



WESM GOVERNANCE COMMITTEE UPDATES

(Full Write-up)

Powering Progress: PEMC & WESM Annual Report 2014

June 26, 2014 to June 25, 2015

WESM Governance is the process by which decisions are made and implemented within the market to ensure the attainment of the Whole Electricity Spot Market (WESM) objective of a competitive, efficient, transparent and reliable market for electricity.

The WESM Rules provide for the creation of committees with specific responsibilities to oversee the varied activities of the electricity market. Governance committees play a significant role in the attainment of good governance in the WESM. These committees, composed of appointed qualified personnel, are as follows: the Rules Change Committee (RCC), PEM Audit Committee (PAC), Technical Committee (TC), the Dispute Resolution Administrator (DRA) and the Market Surveillance Committee (MSC).

I. RULES CHANGE COMMITTEE

A. MANDATE

The RCC is tasked to provide assistance to the Philippine Electricity Market Board of Directors (PEM Board) and the Department of Energy (DOE) in the formulation and amendment of the WESM Rules and Market Manuals. The formulation and amendment of Rules and Manuals is aimed at enhancing the market architecture, as well as refining market processes and operations appropriate for the current environment.

B. ACCOMPLISHMENTS

For the covered period, the RCC deliberated on various proposals, most of which were eventually approved by the RCC. These proposals were submitted to: a) address audit findings and Energy Regulatory Commission (ERC) Directives; b) comply and respond to DOE directives; c) prepare for the operationalization of the Reserve Market; and d) enhance operational efficiency and transparency in the Market.

On the other hand, two proposals were disapproved by the RCC for the covered period.

B.1 APPROVED PROPOSALS

1. Proposals to address Audit Recommendations/ERC Directives

a. Amendments to the Manual on the Management of Net Settlement Surplus, Issue 1

The Proposal, emanating from the Philippine Electricity Market Corporation (PEMC), is in response to the recommendation arising from previous audit findings, to accurately reflect in the document the current practice. The highlights of the proposed revisions are as follows:

- i. Revision of the Net Settlement Surplus (NSS) allocation formula to reflect ERC Resolution No. 6, Series of 2009;
- ii. Inclusion in the Manual that the market operator is allowed to retain 10% of the total NSS amount for the previous three months preceding the current WESM billing or invoice cycle;
- iii. Inclusion of additional references; and
- iv. Implementation of the new guidelines for writing Market Manuals.

The Proposal was approved by the RCC on July 2, 2014 for endorsement to the PEM Board for its approval. The PEM Board approved this proposal on July 31, 2014.

b. Amendments to the WESM Rules on the Approval of Alterations to the Market Network Model

The Proposal, submitted by PEMC, intends to respond to the recommendation made based on the 2012 audit results, which seeks to dispense with the PEM Board's approval of routine alterations to the Market Network Model. In current practice, such alterations are immediately implemented following the Information and Communications Technology (ICT) Change Management Process and the approval of the PEMC President.

The Proposal was approved by the RCC during its 89th meeting held on July 2, 2014 for endorsement to the PEM Board. The PEM Board

then approved the Proposal on July 31, 2014 and endorsed the same to the DOE who then approved and promulgated the Proposal through DOE DC No. 2014-08-0016 on August 22, 2014.

c. Amendments to the Manual on Billing and Settlements, Issue 3.0

The Proposed Amendments to the Billing and Settlement Manual was submitted by PEMC to the RCC to address audit findings by the Independent Auditor during the 2nd Market Operations Audit. The proposal aims to:

- i. Include all obligations under the WESM Rules that are not reflected in the Billing and Settlement Manual;
- ii. Re-align all current billing and settlement processes with the procedures in the Billing and Settlement Manual;
- iii. Improve the Billing and Settlement Manual especially with regard to compliance, context, process, and accountability; and
- iv. Implement the new format for all market manuals.

