

MSC-QR-2018-01

Market Surveillance Committee Quarterly Report

APRIL 2018

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



**Philippine Electricity
Market Corporation**

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MARKET SURVEILLANCE COMMITTEE QUARTERLY ACCOMPLISHMENT REPORT

I. Introduction

Pursuant to Section 1.6.2 of the WESM Rules, the Market Surveillance Committee (MSC) continuously monitors the activities of the WESM participants in the spot market. In performing its responsibilities under the WESM Rules and the Market Surveillance Compliance and Enforcement Market (MSCEM) Manual, the MSC regularly conducts monthly meetings to deliberate on various MSC topics and communicates with its members and the MSC Secretariat through email and other means on subject matters of concern to the Committee.

During the first quarter of 2018, the MSC conducted three (3) regular monthly (January, February, March 2018) meetings and two (2) special meetings in March 2018¹. The MSC's accomplishments for the covered period are outlined in the succeeding section of this report.

II. Accomplishments

A. Submission of Market Reports

A.1. Market Assessment Reports

Pursuant to MSCEMM Section 6.2.1 (b)² and Catalogue of Market Monitoring Data and Indices (CMMDI) Section 3.1.2³, the MSC reviewed and deliberated the monthly Market Assessment Reports and quarterly Retail Market Assessment Report submitted by the Market Assessment Group (MAG).

¹ MSC (Regular) Meeting No. 2018-01 held on 10 January 2018; MSC (Regular) Meeting No. 2018-02 held on 14 February 2018; MSC (Regular) Meeting No. 2018-04 held on 13 March 2018; MSC (Special) Meeting No. 2018-03 held on 05 March 2018 2018; MSC (Special) Meeting No. 2018-05 held on 27 March 2018.

² MSCEMM 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*

³ CMMDI 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*

After due deliberation during its meetings, the MSC approved and subsequently submitted to the Philippine Electricity Market (PEM) Board, for its information, the (a) MSC Monthly Monitoring Reports, detailing its monthly accomplishments, together with the Market Assessment Report; and (b) Retail Market Monitoring Reports, together with the quarterly Retail Market Assessment Report. The MSC reports were also furnished to the Energy Regulatory Commission (ERC) and the Department of Energy (DOE).

The monthly Market Assessment Reports and quarterly Retail Market Assessment Reports were published in the market information website.

A.2. Interesting Pricing Events Report

The MSC reviewed and deliberated the Interesting Pricing Events Reports for Q3 and Q4 2017 submitted by the MAG. These reports provided an in-depth analysis of intervals determined to have price outliers based on the relationship of market price and supply margin, also known as “interesting pricing events”. The determination of the interesting pricing events was based on the methodology approved by the MSC. The reports were submitted to the DOE on 02 March 2018, in compliance with the DOE’s instruction to the MSC in its letter dated 28 October 2016.

- **Interesting Pricing Event for Q3 2017**

The scope of the review of Interesting Pricing Event for Q3 2017 covered the period 26 June to 25 September 2017. Due to the unavailability of the HVDC, which physically separated Luzon and Visayas from 06 July at 1700H until 07 September at 2200H, the identification and assessment of interesting pricing events was done per region.

Five (5) interesting pricing events in Luzon were noted during the period as shown below:

Date	Hour	Market Price (Php/MWh)	Supply Margin (MW)
16-Aug-17	10	32,403	404
16-Aug-17	11	32,575	265
16-Aug-17	14	32,898	39
17-Aug-17	11	32,504	355
30-Aug-17	11	22,117	46

The interesting pricing events in Luzon were mainly caused by the higher demand requirement during the subject intervals which were all peak hours, and lower effective supply due to the following reasons: (a) high capacity on outage by coal plants which were mostly due to forced outages; and (b) high level of capacity not offered particularly on 17 August at 1100H.

Negative market prices in the Visayas all occurred during off-peak periods when demand for electricity was low and competition was almost nil due to the required dispatch of the must-dispatch, priority dispatch and non-scheduled generating units, and generating plants' Pmin. About 71% of the demand requirement was accounted for by the aggregate minimum loading level (Pmin) and 14% from must-dispatch, priority dispatch and non-scheduled generating units. This effectively reduced the level of competition in the Visayas region, especially during off-peak period.

