

MSC-QR-2018-02

Market Surveillance Committee Quarterly Accomplishment Report

April, May and June 2018

JULY 2018

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



**Philippine Electricity
Market Corporation**

TABLE OF CONTENTS

- I. Introduction..... 1**
- II. Accomplishments 1**
 - A. Submission of Market Reports..... 1
 - B. Review of Compliance with the RTD Schedule and Must-Offer Rule..... 4
 - C. Review of Compliance with the Submission of Nomination of Loading Level and Projected Output 4
 - D. Review of Over-riding Constraints..... 5
 - E. Review of ECO Investigation Reports..... 6
 - F. Review of Proposed WESM Penalty Manual Issue 2.0..... 6
 - G. Review of Draft Department Circular entitled “Providing Further Policies for the Efficient Transition to the Independent Market Operator of the WESM” 7
 - H. Meetings with Other Stakeholders..... 7

MARKET SURVEILLANCE COMMITTEE QUARTERLY ACCOMPLISHMENT REPORT

I. Introduction

Pursuant to the WESM Rules Clause 1.6.2, 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 second quarter of 2018, the MSC conducted three (3) regular monthly meetings (April, May and June 2018) and one (1) special meeting in May 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

- **Monthly Market Assessment Report for February, March and April 2018**

Pursuant to MSCEMM Section 6.2.1 (b)², the MSC regularly reviews the market behavior of Trading Participants and assesses the trading and offer patterns of plants, the supply and demand condition, and the significant events affecting the market.

During the period covered, the MSC reviewed and deliberated the monthly Market Assessment Reports for the billing months February, March and April 2018, submitted by the Market Assessment Group (MAG). The Market Assessment Report is prepared for the purpose of monitoring and assessing the development of market behavior, including the evolution and analysis of the market monitoring indices.

¹ MSC (Regular) Meeting No. 2018-06 held on 11 April 2018; MSC (Regular) Meeting No. 2018-07 held on 10 May 2018; MSC (Special) Meeting No. 2018-08 held on 15 May 2018 2018; MSC (Regular) Meeting No. 2018-09 held on 13 June 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*

After due deliberation, the MSC approved and subsequently submitted to the Philippine Electricity Market (PEM) Board, for its information, the MSC Monthly Monitoring Reports, detailing its monthly accomplishments, together with the Market Assessment Reports.

- **Quarterly Retail Market Assessment Report for Q1 2018 and Annual Retail Market Assessment Report for 2017**

Pursuant to the Catalogue of Market Monitoring Data and Indices (CMMDI) Section 3.1.2³, the MSC continuously monitored the activities of the WESM participants, including the Contestable Customers (CCs) in the spot market.

During the period, the MSC reviewed and deliberated the annual and quarterly Retail Market Assessment Report submitted by the MAG. The Retail Market Assessment Report discusses the results of the monitoring indices, as set forth in the CMMDI, and provides indications on how the retail market performed during the period in review and how it fared with the previous period's performance.

After due deliberation, the MSC approved and subsequently submitted to the Philippine Electricity Market (PEM) Board, for its information, the annual and quarterly Retail Market Monitoring Reports, together with the Retail Market Assessment Reports.

The list of the Market Reports submitted by the MSC to the PEM Board are as follows:

- Monthly Market Assessment Report for February 2018, submitted on 02 May 2018
- Annual Retail Market Assessment Report for 2017, submitted on 04 May 2018
- Monthly Market Assessment Report for March 2018, submitted on 25 May 2018
- Monthly Market Assessment Report for April 2018, submitted on 28 June 2018
- Quarterly Retail Market Assessment Report for Q1 2018, submitted on 28 June 2018

The MSC reports were also furnished to the Energy Regulatory Commission (ERC) and the Department of Energy (DOE), and published in the market information website⁴.

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*

⁴ Links: http://www.wesm.ph/inner.php/downloads/monthly_market_assessment_reports;
http://www.wesm.ph/inner.php/downloads/retail_market_assessment_report

A.2. Interesting Pricing Events Reports

The MSC reviewed and deliberated the Interesting Pricing Events Reports submitted by the MAG for the period under review. These reports provided an in-depth analysis of intervals determined to have price outliers, also known as “interesting pricing events”. The determination of the interesting pricing events was based on the methodology approved by the MSC⁵.

During the period in review, two (2) interesting pricing events were observed which occurred on 26 February 2018 at 1600H and on 20 April 2018 at 1400H.

