



**WHOLESALE ELECTRICITY SPOT MARKET
RULES CHANGE COMMITTEE**

RESOLUTION NO. 2011-10

Proposed Amendments to the WESM Rules on Various Audit Provisions

WHEREAS, the WESM Rules provide the responsibilities of the PEM Auditor, one of which is to conduct annual audits of the Market Operator (MO) and the settlement system and any other procedures, persons, systems or other matters relevant to the spot market;

WHEREAS, given that the first and the second Operational Audit of the Systems and Procedures on Market Operations were conducted by independent external auditors, the PEM Audit Committee (PAC) deemed that there is a need to amend and clarify its functions under the WESM Rules;

WHEREAS, on 16 December 2010, the PAC submitted to the Rules Change Committee (RCC) its proposal to amend the WESM Rules to establish the oversight functions of the PEM Auditor on WESM audits and to clarify that the PEM Auditor (and the PAC) do not directly undertake the market audits;

WHEREAS, during the 44th RCC Meeting on 19 January 2011, the proposed amendments to the WESM Rules were presented to the RCC, for discussion;

WHEREAS, as agreed upon by the RCC during the said 44th Meeting, the proposed amendments were published in the WESM website on 25 January 2011 to solicit comments from the market participants and other interested parties;

WHEREAS, during the period of publication, various comments were received from the market participants and other interested parties;

WHEREAS, noting that the proposed amendments submitted on 16 December 2010 failed to take into account the revised WESM Rules on audit approved by the Department of Energy (DOE) on 21 March 2010, the PAC submitted on 21 February 2011 the revised proposed amendments, incorporating the DOE-approved changes;

WHEREAS, the RCC noted that the revisions made were limited to renumbering and minor rewordings only;

WHEREAS, the RCC further deliberated the proposed amendments, together with the comments received, during its 45th Meeting on 09 March 2011;

WHEREAS, during the said 45th Meeting, the National Grid Corporation of the Philippines (NGCP), one of the entities directly affected by the proposed amendments, expressed its position that while it fully understands the rationale as to why certain entities would want to look into the internal processes of the NGCP being the central dispatcher of the generation facilities and metering service provider, it deems that it is the Energy Regulatory Commission (ERC) which has sole authority to examine the manner by which it carries out its mandated functions;

WHEREAS, noting the conflicting positions of NGCP who on the one hand, expressed reservation about subjecting itself to audit by PAC through an independent external auditor, and that of the stakeholders, who on the other hand viewed that there is a need to audit the NGCP as the System Operator and Metering Service Provider (MSP), the RCC requested NGCP and PAC to meet in order to set parameters on the conduct of SO and MSP audit;

WHEREAS, during the said 45th Meeting, the RCC agreed to defer the discussion and approval of the proposed amendments, subject to the result of the coordination meeting between NGCP and PAC on the implementation of audit on SO and MSP;

WHEREAS, during the said 45th Meeting, it was likewise suggested that revisions be made where the word "audit" will no longer be mentioned to the effect that the essence would be validation of information emanating from the SO and MSP;

WHEREAS, the PAC, through its letter to the RCC dated 19 October 2011, relayed that efforts of the PAC and NGCP to conduct a meeting pursuant to the request of the RCC did not push through due to conflicting schedules and thus as a way forward, submitted revisions to the proposed amendments in relation to the preceding paragraph;

WHEREAS, the revisions as submitted by the PAC, entailed additional changes to harmonize the provisions of the WESM Rules and PEM Audit Manual on the review of metering arrangements;

WHEREAS, during the 55th RCC Meeting on 09 November 2011, the proposed revisions were presented to the RCC, for discussion and approval;

WHEREAS, during the said 55th Meeting, after due deliberation and after satisfying the requisite criteria as provided for under the pertinent provisions of the WESM Rules and Manual of Procedures for Changes to the WESM Manual, the RCC reached consensus to approve the proposed amendments to the WESM Rules on Various Audit Provisions, incorporating the revisions made by the RCC;

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

RESOLVED, that the proposed amendments to the WESM Rules on Various Audit Provisions (attached as Annex "A"), as revised by the RCC, are adopted and approved in full;

RESOLVED FURTHER, that all references to the "PEM Auditor" in the WESM Rules be changed to "PEM Audit Committee" being the working group tasked to oversee the conduct of audits;

RESOLVED FINALLY, that the proposed amendments to the WESM Rules on Various Audit Provisions be endorsed to the PEM Board for approval.

Done this 09 November 2011, Pasig City.

