

MSC-QR-2017-01

Market Surveillance Committee Quarterly Report

26 October 2016 to 25 January 2017

This Report is prepared by the Philippine Electricity Market Corporation-Market Assessment Group for the Market Surveillance Committee.

April 2017

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MARKET SURVEILLANCE COMMITTEE QUARTERLY ACCOMPLISHMENT REPORT

I. Introduction

Pursuant to Section 1.6.2 of the WESM Rules, the Market Surveillance Committee (MSC) continuously monitors the activities of the WESM participants in the spot market. In performing its responsibilities under the WESM Rules and the Market Surveillance Compliance and Enforcement Market (MSCEM) Manual, the MSC regular conducts monthly meetings to deliberate on various MSC topics and communicates with its members and the MSC Secretariat through email and other means on subject matters of concern to the Committee.

The MSC conducted one (1) meeting each month for a total of three (3) meetings for the period from November 2016 to January 2017. During the period under review, the MSC conducted/accomplished the following:

II. Accomplishments

A. Submission of Market Reports to the PEM Board

A.1.1. Market Assessment Reports

The Market Surveillance Committee (MSC) assessed the activities of the WESM participants and the market developments for the period 26 October 2016 to 25 January 2017. The MSC reviewed and deliberated the monthly Market Assessment Report for November 2016, December 2016 and January 2017 submitted by the Market Assessment Group (MAG).

The Market Assessment Report is prepared for the purpose of monitoring and assessing the efficiency and competitiveness of the WESM under different time-scales and market conditions. Pursuant to the WESM Rules (as amended) and the MSCEM Manual, the MAG prepares and submits to the MSC periodic Market Assessment Reports, which include an assessment of the development of market behavior, including the evolution and analysis

of the market monitoring indices. The MAG processes the indices based on the market monitoring data that are collected primarily from the Market Operator and the System Operator.

After due deliberation during its meetings, the MSC approved and subsequently submitted the reports to the PEM Board and transmitted the same to the ERC and DOE for their information and reference. Said reports were also published in the market information website and may be found in the following link:
http://www.wesm.ph/inner.php/downloads/monthly_market_assessment_reports

A.1.2. Retail Market Assessment Reports

The MSC continuously monitored the activities of the WESM participants, including the Contestable Customers (CCs) in the spot market. During the period, the MSC reviewed and deliberated the Retail Market Assessment Reports covering the period 26 September to 25 December 2016 submitted by the MAG. The Retail Market Assessment Report discusses the results of the monitoring indices, as set forth in the Catalogue of Retail Market Monitoring Data and Indices. The Retail Market Assessment Report also provides indications on how the retail market performed during the period in review and how it fared with the previous quarter's performance.

After due deliberation, the MSC approved and subsequently submitted the reports to the PEM Board and transmitted the same to the ERC and DOE for their information and reference. Said reports were also published in the market information website and may be viewed through this link:
http://www.wesm.ph/inner.php/downloads/retail_market_assessment_report

B. Review of Compliance Monitoring Reports

The MSC reviewed the activities of the generator-TPs in terms of their compliance with the Must Offer Rule (MOR) and the Real Time Dispatch (RTD) schedule, as contained in the Compliance Monitoring Report for the period 26 August to 25 October 2016. The said reports

contain the list of trading participants in Luzon and Visayas, and the number of trading intervals with capacity gaps and deviations from the RTD schedule.

B.1.1. Compliance of Generator-TPs with the MOR

For the billing months of September 2016 to October 2016, the MSC observed 51,344 total trading intervals with capacity gap per resource for Luzon, and 17,811 for Visayas. The monthly breakdown of these trading intervals is presented in Figures 1 and 2, as follows:

