



Market Surveillance Committee Quarterly Accomplishment Report

July to September 2022

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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 3.1 of the Market Surveillance Manual (MSM) Issue 1¹, the Market Surveillance Committee (MSC) carried-out its mandate for the monitoring and assessment of market outcomes in the WESM and the Retail Market², with the PEMC-Market Assessment Group (MAG) as its primary support unit.

In performing its responsibilities, the MSC conducted regular monthly meetings, and frequently communicated through email and other platforms to deliberate on various matters under its jurisdictions and other market issues.

For the duration of the covered period, the MSC continued to conduct online meetings, following the National Government's implementation of quarantine measures during the COVID-19 Pandemic. Accordingly, during the 3rd quarter of 2022, the MSC conducted three (3) regular³ meetings, which were all held online.

Accomplishments of the MSC during the covered period are outlined in the succeeding sections of this Report.

II. Accomplishments

1. Activities on Market Monitoring and Assessment

1.1. Monitoring and Assessment of Market Outcomes in the WESM

Pursuant to MSM Section 3.1 (b)⁴, the MSC continued with its monitoring and assessment of market outcomes, as well as the bidding behavior of generator-trading participants (TPs).

The Market Assessment Report (MAR) is prepared for the purpose of monitoring and assessing the efficiency and competitiveness of the WESM under different timescales and market conditions. The periodic Reports include an assessment of market behavior, through the analysis of market monitoring indices, as contained in the Catalogue of Market Monitoring Data and Indices (CMMDI).

¹ Effective 23 October 2021

² Section 1.5.1, Retail Rules: *The provisions of Chapter 1 of the WESM Rules shall apply with respect to the governance of the integration of retail competition in the WESM, the operations of the Central Registration Body, and the participation and transactions in the WESM of Suppliers and Contestable Customers.*

³ MSC (Regular) Meeting No. 2022-09 held on 14 July 2022; MSC (Regular) Meeting No.2022-10 held on 11 August 2022; and MSC (Regular) Meeting No. 2022-12 held on 15 September 2022.

⁴ MSM Section 3.1(b): *The MSC shall have following responsibilities: (a) xxx; (b) prepare and submit monthly monitoring reports, quarterly retail market monitoring reports, annual reports; xxx*

1.1.1. Monthly Market Assessment Reports

During the quarter, the MSC assessed WESM results for the billing months of March to May 2022, as discussed in the Monthly Market Assessment Highlights prepared by MAG, and as reviewed by the MSC.

Billing Month	MSC Observation Highlights
June 2022	<p>There were impositions of red and yellow alert notices due to depleted supply margin. There was also a significant increase in the imposition of secondary price cap because of narrow supply margin brought about by high outage capacity due to tripping of Hermosa-BCCPP 230kV lines 1 and 2. In addition, the system demand level increased further despite the observance of rainy season. As a result, the monthly average price rose from PhP5,925/MWh in May 2022 to PhP8,115/MWh in June 2022.</p> <p>On the repetitive imposition of Pricing Error Notice (PEN) from the previous months, the MSC requested MAG to look at the matter if there is a plan to minimize/eliminate its recurrence.</p>
July 2022	<p>There had been a massive power brownout that hit the Negros-Panay sub grid due to the damaged submarine cables, still caused by the dredging incident by the Department of Public Works and Highways (DPWH). In addition, the level of imposition of secondary price cap remained high caused by narrow supply margin brought about by high outage capacity. Looking at the price, it can be observed that the monthly average price continued to increase to an average of PhP8,532/MWh.</p> <p>In addition, the Committee noted that despite of the 7.0 magnitude earthquake incident during the billing month, the power plants providing supply to the WESM operated normally.</p>
August 2022	<p>The MSC noted that there was a decline in the average system demand from 10,971MW to 10,629MW with the observance of the rainy season. Similarly, the outage capacities decreased by an average of 9 percent or 3,351MW. As a result, the WESM prices declined, from PHP8,532/MWh to PHP6,890/MWh, attributed to the supply margin improvement.</p> <p>Generally, normal pricing condition was observed in August 2022.</p>

MARs are prepared upon availability of the processed and revalidated data which are still affected by the data and procedural concerns encountered before by PEMC with the Independent Electricity Market Operator of the Philippines (IEMOP).

1.1.2. Assessment of Over-Riding Constraints

Similar with the MAR, the monitoring of over-riding constraints (OC) is likewise affected by the data and procedural concerns encountered between IEMOP and PEMC at the start of the Enhanced WESM Design and Operation (EWDO) on 26 June 2021 as well as the additional data concerns which led to the necessity to revalidate data before utilizing the same in the Committee reports. Nevertheless, reports were prepared as soon as the processed data were made available.

