



Market Surveillance Committee Quarterly Accomplishment Report

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This Report is prepared by the
Philippine Electricity Market Corporation –
Market Assessment Department for the
Market Surveillance Committee

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1.0 INTRODUCTION

Pursuant to Section 1.6.2 of the WESM Rules and Section 3.1 of the Market Surveillance Manual (MSM) Issue 1, the Market Surveillance Committee (MSC) carried-out its mandate for the monitoring and assessment of market outcomes in the WESM and the Retail Market¹, 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 transitioned to a hybrid setup in conducting its meetings, where at least once every quarter, the meeting will be held physically at the PEMC Office, while the rest shall be conducted through online platforms (e.g., Microsoft Teams or Zoom). Accordingly, during the 1st quarter of 2023, the MSC conducted three (3) regular² meetings, two (2) of which were held online and one (1) face to face.

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

2.0 ACTIVITIES ON MARKET MONITORING AND ASSESSMENT

2.1 Assessment of Market Outcomes in the Wholesale Electricity Spot Market

2.1.1 Review of Market Assessment Reports

Pursuant to MSM Section 3.1 (b)³, 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 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.*

² MSC (Regular) Meeting No. 2023-01 held on 12 January 2023; MSC (Regular) Meeting No.2023-02 held on 09 February 2023; and MSC (Regular) Meeting No. 2023-03 held on 16 March 2023.

³ 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*

During the quarter, the MSC assessed WESM results for the billing periods of December 2022 to February 2023, as discussed in the Monthly Market Assessment highlights prepared by MAG. Highlights of which are as follows:

| Billing Period | MSC Assessment Highlights |
|----------------|--|
| December 2022 | <p>It was noted that the system demand continued to decrease from 10,462 MW to 10,344 MW due to the onset of the rainy season and cooler temperature during the billing period. Meanwhile, the effective supply likewise declined from 11,696 MW to 11,614 MW due to the noted increase in capacities on outage coupled with the effects of ramping limitations, among others. With this, the WESM average price decreased from PHP8,212/MWh to PHP8,183/MWh owing to lower demand level and other market conditions (i.e., impositions of secondary price cap).</p> <p>During the billing period, the distorted price outcome was driven by the abnormal pricing conditions. In addition, the grid was placed under red and yellow alert levels due to forced outages from various power plants.</p> <p>The Committee was likewise apprised regarding the eight (8) transmission lines in the WESM which were congested from September to December 2022 billing periods.</p> <p>In addition, high level of spot exposure by the Distribution Utilities (DUs) for the October and November 2022 was discussed in which the Committee agreed to write a formal letter of inquiry to the relevant utilities requesting for insights on their respective behaviors.</p> |
| January 2023 | <p>Similar with the previous billing period, the system demand decreased from 10,344 MW to 9,362 MW due to cooler temperature and the effects of long holidays at the start of the period. In addition, capacities on outage and capacities not offered likewise decreased, attributable to the resumption of coal power plants under forced outage, plant derations, and resource constraints which are further assessed by ECO in accordance with Must-Offer Rule (MOR).</p> <p>Considering the instances above, WESM prices decreased from an average of PHP8,138/MWh to PHP5,494/MWh.</p> <p>In view of the high level of spot exposure noted during the December 2022 meeting and following the receipt of the response and insights from the DUs on their spot exposures, the Committee has undertaken a discussion on the matter.</p> |
| February 2023 | <p>It was noted that the system demand increased from 9,362 MW to 10,012 MW towards the end of the billing period. The capacities on outage increased due to outage of Coal and Hydro plants under maintenance, while this is the case, effective supply still increased from 11,085 MW to 11,681 MW.</p> <p>In view of the above, the WESM prices increased from PHP5,494/MWh to PHP7,082/MWh due to thinner supply margin. For the updates of market outcomes in WESM Mindanao, the Committee noted the lower prices in the region attributable to wider supply margin during the first month of implementation. Meanwhile, price spikes observed were mainly due to capacities that went on outage.</p> |

