

MARKET SURVEILLANCE COMMITTEE

Quarterly Accomplishment Report

January to March 2020

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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. The MSC likewise adopted the online conduct of meetings in response to the Enhanced Community Quarantine (ECQ) declared by the National Government due to the increasing threat of Covid-19.

During the first quarter of 2020, 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, as contained in the Catalogue of Market Monitoring Data and Indices (CMMDI).

¹ MSC (Regular) Meeting No. 2020-01 held on 09 January 2020; MSC (Regular) Meeting No. 2020-02 held on 13 February 2020; and MSC (Regular) Meeting No. 2020-03 held online on 24 March 2020.

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*

1.1.1. Monthly Market Assessment Reports

The MSC assessed the results of WESM operations for the billing months of November 2019, December 2019, January 2020 and February 2020, as provided under the Monthly Market Assessment Reports of the MAG (MMAR-2019-11, MMAR-2019-12, MMAR-2020-01 and MMAR-2020-02).

One of the highlights in the MSC's assessment during the period was its analysis on the maximum price that was recorded for the November billing month at PhP40,293/MWh. This was posted on 04 November 2019 at trading interval 1600H. Further, on the same date, intervals 1500H and 1800H also resulted to high spot prices at PhP36,539/MWh and PhP37,707/MWh, respectively.

The MSC observed that for the three (3) subject intervals, the pricing substitution methodology (PSM) was not applied, even if the resulting value of the price trigger factor (PTF) is greater than the 1.2 threshold. This is because there was no network congestion in the system for all 3 intervals. Given this observation, the MSC convened a working group to further study this high market price incident. Furthermore, the MSC agreed to request assistance from the Technical Committee (TC) for a review of the appropriateness of the 1.2 PTF in the application of PSM.

All four (4) aforementioned Monthly Market Assessment Reports (MMARs) were deliberated upon 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-Q4

The MSC deliberated upon the MAG's Quarterly Market Assessment Report (QMAR) covering the period 26 September to 25 December 2019 (QMAR-2019-04).

The MSC observed an additional 190-MW registered in the wholesale market during the fourth quarter of 2019 bringing up the total WESM registered capacity to 20,182 MW as of 25 December 2019. Notwithstanding the increase in registered capacity, tighter supply margin at 1,848 MW on average was observed this quarter compared to 2,111 MW during the third quarter. This was driven by the 2.3 percent quarter-on-quarter decrease in effective supply, from 13,419 MW to 13,106 MW attributable to the higher level of outage. It was noted that average outage capacity increased by 38.2 percent, from 2,320 MW to 3,207 MW.

On the other hand, the period experienced slight decrease in demand from 11,307 MW in the third quarter to 11,258 MW in the fourth quarter, following the lower temperatures and observance of holidays. Consequently, a considerable increase was noted in average market prices in the fourth quarter at PhP5,060/MWh, which was 54.6 percent higher than previous quarter's PhP3,272/MWh.

The QMAR was submitted to the PEM Board for information, and consequently published in the PEMC website.

1.1.3. Interesting Pricing Events

The MSC deliberated upon interesting pricing events that were observed during the billing months of November and December 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 reviewed the interesting pricing events which occurred during the November and December 2019 billing month, at 23 and 38 trading intervals, respectively, which were all noted to be mainly driven by the forced outages during affected intervals.

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 September to 25 December 2019 (MAG-RMAR-2019-04).

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 2,029 qualified electricity end-users already issued with the ERC’s Certificate of Contestability. Of these, 1,408 contestable customers or about 69 percent have already registered in the market as of the billing month of December 2019. Quarter-on-quarter, additional 36 contestable customers were issued with ERC’s Certificate of Contestability while additional 50 Contestable Customers registered in the market.

Of the 102 Suppliers with license from ERC, only 70 Suppliers are registered in the retail market. No additional Suppliers were registered during the period, thus, as of 25 December 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).

The RMAR for Q4 2019 was submitted to the PEM Board on 30 March 2020. The Report was also submitted to the DOE and the ERC on 31 March 2020 and was likewise published in the PEMC website.

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*

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 of November to December 2019 and January to February 2020.

