

# **Market Surveillance Committee 2013 Annual Report**

March 2014



Table of Contents

I.	2013 ACCOMPLISHMENTS .....	1
II.	2014 Work Plan.....	10
III.	MEMBERSHIP .....	13
IV.	RESPONSIBILITIES .....	13

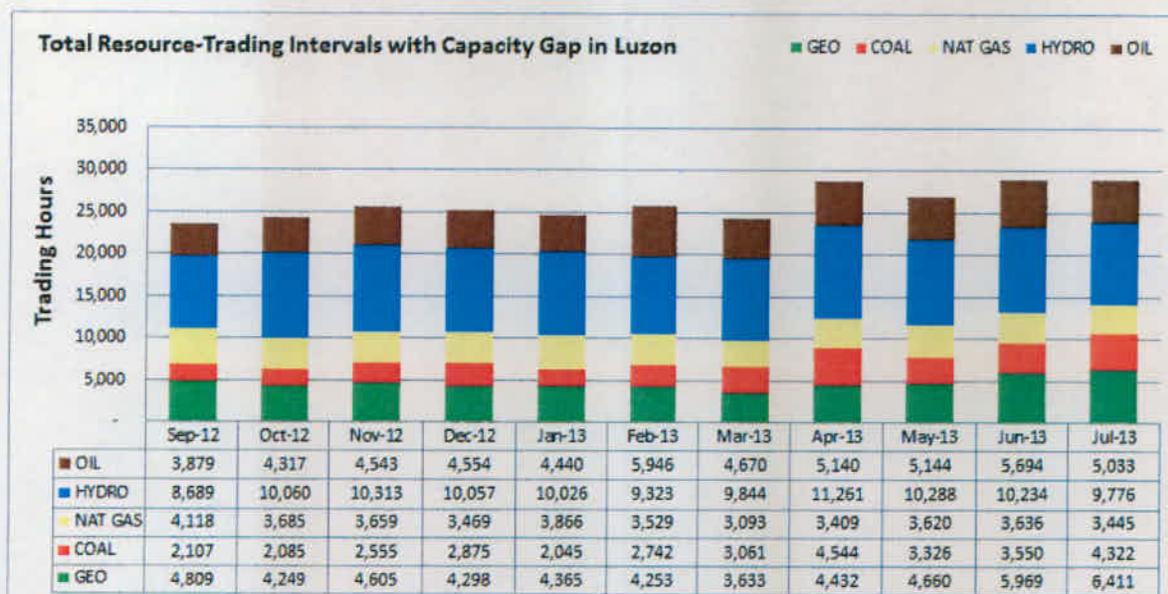