The revisions to the Manual on Billing and Settlements were approved by the RCC during its 98th meeting held on March 4, 2015 for endorsement to the PEM Board, which then approved the same on its meeting on April 28, 2015.

d. Amendments to the Manual on the Guidelines for Significant Variations in and Between Trading Intervals, Issue 0.0

The Proposal for Amendments to the Manual on the Guidelines for Significant Variation In- and Between- Trading Intervals was submitted by PEMC to the RCC as part of the efforts to address audit findings by the Independent Auditor during the 2011 Market Operations Audit. The proposal aims to:

- i. Re-organize the content of the Manual in order to properly account for all process improvements as recommended by the Independent Auditor;
- ii. Clearly state the accountabilities of the Market Operator by reflecting it in the Manual; and
- iii. Implement the new and standardized format of market manuals in order to address audit findings relative to context and governance mechanisms.

The Proposal was approved by the RCC during its 98th meeting held on March 4, 2015 for endorsement to the PEM Board for its approval. These amendments were thereafter approved by the PEM Board on April 28, 2015.

e. Amendments to the Management of Must Run Units and Must Stop Units (MRU-MSU) Manual, Issue 5.0

The Proposal for Amendments to the MRU-MSU Manual, Issue 5.0 was submitted by PEMC to the RCC to address the directives of the ERC in its Order to PEMC dated June 9, 2008 in ERC Case No. 2006-007 directing PEMC to incorporate in the manual the procedures for the calculation of Generation Price Index (GPI), as previously approved by the ERC.

The proposal amending the MRU-MSU Manual was approved by the RCC during its 99th meeting held on April 8, 2015. The PEM Board, on the other hand, approved the proposed amendments to the Management of Must Run and Must Stop Units on April 28, 2015.

2. Proposals to address the Department of Energy Directives relating to Must Run Units

a. Amendments to the WESM Rules and the Manual on the Management of Must Run Units Issue, 4.0 on provisions relating to MRUs and Must Stop Units (MSUs)

In compliance with the DOE directive dated April 4, 2013, the RCC approved the proposed amendments to the WESM Rules and the Management of Must Run Unit Manual, Issue 4.0, intended to address the said DOE directives to the RCC as follows:

- i. Revise the MRU and MSU definitions
- ii. Retain "Lack of reserve" as criteria for MRU, provided the National Grid Corporation of the Philippines (NGCP) strictly complies with its obligation in procuring the required level of Ancillary Service under the Philippine Grid Code and prioritize utilization of such over MRU.
- iii. Incorporate the definition of MRU and MSU in the WESM Rules and submit proposed amendments to the Philippine Grid Code (PGC).
- iv. Include, under Section 6.1.15 of the Manual, the type of excess generation that are to be exclusively considered for the use of the MSU and will read as follows: Provide additional provision indicating that the cost of MRU/MSU should be allocated/ accounted under the Ancillary Service of the System Operator and not to the WESM.

Amendments to the WESM Rules and the Manual on the Management of MRU and MSU include the following: a) new criteria for the selection of MRUs; b) regional allocation of compensation for MRUs in each grid; and c) new compensation mechanism for displaced generators. The RCC approved the proposed amendments to the WESM Rules and the MRU Manual during its 92nd meeting held on September 10, 2014. The changes to the WESM Rules emanating

from this proposal were approved by the DOE on October 24, 2014 and promulgated through DOE Department Circular No. 2014-10-0021, while amendments to the MRU-MSU Manual were approved by the PEM Board on September 29, 2014.

b. Amendments to the Dispatch Protocol Manual, Issue 10.0

Proposed amendments to the Dispatch Protocol Manual were submitted as a result of the DOE Directive regarding the matter of Must Run Units, which also necessitated corresponding changes to the Dispatch Protocol Manual as a result of the changes made to the WESM Rules and the MRU Manual. Among other things, the changes include the following:

- i. Provides for the inclusion of MRU, MSU and Displaced Generator in the Post-Dispatch Report of SO;
- ii. Reiterates that the Dispatch Instruction issued by the System Operator shall take precedence over the Dispatch Schedule issued by the Market Operator;
- iii. Reiterates that the submission of outage schedule to the System Operator is at least seven days prior to the actual Shutdown;
- iv. Reiterates the requirement for Generators to ramp-up or ramp-down linearly to their target loading level. Deviations from these target loading levels will be measured in terms of MWhr subject to the compliance with the dispatch tolerance standards;
- v. Clarifies that system reserve requirements are the level of reserve requirements in accordance with the latest Ancillary Services Procurement Plan; and
- vi. States that any deviation from the Dispatch Schedule at the end of the trading interval shall be properly logged and recorded by the System Operator.