The MSC provided in its Report the following recommendations:

1. Continuously monitor the generators' compliance with the real-time dispatch (RTD) and must-offer rule (MOR);
2. Further assess and verify the frequent and prolonged incidents of forced outages among major coal plants as these significantly impact the level of supply and resulting market prices; and

3. Customers and their counterparty should proactively monitor and consider real-time market conditions in the declaration of their bilateral contract quantity for their mutual benefit.

- **Interesting Pricing Event for Q4 2017**

The scope of the review of Interesting Pricing Event for Q4 2017 covered the period from 26 September to 25 December 2017. Three (3) interesting pricing events were noted during the period as shown below:

Date	Hour	Market Price (Php/MWh)	Supply Margin (MW)
02-Oct-17	18	33,084	68.1
22-Oct-17	18	32,673	1.7
23-Oct-17	18	33,347	1.2

The market prices above Php 32,000/MWh observed on October 02, 22 and 23 at 1800H, were driven primarily by the system demand which increased higher than the effective supply.

On 02 October at 1800H, the market price significantly increased due to the forced outage of a 316-MW coal plant at 1619H due to mill problem. This unavailable capacity was in addition to the already high outage capacity of other major coal plants at 1,692 MW. The decrease in the output from solar plants likewise contributed to the lower effective supply during the interesting pricing events.

The second interesting pricing event which occurred on 22 October 2017 was driven primarily by the increase in system demand. The system demand at 1800H was the highest in all Sundays during the month of October. Meanwhile, effective supply was low which resulted in a very tight supply margin at only 2 MW at 1800H. The low effective supply was attributable to the high capacity on outage and the expected decline in the available capacity from solar plants.

Similarly, supply barely met the demand requirement on 23 October at 1800H, with supply margin posted at only 1MW, significantly lower than the previous hour's 584 MW. During the said interval, the system demand increased while the effective supply declined. At the same interval, the capacity on outage remained to be high and the generation from solar plants decreased to 18 MW from the previous hour's 108 MW. Consequently, the market price reached the highest level in Q4 2017 at Php 33,347/MWh.

The offer pattern of the price setting plants during the interesting pricing events appeared to be consistent with their historical, same day type and same hour offer pattern. A similar observation was made on other plants dispatched during the subject intervals.

In view of the above, the MSC provided in its Report the following recommendations:

1. With the expected increase in demand for electricity at 1800H to 2000H, the NGCP-System Operator (SO) should consider in their operational planning the non-availability of solar plants starting at 1800H to ensure adequate supply;
2. The DOE may introduce and encourage the use of solar-battery hybrid systems that will store energy during off-peak periods and inject power to the grid during peak load periods, including evening peak, to augment power supply during tight demand and supply conditions; and
3. Publish the generator performance and reliability indices report by the Grid Management Committee (GMC) for transparency.

B. Review of Compliance Monitoring Reports

The MSC reviewed the activities of the Trading Participants in terms of their compliance with the RTD schedule and MOR as contained in the Compliance Monitoring Reports submitted by the MAG. The said reports contain the list of Trading Participants in Luzon

and Visayas, and the number of trading intervals with deviations from the RTD schedule and capacity gaps.

On the basis of its review of the Compliance Monitoring Reports, the MSC found possible non-compliances with the RTD schedule for the billing months of September 2017 to December 2017, and possible non-compliances with the MOR for the billing month of April to September 2017, and thereafter submitted a total of 415 requests for investigation (RFI) to the PEM Board pursuant to MSCEMM Section 6.2.1(d)⁴.

C. Monitoring of the Submission of Nomination of Loading Level and Projected Output

The MSC also reviewed the compliance with the WESM Rules on submission of nomination of loading level and projected output of Trading Participants with non-scheduled, must-dispatch and priority dispatch generating units for the billing months September 2017 to January 2018.

As of 25 January 2018, the number of resources registered under the categories must-dispatch, priority-dispatch and non-scheduled generating units was recorded at 76 resource nodes. The total registered capacity of the resources increased to 1,469 MW (from 1,380 MW in by the end of the billing month of August 2017 as reflected in the previous report). The solar resources had the most number of registered resources contributing significantly in the total registered capacity. Notably, while more solar resources are registered in Luzon, a larger capacity is concentrated in the Visayas area.