## I. 2013 ACCOMPLISHMENTS

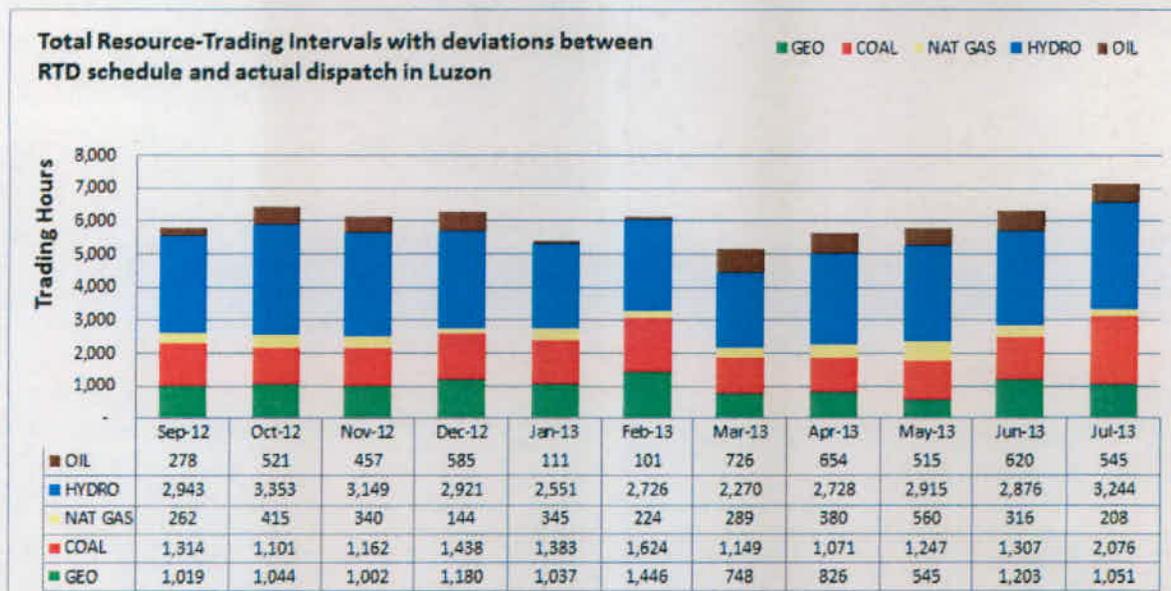
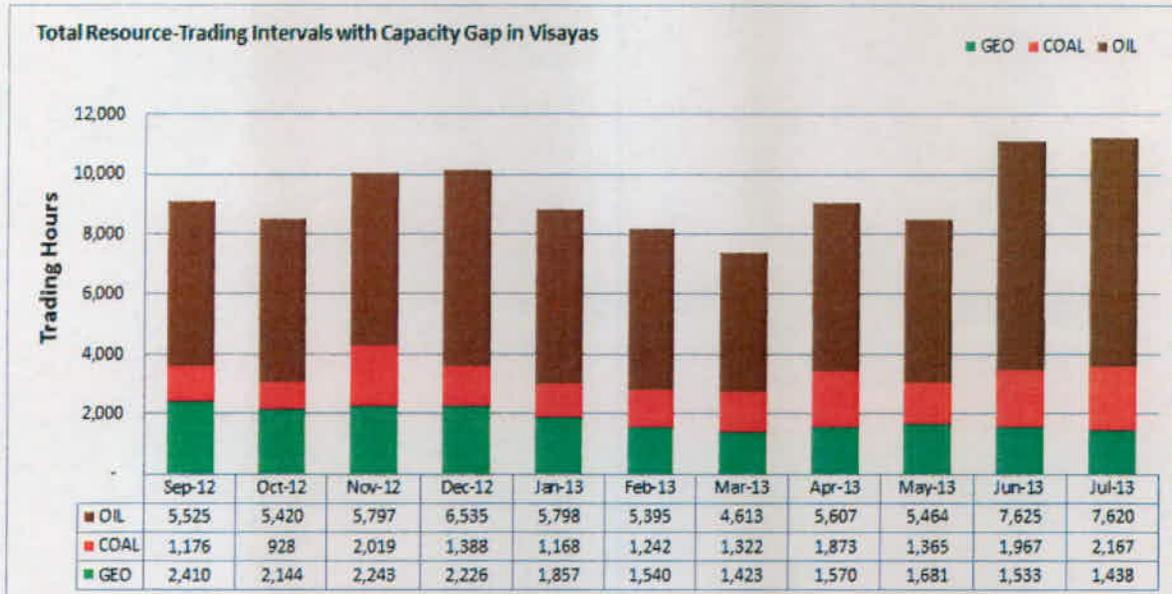
### A. Monitoring, Reporting and Evaluation of Compliances by Trading Participants with the WESM Rules

