

**WHOLESALE ELECTRICITY SPOT MARKET
RULES CHANGE COMMITTEE**

RESOLUTION NO. 2014-09

**Proposed Urgent Amendments to the WESM Rules and the Dispatch Protocol
Manual on Stand-by Capacity**

WHEREAS, on 22 April 2014, Global Business Power (GBP) submitted its proposed urgent amendments to the WESM Rules and the Dispatch Protocol Manual proposing the inclusion of provisions to allow the nomination of stand-by capacity, by email to the Rules Change Committee (RCC) Secretariat and by hand to the Office of the PEMC President the following day, 23 April 2014;

WHEREAS, on the same day, the RCC Secretariat, after establishing that the proposal complied with the formal requirements set forth in Section 5.2 of the Rules Change Manual (RCM), immediately transmitted the said urgent rules change proposal to the PEMC President, following Section 7. 2(a) of the Manual, for determination if the same constituted an urgent amendment, and if determined as such, for the issuance of the corresponding certification;

WHEREAS, on 28 April 2014, the RCC Secretariat received from the Office of the PEMC President a memorandum certifying the proposal to be urgent and at the same time directing the RCC Secretariat to immediately convene the RCC to consider the submitted proposal;

WHEREAS, the GBP representative was unavailable for the 2 May 2014 scheduled RCC meeting for the discussion of its proposed urgent amendments and requested that the RCC meeting be set the following week, which coincidentally was the week when the RCC shall be having its Regular Meeting;

WHEREAS, on 07 May 2014, where quorum was established with all 14 RCC members in attendance, the RCC convened for its 87th Regular Meeting to deliberate upon the proposed urgent amendments on stand-by capacity;

WHEREAS, during the meeting, the GBP representatives presented the proposal before the RCC and explained the proposal and its rationale as follows:

- 1) That said proposal seeks to amend the WESM Rules to allow the nomination by generators of stand-by capacity. It introduces a concept whereby generators that do not want to be dispatched in a particular trading interval will be allowed to nominate stand-by capacity during off peak hours. Instead of offering as energy at very high prices, peaking plants will account for their capacity as stand-by capacity and will be settled using the nominated stand-by capacity price of the plant or the Market Clearing Price, whichever is higher. Stand-by capacity may only be dispatched during periods of under generation and will have its own merit order table and thus will not affect spot market clearing price;
- 2) That depending on the generators, the stand-by capacity may be offered by plant or by unit. The Pmax may be offered by the plant either in the energy market

or as stand-by capacity. At off peak, there are peaking plants that usually do not want to be dispatched, so they maximize their bid price at off peak so they will not be dispatched even for one hour. With the proposal for stand-by capacity, if they are needed, they will be instructed to run, but their price will not be part of the market price. Stand-by capacity offers will also follow the merit order table for stand-by plants and will be paid as bid without their bid price affecting the market price and there will be no payment if the stand-by plant was not instructed to run.

- 3) That said proposal intends to address the anticipated shortages during the coming months of May, June and July, deemed to be highly possible considering the extreme heat of the summer months and El Nino, which may affect the hydro plants because of lack of water;

WHEREAS, during said meeting, the RCC deliberated on the proposal and cited concerns on the possible impact that such proposal would have on the market as follows:

- 1) Netting out the capacities of peaking plants such as oil-based and hydro plants from the energy market may actually have an adverse impact on the spot market price as the capacity taken out will result to less supply. This may have the effect of actually increasing the prices in the spot market ;
- 2) A situation is foreseen where all plants in the stand-by market may put their units on stand- by capacity and thus result to plants in the spot market bidding higher because of lower energy offers. A situation may thus exist where there will be higher market clearing prices (MCP) and high stand-by prices for dispatched plants.

WHEREAS, on 7 May 2014, in its 87th Meeting, the RCC, after due deliberation and following the provisions of the Rules Change Manual for the assessment of any urgent proposal, evaluated the said proposal as follows:

- 1) On the matter of the urgency of the proposal, voting nine (9) for yes, four (4) for no and one (1) abstention¹, the RCC assessed that the proposal satisfies condition Section 3.1.c of the RCM, to avoid, reduce the risk of or mitigate the unintended adverse effect of a WESM rule (or any of its amendments). The RCC agreed that the proposal was put forth in order to address a) the unintended effect of a WESM Rule, the Must Offer Rule which imposes that all plants should offer all their capacity at all times; and b) the constant dilemma of generators that are compelled to offer their available capacities at all intervals although it is more economical and optimal for them to be dispatched only at certain intervals; and
2. On the requirements for the assessment if the proposal is consistent with the following criteria: a) consistency with the objectives of the WESM as defined in the WESM Rules Section 1.2.5; b) legal, technical and commercial feasibility; and c) reasonableness of the cost to implement, the RCC, voting five (5) for no, with three (3) for yes and six (6) abstentions², noted that the proposal is not

¹ Record of votes on urgency of the proposal is as follows: Yes - 9 votes (Meralco, TPEC, INEC, PSALM, 1590 EC, SMEC, 3 Independent Members) ; No- 4 (SO, MO, MECO and CENECO) ; and Abstention - 1(RCC Chairperson)

² Record of votes on compliance to criteria for a Rules Change Proposal: No - 5 (MO, SO, INEC, CENECO and MECO) ; Yes -3 (SMEC, MERALCO, Independent Member Francisco L. R. Castro, Jr.) and Abstention - 6 (Independent Member, Concepcion I. Tanglao , Independent Member, Mailla Lourdes G. De Castro, RCC Chairperson , PSALM, TPEC, 1590 EC)

able to provide support to justify its commercial and technical feasibility, as provided for by Section 4 of the Rules Change Manual. The RCC therefore recommended that a simulation be conducted by PEMC to determine the technical and commercial feasibility of the proposal. The RCC was thus unable to endorse the proposal to the PEM Board as an urgent amendment at the time.

