

MINUTES OF THE 48th MEETING OF THE RULES CHANGE COMMITTEE

Date : 08 June 2011
Time : 9:00 A.M.
Venue : PEMC Board Room
18th Floor, Robinsons-Equitable Tower
Ortigas Center, Pasig City

MEMBERS PRESENT:

Epictetus E. Patalinghug	-	Acting Chairperson/Independent – UP
Cherry Aquino-Javier	-	Generation Sector – AES
Ralph T. Crisologo	-	Generation Sector – SNAP
Cynthia R. Encarnacion	-	Generation Sector – NPC
Ciprinilo C. Meneses	-	Distribution Sector – MERALCO
Augusto D. Sarmiento	-	Distribution Sector – DECORP
Jose P. Santos	-	Distribution Sector – INEC
Robinson P. Descanzo	-	Market Operator – PEMC
Conrado D. Pecjo	-	Supply Sector – Angeles Power, Inc.

MEMBERS NOT PRESENT:

Liberty Z. Dumlao	-	Generation Sector – PSALM
Raul Joseph G. Seludo	-	System Operator – NGCP

OBSERVERS PRESENT:

Debora T. Layugan	-	ERC
Eduardo B. Fernandez	-	DOE (Alternate)

OTHERS PRESENT:

Criselda S. Martin-Funelas	-	PEMC – Legal
Caryl Miriam Y. Lopez	-	PEMC – Legal
Celina R. Encarnacion	-	PEMC – Legal
Gladys G. Nebab-Zamora	-	PEMC – Legal
Isidro E. Cacho	-	PEMC – TOD
Roel B. Calano	-	PEMC – Billing and Settlement
Yhardlee D. Centeno	-	PEMC – Billing and Settlement
Marie T. Delarmente	-	PEMC – Billing and Settlement

SECRETARIAT

Chrysanthus S. Heruela	-	PEMC – MAG
Elaine D. Gonzales	-	PEMC – MAG
Geraldine A. Rodriguez	-	PEMC – MAG
Rheinhardt O. Banogon	-	PEMC – MAG

After determining the presence of a quorum, the 48th Rules Change Committee meeting was called to order by the Acting Chairperson Prof. Epictetus E. Patalinghug, at about 9:45 A.M. The following agenda items were discussed:

1. Adoption of the Proposed Agenda

The Proposed Agenda for the 48th RCC Meeting was presented and approved.

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2. Review, Correction and Approval of the Minutes of the 47th RCC Meeting

The Minutes of the 47th RCC Meeting was reviewed and approved, subject to revision in Paragraph 1, Bullet 2 of Item e under Business Arising from the 46th RCC Meeting, where the word "definition" is replaced with "determination", to read as follows:

"With a vote of 9-2, in which Mr. Crisologo and Ms. Javier were outvoted, the RCC disapproved the proposed revised ~~definition~~ determination of the Maximum Available Capacity."

Other revisions are clerical in nature.

3. Business Arising from the Previous Meeting

- a. Clarification on the ERC-PEMC Protocol.** Atty. Celina Encarnacion was invited to provide clarifications on the issues raised by the RCC regarding the original intent and rationale of the ERC-PEMC Protocol.

Atty. Encarnacion explained that the protocol came as an offshoot of the PEM Board resolution to adjust the settlement prices for the third and fourth billing month during the 1st quarter of WESM operations. During that period, the load weighted average price (LWAP) went up by Php 6 from the LWAP of the 1st and 2nd months. Owing to the need to mitigate the effects of these prices, the PEM Board resolved to adjust the prices, which eventually became a case before the ERC. After which the ERC resolved that the Board resolution is null and void. However, in that same ERC Order, the ERC acknowledged the governance functions of PEMC and thus directed PEMC to come up with necessary protocols to ensure the delineation of functions. Atty. Encarnacion emphasized that the protocol does not delegate any authority but rather clarifies on who or who should not act on matters such as breaches and anti-competitive behavior.

Mr. Ralph Crisologo remarked that while he now understood the original intention behind the formulation of the protocol, he still wanted to be clarified as to why the protocol is being proposed to be incorporated in the WESM Rules only now, and not three (3) years ago when the agreement was signed.

Although Atty. Encarnacion admitted that she could not provide answer to that, she did share, however, that the Legal did formulate the draft and presented it to the Market Surveillance Committee (MSC) 3 years ago. She didn't know what happened after then or what transpired before the MSC.