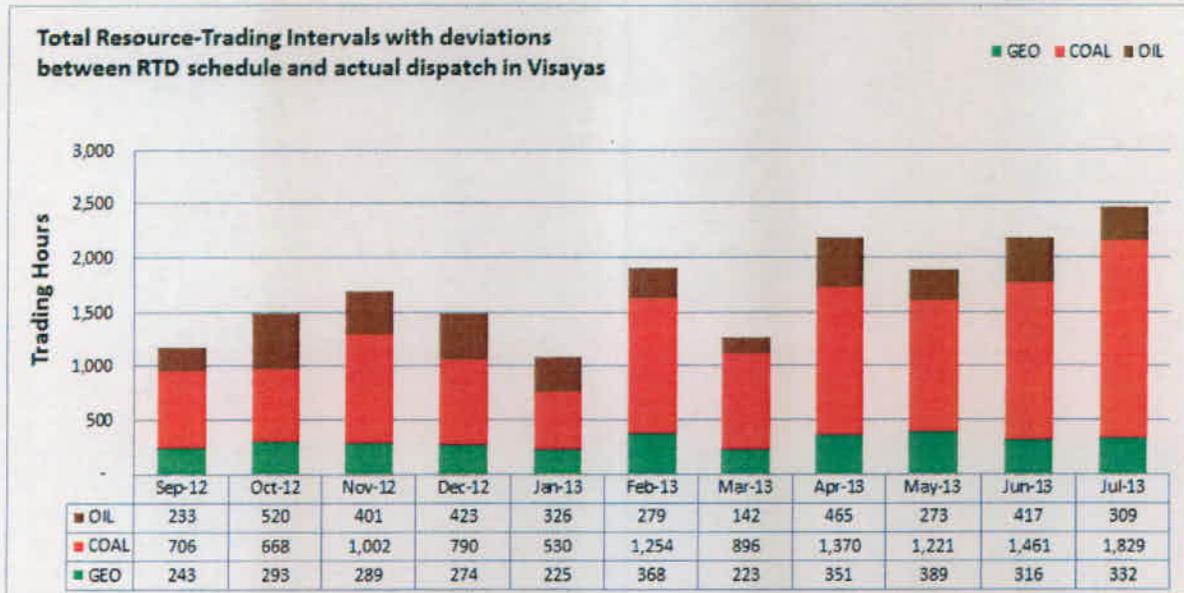
As part of its continuing task to monitor compliance by WESM members, the MSC regularly reviewed MAG's Monthly Compliance Reports, which contain the list of generator-trading participants in Luzon and Visayas and the number of trading intervals with capacity gap and deviations from the real-time-dispatch (RTD) schedule/ instruction. The MSC reviews and evaluates the Report in a monthly meeting called for the purpose.

For the year in review, the MSC evaluated and thereafter issued over 600 letters to identified generator-TPs in the Luzon and Visayas, seeking the explanation and submission of supporting documents relative to observed discrepancies in their registered and offered capacities and compliance to RTD schedule/ instruction.

For the period September 2012 to July 2013, the MSC has observed 389, 735 total resource - trading intervals with capacity gap and 85,063 total resource - trading intervals with deviation from the RTD schedule/ instruction. The breakdown of these trading intervals according to resource type per month for Luzon and Visayas are presented in the following graphs:







#### **A.1. Meeting with the Philippine Atmospheric Geophysical and Astronomical Services Administration (PAG-ASA) regarding data on Water Elevation**

In the course of the MSC's monitoring of TPs' compliances with the WESM rules on submission of offers, it has been observed that TPs with hydroelectric facilities frequently cited as reasons water availability and NIA requirement for its non-compliance with the must-offer rule (MOR). The MSC requested the Technical Committee (TC) to conduct a study that will assist the MSC in assessing the validity of technical reasons cited by TPs with hydroelectric plants (TPs) in failing to comply with the MOR, and in verifying the capability declaration of hydroelectric plants, which are used in the hourly trading in the WESM.

On 25 March 2013, MSC together with the DOE, PEMC and Technical Committee (TC) representatives met with PAG-ASA to discuss the data requirement of DOE/ PEMC in monitoring the water elevation of dams in relation to the MSC's request for TC study on water elevation of hydroelectric power plants.

#### **A.2. Proposed Enhancements in the Market Participants Interface (MPI)**

The MSC met with the PEMC-Trading Operations Department (TOD) to raise its observations on the huge capacity gap of generators, and likewise, the failure of some generators to provide the reason/s for their capacity gap when submitting offers even if the MPI provides a field "reason." The MSC suggested the following possible enhancements to the MPI:

- Automatic rejection of offers when reason for capacity gap is not provided by the Trading Participant (TP) in the corresponding field in the MPI when submitting offers; and

- Sending a prompt to the TP that failure to submit a reason for its capacity gap can be subject to further assessment and possible investigation.

Likewise, the MSC suggested that the same enhancements in the MPI be made for cancellation of offers in Real Time. The above suggestions were transmitted to the TOD on 05 April 2013<sup>1</sup>.

The TOD informed the MSC that it will review and assess the observations and suggestions given by the MSC and if workable, submit the request to the PEMC Management for its approval, and then to the software vendor for the necessary changes in the MPI to be effected.

The MSC discussed the management's concern that the MSC's proposed enhancements in the MPI, which provided for automatic rejection of offers and cancellations in the absence of a reason to justify the capacity gap or cancellation, might result to possible undergenerations /price spikes. To address the concern, the MSC proposed to delete the automatic rejection recommendation and just have the MPI send a prompt/notice to trading participants that cancellations and offers less than maximum available capacity without providing any valid reason will subject the TP to an investigation.

