

MARKET SURVEILLANCE COMMITTEE

Quarterly Accomplishment Report

July to September 2019

OCTOBER 2019

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 its regular monthly meeting, and frequently communicates through email and other means to deliberate on various MSC topics.

During the third 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

A. Monitored and Assessed Market Outcomes in the WESM

- **Periodic assessment of market outcomes**

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 MSC assessed the results of WESM operations for the billing months of May to July 2019. In summary, it was observed that demand continued to rise in May and June driven by the hot temperatures during the summer season. Meanwhile, effective supply followed a decreasing trend from May to June, attributed to the higher outage capacity that was driven by the forced outages of coal and natural gas plants in the June billing month. Following the forced outages of major coal plants which submitted relatively lower offers, the market prices for June increased by 16% from PhP6,652/MWh in May to PhP7,770/MWh.

¹ MSC (Regular) Meeting No. 2019-10 held on 10 July 2019; MSC (Regular) Meeting No. 2019-11 held on 08 August 2019; and MSC (Regular) Meeting No. 2019-12 held on 12 September 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*

Due to the sustained high prices in June, the secondary price cap³ was imposed in a total of 145 intervals during the billing month. Also, the System Operator (SO) initiated market intervention (MI) in Luzon, affecting 10 trading intervals due to manual load dropping (MLD).

Meanwhile, the July billing month observed a wider supply margin driven by the decrease in demand as cooler temperatures prevailed, brought about by the onset of the rainy season. Moreover, average effective supply increased driven by lower outage capacity. Consequently, the market prices for July significantly decreased by 40.1% at PhP4,657/MWh.

Accordingly, three (3) Monthly Market Assessment Reports (MMAR) covering the May, June and July 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.

- **Quarterly Market Assessment Highlights for 2019-Q2**

The MSC also reviewed the MAG's assessment of the market for the second quarter of the year, from 26 March 2019 to 25 June 2019 (QRMAR-2019-02) during its August 2019 meeting. The MSC reviewed the result of the analysis on supply and demand, outage capacity, market price outcome, frequent price-setters and pivotal suppliers, and the resulting market share during the quarter.

It was observed that demand plus reserve schedule went up by 7% from 11,205 MW in April to 12,030 MW at the height of the summer months in June, while effective supply increased by 5% from 12,363 MW in April to 12,998 MW. Consequently, spot prices increased by 6% to PhP7,770/MWh in June from PhP7,315/MWh in April.

- **Semi-Annual Market Assessment for January to June 2019**

Furthermore, the MSC also deliberated upon the MAG's assessment of the market for the 1st half of 2019 (from 26 December 2018 to 25 June 2019), in terms of supply and demand, outage incidents, market price outcome, frequent price setters, pivotal suppliers and market concentration. The MSC discussed the increase in market prices by 58% from PhP4,622/MWh in the first quarter, to PhP7,288/MWh in the second quarter, when the secondary price cap was

³ The secondary cap, as of latest revision in ERC Resolution No. 4 Series of 2017 – A Resolution Adopting Amendments to the Pre-emptive Mitigating Measure in the Wholesale Electricity Spot Market, amounting to PhP6,245/MWh is imposed upon breach of the Generator Weighted Average Price (GWAP) over a rolling 120-hour period on the threshold amounting to PhP9,000/MWh.

imposed in 274 trading intervals. The last imposition of the secondary price cap was noted in September 2014.

The MSC then presented the market assessment highlights for the 1st half of 2019 for the PEM Board's information during its September 2019 meeting.

- **Review of Interesting Pricing Events**

The MSC deliberated upon interesting pricing events from May to July 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"⁴. The determination of the interesting pricing events was based on the methodology approved by the MSC.

- The MSC discussed a total of 63 interesting pricing events from May to July, which were all noted to be mainly attributable to forced outages.
- 12 interesting pricing events were observed during the billing month of May, while 11 events were observed in July. During both months, the interesting pricing events were mainly driven by the forced outages of major generating plants.
- The number of interesting pricing events was significantly higher in June, at 40 events. These occurred mostly during peak hours when demand is high, coupled with the forced outages of major generating plants. Also observed were the few instances of high prices during evening off-peak hours, attributed to high outage capacity.

B. Monitored and Assessed the Performance of the Retail Market

Pursuant to the Catalogue of Retail Market Monitoring Data and Indices (CRMMDI) Section 3.1.2⁵, the MSC assessed the performance of the retail market for the first and second quarters of billing year 2019, as provided under the Quarterly Retail Market Assessment Reports covering the periods 26 December 2018 to 25 March 2019 (MAG-RMAR-2019-01), and 26 March to 25 June 2019.

⁴ 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.

⁵ 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 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.

As of 25 June 2019, there were a total of 1,306 registered Contestable Customers (from previous quarter's 1,240 registered Contestable Customers). Likewise, the market recorded a total of 31 registered Retail Electricity Suppliers (RES), 14 registered Local RES (LRES), and 25 registered Supplier of Last Resort (SOLR).

The RMAR for Q1 2019 was submitted to the PEM Board on 03 July 2019, and to the DOE and the ERC on 04 July 2019. The Report was also published in the PEMC website on 05 July 2019.

Meanwhile, the RMAR for Q2 2019 was submitted to the PEM Board on 29 August 2019. The Report was also submitted to the DOE and the ERC and published in the PEMC website on 30 August 2019.

C. Assessment of Over-Riding Constraints

Pursuant to MSCEM Section 6.2.1 (i)⁶, the MSC assessed the over-riding constraints imposed by the System Operator on generators for the billing months of May, June and July 2019.