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

2.1.2 Review 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 by 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 MSM Section 3.1 (b.iii)⁴, the MSC reviewed the assessment results on the over-riding constraints imposed on generator-TPs for the period 26 November 2022 to 25 February 2023. Some assessment highlights are as follows:

Luzon & Visayas

- 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 Must Run Units (MRU) to address thermal limits of lines / equipment. 1,782 events were imposed during the December 2022 billing period and another 2,018 for February 2023.
- The increase experienced during the December 2022 and January 2023 was mainly related to the commencement of commissioning tests of battery energy storage facilities and solar plants' extension of Provisional Certificate of Approval to Connect (PCATC), increase in impositions related to commercial and regulatory requirements, and MRU impositions.
- The decrease in February 2023 was mainly due to the expiration of commissioning test and decline in the number of impositions related to commercial and regulatory requirements.

Mindanao

- Majority of the events were imposed as MRU to address system voltage requirements of the grid.

The Committee likewise discussed the recent updates from IEMOP on the status of plants under T&C. The complete and approved reports were duly published on the PEMC website for information.

2.1.3 Review of Market Trigger and Interesting Pricing Events

On a regular basis, the MSC was apprised on the summary of facts and observations on the market triggers monitored for a particular billing period in consideration of the thresholds used for the monitoring activities, as reviewed and revised by the Committee. The highlights of the reports were as follows:

⁴ MSM Section 3.1(b) The MSC shall have following responsibilities: (a) xxx; (i) Review Over-Riding Constraints; xxx

| Billing Period | Highlights |
|----------------|---|
| December 2022 | <p>24 days out the 30-day observation had price spike events which resulted in a total of 584 price spikes events (245 in off peak and 339 in peak) that mostly occurred on Mondays and Thursdays.</p> <p>There were 4,589 intervals imposed with secondary price cap while 15 intervals were noted to have had interesting pricing events.</p> |
| January 2023 | <p>8 days out of the 31-day observation had price spike events which resulted in a total of 15 price spikes events (11 in off peak and 4 in peak) that mostly occurred on Saturdays.</p> <p>There were no intervals imposed with secondary price cap but with 23 intervals were noted to have had interesting pricing events.</p> |
| February 2023 | <p>18 days out of the 31-day observation had price spike events which resulted in a total of 139 price spikes events (86 in off peak and 53 in peak) that mostly occurred on Tuesdays and Fridays.</p> <p>There were 544 intervals imposed with secondary price cap and 15 intervals were noted to have had interesting pricing events.</p> |

2.1.4 Review of Market Monitoring Trigger and Interesting Pricing Events Thresholds

As specified in the Catalogue of Market Triggers, the Committee conducts an annual review and update of thresholds used for monitoring unusual market outcomes in the market. The aim of the said review was to ensure the appropriateness of the thresholds used by the Committee in its regular monitoring and surveillance. The thresholds were established to undertake comparison of market trends and to further capture the seasonality observed with the historical data.

For the year 2022, the Committee has taken note several unusual events that affected the market outcomes and thereby affecting the resulting thresholds based on the discussed methodology (e.g., policy released by the DOE to make most of the generation available in the country during the National Elections, global increase in coal and oil prices brought about by coal ban and Russia-Ukraine war, etc.).

Upon deliberation, the MSC agreed to provide MAG with additional time to conduct a comprehensive study on the most viable methodology and recommend the revised thresholds by Q2 of 2023 or no later than June 2023.

2.1.5 Review of Market Intervention Events

The MSC discussed the results of MAG's assessment on MI events which occurred in December 2022 to February 2023 in consideration of the available information provided on the submitted reports by either the National Grid Corporation of the Philippines – System Operator (NGCP-SO) and the Independent Electricity Market operator of the Philippines – Market Operator (IEMOP-MO).