Mr. Crisologo requested that a copy of the revisions to the WESM Rules formulated by Legal be given to the RCC, to which Atty. Encarnacion acquiesced.

Atty. Debora Layugan remarked that the protocol will not lose its effectivity just because it didn't become part of the WESM Rules or any of its Manuals. She enlightened the body that the ERC's request for investigation to PEMC triggered the Board's directive to have the provisions of the protocol incorporated in the WESM Rules as there was an issue on whether the notice of investigation should go through the PEM Board. On the other hand, the ERC believed that the validity of the protocol will never be affected if it wasn't written or included in any of the rules or manuals of PEMC.

Mr. Crisologo inquired as to whether the ERC can instruct PEMC to investigate on something even without the protocol. In response, Atty. Layugan explained that when the protocol was crafted, the ERC took cognizance of the governance functions of PEMC and

that there are entities in the PEMC, i.e. MSC, MAG, ECO, whose role is to look into the behavior of the participants. She likewise pointed out the fact that the WESM Rules contains provisions on breaches but does not have any discussion on anti-competitive behavior, thus the need to delineate. It cannot be said that the anti-competitive behavior is entirely the ERC's functions because of the manner by which PEMC was established. Thus, the protocol was formulated to ensure clear delineation of functions and that the lines remain clear even if there are changes in the leadership. She opined that she does not see any encroachment or delegation of functions as the anti-competitive behavior is still within the jurisdiction of the ERC and it is still the ERC who imposes the penalties; however, the ERC could ask PEMC, because of its governance functions, to assist in the investigation. If the ERC does not agree with the findings of the MSC, then it takes jurisdiction; on the other hand, if the ERC agrees, then it will respect the decision of the governance committees of PEMC.

With the issues already clarified, Prof. Patalinghug inquired with the body as to how it should proceed with the Board's directive for the protocol to be incorporated in the WESM Rules and Manuals.

Ms. Cherry Javier suggested requesting the MSC to propose changes in relation to the ERC-PEMC protocol.

Following the discussion, the RCC reached the following agreements:

- The RCC shall be furnished with a copy of the exhaustive list of suggested revisions of the WESM Rules and Manuals which were previously drafted by PEMC-Legal pursuant to the agreement between the ERC and PEMC that the protocol shall form part of the WESM Rules and WESM Manuals.
- The RCC agreed to request the MSC to incorporate in the WESM Rules and pertinent Manuals the provisions of the ERC-PEMC Protocol.

b. TC Position Paper on Pmin, Pmax and Ramp Rates

As a background, Ms. Geraldine Rodriguez explained that the Board Review Committee (BRC) decided to pass on to the RCC first, for review, the Position Paper on Pmin, Pmax and Ramp Rates submitted by the Technical Committee (TC). The BRC deemed that the Position Paper should be tied up with whatever is being discussed at the RCC.

On Prof. Patalinghug's query on the possible issues that this could be tied to, Ms. Rodriguez directed the attention of the body to the latter part of the Paper which enumerates the recommendations of the TC.

The RCC noted that the TC Position Paper contains the same recommendations as the TC comments, which the RCC adopted, on the Proposed New WESM Manual on Registration, Suspension and Deregistration Criteria and Procedures.

Mr. Eduardo Fernandez raised concerns on some generators' tendency to deviate from their declared/registered ramp rate where they significantly reduce their ramp down rate. He commented that this is a matter of concern since generators who are no longer part of the schedule are being paid for the amount of energy that they are not supposed to generate. He viewed that this particular issue should be discussed by the RCC.

Atty. Layugan opined that the issue on using the operational limits, i.e. ramp rates and maximum capacity, to influence or manipulate the prices is something that should be

looked into. She went on to say that the violation of these registered values should only be due to technical reasons and not for purposes of playing with the prices in the market.

Mr. Crisologo remarked that "playing around" is something that was done early on and yet not a single generator has been penalized. Atty. Layugan responded that perhaps it is a matter of enforcement which needs to be looked into.

Ms. Javier shared that there are certain hours that a generating unit must reduce its ramp down rate because of technical reasons and not because it has intention to manipulate the prices.

Mr. Fernandez remarked that the only entity that can monitor the generators' ramp rates is the Market Operator. He thus suggested for the MO to present in the next meeting certain cases in the past where generators decreased their ramp down rate. The presentation should be able to shed light on the justifications/reasons of the generators, and at the same time solicit observation from the DOE.

