistent with last month's supply. Consequently, the market prices for August decreased by 35.5 percent at PhP3,004/MWh compared to PhP4,657/MWh in July.

Meanwhile, demand and supply improved during the September billing month following the high number of generators that were online, which sufficiently supplied the whole system requirement. On the other hand, electricity demand remained relatively low due to cooler weather. All these resulted to much lower market prices in September at an average of PhP2,139/MWh from PhP3,004/MWh in August.

The October billing month recorded thinner supply margin than September as demand started to increase and supply suffered from high level of outage capacity. Moreover, the Visayas grid experienced yellow and red alerts due to thinning of reserves caused by multiple plant outages in the region. In addition, the planned Malampaya maintenance program was conducted from 12 to 15 October, affected the output of natural gas plants. As a consequence, the market price for October increased by 97.2 percent to PhP4,219/MWh from PhP2,139/MWh in September.

Accordingly, three (3) Monthly Market Assessment Reports (MMAR) covering the August to October 2019 billing months, were reviewed and approved by the MSC, and submitted to the PEM Board, the ERC and the DOE, and correspondingly, published in the PEMC website.

1.1.2. Quarterly Market Assessment Report for 2019-Q3

The MSC deliberated upon the MAG's Quarterly Market Assessment Report (QMAR) covering the period 26 June to 25 September 2019 (QMAR-2019-03). The third quarter of 2019 welcomed an improved supply margin at 2,111 MW, compared to 1,088 MW in the second quarter. This was driven by the 4.8 percent quarter-on-quarter increase in effective supply, from 12,802 MW to 13,419 MW attributable to the resumption of operations of plants on outage.

On the other hand, the period experienced slight decrease in demand, including reserve schedule, from 11,714 MW in the second quarter to 11,307 MW in the third quarter, following the lower temperatures brought about by the onset of the rainy season. Correspondingly, a substantial decline was noted in average market prices in the third quarter hovering at PhP3,272/MWh, which was 55.1 percent lower than previous quarter's PhP7,288/MWh.

The MSC presented the Highlights of the 3rd Quarter MAR for the information of the PEM Board on 27 November 2019.

1.1.3. Review of Interesting Pricing Events

The MSC deliberated upon interesting pricing events from August to October 2019. The Interesting Pricing Event Report as prepared by the MAG provides an in-depth analysis of intervals determined to have price outliers, also known as “interesting pricing events”³. The determination of the interesting pricing events was based on the methodology approved by the MSC.

The MSC discussed a total of 20 interesting pricing events from August to October 2019, which were all noted to be mainly attributable to forced outages.

There was only 1 interesting pricing event that was observed in August, while 19 events were observed in October. During both months, the interesting pricing events were mainly driven by high outage capacity.

1.2. Monitored and Assessed the Performance of the Retail Market

Pursuant to the Catalogue of Retail Market Monitoring Data and Indices (CRMMDI) Section 3.1.2⁴, the MSC assessed the performance of the retail market for the third quarter of billing year 2019, as provided under the Quarterly Retail Market Assessment Report covering the period 26 July to 25 September 2019 (MAG-RMAR-2019-03).

The RMAR discussed the results of monitoring indices and provided indications on how the retail market performed during the period in review, and how it fared with the previous quarter’s performance.

There were a total of 1,993 qualified electricity end-users already issued with the ERC’s Certificate of Contestability, the bulk of which or about 68 percent have already registered in the market as of the billing month of September 2019. The additional registered Contestable Customers marked a 13 percent increase as the total number of registrants grew to 1,358 at the close of the third quarter.

No additional Suppliers were registered during the period thus as of 25 September 2019, the market still recorded a total of 31 registered Retail Electricity Suppliers (RES), 14 registered Local RES (LRES), and 25 registered Supplier of Last Resort (SOLR). During the period in review, ten (10) switches from one Supplier to another were recorded, eight (8) of which were from Retail Electricity Supplier to Retail Electricity Supplier, while the remaining two (2) of the switches were from Retail Electricity Supplier to Local Retail Electricity Supplier.