The summary of the incidents is provided in the table below, which were all found to be justified:

| Initiated by | Date | Intervals | Region/s Affected | Classification | Reason |
|--------------|------------------|---------------------------------|---------------------------|---------------------------|--|
| SO | 01 December 2022 | 1025H – 1050H (6 intervals) | Luzon & Visayas | Emergency Conditions | Unimplementable RTD due to erroneous Real Time Data |
| MO | 13 January 2023 | 1120H (1 interval) | Luzon, Visayas & Mindanao | Force Majeure Event | No RTD generated due to database-related error experienced during the implementation of database configuration changes |
| SO | 08 February 2023 | 1305H – 1655H (47 intervals) | Visayas | Threat to System Security | Critical Loading of the Cebu-Mandaue 138kV Line 1 |
| MO | 18 February 2023 | 1540H (1 interval) | Luzon, Visayas & Mindanao | Force Majeure Event | RTD market run failed due to MPI transfer data error |

2.2 Development of Monitoring Framework and Parameters of Anti-Competitive Behavior (ACB) in the WESM

As mandated by the Market Rules and Manuals, the MSC continued its initiative in the development of ACB monitoring framework and parameters applicable for the WESM. The said initiative commenced in September 2022 which aims to enhance the Committee's monitoring framework for possible reporting of any apparent or suspected incidents of ACB or abuse of market power by any participant.

In view of the comments and inquiries received from various agencies during the consultation meetings that started in 2022, the Revised report, as submitted by the Consultant, was duly reviewed by the Committee. The additional comments and proposed revisions gathered and submitted were duly considered and reflected in the revised version. As part of the contract, a wrap-up meeting was conducted as an avenue to discuss the proposed framework along with the Consultant's recommendations.

2.3 Competition Study on Distribution System Operator

In view of the request for a competition study by the Technical Committee (TC), MAG further requested the MSC's approval to extend the Competition Study on Distribution System Operator (DSO) to Q3 2023. The study aimed to determine the effect on competition of the proposed DSO model. In relation to the request for extension, MAG likewise presented the proposed activities to be conducted, as well as the target dates of completion. Specifically, it was proposed to conduct a series of onsite visits to selected embedded generators and concerned Electric Cooperatives or Distribution Utilities. The said onsite visits will be attended by representatives from MAG and MSC. The DOE expressed their interest to participate in the said onsite visits and requested for the invitation to be extended to the Department to which the Committee immediately complied with.

2.4 Assessment of the Retail Market (Retail and Open Access or RCOA and Green Energy Option Program or GEOP)

Pursuant to the Catalogue of Retail Market Monitoring Data and Indices (CRMMDI) Section 3.1.2, the MSC regularly monitored and assessed the performance of the Retail Market, as provided for under the Retail Market Assessment Report, which discusses the results of monitoring indices and provides indications on how the retail market performed during the period in review.

During the covered period, the MSC reviewed the Retail Market Assessment Report on the RCOA and GEOP for the 26 September to 25 December 2022 billing period, as submitted by MAG (QRMAR-2022-04). Some highlights of the report are as follows:

RCOA

- There were twelve (12) initial switches and three (3) cessations yielding to nine (9) additional registered CCs from Q3 2022, equivalent to a 0.49% increase, thereby raising the total tally of registered CCs in the market to 1,932.
- MERALCO group remained the top entity in both no. of CCs served and energy consumption at 39% and 37%, respectively.
- In a per participant grouping, the calculations based on Herfindahl-Hirschman Index (HHI) indicated that Q4 2022 remained a concentrated market in both measures at 2,346 and 2,368. On a per Retail Electricity Supplier (RES) basis, the HHI was recorded to be a moderately concentrated market.

GEOP

- There were a total of additional fifty-nine (59) initial switches to the market during the period in review.
- By region, the majority (74%) of GEOP End-users are located in Luzon, while the remaining 26% are Visayas-based.
- There were 16 registered RE suppliers and 12 Supplier of Last Resort (SoLR).

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

3.0 COORDINATION WITH VARIOUS AGENCIES AND ENTITIES

3.1 Joint Meeting with the Compliance Committee (CC)

In October 2022, the MSC, together with the CC, submitted a proposed amendments to the WESM Rules and Market Manuals to provide a clearer guidance and include other conditions (e.g., circuit breaker status, ramp rates) that shall be considered by the Trading Participants when offering/bidding or revising/updating offers in the market. The said proposal was published on the PEMC website for comments of the stakeholders.