Ms. Cynthia Encarnacion likewise raised concerns on certain instances where generating units, which are still ramping up to their dispatch schedule, unexpectedly receive instructions from the SO to ramp down. She asserted that this intervention by the SO results in an imbalance and thus there is a need for PEMC to develop a new method of compensation to address this.

Mr. Isidro Cacho relayed that during the last MO-SO meeting, the SO shared that it has observed deviations by the generators from the linear ramping where they increase or reduce their energy output during the intra-hour, resulting in underfrequency or overfrequency in the system. He likewise informed the RCC that the SO is contemplating on having the dispatch tolerance monitored at certain intervals (i.e. every 5 minutes, quarterly) instead of having it monitored only at the top of the hour. While it was mentioned that the MO does monitor the trading intervals, the SO's concern however is what transpired during the intra-hour. He then suggested for the SO to present the issues raised during the MO-SO meeting to the RCC.

Mr. Crisologo opined that the MO and SO should devise a set-up to synchronize the real-time operations of SO with the one-hour trading interval of the MO. He cited that the issues of SO with regard to the ramp rate will more or less be addressed by having a market with shorter trading interval (i.e. 5-minute market).

Mr. Augusto Sarmiento relayed that the DU will not raise any objection whatsoever as long as there is no breach of the network security.

Atty. Layugan argued, however, that the reduction of the trading interval will take time and that the body should take one issue at a time and focus first on the issue of monitoring.

Following the discussion, Prof. Patalinghug suggested that MO and SO be invited to the next RCC meeting to give a presentation on ramp rates.

4. Main Business

Issues/ Topics Discussed	Remarks	Agreement/ Action Item
A. Proposed Urgent	Prior to the presentation of Atty. Criselda Martin-	The RCC approved

<p>Amendments to the WESM Rules on Dispute Resolution Provisions</p>	<p>Funelas on the proposed WESM Rules change on dispute resolution provisions, a question was raised by Mr. Crisologo as to how the approval and subsequent implementation of the proposal would affect the ongoing dispute cases at the Dispute Resolution Group (DRG). In response, Atty. Funelas clarified that those cases will be covered by the previous rules.</p> <p>Atty. Funelas then proceeded to present to the RCC the rationale and details of the WESM Rules change proposal which was submitted by PEMC as urgent amendments. In summary, the proposed amendments intend to move the Dispute Resolution Group (DRG) out of the WESM structure, outsource the members of the DRG in order to provide greater number of possible mediators and arbitrators, and to maintain the Dispute Resolution Administrator (DRA) within the WESM structure.</p> <p>She cited Section 3.1 (c) of the Manual of Procedures for Changes to the WESM Rules as justification for urgency of the proposed amendments, which is to avoid, reduce the risk of or mitigate the adverse effect of a WESM Rule or any of its amendments. She further explained that several issues were encountered in the past two dispute cases, primary of which is the conflict of interest when the PEMC or the PEM Board, which are named under the WESM Rules as possible parties to the dispute, are impleaded as parties. Considering that the DRG is within the WESM governance structure and may be directed at times by the PEM Board, there is a question raised on the independence of the DRG. Another issue is the question on the fees (arbitration cost) which the DRG can impose under the WESM Rules. Currently, the DRG's request for payment of costs is being questioned because of the honorarium they get from the market. In addition to that, there is a Board directive for the DRG to conduct consultation among the participants before they impose their proposed schedule of fees.</p> <p>She presented the details of the proposed revisions, as follows:</p> <ul style="list-style-type: none"> • Clarification on the role of the Dispute Resolution Administrator (DRA) in ensuring the effective implementation of the WESM dispute resolution process by performing the following responsibilities: <ul style="list-style-type: none"> ✓ Determine judiciously if the dispute falls under the WESM Rules; 	<p>the PEMC's proposed urgent amendments, as amended, for submission to the PEM Board.</p>
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- ✓ Draft and issue standard forms and documents required or expedient in the resolution of disputes;
- ✓ Facilitate and recommend the accreditation process of mediators and arbitrators;
- ✓ Initiate the selection of mediator from accredited pool of mediators (by naming three out of the accredited pool and proposing it to the parties so that they could choose one); and
- ✓ Initiate the selection of arbitrators from the accredited list of arbitrators.
- Outsourcing the professional services of mediators and arbitrators
 - ✓ Under this set-up, engagement of accredited mediators and arbitrators from a roster provided by the DOJ shall insulate PEMC on issues of collection of dispute resolution fees and provision of secretariat support outside of PEMC structure.
- Dispute management system (DMS) for all WESM Participants
 - ✓ The DMS shall set out the protocol, among others, in the management of disputes between the parties and without resorting to formal dispute resolution process.
- Definition of cost of proceedings
 - ✓ To avoid abuse of discretion, the allocation of cost of proceedings should be limited and defined consistent with the cost-effective framework of the WESM dispute resolution process.
 - ✓ The following are considered cost of proceedings:
 1. Professional fees of the mediator and arbitrators;
 2. Legal expenses; and
 3. Administrative costs.
- Appeal process in harmony with the Arbitration Act of 2004
 - ✓ The petition to vacate, modify or correct the award shall be lodged with the ERC pursuant to Section 41 of the Arbitration Act.
 - ✓ ERC's jurisdiction under Section 43 (u) of EPIRA is still recognized in harmony with the latest legislative intent on dispute resolution process.