The said MSC proposal was included by the TOD in its proposed amendments to the WESM Rules and the Dispatch Protocol Manual and the same have been approved by the PEM Board and the DOE accordingly.

### **A.3. Coordination Meetings with PIPPA and NGCP-SO**

On 02 August 2013, the Philippine Independent Power Producers Association (PIPPA) requested for a meeting with the MSC to discuss its issues and concerns on the MSC's process in monitoring compliance of the TPs to the WESM Rules.

PIPPA's concerns were with regard to the following:

- Publication of the Intra-hour Dispatch Instructions of the SO in the WESM website;
- Enhancement of MSC feedback mechanism; and
- Filtering of trading intervals for non-compliances to the RTD schedule/instruction with reasons that are attributable to SO (system security-related) in the monthly issuances of the MSC to the TPs.

In its regular meeting held on 30 August 2013, the MSC discussed the suggestions of PIPPA as regards its concerns raised during the MSC-PIPPA meeting and subsequently deliberated its decisions on the same. As agreed during its meeting, the MSC invited the PIPPA for a meeting to provide updates on the action items taken regarding PIPPA's concerns raised during the MSC-PIPPA meeting on 02 August 2013.

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<sup>1</sup> Reference Document: COR-INT-MS-13-009 *MSC's Proposed Enhancements on the MPI*

On 25 September 2013, the MSC provided updates on the concerns raised by PIPPA during the meeting on 02 August 2013 resulting from its deliberations on the same as follows:

- the request to publish the Intra-hour Dispatch Instructions of the SO in the WESM website was relayed to the SO;
- the MSC evaluation process has already included a feedback mechanism;
- filtered out in the monthly issuances to TPs the Trading Intervals for non-compliances to the RTD schedule/instruction with reasons that are attributable to SO (system security-related)

The PIPPA raised additional concerns particularly on the (a) RTD deviations due to grid frequency; and (b) RTD deviations due to use of Merit Order Table. In this regard, the MSC invited the National Grid Corporation of the Philippines – System Operator (NGCP-SO) for a meeting on 29 October 2013 to discuss the suggestions and concerns of the PIPPA raised during the MSC-PIPPA meetings held on 02 August 2013 and 25 September 2013 as well as other matters relating to the compliance of the Trading Participants (TP) to the RTD schedule/ instructions.

Items discussed were as follows:

- publication of the intra-hour dispatch instruction of the SO in the WESM website;
- SO Dispatch Discrepancy Monitoring Report
- RTD Deviations due to Grid Frequency
- Plant Outage Capacity
- Analysis of Must-Run Unit

#### **B. Filing of Request for Investigation of Alleged Breaches of the WESM Rules**

The initiation of Investigation emanates from the filing of a Request for Investigation (RFI) of an alleged Breach before the PEM Board by the MSC, a WESM Member, the Market Operator, System Operator or other PEM Committee, using the form as prescribed under Appendix C of the Market Surveillance Compliance and Enforcement Market Manual (MSCEMM).

In 2013, the MSC regularly reviewed the monthly Compliance Monitoring Reports submitted and presented by the MAG. After evaluation and due deliberation, the MSC resolved the submission to the PEM Board of several Requests for Investigation of possible non-compliances with the submission of offers and RTD schedule / instruction.

As a rule, all scheduled generation companies shall offer all its maximum available capacity in the WESM and shall comply with the RTD schedule/ instruction by the MO/SO.

For the year in review, the MSC submitted to the PEM Board on 07 February 2013<sup>2</sup>, for approval, one (1) RFI involving two (2) TPs, i.e. Panasia Energy Holdings, Inc. for Limay

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<sup>2</sup> Reference Document: COR-INT-MS-13-002 *Possible Non-compliance with the Submission of Offers*

CCGT A & B and Power Sector Assets and Liabilities Management Corporation for Malaya TPP Unit 2, for possible non-compliance to the WESM rules on submission of offers. The same was presented to the PEM Board and was subsequently approved for investigation on 21 March 2013 by the PEMC Enforcement and Compliance Office (ECO).