Of the total 76 registrants, eighteen (18) were non-scheduled generating units, forty-eight (48) were must-dispatch generating units and ten (10) were priority-dispatch generating units. Twenty-two (22) of these registered resources were still undergoing test and commissioning, thus only fifty-four (54) resources were monitored for their compliance to

⁴ MSCEMM Section 6.2.1(d) *The MSC shall have following responsibilities: (a) xxx; (d) In the conduct of its market surveillance function, identify acts or omissions which may constitute Breaches, abuse of market power and Anti-Competitive Behavior, and initiate an Investigation; xxx*

the submission of nomination of loading level and projected output. The monitoring for compliance excludes periods on outage and market intervention.

Of the total resources monitored during the January 2018 billing month, forty-two (42) did not submit its nomination of loading level and projected output in *some or all* of the trading intervals. This is comprised of 8 biomass, 7 hydro, 1 oil-based, 25 solar and 1 wind resource.

The MSC previously agreed to issue RFIs to Trading Participants with possible non-compliance with the WESM Rules on submission of loading level and projected output. The MSC also agreed that effective the billing month of November 2017, letters of inquiry will be sent to the concerned Trading Participants, requesting for explanation and supporting documents for its non-submission of nomination loading level and projected output. An advisory was subsequently disseminated through WESM Info for information of all WESM members.

On 24 January 2018, the MSC sent letters of inquiry to ten (10) Trading Participants for the billing month of November 2017. During its meeting in February 2018, the MSC discussed the explanations provided by the identified Trading Participants and agreed to defer the issuance of RFIs until such time that the compliance monitoring module for the new market management system is put in place. In the meantime, the MSC shall continue sending monthly letters of inquiry and evaluating the reasons provided by Trading Participants.

On 28 February 2018, the MSC sent letters of inquiry to five (5) Trading Participants for the billing month of December 2017, and discussed the explanations provided during its meeting in March 2018. Upon review and discussion, the MSC agreed to elevate the issues and concerns to the appropriate entities. During the same meeting, the MSC also agreed that Trading Participants with submission of nomination of loading level and projected output 95% of the time and above will be considered compliant.

For the billing month of January 2018, the MSC sent letters of inquiry to seven (7) Trading Participants. The MSC will be reviewing and discussing the explanations to be provided by the identified Trading Participants during its regular meeting in April 2018.

D. Review of Over-riding Constraints

Pursuant to MSCEMM Section 6.2.1 (i)⁵, the MSC reviewed the over-riding constraints imposed by the SO on generators for the billing months September 2017 to January 2018.

As of 25 January 2018, a total of 10,317 over-riding events were imposed on fifty-seven (57) Luzon generators and eleven (11) Visayas generators. About 99.9% of over-riding events were categorized under non-security limit events while the remaining 0.1% were categorized under security limit. A decrease in non-security limit events was observed in the billing month of January 2018 when compared to the previous billing month. This was mainly attributable to the lower occurrences in over-riding events related to commercial testing. Security limit events similarly decreased due to the lower number of over-riding events categorized under “other types”.

In the course of its monitoring, the MSC observed that no further details were provided by the SO on the over-riding events tagged as “other types”. In view of this, the MSC sent a letter to the SO on 21 March 2018, requesting for details on the security limits that are tagged as “other types” and the reason for tagging these security limits as such. The MSC also suggested in its letter that the details on the security limits tagged as “other types” be provided in the subsequent reports.

During its meeting on 21 November 2017, the MSC agreed to write letters of inquiry to all the Trading Participants that extended its conduct of testing and commissioning beyond the 2-month allowable period provided under the ERC Resolution No. 16, Series of 2014⁶.

On 19 January 2018, the MSC transmitted letters of inquiry to twenty (20) Trading Participants and during its regular meetings, the MSC reviewed and discussed the explanations provided by some of the Trading Participants that already responded. The summary of explanations is listed below:

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

⁶ A Resolution Adopting the 2014 Revised Rules for the Issuance of Certificates of Compliances (COCs) for Generation Companies, Qualified End-users and Entities with Self-Generation Facilities

- NGCP-SO has yet to provide the Capability Test Results, which will be submitted to the ERC as requirement for the issuance of Certificate of Compliance (COC);
- COCs were just recently issued or still pending ERC approval;
- Generating plant was permanently shut down; and
- Trading Participant failed to notify NGCP-SO on its submission of projected output causing NGCP-SO to impose over-riding constraints on the submission.

The MSC thereafter elevated the issues and concerns to the SO, PEMC and ERC for their information and appropriate action. As of March 2018, there were still five (5) Trading Participants that have yet to respond to the MSC letters. Follow-up letters were sent on 15 March 2018.