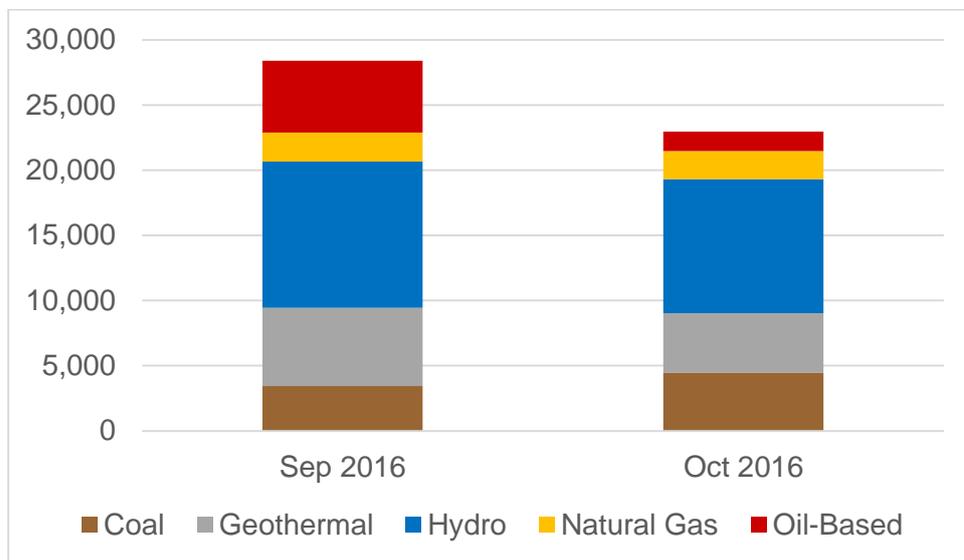


Figure 1. Number of Trading Intervals with Capacity Gap – Luzon

Plant Type	Sep 2016	Oct 2016
Coal	3,448	4,471
Geothermal	5,998	4,564
Hydro	11,208	10,286
Natural Gas	2,241	2,159
Oil-Based	5,497	1,472
Total	28,392	22,952

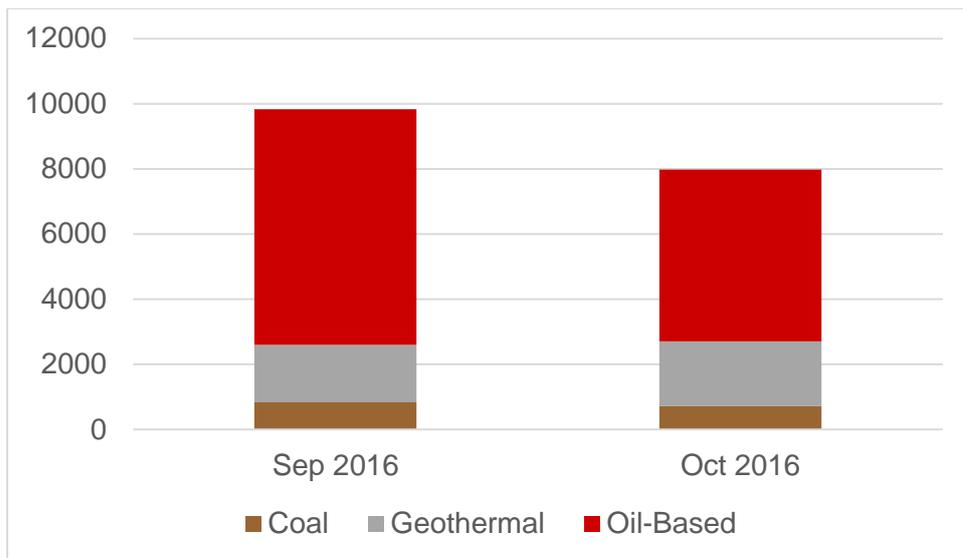


Figure 2. Number of Trading Intervals with Capacity Gap – Visayas

Plant Type	Sep 2016	Oct 2016
Coal	838	720
Geothermal	1760	1989
Oil-Based	7232	5272
Total	9,830	7,981

As shown in Figures 1 and 2, hydro plants have the highest number of total trading intervals with capacity gap in Luzon, followed by geothermal plants. On the other hand, oil-based plants have the highest number of total trading intervals with capacity gap in Visayas, followed by geothermal plants and coal plants.