- **Interesting Pricing Event on 26 February 2018 at 1600H**

On 26 February at 1600H, the market price reached Php 31,708/MWh, the highest level in 2018 so far. During the said event, there was limited supply available in the market due to the high capacity on outage (3,212 MW) and high capacities not offered (2,925 MW). With the higher rate of decrease in the effective supply than the system demand, the resulting supply margin of 29 MW at 1600H was barely sufficient to meet the demand.

A review of the generator offer pattern showed an increase in the offer prices of two (2) oil-based plants under one (1) major participant group during the interesting pricing event, when compared with their typical offer trend at same day type and same hour since January 2014. The resulting high market price at 1600H was however mainly attributable to insufficient available capacity due to high outage capacity, more than the observed change in the offer pattern of these two oil-based plants.

- **Interesting Pricing Event on 20 April 2018 at 1400H**

On 20 April 2018 at 1400H, the market price reached the highest level for the month of April 2018 at Php 19,286/MWh. Upon review of the market outcomes, a localized contingency constraint at the Paco substation transformers occurred during the said interval, resulting in the use of ex-post price. Moreover, at 1358H on 20 April 2018, one (1) major coal plant went on forced outage leading to the dispatch of one (1) hydro plant at a higher offer price of Php 22,000/MWh.

High outage capacity was likewise noted on 20 April 2018 at 2,242 MW, which affected the level of effective supply. More than 50% of the said capacity or around 1,280 MW was attributed to the simultaneous planned preventive maintenance of major natural gas, coal

⁵ 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.

and hydro plants. No change was observed in the offer pattern among the price setting plants and other generating units during the interesting pricing event.

In view of the foregoing, the MSC recommended that the System Operator, in developing the Grid Operating and Maintenance Program (GOMP), ensure that no large generating units will simultaneously undertake a preventive maintenance outage or planned outage during summer months, when demand is typically high. This is to ensure that there will be an adequate level of supply and reserves in the grid as well as mitigate the occurrence of price increase.

Upon due deliberation, the MSC approved the reports on interesting pricing events that occurred on 26 February 2018 at 1600H and 20 April 2018 at 1400H. The reports were subsequently submitted to the DOE on 25 May 2018 and 25 June 2018, respectively. The MSC also provided copies of the said reports to the ERC for its information.

B. Review of Compliance with the RTD Schedule and Must-Offer Rule

The MSC reviewed the activities of the Trading Participants in terms of their compliance with the real-time dispatch (RTD) schedule and must-offer rule (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 with 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 December 2017 to April 2018, and possible non-compliances with the MOR for the billing month of October 2017 to April 2018, and thereafter submitted a total of 418 requests for investigation (RFI) to the PEM Board pursuant to MSCEMM Section 6.2.1(d)⁶.

C. Review of Compliance with the Submission of Nomination of Loading Level and Projected Output

The MSC also reviewed the compliance with the WESM Rules on the 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 period of 26 January to 25 April 2018.

⁶ 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*

As of 25 April 2018, the number of resources registered under the categories must-dispatch, priority-dispatch and non-scheduled generating units was recorded at 77 resources (from 76 resources by the end of the previous period). Correspondingly, the total registered capacity increased by 2% at about 1,499 MW from the previous period's 1,469 MW.

During the period covered, two (2) resources (solar and biomass) started its WESM participation thus by the end of the April billing month, there were twenty (20) resources that were still on testing and commissioning (from 22 resources by the end of the previous period).

Of the total registrants, fifty-seven (57) resources were monitored for compliance with the submission of nomination of loading level and projected output. Of these, 43 resources were monitored to have no submission of nomination of loading level and projected output in some or all of the trading intervals. This is comprised of eight (8) biomass, seven (7) hydro, one (1) oil-based, 26 solar and one (1) wind resources.

The MSC continued to regularly send monthly letters of inquiry to the identified Trading Participants, requesting explanation for their non-submission of nomination of loading level and projected output during the relevant trading intervals.

D. Review of Over-riding Constraints

Pursuant to MSCEMM Section 6.2.1 (i)⁷, the MSC reviewed the over-riding constraints imposed by the System Operator on generators for the billing period of 26 January to 25 April 2018.

A total of 10,687 over-riding events were recorded during the February billing month, 7,925 events in March and 7,984 events in April.

During the period covered, the highest number of over-riding events recorded in a single interval occurred at 23 events on 30 January (1200H to 1400H) and 31 January (1500H to 1700H).