She asserted that the proposed new dispute resolution process could benefit the WESM as it will

have a pool of accredited mediators and arbitrators from which any participant, who wishes to file a case, could choose from. It is likewise beneficial on the part of the DRG members as they will have their own rules in charging the fees and the secretariat functions will be theirs alone and will no longer be provided by the Market Assessment Group (MAG). She also shared that currently, the DRG wishes to include administration fees in the cost as well as charging PEMC for it, which raises difficulty on the part of PEMC considering that it is the one providing secretariat and administrative support to the DRG.

The following were the comments/issues raised by the body:

- Atty. Layugan expressed initial reservation on the proposed dispute resolution process introduced by PEMC. She cited that initially the WESM Rules should only be limited to negotiation and mediation insofar as dispute resolution is concerned and the arbitration should go directly to the ERC. She added that on top of giving the power of arbitration to the DRG, the WESM is designating a separate body outside of the industry and PEMC to act as arbitrators. She likewise mentioned that the ERC has concerns on the cost which will eventually not preclude from the industry players from going straight to the ERC.
- Ms. Javier agreed with the proposal to move the DRG out of PEMC. As it is now, the parties' choice of mediator and arbitrators is limited to the current five members of the DRG. She likewise shared the concerns raised by the other parties on the possibility that the DRG might no longer be impartial considering that they receive honorarium from PEMC.
- Prof. Patalinghug, on the other hand, did not see any urgency of the proposal because the unintended risks are so ambiguous. He thus suggested to submit it as a regular proposal. Atty. Funelas responded that in view of the past two disputes that have been filed of which PEMC is involved as well as the growing diverse pool of the market, PEMC is foreseeing that in the next several months, it is possible that a case will be filed for dispute which will again involve PEMC and possibly the PEM Board. The PEMC viewed that there is an urgent need to move the DRG out because the payment for the arbitration cost, which they are pushing through and which for

PEMC is not feasible at this time, is delaying the current disputes and might adversely affect future disputes.

- On Atty. Layugan's inquiry on how to delineate breach and dispute, Atty. Funelas explained that the WESM Rules sets out several categories of disputes, e.g. problem in the interpretation of the WESM Rules, issue on the contract between the parties in the WESM which does not involve the MO, problem on the settlement of payment by a participant, dispute between parties on whatever matter that involves the market.
- Atty. Layugan reiterated her previous comment that as originally contemplated, the dispute resolution process of PEMC should have been limited up to the mediation stage only and that the arbitration process should have remained with the ERC.

While Atty. Funelas acknowledged the concerns posed by Atty. Layugan and understood the need to subject them to another dynamic discussion, she nonetheless emphasized that in view of the issue on the cost and the conflict of interest that the current dispute resolution framework raises, there is an urgent need to move the DRG out of the WESM governance structure. However, as these are urgent amendments, it is possible that during the General Amendment process, PEMC will amend the proposal to consider the inputs from the participants. Furthermore, the position of the ERC that the arbitration should remain within its jurisdiction is one of the points that can be included in the submission of the corresponding general amendments.