With the receipt of the comments from stakeholders, the two WESM Governance Committees (WGCs) conducted a joint meeting to discuss the consolidated comments and proposed responses for consideration and submission to the RCC. Upon due deliberation, both two (2) Committees approved the proposed revised responses, as discussed.

3.2 Discussion on Transmission Development Plan, Grid Operating and Maintenance Plan, and Power Outlook

With the invitation from the Committee, the representatives of NGCP-SO discussed the 1) short- and long-term transmission development projects for the North Luzon, Central Luzon, Southern Luzon, Visayas, and Mindanao area, 2) the Grid Operating and Maintenance Program, and 3) Power Outlook for the year 2023.

The Committee noted the information provided by the NGCP and shall be considered in its monitoring and assessment activities.

3.3 Updates on WESM Mindanao Operations and Implementation

In view of the commencement of WESM in Mindanao, the MSC requested for IEMOP's presentation on the status of commercial operations in Mindanao, as well as the details and updates on the issues submitted in the weekly reports.

As of March 2022, 98% of the expected market participants in Mindanao were already registered in the market. The remaining 2% were yet to complete their registration requirements by Q2 2023 but were nevertheless already included in the statistics. The commencement of WESM in the region recorded several major issues encountered with some are already resolved while others were still pending and undergoing discussions.

3.4 Proposed Amendments on WESM Rules and Manuals on MI/MS Procedures

As agreed by the Committee, the following PEMC/MS's proposed amendments related to Market Intervention and Market Suspension Procedures were presented to both the MO and SO, for comments and inputs:

- Introduction of two (2) categories: 1) Transmission System-related; and 2) Market System-related market intervention
- Recurrence of similar market intervention due to force majeure shall be subject to further assessment of the MSC
- A proposed five (5) working day timeline is being proposed for the submission of reports in order to allow the MSC to comply with the requirements of an initial report to be submitted to the PEM Board instead of "upon resumption".
 - In cases when MO and SO require more time to prepare the complete report, an initial report shall be submitted within the prescribed timeline while the complete report shall be submitted within fifteen (15) working days from the resumption of the market operations.
- Proposed new template (Annex G of Dispatch Protocol Manual).

Aside from the PEMC/MSC's proposed amendments related to Market Intervention, the MSC was likewise apprised on the highlights of amendments submitted by SO to RCC, which mainly aims to enhance and update SO's re-dispatching and reporting in cases of MI/MS:

- Removal of the Grid Management Committee on the recipients of the System Operator's System Advisories and Significant Incident Reports
- System Operator's use of the 5-minute WESM Merit Order Table (WMOT) as reference in issuing re dispatch instructions
- Addition of national WMOT which will cover the interconnected grids where WESM is in operation
- Specification of the different classification of regional WMOTs
- Generator's seeking of Clearance from the System Operator prior to following dispatch schedules, when coming from compliance to re dispatch instructions
- Amendment of the basis of updating of outage schedule due to generating unit's deferred start-up
- Addition of the System Operator as recipient of the Market Surveillance Committee's assessment report during Market Intervention or Suspension
- Addition of a new provision providing the System Operator of the option to submit its comments on the Market Surveillance Committee's assessment report during Market Intervention or Suspension
- Revision of the provision which will give trading participants with sufficient time to prepare for market-based instructions, upon ERC lifting of the Market Suspension

Considering this, the MSC requested MAG to ensure that the timing of the exchanges from NGCP to MSC shall complement the timeline mandated by the Rules and Manuals on the submission of report and presentation to the appropriate entity/ies. MAG accordingly noted the instruction and reflected the proposed revisions to the proposed amendments submitted to RCC.

4.0 PROPOSED AMENDMENTS TO WESM RULES AND MARKET MANUALS

4.1 Proposed Amendments to the Market Intervention / Suspension Procedures

The Committee reviewed the proposed amendments to the WESM Rules and related Market Manuals in relation to the procedures of the Market Intervention and Suspension events. Specifically, the amendments aim to:

- Introduce two (2) categories: 1) Transmission System-related; and 2) Market System-related market intervention.
- Adoption of clarification that MO and SO may declare and lift market intervention as currently practiced.
- Adoption of revised timeline for reportorial requirements.