The RCC approved the proposed amendments to the Dispatch Protocol Manual during its 92nd meeting held on September 10, 2014. The changes to the Dispatch Protocol Manual were approved by the PEM Board on September 29, 2014.

c. Amendments to the Manual on the Management of Procedure for Excess Generation, Issue 1.0

The Manual on the Management of Procedure for Excess Generation was mapped by the RCC as one of the Manuals affected by the proposed revisions relative to the Management of Must Run Units. Cognizant of the need to harmonize the provisions in the affected Market Manuals, the RCC proposed corresponding amendments to the WESM Manual on the Management of Procedure for Excess Generation to align said Manual with the proposed changes in the MRU Manual. Among other things, the proposal involved changes in

the responsibilities of the Market Operator and the System Operator with regard to the mitigation of excess generation in the power system.

The RCC approved the proposed amendments to the Manual on the Management of Procedure for Excess Generation during its 92nd meeting held on September 10, 2014. The changes to the said Manual were approved by the PEM Board on September 29, 2014.

d. Amendments to the Manual on Administered Price Determination Methodology Manual, Issue 3.0

The Manual on Administered Price Determination Methodology was amended to harmonize the provisions of the said Manual with the proposed changes in the MRU Manual. In summary, the Proposal involved the following:

- i. Revisions to Section 3 on the conditions for market intervention; and
- ii. New sub-section 4.2.7 on the application of market intervention during grid islanding.

The RCC approved the proposed amendments to the Manual on the Administered Price Determination Methodology also during its 92nd meeting held on September 10, 2014. The changes to the said Manual were likewise approved by the PEM Board on September 29, 2014.

3. Proposals in Relation the Operationalization of the Reserve Market

a. Amendments to the Dispatch Protocol Manual, Issue 9.0 and Constraint Violation Coefficient Manual, Issue 3.0 in relation to the Reserve Market

The proposal for amendments to the Dispatch Protocol Manual, Issue 9.0 is a re-submission of the approved urgent amendments on the said Manual as general amendments in consideration of the operational priorities upon the integration of the reserve market into the commercial operations of the WESM. The amendments to the Constraint Violation Coefficient (CVC) Manual is likewise a re-submission of approved urgent amendments as general amendments, with further revisions to the values in the CVC priority table, in the said CVC Manual.

Both Proposals were approved by the RCC during its 92nd meeting held on September 10, 2014. The PEM Board approved both proposals on September 29, 2014.

4. Proposals for Enhanced Operational Efficiency / Transparency / Improvements in the Market

a. Amendments to the WESM Rules and the Market Manual on the Procedures for Changes to the WESM Rules, Issue 2 on the Rules Change Process

The Proposed Amendments to the WESM Rules and the WESM Manual on the Procedures for Changes to the WESM Rules intends to:

- i. Clearly spell out the approval process for changes to the WESM Manuals or new Market Manuals by the PEM Board;
- ii. Clarify the approval process for Rules or Manual Change proposals relating to price determination, which require ERC approval;
- iii. Clearly establish the accountabilities and timelines and improve the manual in terms of process according to what can reasonably be implemented;
- iv. Improve process documentation by establishing the procedure framework that specifies the standard documentation of market manuals
- v. Address concerns on the certification of urgent proposals.

The RCC approved the proposed amendments to the WESM Rules and the Rules Change Manual during the RCC's 9th meeting held on January 14, 2015. The DOE approved the amendments to the WESM Rules on June 29, 2015 and promulgated the same through DOE Circular No. 2015-07-0013. The Manual on the Procedures for Changes as previously approved by the PEM Board in its meeting on March 10, 2015, will be resubmitted to the PEM Board for endorsement to the DOE once the same has been harmonized with the changes adopted by the DOE in the Rules Change Process.

b. Amendments to the Administered Price Determination Methodology Manual, Issue 4.0

The Proposed Amendments to the Administered Price Determination Manual (APDM) emanated from two separate submissions from PEMC.