³ Price outlier refers to an interval where market price breached the reference price threshold, established based on the historical relationship of market prices and supply margin.

⁴ CRMMDI Section 3.1.2 *The Market Surveillance Committee shall have the following responsibilities: 3.1.1 xxx; 3.1.2. Review the retail market monitoring indices and reports submitted by the Market Assessment Group. Xxx*

The RMAR for the Q3 2019 was submitted to the PEM Board on 18 December 2019. The Report was also submitted to the DOE and the ERC and published in the PEMC website on 26 December 2019.

The RMAR covering the 1st to 3rd quarters of 2019 was presented by the MSC to the PEM Board during its December 2019 Meeting.

1.3. Assessment of Over-Riding Constraints

Pursuant to MSCEM Section 6.2.1 (i)⁵, the MSC assessed the over-riding constraints imposed by the System Operator on generators for the billing months August, September and October 2019.

During its October 2019 Meeting, the MSC assessed the over-riding constraints imposed on generator-trading participants for the period 26 July to 25 August 2019. For this month, a total of 6,058 over-riding events were imposed on 25 Luzon generators and 8 Visayas generators. During this time, the number of imposition of over-riding constraints was lower by 31.1 percent from the 6,968 over-riding events were imposed in July.

Similarly, the MSC assessed the over-riding constraints imposed on generator-trading participants for the period 26 August to 25 September 2019. For this month, a total of 6,841 over-riding events were imposed on 27 Luzon generators and 12 Visayas generators. The over-riding constraints in September was higher by 12.9 percent from the 6,058 over-riding events imposed in August, due to the decrease in the non-security limit events imposed by the NGCP-SO.

For the period 26 September to 25 October 2019, a total of 5,268 over-riding events were imposed on 29 Luzon generators and 10 Visayas generators, lower by 23.8 percent from the 6,841 over-riding events imposed during the September 2019 billing month, due to the decrease in the non-security limit events imposed by the NGCP-SO. Notwithstanding, bulk of the over-riding events this month or about 5,932 were all categorized under non-security limit, majority of which or 5,617 events were due to the conduct of commercial tests.

1.3.1. Deliberation on the Prolonged Testing and Commissioning of Generator-TPs in the WESM

The MSC continued with its deliberation on issues relative to the prolonged testing and commissioning (T&C) of plants beyond the maximum two (2)-month period allowed under the ERC Resolution No. 16, Series of 2014⁶.

⁵ MSCEM Section 6.2.1(i) *The MSC shall have following responsibilities: (a) xxx; (i) Review Over-Riding Constraints; xxx*

⁶ Resolution No. 16, Series of 2014 entitled 2014 Revised Rules for the Issuance of Certificates of Compliance for Generation Companies, Qualified End-Users and Entities with Self-Generation Facilities

It is noteworthy that the MSC has been monitoring TPs on prolonged T&C since 2015, as an issue arising from its monitoring and analysis of over-riding constraints on generators. The MSC presented to the PEM Board on 31 October 2019 its recommendation on the prolonged T&C of generator-TPs in the WESM, consistent with the requirements under the WESM Manual on Registration, Suspension and De-Registration Criteria and Procedures Issue 4.

As part of its due diligence, the MSC continued sending letters of inquiries to generator-TPs observed to have gone beyond the 2-month allowable period, to clarify the reason for their prolonged conduct of T&C. The MSC then reviewed the responses of plants upon receipt, and updates on the status of said plants, during the MSC meetings held in November and December 2019.

One of the cases deliberated upon by the MSC were the cases involving two (2) plants that are still being imposed by the System Operator with over-riding constraints due to T&C, despite being on commercial operations. These cases were discussed by the MSC during its meeting with the Independent Electricity Market Operator of the Philippines (IEMOP) scheduled in January 2020.