### **C. Submission of Monthly Monitoring Reports to the PEM Board**

Pursuant to Clause 7.3.7 of the MSCEMM, the MSC submitted to the PEM Board twelve (12) monthly Market Monitoring Report (MMR) covering the billing months November 2012 to October 2013. As part of its monitoring, the MSC reviewed the monthly Market Assessment Reports (MAR) submitted and presented by the MAG for the period 26 October 2012 to 25 October 2013.

The MAR, which forms Part II of the MSC Monthly Monitoring Report, provides an assessment of the development of market behavior covering the period under review, including the evolution and analysis of the monitoring indices as contained in the Catalogue of Market Monitoring Data and Indices.

In the course of its review of the monthly MAR, the MSC observed unusual bidding behavior of the following TPs and conducted a review of the generating plants' offer behavior.

#### **C.1. Trading Behavior of SN Aboitiz-Benguet over Ambuklao Hydroelectric Power Plant**

In the course of its review of the offer behavior of generating plants, the MSC found possible violations by SN Aboitiz-Benguet (SNAP-Benguet) during various intervals in August 2011 of the provisions on the System Test Requirement under Section 6.9.2 of the Philippine Grid Code (PGC), as amended.

On 05 July 2013, during the ERC-MAG-ECO Meeting, the MSC presented to the ERC and DOE its findings on the 12 August 2011 market event when market prices reached PhP 62,000/MWh during trading intervals 1100H and 1400H, with Ambuklao hydroelectric power plant (HEPP) as the marginal generator. The said event prompted the MSC to conduct further assessment and validation on the high offer price made by the SNAP-Benguet over Ambuklao HEPP.

The MSC, after thorough review of the documents and data gathered, deemed that SNAP-Benguet possibly breached Section 6.9.2 of the PGC for failing to submit a System Test Request to NGCP-SO for the conduct of SS tests for its power plant during various trading intervals in August 2011 which led to high market prices on 12 August 2011.

With the instruction from the ERC, the MSC finalized and submitted its report to the ERC on 30 July 2013<sup>3</sup>.

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<sup>3</sup> Reference Document: COR-EXT-MS-13-209 *Possible Non-compliance with the PGC by SNAP Benguet during the trading intervals on 12 August 13*

### **C.2. Offer Behavior of Malaya Thermal Power Plant**

In the course of its monitoring of the spot market particularly the offer behavior of generating plants, the MSC observed that with respect to the two (2) units of a Malaya Thermal Power Plant (TPP), Power Sector Assets and Liabilities Management (PSALM) has been submitting offers while on "open breaker status" since 26 July 2012 whenever said generating units are not being designated as Must-Run Unit (MRU) by the NGCP-SO. While PSALM has been submitting offers in the WESM, the Malaya TPP could not be scheduled for dispatch due to its "open breaker status".

The MSC in its letter to PSALM dated 14 May 2013 requested for clarification on the observed unusual operation of the generator TP. PSALM, through its letter dated 28 June 2013, responded to the MSC by providing explanations on the MSC's inquiries. Noting that PSALM cited the technical limitation Malaya TPP as one of the reasons that contributed to its inability to submit its maximum available capacity, the MSC deemed it necessary that the TC look into the matter.

In this regard, the MSC, through its memo dated 03 September 2013, requested the assistance of the Technical Committee (TC), in the conduct of a technical review on the power plant's operation in order to assess the validity of the technical reasons cited by the TP in failing to comply with the MOR.

### **D. Review of ECO Investigation Reports**

Pursuant to Section 10.7 of the MSCEMM, the MSC completed its review of the ECO Investigation Reports by the PEMC-Enforcement and Compliance Office (ECO), and submitted to the PEM Board the MSC review of said reports as follows:

- (a) Twenty-two (22) ECO Cases involving the Power Sector Assets and Liabilities Management Corporation (PSALM); submitted on 21 February 2013;
- (b) Nineteen (19) ECO Cases on Possible Non-compliance to RTD schedule/ instruction of various TPs; submitted on 24 May 2013; and
- (c) Sixteen (16) ECO Cases on Possible Non-compliance to MOR of various TPs; submitted on 25 October 2013.

The review covered the (a) compliance by the ECO with the procedures set forth in the MSCEMM for the conduct of Investigation; and (b) validity and completeness of the data and documents upon which the factual findings are based.