The first set of Proposed Amendments to the APDM is the addition of Section 4.2.1.4 that will address the problem of zero values in the calculation of prices based on the previous four weeks, same day and same hour to ensure appropriate calculation of Administered Price when the metered quantity (MQ) is zero.

On the other hand, the second set of Proposal provides for the following:

- i. Revision of Section 4.2.5.2 and Appendix A to ensure appropriate settlement in trading intervals when regional administered pricing is applied and the administered region exports energy to the non-administered region;
- ii. Addition of terms in the formula for calculating the customer administered settlement amounts of Section 4.2.2.1 to include the consideration of bilateral contracts to be consistent with Section 2.4 of the APDM Manual; and
- iii. Amendment of Section 4.2.6, 4.2.7.2, and 4.2.7.3 for the integration of costs attributable to bilateral contract quantities of the customer administered settlement amounts.

The amendments were approved by the RCC during its 99th meeting held on April 8, 2015 for endorsement to the PEM Board, which then approved the said proposal during its meeting on April 28, 2015.

c. Amendments to the WESM Rules and WESM Registration Manual, Issue 2.0 regarding the Registration of Ramp Rates

The proposed amendments to the WESM Rules and the Market Manual on the Registration, Suspension and Deregistration Criteria and Procedures (Registration Manual) involving the registration of Ramp Rates intend to (a) provide a level playing field in reference to the ramp rates of Generators and minimize the adverse impact of limited ramp rate capability especially to the supply margin in the WESM, and (b) improve the integrity of the market schedules and enhance accuracy of market offers by ensuring more accurate information from Generators relative to their ramp rate capability.

The Proposal was approved by the RCC during its 98th meeting held on March 4, 2015 for endorsement to the PEM Board for its approval. The PEM Board however, resolved to elevate the matter to the ERC and the DOE given the implementation issues raised during the PEM Board's meeting on April 28, 2015. It was decided during the said PEM Board meeting to defer action on the RCC-endorsed Proposal pending the DOE and the ERC's determination of the appropriate minimum and maximum level of bandwidth for ramp and ramp down rates.

d. Amendments to the WESM Rules on Metering, and the Manual on Metering Standards and Procedures, Issue 10.0

The RCC received separate proposals on the matter on Metering from the Technical Committee on June 13, 2014 and the Philippine Electricity Market Corporation on July 3, 2014.

The TC's proposed amendments covered both the WESM Rules and the WESM Manual on Metering Standards and Procedures. The Proposal of TC, in general, seeks to achieve the following:

- i. Align certain provisions of the WESM Rules and WESM Manual on Metering Standards and Procedures with the Philippine Grid Code (PGC) and the Philippine Electrical Code (PEC) 2009 Edition;
- ii. Revise the provisions on the Manual and diagrams showing the location and arrangement of instrument transformers;
- iii. Include new sections and diagrams for grounding system; and
- iv. Amend provisions under Section 9 on Site Specific Loss Adjustment (SSLA) to make the Section systematic and comprehensive.

The RCC approved the Consolidated Proposal for amendments to the WESM Rules and the Metering Manual on its 95th meeting held on December 03, 2014. The PEM Board, however, resolved during the PEM Board meeting on April 28, 2015, to remand the Proposal to the RCC for further study, taking into consideration the following comments, among other related issues:

- a) Application/relevance of the proposed amendment to wholesale market and RCOA. Pertinent provision relating to RCOA, such as "distribution revenue meter", was suggested to be deleted if the proposal intends to be applicable only to wholesale electricity market;
- b) Whether or not the condition to have a back-up meter for all WESM participants needs to be mandatory;
- c) Cost impact of the metering equipment required by the proposed amendment (who shall bear the cost, etc.)

B.2 Disapproval of the following Proposals:

1. Amendments the WESM Rules for the inclusion of a provision on Offer Price Cap and Formulate a New Market Manual on Offer Price Cap (Customer Price Dampener)

The proposal intends to incorporate the definition of the "Offer Price Cap" in the WESM Rules, only currently defined in the Joint Resolution of the WESM Tripartite Committee, and introduce a "Customer Price Dampener" mechanism to lessen the burden of high WESM prices to consumers. The highlights of the proposal are as follows:

- i. Initial offer price cap shall be calculated so as to support the operation of peaking plants
- ii. The MO shall calculate the running average Load Weighted Average Price (LWAP) during peak periods, which will reset every start of the Billing Month.