- On Mr. Crisologo's suggestion to include in the WESM Rules a requirement for the parties to disclose everything during the mediation stage, Atty. Funelas remarked that although the disclosure of information will depend on the parties involved in the mediation, it would be better, as a matter of policy, that any information will not be easily disclosed. She further clarified that the purpose of the mediation is to let the parties agree.
- On Mr. Crisologo's inquiry as to whether the existing dispute resolution process will work if PEMC was not involved in the disputes, Atty. Funelas replied that the process will still work.

However, the issue on the cost would still arise. She stressed that same process will still apply except that the requirement for a DMS for all participants is highlighted. She added that the proposal intends to address the issues on conflict of interest as well as the possible double compensation for the DRG members.

- Atty. Layugan inquired on what are the means of neutralizing the cost that the DRG might impose. Atty. Funelas replied that the schedule of fees will be subject to the agreement and approval of the participants.
- Atty. Layugan opined that the failure of an entity to act or behave in a manner consistent with the WESM Rules already entails a breach and retaining it as one of the grounds for dispute creates conflict. She recommended that PEMC review and look into this particular provision.
- Mr. Crisolago posed his objection to the proposal to give the DRA free rein in the selection of the mediator and arbitrators.
- On the proposal of PEMC that the petition to vacate, modify or correct the award shall be lodged with the ERC, Atty. Layugan reminded the body that the ERC is not an appellate body and that under the dispute resolution process, any case filed before them is an original complaint and not an appeal. She likewise added that the proposal is not part of the powers of the ERC, as defined in the EPIRA.

Atty. Funelas explained that the intention of the proposal is to harmonize the ERC's jurisdiction with the Alternative Dispute Resolution (ADR) Law. She added that the intention of the ADR law is to give closure to a certain case. The parties agreed to undergo mediation and arbitration and therefore, whatever is the outcome will have to be enforced. Thus, the only way that the parties could file for petition to vacate or modify the award is if there was bias on the part of the panel.

- Prof. Patalinghug opined that the proposal to move the DRG out of the PEMC structure runs counter to the principles of corporate governance. The intention of putting governance committees such as the dispute resolution is to comply with the SEC principles of corporate governance.

	<p>After due deliberation and taking into consideration the comments of the RCC and the AES-MPPCL, the body approved the PEMC's proposed urgent amendments, subject to the following revisions:</p> <ul style="list-style-type: none"> • Retain as possible parties to a dispute the PEM Board and the PEM Committees. • Clarify that the DRA will no longer have a hand in the selection of the mediator and arbitrators and that its role should only be limited to providing assistance to the parties in so far as the selection process is concerned. • The RCC likewise disapproved the PEMC's proposal that the petition to vacate, modify or correct the award shall be lodged with the ERC and thus agreed to retain the original provision in the WESM Rules that the party may file a formal complaint to the ERC if it is not satisfied with the resolution of the dispute resolution panel. • Other revisions are clerical in nature. 	
<p>B. Proposed Amendments to the WESM Manual on Management of Must-Run Units</p>	<p>Mr. Roel Calano presented, for discussion, the PEMC's proposed amendments to the MRU Manual, as follows:</p> <ul style="list-style-type: none"> • Background: With the approval by the ERC of the regionalized concept of the Administered Price Determination Methodology (APDM) and the Price Substitution Mechanism (PSM), the PEMC deemed that the must run compensation mechanism and cost allocation should be likewise synchronized with the application of APDM and PSM. • Guiding Principle: <ul style="list-style-type: none"> ✓ Apply must run cost recovery only in the region where must run occurs ✓ Preserve normal market prices ✓ Users pay for must run implemented ✓ Follow the usual WESM settlement process • Methodology in Allocating MRU Payment: <ul style="list-style-type: none"> ✓ Where the must run unit is implemented in one region only, the MRU compensation cost recovery shall be applied only to the customers in that region. 	<p>The RCC approved the publication of the proposed amendments in the WESM website to solicit comments from the market participants and other interested parties.</p>

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- ✓ The exported quantities to a non-MRU region will not be included in the cost recovery.
- ✓ Where generation quantity is exported to a non-MRU region, the following shall apply,
- ✓ The generator trading amount corresponding to exported quantity ("export trading amount") shall be deducted from the customer total meter quantity used in the allocation.

Mr. Calano emphasized that the cost allocation will be separate for both regions, however, the GPI computation is still system-based, and thus, only one GPI will be computed for both regions.