Security limit events posted an increase, from previous quarter's 204 events to current month's 695 events, attributed to events related to the imposition of must-run units. On the other hand, a decrease in non-security limit events was observed, from previous quarters

⁷ MSCEMM Section 6.2.1(i) *The MSC shall have following responsibilities: (a) xxx; (i) Review Over-Riding Constraints; xxx*

30,598 events to current month's 25,901 events, attributable to lower number of events related to commercial testing.

Almost all of non-security limit events were related to the conduct of commercial tests (i.e. performance tests, ancillary tests, and testing and commissioning), the most common of which is the conduct of testing and commissioning.

The MSC regularly sends letters of inquiry, requesting for reasons/ explanations for the prolonged conduct of testing and commissioning, to Trading Participants that exceeded the allowable two (2)-month period for the conduct of testing and commissioning provided under the ERC Resolution No.16, Series of 2014⁸.

E. Review of ECO Investigation Reports

Pursuant to MSCEMM Section 6.2.1(f)⁹, the MSC is tasked to review the Enforcement and Compliance Office (ECO) Investigation Reports with respect to the compliance by the ECO with the procedures set forth in the MSCEMM for the conduct of Investigation, and validity and completeness of the data and documents upon which the factual findings are based.

On 15 May 2018, the MSC reviewed nine (9) ECO Investigation Reports submitted by the ECO during the billing months of March and April 2018. Upon due deliberation, the MSC approved the ECO recommendations and agreed to finalize the MSC Review Reports for submission to the PEM Board.

F. Review of Proposed WESM Penalty Manual Issue 2.0

On 15 May 2018, the MSC conducted a special meeting to discuss the MSC's further revisions to the proposed WESM Penalty Manual Issue 2.0. In view of the additional enhancements to the proposed WESM Penalty Manual Issue 2.0, the MSC noted that additional changes would have to be incorporated in the proposed Market Surveillance Manual and the proposed amendments to the WESM Rules that was previously submitted to the Rules Change Committee.

The proposed WESM Penalty Manual Issue 2.0 was presented to the PEMC-Transition Committee on 17 May 2018 and to the Board Review Committee on 22 May 2018. The

⁸ 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

⁹ 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*

same was published in the market information website for comments of interested parties on 24 May 2018. Pursuant to the WESM Rules, the MSC presented the proposed WESM Penalty Manual Issue 2.0, for consultation, to the PEM Board on 30 May 2018 and to the Rules Change Committee on 01 June 2018.

On 13 June 2018, the MSC discussed the initial comments on the proposed WESM Penalty Manual Issue 2.0, during the presentation of the proposal for consultation with the Transition Committee, Board Review Committee (BRC), Rules Change Committee and the PEM Board. In view of the comments received, the MSC agreed to incorporate in the proposed WESM Penalty Manual Issue 2.0, the *Guidelines and Procedures on the Utilization of the Penalty* that was previously proposed by the Enforcement and Compliance Office (ECO). The MSC also agreed to adopt the suggestion allowing all concerned WESM members to file for a request for reconsideration regardless of the aggregate penalty amount.

The MSC will finalize the proposed WESM Penalty Manual Issue 2.0 once all comments are received from interested parties, and submit the same to the DOE for approval.

G. Review of Draft Department Circular entitled “Providing Further Policies for the Efficient Transition to the Independent Market Operator of the WESM”

During its regular meeting on 13 June 2018, the MSC discussed the draft Department Circular (DC) entitled “Providing Further Policies for the Efficient Transition to the Independent Market Operator of the WESM”, which was recently posted for public consultation on 11 June 2018. The MSC provided comments on the draft DC specifically with regard to the creation of a DOE-ERC Enforcement and Compliance Committee (DEECC). In general, the MSC is of the opinion that the draft DC, insofar as it proposes to create the DEEC, is not consistent with the intent of the framers of EPIRA to make the Market Operator truly independent and to create an atmosphere that will foster the independence of the Market Operator. The letter incorporating the MSC comments was submitted to the DOE on 15 June 2018.

H. Meetings with Other Stakeholders

On 10 May 2018, the MSC convened a meeting with First Gas Power Corp. (FGPC) and the System Operator, in reference to the FGPC’s request for a conference communicated through its letter dated 30 January 2018. The parties thereafter agreed on the action items that would address the issues and concerns discussed during the meeting.