For November 2019, a total of 6,543 over-riding events were imposed 21 Luzon generators and 10 Visayas generators. Meanwhile, a total of 7,163 over-riding events were imposed on 30 Luzon generators and 13 Visayas generators during the December billing month. This month's over-riding constraints was 9.5 percent higher than November, mainly due to the increase in the number of non-security limit event imposed by the System Operator (SO) for testing and commissioning from 6,059 to 6,672 events, and 2) generating unit limitation from 77 to 104 events.

For the January 2020 billing month, a total of 6,121 over-riding events were imposed on 29 Luzon generators and 8 Visayas generators. On the other hand, 5,775 over-riding events were noted during the February billing month involving 30 Luzon generators and 13 Visayas generators. The MSC noted that the imposition of over-riding events decreased by 5.7 percent in February due to the decline in the conduct of testing and commissioning from 5,633 incidents in January to 5,094 in the February billing month.

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.

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 the over-riding constraints imposed on generators.

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 reviewed the responses of plants that were received by the MSC during its January and February meetings.

In March 2020, instead of sending the MSC letter of inquiry to the plants on prolonged T&C, the MSC agreed to send a letter to the Independent Electricity Market Operator of the Philippines (IEMOP), updating the latter of the status of plants on prolonged T&C, and reminding the IEMOP of the provision for suspension

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

and deregistration in the WESM Registration Manual, to apply to WESM members which fail to comply with the WESM membership requirements. Said letter was sent to the IEMOP for appropriate action.

1.4. Meeting with IEMOP on the WESM and RCOA Registration Processes

The MSC met with IEMOP-Stakeholders Services Division (SSD) representatives in January to discuss the following: (a) WESM Registration Procedure and Practices, and (b) Retail Market Registration Procedure and CRB Activities. The MSC agreed to convene a group that will study the detailed process flows on the WESM registration process and other related processes, and to identify the procedural gaps arising from these.

Recommendations from said group was deliberated upon by the MSC, together with IEMOP representatives, in its February meeting. The result of the discussion was a detailed matrix on the procedural gaps identified by the MSC, as well as the suggested ways forward. The MSC consolidated the result of this discussion together with its updated monitoring of plants on prolonged T&C, to formalize the consolidated issues on the WESM registration process through a letter that was sent and received by the IEMOP in March.

1.5. Updated Market Price Triggers

The MSC reviewed the proposed thresholds on market price triggers based on seasonality. The thresholds were proposed following the simulation conducted by MAG in response to the comments received from the PEM Board to consider seasonality in the assessment of market prices. The comments were received by the MSC relative to the MSC-proposed amendments to the Catalogue of Market Monitoring Data and Indices (CMMDI) Issue 1.

The MSC approved the MAG proposal, and then agreed for MAG to utilize the updated thresholds in its market monitoring activities.

1.6. WESM Industry Code of Ethics (WICOE)

The MSC continued with its discussion on the draft WESM Industry Code of Ethics (WICOE). During its March Regular Meeting, the MSC looked at the various penalty provisions incorporated in the Code of Ethics in other electricity markets.

Further, the MSC reviewed, and thereafter approved the draft WICOE for submission to the PEM Board. The draft WICOE incorporated the proposed penalty clause, as well as the comments submitted by stakeholders and market participants, that were duly-considered by the MSC.

1.7. Proposed Study/Terms of Reference (TOR) on the Monitoring Framework on Anti-Competitive Behavior (ACB)

The MSC reviewed the proposed Terms of Reference (TOR) for the engagement of services of an international Market Advisor to provide technical assistance in the development of PEMC's monitoring indices on Anti-Competitive Behavior (ACB). The MSC likewise looked at the monitoring framework which forms the basis in the development of the monitoring indices on ACB.

Upon due deliberation in its January and February meetings, the MSC approved the monitoring framework on ACB, and the TOR, as revised.

1.8. Discussion on the Competitiveness Study on Reserves

The MSC continued its discussion regarding the Study on the Competitiveness of the Reserve Market, as presented by the MAG. The Study aims to: a) to assess the results of the central scheduling of reserves under the current market design; and (b) to assess the competitiveness of the reserve market.

The MSC then agreed to continue with its discussion on the Study, and to consider the following in its further review: best practices in other jurisdictions, as well as coordination with the Technical Working Group (TWG) on Ancillary Services, or the Technical Committee (TC) on the simulation being done on the co-optimization of energy and reserves.