On Ms. Javier's comment that both regions have different GPIs, Mr. Calano argued that even with the system-wide application of the GPI, the generators would still be able to recover because of the additional compensation scheme.

Ms. Javier expressed concerns, however, on the possibility of one region subsidizing or shouldering the additional payment for the MRU of the other region.

Atty. Layugan recommended that PEMC conduct a simulation to determine which mechanism, either having two separate GPIs or system-wide GPI computation, will give the best results for consumers.

Mr. Robinson Descanzo suggested removing from the formula on the computation of the MRU cost allocation the HVDC parameter and defining instead the summation of the load metered quantities for the particular region.

Mr. Cacho presented the revised flowchart which contains the procedure being followed by the SO in designating and scheduling of MRUs. He clarified that the flowchart was picked up from the SO's presentation of SO to the RCC with regard to their detailed protocol of MRUs.

Ms. Rodriguez reminded the RCC, specifically the AES-MPPCL, MERALCO and NPC, on their respective assignments (as indicated below) under the Work Plan in relation to the proposed amendments to the MRU Manual.

- Treatment or Categorization of MRU (c/o MERALCO)
 - ✓ Type 1 to address undergeneration and system security

	<p>✓ Type 2 - regulatory or contractual requirements</p> <ul style="list-style-type: none"> • Redefine criteria or limit criteria for designating MRU by SO (c/o AES) • Define SO protocol for MRU designation (c/o AES) • Provide mechanism how to evaluate MRU compensation exceeding GPI (c/o AES) • Must-Stop Rule (c/o NPC) • Must-Hold Load Rule (c/o MERALCO) 	
C. Proposed New Manual on the Segregation of Line Rental	<p>Mr. Calano presented the proposed new Manual on the Segregation of Line Rental, for discussion by the RCC (copy of the presentation attached as Annex "A").</p> <p>Following the presentation, the RCC approved the publication of the proposed new Manual in the WESM website to solicit comments from the market participants and other interested parties.</p>	<p>The RCC approved the publication of the proposed new Manual in the WESM website to solicit comments from the market participants and other interested parties.</p>
D. PEM Board directive regarding the Concerns of 1590 Energy Corporation	<p>Ms. Rodriguez relayed the Board's directive to the RCC to review and address the issues/concerns raised in the letter of 1590 Energy Corporation to the PEM Board dated 25 March 2011. Upon review, Ms. Javier believed that the 1590 EC's request for a review of the processes cited in the letter entails an audit of the system. Thus, she suggested that the RCC endorse to the PEM Audit Committee (PAC) the concerns raised by 1590 EC, for inclusion in the audit scope of the ongoing audit.</p> <p>Following the suggestion made by Ms. Javier, the RCC agreed to endorse the issues/ concerns raised by 1590 EC to the PAC, for inclusion in the audit scope of the ongoing 2nd Independent Operational Audit of the Systems and Procedures on Market Operations.</p> <p>Acknowledging the Board's directive for them to address the issues raised, the RCC likewise agreed to wait for the audit findings and recommendations for rules changes by the External Auditor before taking further actions.</p>	<p>The RCC agreed to endorse the issues raised by 1590 EC to the PAC, for inclusion in the audit scope of the ongoing 2nd Independent Operational Audit of the Systems and Procedures on Market Operations.</p>
E. RCC Internal Rules	<p>Ms. Rheinart Banogon presented, for review and approval, the proposed revisions to the RCC Internal Rules which the RCC originally approved during its meeting on 10 March 2010.</p> <p>In summary, the following revisions were made:</p>	<p>The RCC approved the Issue 2.0 of the RCC Internal Rules, as amended.</p>