Pursuant to Market Surveillance Manual Section 3.1 (b.iii)⁵, the MSC reviewed the assessment results on the over-riding constraints imposed on generator-TPs for the period 26 March to 25 August 2022. Some assessment highlights are as follows:

- Majority of the events were categorized under non-security limit, mainly related to the conduct of testing and commissioning (T&C).
- The security limit impositions noted were mainly for the designation of generators as a Must-Run Unit (MRU) to address real power balancing and frequency control to the Luzon grid.
- Decrease in the imposition for both April and May 2022 were mainly due to expiration of test and commissioning (T&C) period of battery, biomass, and solar plants. Meanwhile, the start of T&C period of one (1) coal plant was the reason for the increase of impositions of coal plant for both April and May 2022.
- Impositions for June 2022 decreased due to expiration of T&C periods of battery and solar plants, forced outage of one (1) unit of coal plant, and the disaggregation of some facility of oil-based plants.
- An increase of 90% on the over-riding constraints impositions was noted from July to August 2022 billing month due to the increase in the conduct of Commercial and Regulatory testing
- Consistently, coal plants were accounted with the largest MW capacities imposed with over-riding constraints for the July and August 2022 billing months.

The Committee likewise discussed the updates provided by the IEMOP, upon the MSC's request, on the status of plants on T&C. The approved reports were duly published in the PEMC website for information.

⁵ MSM Section 3.1(b) *The MSC shall have following responsibilities: (a) xxx; (i) Review Over-Riding Constraints; xxx*

1.1.3. Deliberation of the Comments on the Proposed Rules Change Re: Penalty Framework on Test and Commissioning

In view of the previous discussions, the MSC deliberated on the comments submitted in relation to the proposed rules change in relation to the T&C Penalty Framework. The MSC deliberated the consolidated comments received from the stakeholders through the Rules Change Committee (RCC) Secretariat, Compliance Committee (CC), and the Department of Energy (DOE).

The comments and inquiries received from the stakeholders were pertaining to the proposed penalty framework on T&C which will be reflected into two manuals; 1) Registration, Suspension, and De-registration Criteria Procedure (Registration Manual); and 2) Penalty Manual. The DOE commented in two parts: the harmonization with DOE DC2022-05-0015 which were already incorporated in the recent responses to comments; and the penalty for non-submission of application for commercial operation, wherein the MSC sought further clarification and confirmation regarding the reckoning of non-compliance for registration.

In view of the submitted comments, the Committee attended the deliberation of the RCC for the proposed amendments to the Registration Manual wherein the comments to the Penalty Manual were also tackled.

Furthermore, the Committee deliberated on the additional comments and observations of the CC to the proposed amendments. The CC proposed that there should be no penalties during the three (3) workings days within which the participants are allowed to comply with the required submission of the received COC; thus should not be sanctioned during this period to which the MSC agreed to adopt.

The MSC likewise requested the Enforcement and Compliance Office (ECO) to conduct further study on the possible inclusion of a clause to adjust the financial penalty in accordance with several factors.

1.1.4. Review of Market Intervention Events in June and July 2022

The MSC discussed the results of MAG's assessment on the MI events which occurred in June to July 2022 in consideration of the available information provided with the submission of reports by either the National Grid Corporation of the Philippines (NGCP)-SO and the Independent Electricity Market Operator of the Philippines (IEMOP)-MO. The summary of reason for the noted events were as follows:

Initiated By	Date	Interval/s	Region/s Affected	Classification	Reason
SO	06 June 2022	2325H	Luzon, Visayas, Mindanao	Force Majeure Event	Error in Market Participant Interface (MPI) data transfer

Initiated By	Date	Interval/s	Region/s Affected	Classification	Reason
MO	17 June 2022	1035H – 1110H	Luzon, Visayas, Mindanao	Business Continuity Plan Simulation	Initiated Market Systems switched over from Main site to Back-up site as part of the Business Continuity Management System (BCMS) simulation drill
MO	18 June 2022	1310H – 1325H	Luzon, Visayas, Mindanao	Force Majeure Event	Non-responsive database
MO	30 June 2022	2215H	Luzon, Visayas, Mindanao	Force Majeure Event	Workflow controller execution error
MO	02 July 2022	0025H	Luzon, Visayas, Mindanao	Force Majeure Event	Infeasible market results due to lack of offers processed
SO	06 July 2022	0655H – 2255H	Visayas	Emergency Condition	Isolation of Panay Island caused by tripping of Negros-Panay submarine cable
MO	23 July 2022	2200H – 2205H	Luzon, Visayas, Mindanao	Force Majeure Event	Non-responsive market applications database

The Committee noted MO and SO's respective compliances with the procedures prescribed by the Rules during the occurrences of the enumerated MI. In addition, the MSC found that the MO had basis in declaring an MI due to software failure and conduct of Business Continuity Management System drill.