1.4. Review of Market Intervention Events

During its November 2019 Meeting, the MSC met with representatives of the IEMOP, to discuss the Market Operator-initiated Market Intervention (MI) event on 24 October 2019 from 0400H to 0500H. The subject MIs were declared due to MMS Stoppage categorized as Force Majeure under the WESM Rules.

The MSC thoroughly discussed the subject MI in December 2019, particularly the MSC's conclusion and recommendations, which are to be incorporated in the MSC Review Report for submission to the PEM Board.

1.5. Discussion on the Competitiveness Study on Reserves

The MSC continued its discussion on the MAG's ongoing Competitiveness Study on Reserves. During its November 2019 Meeting, the MSC reviewed the comments of the NGCP-SO to the initial results of the Study, and thereafter agreed to request from the SO its latest data on ancillary services.

1.6. Review of Comments Received on the MSC Proposed Amendments to the Catalogue of Market Monitoring Data and Indices

As provided for in Section 1.3 of the Catalogue of Market Monitoring Data and Indices Issue 1 (CMMDI 1), and Section 7.2.2.5 of the MSCEMM Issue 3, the MSC can add, remove, or otherwise modify monitoring indices as it deems necessary, and to select the monitoring indices it considers appropriate and useful. The MSCEMM

provides that the MSC may receive recommendations from the PEM Board, and other interested parties, in updating the monitoring indices⁷.

Following the above mandate, the MSC published its proposed amendments to the CMMDI. The proposed amendments were likewise presented to the Rules Change Committee (RCC) and the PEM Board in October 2019, to solicit comments.

Comments from the RCC, the PEM Board, as well as those received online were deliberated upon by the MSC in its November 2019 Meeting.

1.6.1. Review of the Result of MAG's Simulation on the Seasonality Thresholds for Spot Price Indices

The MSC deliberated upon the result of the MAG's simulation using seasonality in determining the thresholds of the following spot price indices: Price Spike, Sustained High Price and Interesting Pricing Event (Supply Margin Analysis). The simulation was conducted by MAG in response to the comments received by the MSC from the PEM Board relative to the proposed amendments to the CMMDI Issue 1.

The MSC agreed to await further inputs from PEMC in finalizing the amendments to the CMMDI.

1.7. Discussion on Policy Developments

In November 2019, The MSC discussed the following policy developments as presented by MAG: (1) ERC Resolution No. 07 Series of 2019 entitled "A Resolution Adopting Amendments to the Rules for the Distribution of Net Settlement Surplus", (2) ongoing ERC review processes on the following: (a) Amendments to the Pre-emptive Mitigating Measure in the WESM (Secondary Price Cap); (b) Revised Rules for the Issuance of COCs for Generation Companies and Entities with Self-Generation Facilities including Distributed Energy Resources (DERs), and (3) DOE's ongoing policy review on testing and commissioning.

The MSC agreed to submit its comments for consolidation with the PEMC comments, on the DOE's ongoing policy review on testing and commissioning.

During its December 2019 Meeting, the MSC deliberated upon the Draft DOE Circular Providing Guidelines on the Planned Outage Schedules of Power Plants and Transmission Facilities, and GOMP Publication, and agreed to submit the MSC's comments to PEMC, for consolidation with PEMC's comment on the draft DOE Circular.

⁷ Section 1.3, CMMDI Issue 1, and Section 7.2.2.6, MCEM Manual Issue 3

1.8. Review of Market Prices in November 2019

The MSC assessed the spot prices in November 2019, particularly as regards the price spike events on November 22, 25-26, 2019, with prices clearing as high as PhP32,000/MWh at 1800H.

The price spike events were attributed to the high level of outage since the previous week, the unique trend of demand and supply at 1800H where demand dramatically ramps-up while supply decreases, and the change in the profile of the supply curve.