	<ul style="list-style-type: none"> • Incorporate the agreements made by the RCC in their previous meetings with regard to: <ul style="list-style-type: none"> ✓ Urgent Amendment Process ✓ RCC requirement for a discussion paper ✓ Meeting Highlights • Reflect the amendments to the Guidelines Governing the Constitution of the PEM Board Committees which the Board approved last 27 May 2010 • Clarify RCC's participation in PEM Board meetings and other PEMC activities <p>After due deliberation, the RCC approved the Issue 2.0 of the RCC Internal Rules, incorporating the comments made by the RCC.</p>	
F. PEM Board Updates	<p>The RCC was informed of the PEM Board's decision during its meeting on 25 May 2011 on the RCC-approved proposed new WESM Manual on Registration, Suspension and Deregistration Criteria and Procedures as well as on the proposed amendments to the WESM Rules and Billing and Settlement Manual.</p> <ul style="list-style-type: none"> • The Board deferred the approval of the proposed new WESM Manual on Registration, Suspension and Deregistration Criteria and Procedures pending DOE review specifically on the provisions pertaining to post registration changes on generators' capacity. • The Board approved the proposed amendments to the proposed changes to the WESM Rules and Billing & Settlement Manual on the Prescribed Period for the Issuance of Final Statement Adjustments. <p>Upon the suggestion of Mr. Crisologo, who presented the proposed Registration Manual on behalf of Prof. Patalinghug, the RCC agreed to request for a copy of the excerpt of Minutes of the 59th PEM Board meeting, covering the PEM Board's discussion on the said RCC-approved new WESM Manual.</p>	RCC to request for a copy of the excerpt of Minutes of the 59th PEM Board meeting, covering the PEM Board's discussion on the RCC-approved Proposed New WESM Manual on Registration, Suspension and Deregistration Criteria and Procedures.
G. Update on the 2011 RCC Work Plan	<p>The RCC was reminded of its specific assignment under the Work Plan.</p> <ul style="list-style-type: none"> • On the review of the WESM Rules Clause 3.13.1 	As instructed by the RCC Acting Chairperson, the SO will be requested to

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	<p>on the submission of bilateral contract, Mr. Sarmiento informed the RCC that he will have to check first with DECORP's management on whether or not they will be pursuing their rules change proposal.</p> <ul style="list-style-type: none"> • Ms. Javier apprised the RCC that the AES-MPPCL is already coordinating with the PEMC Billing and Settlement for the conduct of simulation on the AES' proposed WESM Rules on settlement calculations. • Mr. Ciprinilo Meneses formally submitted to the RCC the letter of MERALCO withdrawing its intent to submit a rules change proposal with regard to the price adjustment. • Prof. Patalinghug instructed the Secretariat to include in the agenda of the next meeting the following presentation from SO as indicated in the Work Plan. <ul style="list-style-type: none"> ✓ Security Limit setting/Imposition of constraints in the system ✓ Overriding Constraint ✓ SO discretion & MRU (Intervention of SO on dispatch of generator resulting to non-compliance of generator dispatch with WESM's RTD resulting to imbalance). 	<p>present in the next meeting their assigned topics under the 2011 RCC Work Plan.</p>
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5. Other Matters

a. **WESM Participants' Meeting**

The RCC was informed of the new schedule of the WESM Participants Meeting which will be held on 21 June 2011, of which part of the agenda are the functions and processes of the WESM Governance Committees.

b. **Photoshoot for the Committees**

The RCC was informed of the schedule of its photoshoot which coincides with its next meeting on 22 June 2011. As the official photo shall be used for the WESM Annual Report, the RCC is requested to follow the prescribed attire (dark suit for men and women, with inner shirt or blouse of white or light color and for men in tie; for women either in slacks or skirts).


6. Next Meeting

The RCC agreed to hold its next meeting on 22 June 2011.

7. Adjournment

There being no matter to be discussed, the meeting was adjourned at 4:30 P.M.

Prepared by:


Rheinhart O. Banogon

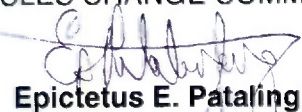
Reviewed by:


Geraldine A. Rodriguez


Noted by:



Elaine D. Gonzales


Approved by:
RULES CHANGE COMMITTEE

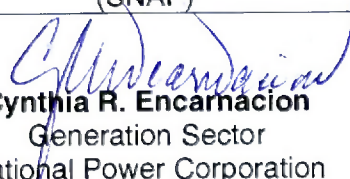

Epictetus E. Patalinghug
Acting Chairperson
Independent
University of the Philippines
(UP)

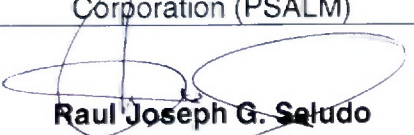
Members:



Cherry Aquino-Javier
Generation Sector
AES Philippines
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Ralph T. Crisologo
Generation Sector
SN Aboitiz Power
(SNAP)


Liberty Z. Dumlao
Generation Sector
Power Sector Assets and Liabilities Management
Corporation (PSALM)