1.9. Deliberation on the Rules Change Proposal on the WESM Manual on Registration, Suspension, and De-Registration Criteria and Procedures for General Enhancements to the Application Process of New WESM Members

During its January Meeting, the MSC reviewed the rules change proposal submitted by IEMOP on the WESM Proposed Amendments to the WESM Manual on Registration, Suspension, and De-Registration Criteria and Procedures for General Enhancements to the Application Process of New WESM Members.

Some of the highlights of the MSC deliberation are as follows: (a) the MSC disagreed with the IEMOP's proposed *Backfeed Registration*, having considered that there is no need for plants under construction to withdraw energy directly from the grid. The MSC opined that plants under construction should connect with the host DU instead, and (b) the MSC suggested that for purposes of WESM registration, testing and commissioning should be defined and limited only to tests related to connection/synchronization to the grid.

1.10. Rules Change Committee (RCC) Request for MSC Recommendation regarding the Compliance and Penalty Provisions on the Proposed Amendments to the Registration Manual

The Rules Change Committee (RCC) requested the assistance of the MSC and Enforcement and Compliance Office (ECO) with regard the compliance and penalty provisions related to the IEMOP's proposed amendment to the Registration Manual.

In response, the MSC deliberated upon the enforcement and penalty implications of the rules change proposal on the Registration Manual during its March Meeting. The same was presented by the ECO. The MSC discussed: (a) the obligations of Trading Participants, Market Operator and System Operator under the IEMOP-proposed WESM Registration Phases, and (b) the corresponding penalty implications. The MSC then agreed that these be presented for the consideration of the RCC.

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 November 2019, December 2019, and January 2020 were deliberated upon by the MSC, as contained in the Compliance Monitoring and Assessment Reports (CMARs) 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 and MOR: nine (9) RFIs each, covering the November and December 2019 billing months, and eight (8) RFIs corresponding to the January 2020 billing month.

2.2. Review of ECO Investigation Reports

The MSC deliberated upon ECO Investigation Reports (IRs) that were submitted for the MSC's review. The ECO IRs covered the non-compliances of generator-trading participants 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). The MSC reviewed the same with respect to: (a) the ECO's compliance with the procedures set forth in the MSC-EM for the conduct of investigation, and (b) the

validity and completeness of the data and documents upon which factual findings are based, pursuant to Section 10.7 of the MSCEM Manual.

For the covered period during its regular monthly meetings, the MSC completed its review on the following: three (3) consolidated ECO IRs involving 3 generator-trading participants (January); eight (8) consolidated ECO IRs involving 8 generator-trading participants (February); and nine (9) consolidated ECO IRs involving 9 generator-trading participants (March).

The MSC then submitted the result of its review and recommendation on the ECO IRs, for the PEM Board's approval.

2.3. Review of Motions for Reconsideration (MRs)

The MSC deliberated upon the ECO recommendation on the submitted Motions for Reconsideration (MRs) by two (2) generator-TPs for its 2014 cases on non-compliance. These were taken-up by the MSC in its February and March meetings. The MSC likewise took note of the ECO activities that were conducted related to the submitted MRs.

Upon due deliberation, the MSC agreed to submit its review on the MRs to the PEM Board for consideration.

2.4. Review of the Proposed Criteria on Compliance Rating

The MSC deliberated upon the ECO-proposed criteria in the compliance rating of generator-trading participants, which will be the basis for the annual recognition of TPs based on compliance.

The MSC agreed with the proposed criteria, subject to categorization according to plant type, i.e. coal to compete with other coal plants for the high compliance rating, to consider the difference in the characteristics of each plant type

3. Other Activities

3.1. MSC Annual Report for 2019 and 2020 Work Plan

The MSC published the MSC Annual Report on 26 March 2020, outlining its accomplishments on market monitoring and assessment, as well as enforcement and compliance, for Calendar Year 2019. As an attachment to the Annual Report, the MSC likewise published its Work Plan for CY 2020.

For the 1st Quarter of 2020, the MSC was composed of five (5) members, namely, Engr. Francis V. Mapile, Dr. Peter Lee U, Atty. Doroteo B. Aguila, Mr. Fernando Martin Y. Roxas and Ms. Eulinia M. Valdezco, who served the MSC until 05 March 2020.