It may be noted that on 09 September 2016, the MSC issued an advisory enjoining all generator-TPs to comply with the WESM Compliance Bulletin 6.0 beginning the billing period of 26 September to 25 October 2016. The WESM Compliance Bulletin provides the procedures for the submission of the Significant Event Report required of the TPs under WESM Rules Clause 3.5.11.7¹, provides a description of the Significant Event Notice and the Significant Event Report Form required to be submitted to comply with the reportorial requirements under said Rule.

¹ *Trading Participants* shall immediately advise the *System Operator* and *Market Operator* of any circumstances which threaten a significant probability of material adverse change in the state of their facilities in any *trading interval* of any trading day in the current *week-ahead market horizon*. After the occurrence of the significant event referred to above, the *Trading Participant* shall submit a written report to the *Market Operator* with supporting data immediately within the following trading day.

Following the posting of the advisory, the MSC commenced evaluating the Significant Event Reports as part of its revised MSC Compliance Monitoring Process.

B.1.2. Compliance of Generator-TPs with the RTD Schedule

As regards the deviations to RTD schedule, the MSC observed 12,534 total trading intervals with deviation exceeding the $\pm 3\%$ dispatch tolerance limit for Luzon, and 1,012 for Visayas. The monthly breakdown of these trading intervals is presented in Figures 3 and 4, as follows:

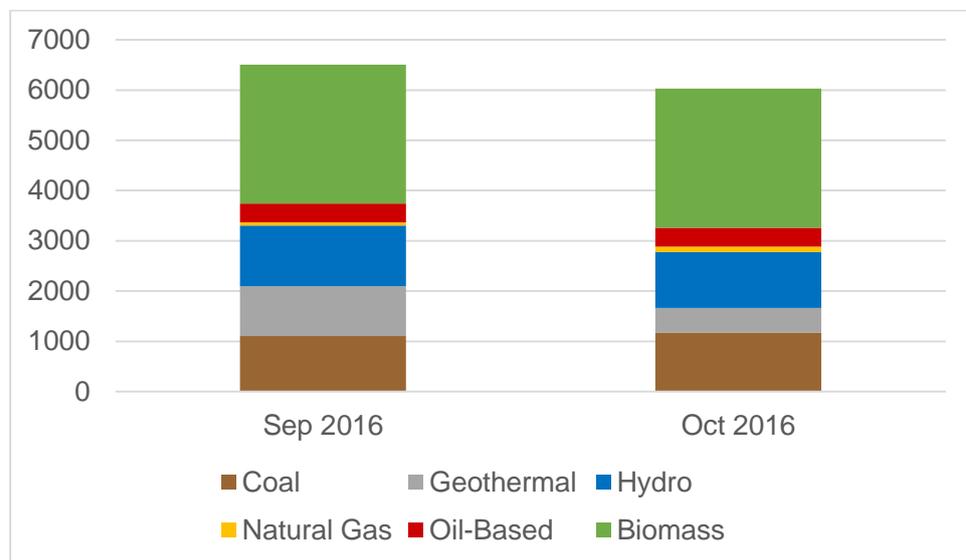


Figure 3. Number of Trading Intervals with RTD Deviations – Luzon

Plant Type	Sep 2016	Oct 2016
Coal	1107	1171
Geothermal	992	492
Hydro	1208	1117
Natural Gas	63	106
Oil-Based	372	376
Biomass	2765	2765
Total	6,507	6,027