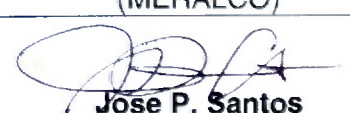

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ANNEX "A"



Wholesale Electricity
Spot Market

Segregation of Line Rental Component (Loss and Congestion) – RCC

June 8, 2011

Discussion Points

- Background
- PEMC Proposal
- Discussion on Line Rental Segregation
- Recommendation for RCC Approval



Wholesale Electricity
Spot Market

Background

The proposed new Manual stems from the directives of the Energy Regulatory Commission (ERC) in the petition for dispute resolution filed by Meralco against

- PEMC
- the National Transmission Corporation (TransCo)
- National Power Corporation (NPC)
- Power Sector Assets and Liabilities Management Corporation (PSALM)



Background

- A line loss recovery factor equivalent to 2.98% is embedded in the NPC TOU rate that is billed by NPC to Meralco pursuant to their TSC
- WESM collects line rental amounts from the identified party to a bilateral contract
- Meralco is designated as the party that shall pay the line rental trading amount associated with the NPC-Meralco TSC.
- MERALCO filed a petition for dispute resolution for double-charged for the cost of transmission loss:
 - The 2.98% transmission loss recovery factor embedded in the NPC-TOU rates



- The line rental collected by PEMC

Background

- The ERC issued its Decision on 10 March 2010, finding that "there was double recovery of transmission line cost on Meralco and other market participants similarly situated
- The 2.98% system loss charge embedded in the NPC-TOU rate is still subject to an adjustment depending on the actual transmission line cost in the WESM
- Anything in excess of this cap will be for the account of MERALCO." Conversely, line loss costs within the cap shall be for the account of NPC
- PEMC was thus directed to provide the parties to the dispute, the required segregated line rental amounts for TSC quantities including the actual line losses embedded in said line rental amounts from the start of WESM



Background

- If the line rental transmission loss component is more than the 2.98% transmission loss cost in the NPC-TOU [rate], NPC should bill the distribution utility or any party with a contract with NPC the incremental adjustment to reflect the actual transmission line cost.
- On the other hand, NPC should implement a refund if actual transmission line loss is less than the 2.98% loss factor.
- ERC issued an Order on 7 March 2011, granting the request of PEMC to submit an alternative methodology for the segregation of line rental amounts into congestion costs and line losses



PEMC Proposal

Defining the Component of Locational Marginal Price

$$LMP_i = \lambda + \lambda \left(\frac{1}{TLF_i} - 1 \right) + \sum_{j=1}^n \mu_{ij} a_{ij}$$

$$\lambda = Offer_{MP} \cdot TLF_{MP}$$

- LMP - Locational Marginal Price at location "i"
- λ - The system marginal price based
- TLF_i - Transmission Loss Factor at location "i".
- μ_{ij} - Price corresponding to transmission constraint
- a_{ij} - Sensitivity factor
- n - The number of constraints involved that affects the node "i"



Line Rental Segregation

Line Rental Due to Loss

$$\text{Line Rental}_{\text{Losses}} = BCQG-L \cdot Offer_{MP} \cdot TLF_{MP} \left(\frac{1}{TLF_L} - \frac{1}{TLF_G} \right)$$

- BCQG-L - Bilateral Contract Between Supplier G and Customer L (MWH)
- $Offer_{MP}$ - Offer of Marginal Plant
- TLF_{MP} - Transmission Loss Factor of Marginal Plant
- TLF_L - Transmission Loss Factor of Load L
- TLF_G - Transmission Loss Factor of Generator G



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Line Rental Segregation

Line Rental Due to Congestion

$$\text{Line Rental}_{\text{Congestion}} = \text{BCQ}_{G-L} \left[\left(\text{LMP}_L - \frac{\text{Offer}_{\text{MP}} \cdot \text{TLF}_{\text{MP}}}{\text{TLF}_L} \right) - \left(\text{LMP}_G - \frac{\text{Offer}_{\text{MP}} \cdot \text{TLF}_{\text{MP}}}{\text{TLF}_G} \right) \right]$$

- LMP_L - Locational Marginal Price of Load L
LMPL - Locational Marginal Price of Generator G



Recommendation

- The new methodology for segregating line rental into cost of losses and congestion will;
- Allow parties to a bilateral contract to determine the appropriate line loss charge for their bilateral transactions
- Address the issue of double-recovery.

