

MSC-QR-2018-04

Market Surveillance Committee Quarterly Accomplishment Report

October, November and December 2018

January 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 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 Manual (MSCEM), 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 fourth quarter of 2018, the MSC conducted three (3) regular monthly meetings and one (1) special meeting¹. 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. Monthly Market Assessment Report for August, September and October 2018

Pursuant to MSCEM Section 6.2.1 (b)², the MSC regularly reviews the market development and assesses the activities of WESM Participants, the supply and demand condition, and the significant events affecting the market.

During the covered period, the MSC reviewed and deliberated the monthly Market Assessment Reports for the billing months of August, September and October 2018, submitted by the Market Assessment Group (MAG). The Market Assessment Report is prepared for the purpose of monitoring and assessing the performance of the electricity market, including the evolution and analysis of the market monitoring indices.

¹ MSC (Regular) Meeting No. 2018-17 held on 11 October 2018; MSC (Regular) Meeting No. 2018-18 held on 21 November 2018; MSC (Special) Meeting No. 2018-19 held on 07 December 2018; MSC (Regular) Meeting No. 2018-20 held on 12 December 2018.

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*

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.

During the PEM Board Meetings in October and November 2018, the MSC presented the highlights of the Market Assessment Report for the period 25 June to 26 August 2018 and 25 June to 26 September 2018, respectively.

A.2. Quarterly Retail Market Assessment Report for Q3 2018

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

During the covered period, the MSC reviewed and deliberated the quarterly Retail Market Assessment Report submitted by the MAG. The Retail Market Assessment Report provides an analysis 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 PEM Board, for its information, the quarterly Retail Market Monitoring Report, together with the Retail Market Assessment Report.

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

- Monthly Market Assessment Report for August 2018, submitted on 05 November 2018
- Monthly Market Assessment Report for September 2018, submitted on 11 December 2018
- Monthly Market Assessment Report for October 2018, submitted on 28 December 2018
- Quarterly Retail Market Assessment Report for Q3 2018, submitted on 28 December 2018

The MSC reports were also furnished to the Energy Regulatory Commission (ERC) and the Department of Energy (DOE), and published in the PEMC 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.3. Interesting Pricing Event Report for September 2018

The MSC reviewed and deliberated the Interesting Pricing Events Report for September 2018 submitted by the MAG. This report provided an in-depth analysis of intervals determined to have price outliers, also known as “interesting pricing events”⁵. The determination of the interesting pricing events was based on the methodology approved by the MSC.

During the billing month of September 2018, two (2) interesting pricing events were observed as follows:

Date	Hour	Supply Margin (MW)	Market Price (PhP/MWh)	Reference Price Threshold (PhP/MWh)
Sep. 08	1400H	461	20,457	18,146
Sep. 08	1900H	405	21,453	18,146

The interesting pricing events were brought about by the forced outage of one (1) major coal plant on 08 September 2018 (0712H) combined with higher demand during afternoon peak at 1400H (10,462 MW) and evening peak at 1900H (10,221 MW). Simulation results show that the prices for 1400H and 1900H would have been lower had the said major coal plant remained online.

Upon due deliberation, the MSC approved the report and subsequently submitted the same to the DOE on 28 December 2018. The MSC also provided a copy of the said report to the ERC for its information.

B. Review of Compliance with the Real-Time Dispatch 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 for August and September 2018, 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.

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.

The MSC also reviewed the results of evaluation of the Significant Event Reports and supporting documents submitted by Trading Participants for possible non-compliance with the MOR for the period December 2016 to December 2017.

In view of the Independent Market Operator transition, the MAG's function on monitoring of compliance with RTD schedule and MOR, including the compliance with the submission of nomination of loading level and projected outputs, was transferred to the Enforcement and Compliance Office (ECO) effective 26 September 2018.

In October and November 2018, the ECO finalized its interim Compliance Monitoring and Assessment Process. The ECO also submitted its Compliance Monitoring and Assessment Report for October 2018 on 04 December 2018, which the MSC reviewed. The Compliance Monitoring and Assessment Report is a result of the daily compliance monitoring activities by the ECO after assessing the Trading Participants' compliance with the RTD schedule and MOR. The ECO's monitoring activity was carried out by issuing Daily Compliance Notices to the Trading Participants that are initially flagged for possible non-compliance, and by validating and assessing the Trading Participants' explanations in the Significant Event Report Form and Dispatch Discrepancy Report Form, supporting documents, and other market data or reports from the Market Operator and System Operator.

On the basis of its review of the Compliance Monitoring Reports for August and September 2018, Significant Event Reports for the period December 2016 to December 2017, and Compliance Monitoring and Assessment Reports for October 2018, the MSC found possible non-compliances with the RTD schedule and the MOR for the covered billing period. The MSC thereafter submitted a total of 192 requests for investigation (RFI) to the PEM Board pursuant to MSCEM Section 6.2.1(d)⁶.

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

The MSC 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 months of August to September 2018.

⁶ MSCEM 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 September 2018, the number of resources registered as non-scheduled, must-dispatch and priority dispatch generating units remained at 77 resources with corresponding registered capacity of about 1,500 MW.

One (1) solar resource started its WESM participation during this period. Meanwhile, 14 registered resources were still on testing and commissioning while one (1) biomass resource was on outage for the entire September 2018 billing month. During the period, only 62 resources were monitored for compliance with the submission of nomination of loading level and projected output.