### **E. Review of Over-Riding Constraints**

The MSC regularly reviewed the Monthly Report on Over-Riding Constraints prepared and submitted by the Market Assessment Group. During the year, the MSC was able to review the Monthly Reports for January to November 2013.

On a request which may emanate from an affected market participant, further review may be undertaken by the MSC to assess the action done by the SO with regard to the imposition of the Over-Riding Constraint.

**F. Review of the Financial Penalty Manual (FPM) with the Automatic Penalty Scheme (APS)**

Pursuant to Section 5 of the Financial Penalty Manual (FPM), the MSC reviewed the FPM together with the Automatic Penalty Scheme (APS). The MSC initially reviewed the investigation procedure and penalty imposition in relation to the ECO Investigation Cases and continued with its review of the previously proposed APS. In 2012, the MSC developed a procedural framework of the APS and passed a Resolution approving the primer of the same.

The MAG presented the revised APS which introduced some revisions from the original proposal approved by the MSC. The revised APS covered penalty schemes for violations of the WESM Rules on the Submission of Offers (MOR) and RTD schedules/ instructions.

The proposal intends to streamline the current processes on the monitoring of non-compliances to the MOR and RTD schedule/ instruction for greater market efficiency and likewise imposes penalties on the violations to said WESM Rules.

With the ongoing discussions, the review of the FPM was prioritized and an MSC subcommittee was created to focus on the same. Initial proposed amendments to the FPM were crafted to incorporate the proposed APS and the options on the possible categorization of the Penalty Table in the FPM.

In its review, the MSC focused its discussions on the proposed amendments on the FPM specifically the financial computation of breaches to the WESM Rules on RTD schedule/ instruction and MOR. The MSC finalized its proposed amendments and endorsed the same to Pres. Melinda L. Ocampo for her information on 18 December 2013<sup>4</sup>. The same was transmitted to the External Auditor engaged to conduct a review of the structure and processes for enforcement and compliance in the WESM which covers the review of the FPM for possible revisions of the same.

**G. Comments on the Proposed Amendments to the WESM Rules Market Manuals**

**G.1. On Registration Manual on Ramp Rates and Additional Requirements for Increase in Registered Maximum Available Capacity**

The MSC deliberated on the proposed amendments to the WESM Rules and the Registration Manual regarding ramp rates and request for changes in registration data upon the RCC's invitation to comment on the said proposed changes.

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<sup>4</sup> Reference Document: COR-INT-MS-13-025 *Proposed Amendments to the FPM with the APS*

After discussing the essence of the proposal regarding submission of additional data regarding ramp rates, the MSC agreed that the said proposal is for the advantage of the market. The MSC, however, commented that said proposal should be subjected to the technical evaluation of the Technical Committee.

On the matter of the proposed amendments in the Registration Manual, providing for the grant of provisional approval by the MO on a request by a Trading Participant for an increase in maximum available capacity, the MSC opined that the proposal is advantageous to the Market as it would make the additional capacity immediately available to the grid, thus increasing the grid's stability and reliability.

The MSC finalized its comments submitted the same to the RCC on 05 March 2013<sup>5</sup>.

### **G.2. On Cancellation of Offers**

In preparation for a consultative meeting on 03 April 2013 requested by the Rules Change Committee (RCC) with the MSC and the TC, the MSC again discussed the RCC-proposed amendment on the cancellation of offers. To guide the MSC in its discussion and the formulation of its position on the matter, the MSC requested for a presentation from the Philippine Electricity Market Corporation-Trading Operations Department (PEMC-TOD) of a simulation showing the effects such proposal would have in the Market.

After deliberating on the proposal and noting the simulation results that showed the occurrence of price spikes as a result of the cancellation of offers, the MSC adopted the position that it does not favor the said proposed amendment as it would have a negative effect on the Market.

### **H. WESM Lecture Series**

On 11 October 2013, the MSC conducted a lecture on *Market Surveillance and Monitoring* as part of the WESM Lecture Series spearheaded by the PEMC CPC in Palo, Leyte. The MSC's proposed module, the *Market Surveillance and Monitoring* was included as the third topic of the series. First two topics were (a) Line Rental (for billing and settlement); and (b) Enforcement and Compliance (for ECO).

The information dissemination effort by the MSC is consistent with a previous MSC proposal on the development of a proposed Training Module on Compliances for Generators and Plant Operators endorsed to CPC for consideration and inclusion in the offered training programs for the WESM. Said modules aim for the conduct of a joint training of WESM Compliance Officers of Trading Participants (TP) and Plant Operators.