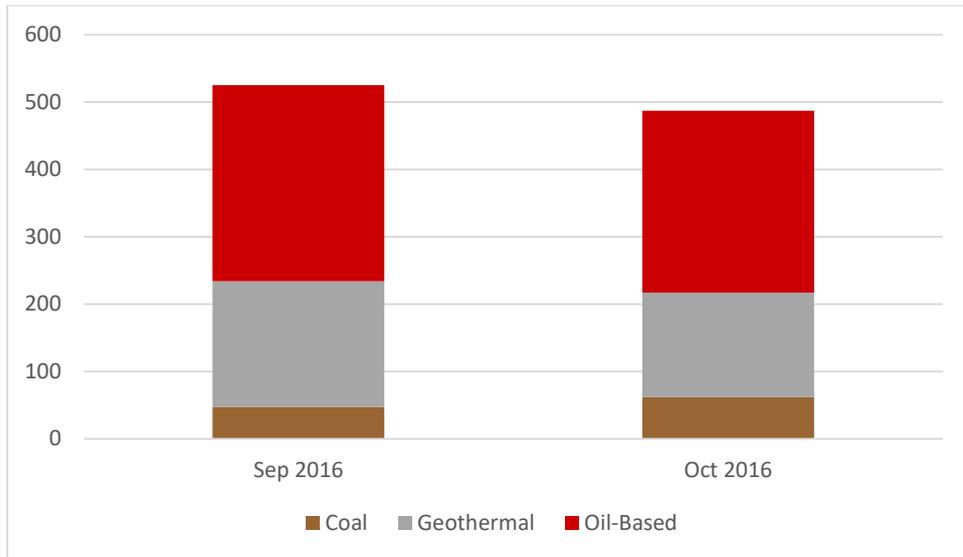


Figure 4. Number of Trading Intervals with RTD Deviations – Visayas

Plant Type	Sep 2016	Oct 2016
Coal	47	62
Geothermal	187	155
Oil-Based	291	270
Total	525	487

The MSC also reviewed the activities of generator-TPs with priority dispatch generating plants pursuant to the WESM Rules Clauses 2.3.1.8, 3.8.3.2, 3.8.4.1, 3.8.4.2 and 3.8.7.1. During the billing months under review, the MSC observed five (5) generator-TPs with priority dispatch generating units with deviations between the RTD schedule and actual dispatch exceeding the $\pm 3\%$ tolerance limit.

As shown in Figures 3 and 4, biomass plants have the highest number of total trading intervals with deviation exceeding the $\pm 3\%$ dispatch tolerance limit in Luzon. On the other hand, oil-based plants have the highest number of total trading intervals with deviation exceeding the $\pm 3\%$ dispatch tolerance limit in Visayas, followed by geothermal plants and coal plants.

In summary, Table 5 below shows the number of generator-TPs that failed to submit their maximum available capacity and with deviations between the RTD schedule and actual dispatch exceeding the $\pm 3\%$ tolerance limit.

Table 5.a. Compliance of Generator-TPs to MOR

	Sep 2016			Oct 2016		
	Gen-TPs	No. of Plants	Gen-Trading Intervals	Gen-TPs	No. of Plants	Gen-Trading Intervals
Luzon	27	33	28,392	25	32	22,952
Visayas	13	21	9,830	9	14	7,981
Total	40	54	38,222	34	46	30,933

Table 5.b. Compliance of Generator-TPs to RTD Schedule

	Sep 2016			Oct 2016		
	Gen-TPs	No. of Plants	Gen-Trading Intervals	Gen-TPs	No. of Plants	Gen-Trading Intervals
Luzon	34	39	6,507	35	41	6,027
Visayas	12	15	525	14	17	487
Total	46	54	7,032	49	58	6,514

B.1.3. Issuance of Requests for Investigation

On the basis of its review of the monthly monitoring reports on the compliance of generator-TPs to the MOR and RTD schedule, the MSC found possible non-compliances with the MOR and RTD schedule covering the billing months of September 2016 to October 2016, and thereafter submitted requests for investigation (RFI) to the PEM Board. Among the generator TPs included in the RFIs are the five (5) generator-TPs with priority dispatch generating plants for possible non-compliance with the RTD schedule.

In total, the MSC submitted 212 RFIs covering the billing months of September 2016 to October 2016. The summary of RFIs submitted is shown in Table 2 below.

Table 2. Summary of RFIs submitted to the PEM Board

	Sep 2016	Oct 2016	Total
No. of RFIs for Possible NC with MOR	54	46	100
No. of RFIs for Possible NC with RTD	54	58	112
Total No. of RFIs per Month:	108	114	212

C. Monitoring of the Submission of Nomination of Loading Level and Projected Output

The MSC reviewed the Monthly Monitoring Report on the Submission of Nomination of Loading Levels and Projected Output covering the period 26 August to 25 November 2016.