WHEREAS, on 30 May 2014, the RCC presented to the PEM Board the RCC's report on the action it has taken on the proposed urgent amendments by GBP on Stand-by Capacity, following the requirements of Section 7.2 (d) of the Rules Change Manual;

WHEREAS, during said PEM Board meeting, the PEM Board directed the RCC to make further study on the proposal taking into note the current structure and rules of the market and to present the results of the simulation conducted by PEMC to determine the technical and commercial feasibility of the proposed urgent amendments, together with the RCC's recommendation on the proposal in the PEM Board Meeting in June 2014.

WHEREAS, on 4 June 2014, during the 88th RCC Meeting where quorum was present with twelve (12) members in attendance (4 Independent Members, 2 from Generation Sector, 3 from Distribution Sector, 1 from Supplier Sector, 1 MO and 1 SO), the RCC again discussed the proposed amendments of GBP on stand-by capacity;

WHEREAS during said meeting, the PEMC presented the results of its simulations, as requested by the RCC, on the effect of the proposal on the market and market prices;

WHEREAS in its presentation, PEMC discussed the results of the simulations as follows:

- 1) Assuming that there will be no change in the trading behaviour of the participants and that stand-by capacities are only those plants offering at the offer cap, the clearing prices will generally go down.
 - Using data based on actual interval of December 8, 2013 at H03, the result of netting out offers which were at the offer cap would have resulted to a Market Clearing Price of P 9,052.41/MW vs. the P62,000 MCP during said interval, after doing a Market Rerun;
- 2) There will be more frequent occurrences of artificial under generation condition when stand-by plants will not offer in the Market.
 - Using actual data during the November to December 2103 Billing months and assuming various scenarios on the percentage of plants that will be on stand-by, the number of under generation will be more frequent; thus more Pricing Error Notices (PEN) will be issued and Market Re-runs (MRR) will be performed to arrive at the MCP at the ex-post run.

WHEREAS, during the same meeting, the NGCP as Systems Operator and PEMC as Market Operator also presented their comments on the proposal;

WHEREAS, the RCC, taking into consideration the results of the simulation, the comments by PEMC and NGCP, and the proponent's responses to questions from RCC members, deliberated on the proposal and unanimously (with 12 members present: 4 Independent Members, 2 from Generation Sector, 3 from Distribution Sector, 1 from Supplier Sector, 1 MO and 1 SO) agreed to disapprove the proposal as it was deemed not feasible in view of its impact on prices, operational concerns, market design and market concentration issues;

NOW THEREFORE, we, the undersigned and in behalf of the sectors we represent, hereby unanimously resolve as follows:

RESOLVED, that the **Proposed Urgent Amendments to the WESM Rules and the Dispatch Protocol Manual on Stand-by Capacity** are hereby disapproved;


RESOLVED FURTHER, that the RCC hereby recommends to undertake further studies on the matter as follows:

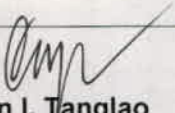
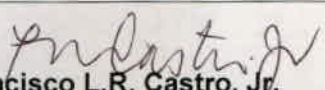
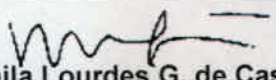
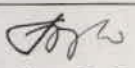
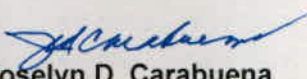

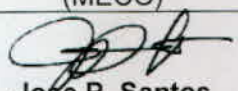
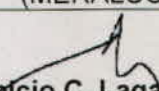

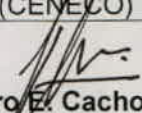
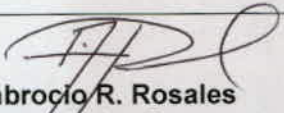
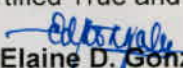
- a) Review of the root cause of why peaking plants set the clearing price during off-peak hours, particularly in line with the on-going study of the DOE on the existence of capacity gap/missing capacities; and
- b) Review of measures that will mitigate significant increases in market clearing prices taking into consideration the existing offer cap and secondary price cap.

RESOLVED LASTLY, that a report on the RCC's action on the proposal and recommendation relative to the proposal be submitted to the PEM Board for its information.

Done this 4 June 2014, Pasig City.

Approved by:
RULES CHANGE COMMITTEE


Rowena Cristina L. Guevara
Chairperson
University of the Philippines
(UP)

Members:	
 Concepcion I. Tanglao Independent	 Francisco L.R. Castro, Jr. Independent Tensaiken Consulting
 Maila Lourdes G. de Castro Independent	 Jose Ferlino P. Raymundo Generation Sector SMC Global
Theo Cruz Sunico Generation Sector 1590 Energy Corporation (1590 EC)	 Joselyn D. Carabuena Generation Sector Power Sector Assets and Liabilities Management Corporation (PSALM)
 Gilbert A. Pagobo Distribution Sector (PDU) Mactan Electric Company (MECO)	Ciprinilo C. Meneses Distribution Sector (PDU) Manila Electric Company (MERALCO)
 Jose P. Santos Distribution Sector (EC) Ilocos Norte Electric Cooperative, Inc. (INEC)	 Sulpicio C. Lagarde Jr. Distribution Sector (EC) Central Negros Electric Cooperative, Inc. (CENECO)
 Lorreto H. Rivera Supply Sector Team Energy	 Isidro E. Cacho Jr. Market Operator Philippine Electricity Market Corporation (PEMC).
 Ambrocio R. Rosales Transmission Sector National Grid Corporation of the Philippines (NGCP)	
	Certified True and Correct:  Elaine D. Gonzales ROC Secretary PEMC

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