E. Review of MSC 2017 Annual Report and MSC 2018 Work Plan

Pursuant to MSCEMM Section 6.2.1(c)⁷, the MSC finalized and approved its 2017 Annual Report which covers the activities undertaken and accomplished by the MSC for the period January to December 2017 and its proposed activities as detailed in its 2018 Work Plan. The MSC 2017 Annual Report and MSC 2018 Work Plan were submitted to the PEM Board on 06 March 2018 and published in the market information website on 09 March 2018.

F. Review of the Way Forward on the Pending PEMC-ECO Investigation Cases

On 14 February 2018, the MSC was requested by the PEMC Transition Committee (PTC) to provide comments to the proposed way forward on the investigation cases still pending with the Enforcement and Compliance Office. During its meetings held on March 13 and 27, 2018, the MSC discussed the proposal and finalized its comments on the same. The

⁷ MSCEMM Section 6.2.1(c) *The MSC shall have following responsibilities: (a) xxx; (c) Submit Monthly Market Surveillance Reports and Annual Reports to the PEM Board; xxx*

MSC comments were transmitted to the Transition Committee, copy furnished the Enforcement and Compliance Office, on 27 March 2018.

G. Review of ECO Investigation Reports

Pursuant to MSCEMM Section 6.2.1(f)⁸, the MSC is tasked to review the Investigation Reports prepared by the ECO with respect to the following:

- a. Compliance by the ECO with the procedures set forth in the Market Surveillance Compliance and Enforcement Market Manual for the conduct of Investigation; and
- b. Validity and completeness of the data and documents upon which the factual findings are based.

On 05 March 2018, the MSC conducted a special meeting to specifically review the twenty-two (22) ECO Investigation Reports submitted by the ECO. Upon due deliberation, the MSC approved the ECO recommendations and agreed to finalize the MSC Review Reports for submission to the PEM Board.

H. Review of Proposed WESM Penalty Manual

The MSC continued with its review of the proposed WESM Penalty Manual to incorporate the automatic penalty scheme (APS), including the affected provisions in the proposed Market Surveillance Manual and WESM Rules, as applicable. It was also noted that the Enforcement and Compliance Office (ECO) will submit its revisions to the proposed Enforcement and Compliance Manual, including the affected provisions in the WESM Rules, based on the MSC's revisions to the proposed Penalty Manual.

⁸ MSCEMM Section 6.2.1(f) *The MSC shall have following responsibilities: (a) xxx; (f) Review Investigation Reports prepared by the ECO pursuant to an Investigation of an alleged Breach, abuse of market power or Anti-Competitive Behavior, and submit its review to the PEM Board; xxx*

Upon the PEMC Transition Committee's (PTC) invitation, the MSC met with the PTC on 14 February 2017 to clarify the proposed Automatic Penalty Scheme being proposed by the MSC. During the said meeting, the PTC suggested reconsidering the use of the term "automatic" as the process was not really automatic as it still afforded the Trading Participants due process within a shorter timeframe. The MSC noted the suggestion for consideration in revising the proposed Penalty Manual.

On 27 March 2018, the MSC conducted a special meeting to discuss the MSC revisions to the ECO proposed Penalty Manual. The MSC finalized its revisions and agreed to provide the copy of the revised Penalty Manual to the ECO for its comments and reference in revising its proposed Enforcement and Compliance Manual. The MSC also agreed to revise the provisions in the proposed Market Surveillance Manual and the WESM Rules affected by the changes.

I. Review of Proposed Amendments to the WESM Rules and Manuals

Pursuant to MSCEMM Section 6.2.1(k)⁹, the MSC reviewed the proposed amendments to the WESM Rules and Manuals posted in the market information website. During its special meeting on 27 March 2018, the MSC discussed the following proposals:

- a. Proposed Amendments to the WESM Rules and WESM Manuals for Pre-Integration Provisions for Mindanao; and
- b. Proposed Amendments to the WESM Rules and WESM Manual on Registration, Suspension and De-Registration Criteria and Procedures for an additional Trading Participant category: Wholesale Electricity Market Trader.

The MSC reviewed the proposals and posed no comments on item (a) but was not agreeable with item (b) as contemplated. The MSC is still finalizing its comments for submission to the RCC.

⁹ MSCEMM Section 6.2.1(k) *The MSC shall have following responsibilities: (a) xxx; (k) Upon request, assist the Rules Change Committee in reviewing proposed amendments to the WESM Rules, and make recommendations on the; xxx*