The MSC again raised the significant number of days before the submission of the necessary reports and reiterated the importance of setting a timetable in providing the report to mitigate the delay in the submission of the report to the Committee which will lead to the subsequent delay in the submission of the Committee's review report to the PEM Board.

For better monitoring, the MSC agreed to write a letter to the MO and SO requesting for regular updates on their action plans and recommendations relative to the previous MI events.

1.1.5. Discussion Notable Market Outcome During the Summer and Rainy Season

The MSC was informed on the summary of price spikes monitored and flagged during the summer and rainy seasons for the year 2022, in consideration of the new thresholds as updated in line with the requirements of the internal business procedures of MAG, and Section 3.1 of the Catalogue of Market Triggers.

For the 26 June to 25 July 2022 covered period, 22 out of 30 days observation had price spike events. In summary, there were a total of 337 price spikes events (143 in off peak and 194 in peak) which mostly occurred on Mondays. The MSC likewise noted the 1,899 intervals with secondary price cap for the July 2022 billing month.

For the 26 July to 25 August covered period, 21 out of 31 days observation had price spike events. In summary, there were a total of 114 price spikes events (52 in off peak and 62 in peak) which mostly occurred on Thursdays. The MSC likewise noted the 294 intervals with secondary price cap for the August 2022 billing month.

Further evaluation and analysis shall be undertaken by MAG on these events.

1.1.6. Updates on the Engagement of 3rd Party Consultant on the Development of Monitoring Framework and Parameters for the Anti-Competitive Behavior (ACB) in the WESM

The MSC was apprised that the subject engagement is expected to commence by the end of August to 1st week of September, with the assumption that the negotiation and awarding of contract will be successful and accomplished on time.

The MSC reviewed and discussed the technical proposals submitted by the two (2) bidders and, after due deliberation, the MSC instructed PEMC-MAG to provide the necessary documentations of the Committee's evaluation to the PEMC-Procurement Committee for its consideration.

In addition, the MSC further instructed PEMC-MAG to invite the representative/s from the Energy Regulatory Commission (ERC) and Philippine Competition Commission (PCC), as the agencies with jurisdictions over the competition of the market, to join the kickoff meeting for the said engagement to solicit their comments and expertise on the matter.

1.1.7. Discussion on the Progress of the Financial Transmission Rights Study

As part of the activities of the MSC for the year 2022, the MSC reviewed the progress and recent updates on the study being conducted by MAG on the viability of the Financial Transmission Right (FTR) market. As part of the targeted activities to be completed for the year 2022, the MSC discussed and provided their comments for inclusion and enhancement of the draft viability study for the FTR.

The comments received will be reflected in the draft study for further review and discussion of the Committee.

1.1.8. Review of the Interesting Pricing Events Report

The MSC reviewed and deliberated the interesting pricing events (IPE) report for the period of 29 December 2019 to 25 June 2021. Some of the notable observations and recommendations were as follows:

- Frequent IPEs with extremely low supply margin.
 - Review of the offer price cap as it may no longer serve its purpose as a signal of unusual market conditions but rather a recurring offer strategy for generators
- Outages were key factor in the increase in prices especially when large-capacity plants are involved due to depletion in supply
 - Plant type and offer behavior of plants shall be considered since this affects the marginal plants and resulting generation mix from the remaining capacities.
- Changes in offer behavior are permitted but may still warrant rationale especially if done coinciding with these intervals which are defined as unusual.
- Six (6) units were exhibiting bid splitting behavior.
- Need for framework for monitoring ACB to put focus on certain behaviors detected or when thresholds were violated during these periods of high incidence of market power.

1.1.9. Discussion on the NGCP Yellow and Red Alert Notices in June and September 2022

The MSC reviewed the responses provided by an Electric Cooperative (EC) in relation to the media statement released by the SO for the cause of the red and yellow alert notices last 18, 20, and 21 June 2022.

The MSC has further noted the coordination meetings held between the concerned EC and SO to resolve the issue and to mitigate the occurrence of the similar incidents in the future. After due deliberation, the Committee agreed to write a formal letter to both parties requesting for the effective implementation of the necessary measures to address the issues.

Aside from the June alert notices, the Committee was likewise apprised on the details of the red alert notice issued by the SO last 12 September 2022.

The SO issued two yellow alerts and a red alert in the Luzon power grid on Monday, 12 September 2022 after seven (7) power plant units experienced outages which tallied the combined outage system capacity to 4,509MW. The red alert was for 1300H to 1600H which was lifted at 1700H. The two yellow alerts, on the other hand, occurred at 0900H to

1300H and 1600H to 2100H. The SO, in its latest advisory, stated that the yellow alert will be retained until 2000H on Tuesday, 13 September 2022. In addition, it was explained by the SO that on top of the seven (7) power plants on forced outage, three others ran on derated capacities which aggravated the entire grid situation.