<p>Approved by: RULES CHANGE COMMITTEE  Rowena Cristina L. Guevara Chairperson University of the Philippines (UP)</p>	
Members:	
 Epictetus E. Patalinghug Independent University of the Philippines (UP)	 Francisco L.R. Castro, Jr. Independent The Herma Group
 Maila Lourdes G. de Castro Independent Unitel Productions, Inc.	 Cherry Aquino-Javier Generation Sector AES Philippines (AES)
 Cynthia R. Encarnacion Generation Sector National Power Corporation (NAPOCOR)	 Liberty Z. Dumlao Generation Sector Power Sector Assets and Liabilities Management Corporation (PSALM)
 Ralph T. Crisologo Generation Sector SN Aboitiz Power (SNAP) <p><i>with reservations on item 1.4.6.9</i></p>	Augusto D. Sarmiento Distribution Sector (PDU) Dagupan Electric Corporation (DECORP)
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)	 Conrado D. Pecjo Supply Sector Angeles Power, Inc.
Raul Joseph G. Seludo Transmission Sector National Grid Corporation of the Philippines (NGCP)	 Robinson P. Descanzo Market Operator Philippine Electricity Market Corporation (PEMC)
	<p>Certified True and Correct:</p>  Elaine D. Gonzales RCC Secretary PEMC

Proposed Amendments to the WESM Rules on Various Audit Provisions
RCC/WESM-WR-10/21

Original Provision	PEM Audit Committee (PAC) Proposed Amendments				RCC-Approved Proposed Amendments	
	Original Proposed Amendment (21 February 2011)		Revised Proposal (19 October 2011)			
		Rationale				Remarks
1.4.6 Formation of Committees The <i>PEM Board</i> shall form working groups and appoint qualified personnel who shall act as the following: (a) The <i>PEM Auditor</i> to conduct audits of the operation of the <i>spot market</i> and of the <i>Market Operator</i> in accordance with clause 1.5; xxx	1.4.6 Formation of Committees The <i>PEM Board</i> shall form working groups and appoint qualified personnel who shall act as the following: (a) The <i>PEM Auditor</i> to <u>oversee the</u> conduct of <u>audits, by independent auditors</u> , of the operation of the <i>spot market</i> , <u>and of</u> the <i>Market Operator</i> , <u>System Operator, and Metering Service Providers</u> in accordance with clause 1.5, <u>and the selection and audit process in the PEM Audit Manual</u> ; xxx	The proposed changes intend to: 1. Fine tune the responsibilities of the PEM Auditor to oversight functions, while maintaining the PEM Auditor's accountability and responsibility in the conduct of timely, fair and independent market audits. The PEM Auditor is the chairman of the PEM Audit Committee (PAC), which is composed of only two (2) other members. Under the rules, the PEM Auditor is	1.4.6 Formation of Committees The <i>PEM Board</i> shall form working groups and appoint qualified personnel who shall act as the following: (a) The <i>PEM Auditor</i> to <u>oversee the</u> conduct of <u>audits and reviews, by independent auditors and experts</u> , of the operation of the <i>spot market</i> , <u>and of</u> the <i>Market Operator</i> , <u>Metering Service Providers and, if directed by the DOE or ERC, review of the System Operator</u> , in accordance with clause 1.5; xxx	<ul style="list-style-type: none">Revision in line with the agreement during the 45th RCC Meeting for PAC to revise the proposal where the word "audit" will no longer be mentioned in relation to the System Operator (SO).Further, the PAC shall conduct reviews of the SO only upon the direction of the DOE or ERC.	1.4.6 Formation of Committees The <i>PEM Board</i> shall form working groups and appoint qualified personnel who shall act as the following: (a) The <i>PEM Auditor</i> <i>PEM Audit Committee</i> to <u>oversee the</u> conduct of <u>audits and reviews, by independent auditors and experts</u> , of the operation of the <i>spot market</i> , <u>and of</u> the <i>Market Operator</i> , <u>Metering Service Providers and, upon the request of the PEM Audit Committee and when if directed by the DOE or ERC, review of the System Operator</u> , in accordance with clause 1.5; xxx	<ul style="list-style-type: none">- Approved, as amended Consistent with the current practice, change the "PEM Auditor" to "PEM Audit Committee" being the working group tasked to oversee the conduct of audits. Revised to clarify that the PAC shall conduct reviews of the System Operator only upon the former's request and upon the direction of the ERC or DOE.