Upon due deliberation, the MSC agreed to study the subject events further, by taking a closer look at the offer behavior of identified trading participants (TPs).

1.9. Review of ACB Frameworks in Other Jurisdictions

In preparation for the development of indices related to the monitoring of anti-competitive behavior (ACB), the MSC reviewed the frameworks of ACB in other electricity markets, particularly on the following: Southeast Asia: Philippines, Singapore; Oceania: Australia, New Zealand; North America: Alberta, PJM, Texas; Europe: France, UK.

2. Activities on Compliance and Enforcement

2.1. Review of Compliance Monitoring and Assessment

Compliances of Generator-Trading Participants (TP) with the Real Time Dispatch (RTD) schedule, the Must Offer Rule (MOR) and the rule on the Nomination of Loading Levels and Projected Output (NOM) for the billing months of May, June and July were deliberated upon by the MSC, as contained in the Compliance Monitoring and Assessment Report (CMAR) prepared by the Enforcement and Compliance Office (ECO).

The CMAR is a result of the daily compliance monitoring activities by the ECO after assessing the generator-TPs' compliance with the RTD schedule and MOR. The ECO's monitoring activity was carried out by issuing Daily Compliance Notices to the generator-TPs that are initially flagged for possible non-compliance, and by validating and assessing the generator-TPs' explanations in the Significant Event Report Form and Dispatch Discrepancy Report Form, supporting documents, and other market data or reports from the MO and SO.

Following the MSC's monthly review of the CMAR, the MSC endorsed to the ECO the following requests for investigations (RFIs) on the possible non-compliances with RTD, MOR and NOM: 11 RFIs for the August 2019 billing month; and 9 RFIs for September 2019.

2.2. Review of ECO Investigation Cases Historical Review of all Non-Compliance Cases

Pursuant to the WESM Rules and the MSCEM Manual, Investigation Reports (IRs) prepared by the ECO pursuant to an investigation of an alleged breach of the WESM Rules are submitted to the MSC for review with respect to: (a) compliance by the ECO with the procedure, and (b) validity and completeness of data and documents upon which the factual findings are based.

During the period, the MSC completed its review of 17 consolidated ECO Investigation Reports. The ECO IRs were cases on non-compliances with the Must-Offer-Rule (MOR), Nomination of Loading Levels and Projected Output (NOM) and Real-Time Dispatch (RTD) Schedule.

2.3. Historical Review of the Status of Non-Compliance Cases

The MSC conducted a review of the status of all non-compliance cases, and likewise reviewed the practices that had been observed in the conduct of investigation and review of investigation reports.

2.4. Deliberation on Offer for Settlement

The MSC deliberated upon an Offer for Settlement submitted by a generator-TP and duly-acted on the same, following the MSC's Guidelines on Offer for Settlement.

2.5. Conduct of Meetings with Generator-TPs

For the covered period, the MSC, together with ECO, conducted two (2) separate meetings in October and November 2019, with two (2) generator-TPs to discuss its non-compliance cases with the WESM Rules.

3. Other Activities

3.1. Deliberation on the Proposed Penalty Manual

During its October 2019 Meeting, the MSC finalized its comments to the Proposed Penalty Manual that was being reviewed for approval by the Department of Energy (DOE), after its conduct of public consultations.

Having discussed the result of the DOE public consultations through email and during several meetings, the MSC agreed to submit its comments to the DOE for consideration in its final review of the proposed Penalty Manual.

3.2. Review of the MSC Work Plan

During the MSC's October 2019 Meeting, the Committee reviewed its Work Plan for the year 2020, considering discussions with MAG and the PEMC Management during the Corporate Strategic Planning Workshop in September 2019.

The MSC is currently composed of five (5) members, namely, Engr. Francis V. Mapile, Dr. Peter Lee U, Atty. Doroteo B. Aguila, Ms. Eulinia M. Valdezco and Mr. Fernando Martin Y. Roxas.