The MSC has taken note that the DOE and ERC issued directives to investigate the aforementioned forced outages.

1.2. Monitoring and Assessment of the Retail Competition and Open Access (RCOA) Market

Pursuant to the Catalogue of Retail Market Monitoring Data and Indices (CRMMDI) Section 3.1.2⁶, the MSC monitored and assessed the performance of the Retail Market, as provided for under the Retail Market Assessment Report, which discusses the results of retail monitoring indices and provides indications on how the retail market performed during the period in review.

1.2.1. Retail Market Assessment Report for 2nd Quarter of 2022

The MSC reviewed the Retail Market Assessment Report on the RCOA Market covering the quarter of 26 March 2022 to 25 June 2022, as submitted by MAG (QRMAR-2022-02). Some highlights of the Report are as follows:

- The RCOA Market registered an additional 58 Contestable Customers (CC) this period equivalent to a 0.69% increase coming from the 1st quarter of 2022, thereby raising the total tally of registered CCs in the market to 1,908. By region, steady percent share of 88% of the total registrants are from Luzon, while the remaining 12% are from the Visayas. By industry type, steady share of 53% of the registrants are the commercial customers while 47% are industrial customers.
- MERALCO Group remained the top entity with 42% share in terms of no. of CC and 41% share in terms of CC consumption. The steady high percent share in the no. of registered CCs served by MERALCO and continuous regular switching of CCs to MERALCO group (23 CCs for this quarter), affected the shares of other groups.
- During the period in review, the market generally saw a positive trend (increasing) for both Contestable and Captive customers' consumption in comparison to the previous quarter and previous year. The huge increase in quarter-on-quarter was expected due to the hot season experienced during the

⁶ 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*

Q2 of each year. Moreover, the year-on-year increase indicates the economic growth as a result of less stricter level protocol by the government.

- Calculations based on the Herfindahl-Hirschman Index (HHI) indicated a concentrated market based on the number of CCs and CC consumption.

The Quarterly Retail Market Assessment Report was approved by the MSC and submitted to the PEM Board, the DOE and the ERC and published in the PEMC website.

1.3. External Meetings and Coordination Initiatives

1.3.1. Meeting with One (1) Coal Power Plant re Forced Outages last June and July 2022

The MSC invited the representatives of one (1) coal plant to discuss the details of the monitored forced outages by the Committee on 06 June, 10 June, 25 July, 27 July, and 31 July 2022.

The MSC was apprised of the following causes as presented: 1) the unit manually tripped due to steam and water quality because of sea water contamination, 2) manually tripped due to high reading of steam and water quality; condenser tube leak, 3) generator impulse not online, and 4) result of testing and commissioning (T&C) of the plant. The MSC likewise noted the ways forward undertaken and currently being done by the plant in order to address the recurrence of these outages.

1.4. Other Activities

1.4.1. Discussion on Proposed Amendments to WESM Dispatch Protocol Manual

The MSC was apprised on the draft proposed amendments to the WESM Rules and Dispatch Protocol Manual which, among others, aim to reflect the considerations in submitting maximum available capacities which shall also address concerns of the TPs with regard to the tagging of possible breaches in the WESM.

In general, the proposed amendments intend to add provisions in consideration of ramp rates and connection status by Trading Participant as part of offer submissions to the market, and to revise the definition of maximum available capacity, including the constraints being considered during the market dispatch optimization.

The MSC approved the recommendation for the proposal to be co-authored with the CC.

1.4.2. Discussion on Rules for the Electric Retail Aggregation Program

The MSC was made aware of the Rules for the Electric Retail Aggregation Program as promulgated by the ERC for implementation on 26 December 2022 which focuses on the following:

- Establishment of standardized rules and procedures governing the aggregation of electricity requirements of End-users in the Competitive Retail Electricity Market (CREM).
- Clarification on the requirements, conditions, eligibility, qualifications and disqualifications of participants in the program.
- Expansion of the base of end-users having the ability to choose their suppliers of electricity.

1.4.3. Investigation Activities related to Generator Behavior

In compliance with the mandate under Sections 3.1, 4.1.1, 4.3.4, and 4.4 of the Market Surveillance Manual, the MSC has undertaken an assessment and investigation of the notable behaviors of the generator/s as observed by the Committee. After due deliberations, the Committee approved the recommendations presented by MAG as endorsed by the Office of the Chief Governance Officer.

The MSC is composed of five (5) members, namely Atty. Doroteo B. Aguila (as MSC Chairman), Engr. Arthur N. Escalante, Engr. Christian M. Orias, Engr. Ferdinand P. Villareal, and Engr. Peter L. Wallace.