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		<p>required to conduct operational audits, however, audits require full time auditors.</p> <p>Audits are being conducted by external auditors or by the Internal Audit Department (IAD) of PEMC.</p> <p>2. Require the conduct of audits of the System Operator (SO) and Metering Service Providers (MSPs).</p> <p>Pricing and settlement outputs in the WESM are</p>				

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		Rationale				Remarks
		reliant on the integrity and accuracy of data being provided by the SO and MSP.				
1.5.2 Responsibilities of the Auditor The PEM Auditor shall: (a) Conduct annual audits of the <i>Market Operator</i> and the settlement system and any other procedures, persons, systems or other matters relevant to the <i>spot market</i> , xxx	1.5.2 Responsibilities of the Auditor The PEM Auditor shall <u>oversee the</u> : (a) Conduct <u>annual of</u> audits of the <u><i>Market Operator and the settlement system and any other</i></u> procedures, persons, <u>and</u> systems <u>or other matters of the Market Operator, System Operator and Metering Services Providers which are</u> relevant to <i>the spot market</i> , xxx	The proposed changes intend to include the conduct of audits of the SO and MSPs. The systems, persons and procedures to be audited shall be limited to those which are relevant to the spot market, notwithstanding the scope/audits which may be identified or instructed by the PEMC Board, DOE and ERC.	1.5.2 Responsibilities of the Auditor The PEM Auditor shall <u>oversee the</u> : (a) Conduct <u>annual of</u> audits <u>or reviews</u> of the <u><i>Market Operator and the settlement system and any other</i></u> procedures, persons, <u>and</u> systems <u>or other matters which are relevant to the spot market of the Market Operator, Metering Services Providers and, if directed by the DOE and ERC, review of the System Operator relevant to the spot market</u> , xxx	Same rationale as above.	1.5.2 Responsibilities of the Auditor The PEM Auditor PEM Audit Committee shall <u>oversee the</u> : (a) Conduct <u>annual of</u> audits <u>or reviews</u> of the <u><i>Market Operator and the settlement system and any other</i></u> procedures, persons, <u>and</u> systems <u>or other matters which are relevant to the spot market operations of the Market Operator, Metering Services Providers and, if directed by the DOE and ERC, review of the System Operator relevant to the spot market</u> , xxx	- Approved, as amended Consistent with the current practice, change the “PEM Auditor” to “PEM Audit Committee” being the working group tasked to oversee the conduct of audits.
4.5.5 Security of Metering Equipment	4.5.5 Security of Metering Equipment	The proposed change intends to provide the	Retain.		4.5.5 Security of Metering Equipment	- Approved, as amended

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xxx 4.5.5.4 The <i>PEM Auditor</i> , in consultation with the <i>Market Operator</i> and <i>Metering Services Providers</i> , shall review the security arrangements and requirement of <i>metering installations</i> annually.	xxx 4.5.5.4 The <i>PEM Auditor</i> , in consultation with the <i>Market Operator</i> and <i>Metering Services Providers</i> , shall review the security arrangements and requirement of <i>metering installations</i> annually, <u>or as may be practicable.</u>	flexibility in managing the resources and audit activities of the PEM Auditor and MSPs (auditees). As per experience by the PAC, preparatory activities for the conduct of the 1 st MO Audit took about five (5) months, including the consultation process during the drafting of the Terms of Reference (TOR) and the selection process via competitive bidding. Implementation and drafting of the report and management's response of the MO Audit took about ten (10) months.			xxx 4.5.5.4 The <u>PEM Auditor PEM Audit Committee</u> , in consultation with the <i>Market Operator</i> and <i>Metering Services Providers</i> , shall review the security arrangements and requirement of <i>metering installations</i> annually, <u>or as may be practicable.</u>	Consistent with the current practice, change the "PEM Auditor" to "PEM Audit Committee" being the working group tasked to oversee the conduct of audits.

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New Provision			4.5.5.5 When the annual metering arrangements review in Clause 4.5.5.4 includes audits as approved by the PEM Board, the PEM Auditor shall oversee the conduct of an audit regarding. a) <u>Compliance with requirements of metering installations;</u> b) <u>Compliance with security arrangements associated to metering systems and processes; and</u> c) <u>Adequacy of security arrangements by the Market Operator and work procedures by Metering Services Providers.</u>	Section 11.4 of the PEM Audit Manual already provides these provisions. Proposal is to harmonize the said Manual with the WESM Rules.	4.5.5.5 When the annual metering arrangements review in Clause 4.5.5.4 includes audits as approved by the PEM Board, the PEM Auditor shall oversee the conduct of an audit regarding. a) <u>Compliance with requirements of metering installations;</u> b) <u>Compliance with security arrangements associated to metering systems and processes; and</u> c) <u>Adequacy of security arrangements by the Market Operator and work procedures by Metering Services Providers.</u>	- Approved, as amended Consistent with the current practice, change the "PEM Auditor" to "PEM Audit Committee" being the working group tasked to oversee the conduct of audits.
5.2.6 Market Audit	5.2.6 Market Audit	The proposed	Retain.		5.2.6 Market Audit	- Approved, as