As of 25 November 2016, a total of seventy (70) generating units have registered with the market, fourteen (14) of which are non-scheduled, forty-eight (48) are must-dispatch and eight (8) are priority dispatch generating units. Of these generating units, thirty-one (31) are still undergoing test and commissioning while thirty-nine (39) were monitored for their submission of nomination of loading level and projected output.

For the November 2016 billing month, twenty-seven (27) generating units failed to submit their nomination of loading level and projected output in some or all of the covered trading intervals. It must be noted that solar plants are expected to be in operation only during day time, hence, the submission of their projected output was observed only from 0600H to 1800H.

A month-on-month comparison of the number of monitored non-scheduled, must-dispatch and priority dispatch generating plants is shown in Table 3.

Table 3. Summary of Monitored Non-scheduled, Must-dispatch and Priority Dispatch Generating Plants (M-M)

	Sep 2016	Oct 2016	Nov 2016
Must-dispatch	19	21	23
Priority Dispatch	6	6	8
Non-scheduled	8	8	8
Total	33	35	39

During the billing month of October 2016, two (2) solar plants started their WESM participation thus increasing the number of must-dispatch generating units from nineteen (19) to twenty-one (21).

By the end of the billing month of November 2016, two (2) additional solar plants in Luzon and two (2) biomass plants in Visayas started their WESM participation. Noting the addition of these plants, the number of must-dispatch generating units increased from twenty-one (21) to twenty-three (23) and priority dispatch generating units from six (6) to eight (8).

D. Review of Over-riding Constraints

The MSC reviewed the Monthly Monitoring Report on Over-riding Constraints covering the period 26 August to 25 November 2016.

During the billing month of November 2016, a total of 15,835 over-riding events were noted for forty-two (42) Luzon generating plants and fourteen (14) Visayas generating plants. Majority of the over-riding events, at 94.6%, were categorized under non-security limit while the remaining 5.4% were categorized under security limit².

A month-on-month comparison of the number of generators and number of over-riding events imposed per generator resource type is shown in Table 4.

Table 4. Summary of Over-riding Events (M-M)

	Sep 2016	Oct 2016	Nov 2016	Average
No. of Generators	64	68	56	
No. of Over-riding Events³	15,557	14,991	15,835	
Battery Energy Storage	168	609	612	463
Biofuel	1,071	1,305	1,854	1,410
Coal	1,613	1,066	1,821	1,500
Geothermal	613	912	498	674
Hydro	849	791	764	801
Natural Gas	616	309	42	322
Oil-Based	19	14	0	11
Solar	9,712	9,042	8,816	9,190
Wind	916	943	1,428	1,095

² Beginning 24 June 2016, the System Operator adopted a new categorization scheme which categorized the over-riding events into "security limit" and "non-security limit" pursuant to the Dispatch Protocol Manual. Security limits include reasons due to must run units, emergency de-rating/outage of specific transmission and other types as recommended by the System Operator. Non-security limits on the other hand include reasons due to commercial testing, regulatory requirements and generating unit limitations.

³ The monitoring of the over-riding constraints on generators is done on a per generator trading node per trading interval. A constraint imposed on a generator trading node on a particular trading interval is considered as one **over-riding event**. The monitoring of the over-riding constraints is based on the data and information provided by MO (i.e. real time market results and MMS-input files on security limits) and SO (i.e. SO Data for Market Monitoring).

Among the plant types, solar plants contributed the most number of over-riding events averaging at 9,190, related to the conduct of commissioning tests during the billing month of November 2016. This was followed by coal plants (averaging at 1,500) and biofuel (averaging at 1,410), mostly due to commissioning.

The noticeable decrease in the number of over-riding events imposed on oil-based plants during the November 2016 billing period was due to the conclusion of ancillary tests conducted for one oil-based plant.

Further, it may be noted that the battery energy storage facility of Masinloc Power Partners Co. Ltd., was registered with the WESM as generating facility on 02 July 2016. The facility started its test and commissioning on 11 July 2016 which is still ongoing as of the period covered.