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<sup>5</sup> Reference Document: COR-INT-MS-13-008 *MSC Comments on the Proposed Amendments to the WESM Rules and Registration Manual*

## II. 2014 WORK PLAN

The following are the MSC activities lined-up for year 2014. Please refer to Annex A for a detailed Work Plan which reflects the timeline for each activity identified below:

Item	Activity	2014 Target	Deliverables
<b><i>Carried-over Activities from Year 2013</i></b>			
1.	Review of Alternative Schemes for Utilization of Collected Financial Penalties	1st Quarter	Recommendations on the possible amendments of pertinent provisions of the Financial Penalty Manual/ Market Surveillance, Enforcement and Compliance Market Manual
2.	Development of a Reporting Template for MI Events/Continuing Review of 2012 MI Events	2 <sup>nd</sup> Quarter	Review the Reports and documents submitted to the MSC by the NGCP in relation to the MI events and develop a reporting template for future MI reports
3.	Review of ECO Case 2013-001 and ECO Case 2013-002	1 <sup>st</sup> Quarter	Submit a final report to the PEM Board for approval
4.	Review of MI Events in 2013	3 <sup>rd</sup> Quarter	
<b><i>Regular Reportorial Functions</i></b>			
1.	Review of Various RCC Proposed Amendments to the WESM Rules and Market Manuals	As applicable	Recommendations on the possible amendments of pertinent provisions of the WESM Rules and Market Manuals

2.	Review and Update of the Catalogue of Market Monitoring Data and Indices	As Applicable	Presentation of the Review and Update of the Catalogue of Market Monitoring Data and Indices to PEM Board/ Recommendations on the possible amendments of pertinent WESM Rules provisions
3.	Review of Significant Variations Report	Per MSCEMM	
4.	Submission of the Market Intervention Report (MIR) to PEM Board	As applicable	Submission of MIR to PEM Board
5.	Submission of Market Suspension Report (MSR) to PEM Board	As applicable	Upon direction of the PEM Board, submission of the MSR
6.	Submission of the MSC Monthly Monitoring Report (MMR) to PEM Board	Per MSC Regular Meeting	Regular monthly submission of MMR to PEM Board
	a. Approval of Monthly Accomplishment Report		
	b. Approval of the Market Assessment Highlights/Report		
7.	Submission of the MSC Annual Report to PEM Board	1 <sup>st</sup> Quarter	Annual submission of MSC accomplishment and activities to the PEM Board
8.	Submission to PEM Board of the Review Document on Overriding Constraints (RDOC)	As applicable	Submission of RDOC to PEM Board three weeks after end of billing month (Summary)/Quarterly assessment and recommendation
9.	Submission to PEM Board of the MSC Review of Non-Compliance Report (RNCR)	As applicable	Submission of RNCR to PEM Board not later than one month after receipt of RNCR from ECO
10.	Submission to PEM Board of the MSC Review of the ECO Investigation Report (RIR)	Per MSCEMM	Submission to PEM Board per WESM Rule 10.7.9
11.	<i>Compliance Activities</i>		

12.	Monitoring and Evaluation of Trading Participants' Compliance with the Must-Offer-Rule and RTD Schedule/ Review of MAG Monthly Compliance Report	Within Approved Timeline in the Assessment Process	Monthly evaluation of the MAG Compliance Report/Issuance of Letters to TPs requesting explanation
<b>Item</b>	<b>Activity</b>	<b>2014 Target</b>	<b>Deliverables</b>
2	Submission to PEM Board of the Request for Investigation (RFI)	Per MSC EMM	Submission of RFI to PEM Board after completion of review and evaluation of TP responses
<b>Others</b>			
1	Participation in PEM Board Activities	As applicable	The MSC participation in PEM Board activities includes the presentations of the RFIs, its review of ECO Investigation Reports, its submission of Market Intervention Reports and other reports to the Board Review Committee and the PEM Board.
2	Conduct of Joint Studies with Other Governance Committees	As applicable	Continuing coordination among Governance Committees; Paper output for the purpose of specific studies

### III. MEMBERSHIP

The Market Surveillance Committee ("MSC") is composed of the following members:

Chairman:	Engr. Francis V. Mapile
Members:	Atty. Bernarda C. Lavisores
	Ms. Eulina M. Valdezco
	Dr. Peter Lee U
	Engr. Jose Mari T. Bigornia

Atty. Bernarda C. Lavisores has been a member of the MSC since 27 April 2007. All the other members, Engr. Francis V. Mapile, Ms. Eulina M. Valdezco and Dr. Peter Lee U, were re-appointed in their position on 01 July 2013 with the addition of a new member, Engr. Jose Mari T. Bigornia.