The Committee further reviewed the matrix of the proposed amendments and provided its comments and proposed revisions for consideration in the final document to be submitted to the Rules Change Committee. To further consider the insights of both MO and SO, the MSC likewise

instructed MAG to meet the two entities in order to already address any concerns which would substantially affect them arising from the proposal (See Section 3.4 of this report).

4.2 Call for Comments to the Proposed General Amendments on Procedures for the Monitoring of Forecast Accuracy Standards for Must Dispatch Generating Units

The Committee reviewed the proposed amendments on procedures for the monitoring of forecast accuracy standards for must dispatch generating units in view of the call for comments notice issued by the RCC. The proposed amendments were submitted by PEMC and aim to:

- Address the gap between the FAS manual and interim procedures;
- Ensure compliance with the requirements set forth in the DOE DC2022-05-0015;
- Define with more clarity the reference data for the calculation of the forecast percentage error and other terms used in the Manual;
- Address some unique conditions, situation, or circumstances affecting the compliance of must dispatch generating units;
- Give considerations or exemptions (for plants with limited participation); and
- Add provisions related to due process.

The Committee was then informed that any comments, questions, or clarifications may still be submitted until January 27, 2023.

5.0 OTHER ACTIVITIES AND ACCOMPLISHMENTS

5.1 MSC Annual Report for 2022 and Work Plan for 2023

The MSC reviewed and commented on the proposed activities for the year 2023 which includes the timely submission and publication of reports as required by the Market Rules and Manuals, development of monitoring framework for ACB, and a series of market studies. The Committee was likewise apprised on the list of market studies to be conducted for 2023-2025.

With further edits, the MSC approved the revised Work Plan for incorporation in the Annual Committee report for 2022 and was thereafter submitted to the PEM Board on 24 March 2023.

5.2 Department Circular No. DC2022-12-0038 – Adopting Further Amendments to the Wholesale Electricity Spot Market (WESM) Market Manual on the Guidelines Governing the Constitution of the PEM Board Committees (GDL)

The Committee was apprised on the changes to the Market Manual on the Guidelines Governing the Constitution of the PEM Board Committees, which provides, among others, the changes in the composition of WESM Governance Committees. The said Department Circular was published on 24 December 2022 and became effective on 08 January 2023. As a background, the manual provides

for the qualifications and responsibilities of PEM Board Committee members as well as the process for the holding of their respective proceedings, their selection, as well as their appointment.

The summary of the key changes to the department circular were as follows:

- Adoption of independence qualification for WESM Governance Committee (WGC) members under DOE DC2018-01-0002.
- Provision for expanded PEMC Audit Committee (PAC) from a maximum of 3 members to at least 3 members.
- Expansion of Market Surveillance Committee (MSC) from 5 members to at least 5 members.
- Changes in Technical Committee (TC) composition from at least 5 members to 7 members with 3 members are independents, 1 from SO, 1 from MO, 1 from generation section, and 2 distribution sector.
- Compliance Committee (CC)-related provisions composed of 3 independent members with at least 1 lawyer member.

5.3 Request for Investigation

The Committee received a letter from a retail market participant last February 2023 on the probable breach of their retail electricity supplier for failure to register their facility in the WESM and/or with the Central Registration Body.

In view of this, the MSC endorsed the same to the Enforcement and Compliance Office (ECO) for investigation, however, based on the discussion of MAG and ECO, there are still details that need to be revised and validated. With this, ECO then presented the results of its initial assessment as embodied in their notice last March 2023. This involves concerns on the reference provisions for the violation, the party to whom the investigation shall be lodged, and the consideration of the prescriptive period for the filing of request for investigation.

Upon deliberation, the Committee recommended to inform the requesting party to directly file the case to ECO so that the case will not be circuitous and since the requesting party has already acquired a legal standing to file for a case. Furthermore, the letter to the requesting party must note that the complaint must comply with the requirements of the specific Rules provided by the ECO and the information on the 2-year prescriptive period.

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.