The July billing month recorded the highest number of over-riding events during the covered 3-month period. For this month, the number of over-riding events notably increased by 51.6 percent at 6,968 from 4,596 events in June, and 4,596 events in May.

The MSC noted that a total of 52 generators, i.e. 38 Luzon generators and 14 Visayas generators, were imposed with over-riding constraints by the NGCP-SO during the July billing month, a notable increase from the 40 and 35 generators, respectively, that were imposed with over-riding constraints in May and June. This increase followed the increase in the imposition of non-security limit that were mostly related to the conduct of testing and commissioning of new plants.

⁶ MSCEM Section 6.2.1(i) *The MSC shall have following responsibilities: (a) xxx; (i) Review Over-Riding Constraints; xxx*

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

The MSC continued its discussion on the prolonged testing and commissioning of generator-TPs in the WESM, having noted the recurrence of the same issue over the years. The MSC likewise noted that plants on prolonged testing and commissioning in the WESM are not-subjected to the compliance and enforcement of the must-offer-rule/rule on the nomination of projected output and loading level, as well as compliance with the RTD instruction/schedule.

The MSC then reviewed relevant provisions in the WESM Rules and Manuals, and has taken note of procedural gaps, and of possible ways forward to address these concerns.

D. Review of Market Intervention Events

The MSC met with representatives of the Luzon-System Operations (LSO), which presented an overview of its internal procedure on Manual Load Dropping (MLD). The meeting was held at the request of the MSC, following its observation that that majority of the SO-initiated MI events in 2019 were on account of MLD.

At the end of the meeting, the MSC requested the NGCP-LSO to provide detailed information on the SO-initiated MIs in 2019, to assist the MSC in its review of MI events.

E. Review of the Initial Mindanao Market Assessment Report

The MSC discussed the result of the MAG's initial market assessment report on Mindanao during its July 2019 monthly meeting. The initial assessment included an analysis on the region's supply and demand, and market concentration.

After its deliberation on the matter, the MSC approved the Mindanao market assessment report for submission to the PEM Board.

F. Review of the Initial Report on Reserve Market Assessment

On September 12, 2019, the MSC reviewed the initial result of the MAG's assessment on reserves, and noted the conclusions reached by MAG in terms of market concentration.

MAG is conducting an ongoing study on reserves to determine the competitive landscape of the reserve market following PEMC's thrust on the co-optimization of energy and reserves.

G. Review and Approval of the Proposed Amendments to the Catalogue of Market Monitoring Data and Indices

The MSC continued with its deliberation on the proposed amendments to the Catalogue of Market Monitoring Data and Indices (CMMDI). The amendments incorporated the updates aligned with the implementation of the 5-minute dispatch in the enhanced market design, and also introduced additional spot price indices and generation offer indices, that were discussed by the MSC in previous meetings.

The MSC likewise approved that the same be presented to the Rules Change Committee and the PEM Board for consultation, and posted in the PEMC website for comments of stakeholders and interested parties.

H. Deliberation on the Proposed WESM Industry Code of Ethics

The MSC reviewed the consolidated comments received by the MAG upon publication of the proposed WESM Industry Code of Ethics (WICOE).

The MSC agreed to conduct further review on the Code of Ethics in other jurisdictions particularly on possible penalties/sanctions for non-compliance of the Code.

I. 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 review of the CMAR, the MSC submitted to the PEM Board the following requests for investigations (RFIs) for possible non-compliances with

RTD, MOR and NOM: 13 RFIs for the May 2019 billing month; 13 RFIs for June 2019; and 19 RFIs for the July 2019 billing month.

J. Review of ECO Investigation 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 its July 2019 meeting, the MSC completed and approved the result of its review of nine (9) consolidated ECO Investigation Reports/ The ECO IRs were cases on possible non-compliance with the Must-Offer-Rule (MOR), Nomination of Loading Levels and Projected Output (NOM) and Real-Time Dispatch (RTD) Schedule, involving nine (9) generator-TPs.

The MSC Review Report on the consolidated ECO IRs were submitted to the PEM Board on 15 August.

The MSC presented to the PEM Board during its September meeting its review and recommendation on a total of 109 consolidated ECO IRs, involving the non-compliance with the WESM Rules of some 23 generator-TPs. These were investigation cases that were reviewed by the MSC during the first and second quarters of the year.

K. Deliberation on the Submitted Comments to the DOE regarding the Proposed Manuals on Penalty, Market Surveillance, and Enforcement and Compliance

The MSC discussed through email and during several meetings, the result of the DOE public consultation on the proposed manuals on penalty, market surveillance, and enforcement and compliance.

As regards the proposed Penalty Manual, the MSC maintained its position regarding the “automatic” imposition of financial penalty. The MSC discussed that this recommendation stems from the intent to streamline the process on penalty imposition, considering the MSC’s experience in recent past.

To address the comment of trading participants in said DOE public consultation, the MSC agreed to submit for the DOE’s consideration, the placement of the financial penalty collected in a suspense account, where financial penalties could be held in trust, subject to the final outcome of the case.

L. Review of the MSC Work Plan

The MSC reviewed its Work Plan for 2019-2021, noting its accomplishments during the year and its committed targets for 2020.

The MSC likewise participated in the PEMC Corporate Strategic Planning Workshop for CY2020 held on 19 September 2019.

M. Consultation on Embedded Generation in Mindanao

The MSC participated in the PEMC Consultation on Embedded Generation in Mindanao on 14 August 2019. The MSC Chairman presented the result of the MSC's assessment of the Mindanao Market in terms of demand and supply, capacity mix, and market concentration.