The Department of Energy (DOE) representative sits as resource person in the MSC by virtue of PEM Board Resolution No. 2009-49 issued on October 28, 2009 which allowed DOE Representative to sit as resource person in all PEM Board Committees and Subcommittees to provide assistance or directions on any policy concern, that any or all issues are being dealt with in accordance with the purpose of the EPIRA, its implementing Rules and the WESM Rules and/or to facilitate energy issues affecting the Market and the power industry as a whole.

In accordance with Section 1.4.7.1 of the WESM Rules, the PEMC - Market Assessment Group (MAG) serves as the primary support unit of the WESM Governance Committees, which include, among others, the MSC.

### IV. RESPONSIBILITIES

The responsibilities of the MSC are set out in Section 1.6.2 of the WESM Rules, to wit:

- Monitor activities conducted by WESM participants in the spot market;
- Prepare periodic reports, which outline:
  - Activities of WESM Participants in the spot market;
  - Apparent or suspected incidents of anti-competitive behaviour by any WESM Participant; and
  - Matters concerning the operation of the spot market.
- Assist the PEM Board or the Enforcement and Compliance Officer to investigate and gather evidence of:
  - unusual or suspicious behavior or activities of WESM members in the spot market;
  - suspected or alleged breaches of the WESM Rules by WESM members; and
  - suspected or alleged anti-competitive behavior;

- Propose amendments to the WESM Rules as necessary to: i) improve the efficiency and the effectiveness of the operation of the WESM; and ii) to improve or enhance the prospects for the achievement of the WESM objectives;
- Assist the Rules Change Committee in relation to its assessment of proposals to amend the WESM Rules.

In addition, the MSC is tasked under Section 6.2.1 of the Market Surveillance, Compliance and Enforcement Market Manual ("MSCEMM") to perform the following responsibilities:

- Define the monitoring data and indices necessary to effectively carry out its market surveillance function;
- Review market monitoring indices and Market Assessment Report prepared by the Market Assessment Group;
- Submit Monthly Market Surveillance Reports and Annual Reports;
- Identify acts or omissions which constitute breaches, abuse of market power and anti-competitive behavior and initiate an investigation;
- Review the Non-Compliance Report prepared by the ECO pursuant to the review of a Non Compliance Notice and submit its review to the PEM Board;
- Review Investigation Reports prepared by the ECO pursuant to an Investigation of an alleged Breach, abuse of market power or Anti-Competitive Behavior, and submit its review to the PEM Board;
- Monitor the design and efficiency of the WESM Rules and propose amendments thereto;
- Investigate an event of Intervention or Market Suspension and prepare the corresponding Intervention Report or Market Suspension Report to be submitted to the PEM Board;
- Review Over-Riding Constraints;
- Recommend mitigation measures, in accordance with Section 12 of the MSCEMM on matters under Investigation;
- Review of the significant variations reports.

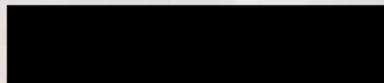
The MSC deliberated on a number of compliance matters and monitored participants in line with its mandate to primarily monitor and assess the trading activity in the WESM to ensure market efficiency and fair competition. The MSC conducted nineteen (19) meetings<sup>6</sup> during the period covered.

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<sup>6</sup> At any time and as may be practicable, the MSC may conduct meetings more than once a month.

Submitted by:

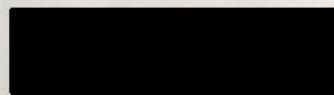
**THE MARKET SURVEILLANCE COMMITTEE:**



**Francis V. Mapile**  
Chairman



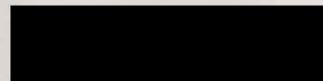
**Eulinia M. Valdezco**  
Member



**Bernarda C. Lavisores**  
Member



**Peter Lee U.**  
Member



**Jose Mari T. Bigornia**  
Member