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5.2.6.1 The PEM Auditor shall arrange for a spot market audit to be performed once each quarter, or such other period as determined by the PEM Auditor.	5.2.6.1 The PEM Auditor shall arrange for a A spot market audit to shall be performed once each quarter, or such other period as determined by the PEM Auditor, <u>in consultation with the party to be audited.</u>	changes intend to clarify that market audits may be conducted on parties other than the MO.			5.2.6.1 The PEM Auditor shall arrange for a A spot market audit to shall be performed once each quarter, or such other period as determined by the PEM Auditor <u>PEM Audit Committee, in consultation with the party to be audited.</u>	amended Consistent with the current practice, change the “PEM Auditor” to “PEM Audit Committee” being the working group tasked to oversee the conduct of audits.
5.2.6.2 The spot market audit shall cover and review compliance by the Market Operator with its procedures and the effectiveness and appropriateness of systems utilized in the operation of the <i>spot market</i> , including but not limited to: xxx	5.2.6.2 The spot market audit of the Market Operator shall cover and the review of its compliance by the Market Operator with its procedures and the effectiveness and appropriateness of systems utilized in the operation of the <i>spot market</i> . <u>The scope of the audit shall, including include,</u> but <u>is</u> not limited to: xxx	The proposed changes intend to identify the scope of the market audit of the MO.	Retain.		5.2.6.2 The spot market audit of the Market Operator shall cover and the review of its compliance by the Market Operator with its procedures and the effectiveness and appropriateness of systems utilized in the operation of the <i>spot market</i> . <u>The scope of the audit shall, including include,</u> but <u>is</u> not limited to: xxx	- Approved, as proposed
New Provision	5.2.6.3 <u>The market audits of the System Operator and Metering Service</u>	This new section specifically provides the audit	5.2.6.3 <u>The market audits of the Metering Service Providers and the</u>	▪ Revision in line with the agreement	5.2.6.3 <u>The market audits of the Metering Service Providers and the</u>	- Approved, as proposed

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	<u>Providers shall cover the review of their compliance with their responsibilities under the WESM Rules, Grid Code and other relevant rules and regulation, including the effectiveness and appropriateness of systems utilized that are relevant in the operation of the spot market.</u>	coverage for the SO and the MSP. The systems, persons and procedures to be audited shall cover those that are relevant to the spot market.	<u>review of the System Operator shall cover the review of their compliance with their responsibilities under the WESM Rules, Grid Code and other relevant rules and regulation, including the effectiveness and appropriateness of systems utilized that are relevant in the operation of the spot market.</u>	during the 45 th RCC Meeting for PAC to revise the proposal where the word “audit” will no longer be mentioned in relation to the System Operator (SO).	<u>review of the System Operator shall cover the review of their compliance with their responsibilities under the WESM Rules, Grid Code and other relevant rules and regulation, including the effectiveness and appropriateness of systems utilized that are relevant in the operation of the spot market.</u>	
5.2.6.3 The PEM Auditor may engage, subject to the <i>PEM Board</i> approval, the services of a qualified third party Auditor as outlined in clause 1.5.2 and clause 5.2.6.2. The selection of third party Auditors shall be approved by the <i>PEM Board</i> .	<u>5.2.6.4</u> <u>5.2.6.3</u> The PEM Auditor may engage, subject to the <i>PEM Board</i> approval, the services of a qualified third party Auditor as outlined in clause 1.5.2, <u>and clause 5.2.6.2 and 5.2.6.3.</u> The selection of third party Auditors shall be approved by the <i>PEM Board</i> .	Additional reference to new provision in clause 5.2.6.3 regarding the audits of the SO and MSP. Renumbering.	Retain.		<u>5.2.6.4</u> <u>5.2.6.3</u> The <u>PEM Auditor PEM Audit Committee</u> may engage, subject to the <i>PEM Board</i> approval, the services of a qualified third party Auditor as outlined in clause 1.5.2, <u>and clause 5.2.6.2 and 5.2.6.3.</u> The selection of third party Auditors shall be approved by the <i>PEM Board</i> .	- Approved, as amended Consistent with the current practice, change the “PEM Auditor” to “PEM Audit Committee” being the working group tasked to oversee the conduct of audits.
5.2.6.4 The PEM Auditor	<u>5.2.6.5</u> <u>5.2.6.4</u> The PEM Auditor	The proposed	Retain.		<u>5.2.6.5</u> <u>5.2.6.4</u> The <u>PEM</u>	- Approved, as

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		Rationale				Remarks
shall prepare a report on the results of the <i>spot market</i> audit. The said report shall be made available to the <i>DOE</i> , the <i>ERC</i> , the <i>PEM Board</i> and <i>WESM members</i> .	shall prepare a reports on the results of the spot market audits. The said reports shall be made available to the DOE, the ERC, the PEM Board and WESM members.	changes intend to clarify that market audits may be conducted on parties other than the MO. Renumbering.			Auditor PEM Audit Committee shall prepare a reports on the results of the spot market audits. The said reports shall be made available to the DOE, the ERC, the PEM Board and WESM members.	amended Consistent with the current practice, change the "PEM Auditor" to "PEM Audit Committee" being the working group tasked to oversee the conduct of audits.