E. Review of ECO Investigation Reports

Pursuant to Section 6.2.1 (i) of the MSCEMM, the MSC continued its ongoing review of the fifteen (15) ECO Investigation Reports for possible non-compliance with the MOR and RTD schedule. The 15 consolidated ECO Investigation Reports cover the fifty-five (55) ECO cases that corresponds with the 55 RFIs issued by the MSC for the various billing months from December 2013 to November 2015. The results of its final review will be presented to the PEM Board.

F. Review of Market Surveillance, Compliance and Enforcement Manual

In December 2016, the MSC finalized its proposed amendments to the Market Surveillance, Compliance and Enforcement Manual and thereafter submitted the same to the RCC, together with the proposed WESM Enforcement and Compliance Manual which was jointly submitted with PEMC⁴.

⁴ The proposed WESM Enforcement and Compliance Manual and the proposed amendments to the Market Surveillance, Compliance and Enforcement Manual were submitted to the Rules Change Committee (RCC) on 06 December 2016 and 29 December 2016 respectively.

On 13 January 2017, the MSC presented to the RCC its proposed amendments to the Market Surveillance, Compliance and Enforcement Manual. The proposal was subsequently approved for publication in the market information website. The publication triggers the 30-day commenting period for interested parties who wish to submit their comments to the proposal.

G. Conduct of Meeting with the External Parties

The MSC met with the ERC on 12 January 2017 and discussed the following concerns:

- On the Conduct of Test and Commissioning

The MSC discussed its observation regarding the conduct of test and commissioning by several new generating plants, beyond the maximum two-month period imposed under Section 2 (iii) of the ERC Resolution No. 16, Series of 2014⁵, together with the MSC recommendations for the ERC to establish specific guidelines setting the allowable timeframe for any extension depending on the type of facility⁶.

It was clarified that although the ERC Resolution No.16, Series of 2014 provides for the two-month duration for test and commissioning, on a case to case basis, the ERC may allow plants to extend their test and commissioning after requesting extension from the ERC. Further, the two-month prescriptive period does not apply to renewable energy (RE) plants, especially those that were entitled to the feed-in tariff (FIT).

- On the Definition of Acts and Omissions Constituting Abuse of “Market Power” or “Anti-competitive Behavior

With regard to the recommendation of the MSC in its Assessment Report on Yellow/Red Alert Issuances submitted to the ERC⁷, the MSC further sought the ERC’s guidance in defining the

⁵ ERC Resolution No.16, Series of 2014 *A Resolution Adopting the 2014 Revised Rules for the Issuance Of Certificates Of Compliance (COCs) for Generation Companies, Qualified End-Users and Entities with Self-Generation Facilities*

⁶ MSC Letter to ERC dated 28 November 2016.

⁷ MSC Letter to PEMC-Office of the President (OP) and OP Letter to ERC dated 15 August 2016.

parameters for identifying acts or omissions which may constitute market power abuse or anti-competitive behavior. During the meeting, it was noted that the ERC and the Philippine Competition Commission would come up with the definition of acts and omissions constituting abuse of “market power” and “anti-competitive behavior”, which the MSC would use as reference in its market monitoring and assessment.

- On the behavior of generator – trading participants (TP) in the WESM in reference to its bilateral contract quantity (BCQ) declaration

In the MSC’s review of the behavior of generator-trading participants (TP) in relation to its declaration of bilateral contract quantity (BCQ) in the WESM, the MSC noted that distribution utilities (DU) would normally have provisions regarding its monthly BCQ allocation and BCQ declarations in their contracts. For the MSC to better understand the contracting arrangements of TPs and its counterparties and thus relate the generator-TPs’ behavior in the WESM in reference to its BCQ declaration, the MSC sought further consultation and guidance with the ERC on the matter, considering that the review and approval of the contracts between the DUs and generator-TPs fall under the jurisdiction of the ERC.

Following the meeting, the MSC requested from ERC the guidelines in the formulation of Power Supply Agreements (PSA) between a distribution utility and generation company, as reference in its monitoring.