Out of the 62 resources monitored, 42 resources did not submit its nomination of loading level and projected output in some or all of the covered trading intervals for the September 2018 billing month. This comprised of seven (7) biomass, four (4) hydro, one (1) oil-based, one (1) wind and 29 solar resources.

In view of the transfer of compliance monitoring function from the MAG to the ECO effective 26 September 2018 and the enhancements in the ECO's Compliance Monitoring and Assessment Process, the MSC agreed to no longer send monthly letters of inquiry to the identified Trading Participants effective the billing month of October 2018 considering that the process of communication and validation with the Trading Participants was already included in the ECO's enhanced process.

D. Review of Over-riding Constraints

Pursuant to MSCEM Section 6.2.1 (i)⁷, the MSC reviewed the over-riding constraints imposed by the System Operator on generators for the billing months of August to October 2018.

A total of 4,051 over-riding events were recorded during the August billing month, 3,859 events in September 2018 and 3,845 events in October 2018.

For the October 2018 billing month, a total of 3,816 over-riding events were categorized under non-security limit, while the remaining 29 over-riding events were categorized under security limit. Fewer non-security limit events were recorded during the period due to the decrease in events related to generating units' limitations. For the events categorized under non-security limit, almost all, at 99% or 3,778 events, were related to the conduct of commercial tests, the most common of which was testing and commissioning tests.

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

The MSC regularly sends letters of inquiry, requesting for 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.

The MSC presented to the PEM Board the highlights of the MSC's monitoring on overriding constraints for Q3 2018, during the PEM Board meeting held on 12 December 2018.

E. Request for Study on the Period of the Conduct of Testing and Commissioning per Type of Facility

The MSC previously requested the Grid Management Committee (GMC) to revisit the allowable period of the conduct of testing and commissioning as provided under the ERC Resolution No.16, Series of 2014. The GMC then informed the MSC that it already submitted to the ERC its proposal to extend the testing and commissioning period to five (5) months from the current two (2) months indicated in the said Resolution. However, the ERC requested for a study to justify the GMC's proposal thus the GMC was still gathering data to come up with a study, that would support its proposal or formulate appropriate recommendation in amending the allowable period of test and commissioning.

With the dissolution of the GMC and reorganization within ERC in the later quarter of 2018, the MSC deemed it necessary to elevate the matter to the Technical Committee (TC) for assistance. On 10 December 2018, the MSC sent a letter to the TC requesting for a study or review and recommendations on the appropriate period for the conduct of testing and commissioning, taking into consideration the complexity and the type of facility being tested.

F. Proposed Conduct of Workshop regarding Compliance with the Submission of Nomination of Loading Level and Projected Output, and Forecast Accuracy Standards

On 12 October 2018, the DOE requested for updates on the timeline of the MSC's proposed conduct of workshop on Trading Participants' responsibilities or obligations under the WESM Rules and Manuals, specifically on the submission of nomination of loading level and projected output, and forecast accuracy standards.

In its response letter dated 27 November 2018, the MSC informed the DOE that PEMC will be holding a WESM Compliance Officers (WCO) Summit Event that is scheduled on

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

24 January 2019. Workshops on Trading Participants' compliance with the submission of nomination of loading level and projected output, and compliance with the forecast accuracy standards, will be a part of the breakout sessions during the one day WCO Summit Event.

G. Review of Proposed Guidelines on Offer for Settlement

In October 2018, the MSC commenced its review of the ECO-proposed guidelines on Offer for Settlement. In the course of its review, the MSC deemed that there is a need to further enhance the provisions on Offer for Settlement, which were incorporated in the proposed Enforcement and Compliance Manual, that was already submitted to the DOE for approval.

The MSC then agreed to jointly transmit with the ECO the additional proposed changes, during the conduct of the public consultation of the proposals to the WESM Rules and Manuals related to Market Surveillance, Compliance and Enforcement, that is currently pending approval with the DOE. The DOE public consultation is scheduled in January 2019.

H. Participation in WESM Governance Committee Strategic Planning

The MSC participated on the preparatory activities conducted by the PEMC for the WESM Governance Committee Strategic Planning, as follows:

- a. Workshop to revisit PEMC's Vision, Mission and Corporate Values and Strategic Direction Setting, held on 20 November 2018; and
- b. PEMC Top Management Strategic Planning: Direction Setting - Review of Balanced Scorecard Strategies, held on 03 December 2018.

The MSC thereafter participated in the WESM Governance Committee Strategic Planning held on 04 – 05 December 2018 at Anya Resort, Tagaytay City. With the streamlined mandate of PEMC to govern the market, PEMC with the assistance of a third party facilitator, conducted the Committee Strategic Planning to formulate its work plan for year 2019 aligned with the PEMC Corporate Strategic Plans.

The MSC also participated in the continuation of the Committee Strategic Planning held on 17 December 2018. The purpose of the said activity is to determine the key priorities, including the timelines and indicators, based on the agreed upon corporate outcomes.

I. Review of Draft MSC 2019 Work Plan

The MSC commenced its review of the draft MSC 2019 Work Plan. The said work plan was an output of the MSC discussions during the WESM Governance Committee Strategic Planning held on 04 – 05 December 2018. The MSC will finalized its work plan within the first quarter of 2019.