- iii. If the running average LWAP after seven days at the start of the Billing Month goes beyond the Trigger, then a new Offer Cap will automatically go down to the New Offer Price Cap.
- iv. The proposed values:
 - a) Trigger is PHP 13,000/MWh
 - b) New Offer Price Cap is PHP 21,000/MWh
- v. The Trigger was based on the historical running LWAP in which will only be triggered during extreme situations like during the November to December 2013 period
- vi. The New Offer Price Cap is based on the fuel costs of a combined-cycle plant dispatching at a single cycle phase plus Capital Recovery Factor (CRF), Fixed Operations and Maintenance (FOM) and Variable Operations and Maintenance (VOM).

The proposal was disapproved by the RCC with the following grounds:

- i. The proposed levels are higher than the ERC-issued Secondary Price Cap indicated in ERC Resolution No. 8, series of 2014; and
- ii. There are already on-going efforts at the WESM Tripartite level to seek comments on the pertinent ERC Order, including public consultations conducted by the ERC and a study on mitigating measures undertaken by PEMC as directed by the ERC.

The proposal was disapproved by the RCC during its 89th Meeting held on July 2, 2014. The RCC reported its action on the proposal to the PEM Board during the PEM Board's meeting on July 31, 2014.

2. Amendments to the Dispatch Protocol Manual, Issue 11.0 in Relation to Dispatch Tolerance

The RCC received the Proposed Amendments to the Dispatch Protocol Manual on Dispatch Tolerance from SN Aboitiz Power (SNAP) on February 23, 2015. Said proposal is essentially an addendum to the definition of *Dispatch Tolerance* under the Glossary of Terms and Abbreviations in the Manual. SNAP's Proposal seeks to address the difficulty of power plants in complying with the dispatch tolerance limit (DTL) of +/-3% given the technical limitations of plants and other external factors.

In response to the RCC's call for comments, several parties made written submissions, essentially conveying their contrary position relative to SNAP's proposal. The comments on the proposal can be summarized as follows:

- i. The Proposal provided a description of the DTL, without specifying what is applicable for non-REs, and whether or not the +/-3% will be maintained for the latter;
- ii. The Proposal is unclear as it did not specify what type of renewable energy is being referred to in the Proposal;

- iii. The Proponent did not provide a valid justification for the proposed dispatch tolerance limit for renewable resources, which is the **max of the derived values of the +/-3% of RTD, or the min (+/-10% of the interconnection facilities, +/-1% of the peak demand)**;
- iv. The proposed formula is not justified on the basis of the claim that the DTL should have considered technical constraints, such as meter accuracy, frequency fluctuations, etc., as the Proposal did not at all consider the technical constraints;

On the basis of the above discussions and after due deliberations by the RCC, and upon determining that the subject Proposed Amendments to the Dispatch Protocol Manual lacked clarity and sufficient justification, the RCC disapproved the Proposal during its 99th meeting held on April 8, 2015. The RCC action on the Proposal was reported to the PEM Board during the Board's meeting held on April 28, 2015.

C. RCC MEMBERS¹

Independent
Atty. Maila Lourdes G. de Castro , Chairperson
Ms. Concepcion L. Tanglao
Mr. Fransisco L.R. Castro
Dr. Allan C. Nerves
Market Operator Representative
Engr. Isidro E. Cacho, Jr. (Principal)
Engr. Edwin N. Mosa (Alternate)
Transmission Sector Representative
Engr. Ambrocio R. Rosales (Principal)
Mr. Ermelindo R. Bugaoisan (Alternate)
Generation Sector Representatives
Ms. Joselyn D. Carabuena (Principal)
Atty. Beatriz Irina Denise C. Alazas (Alternate)
Engr. Jose Ferlino P. Raymundo (Principal)
Atty. Jinky Rose L. Go (Alternate)
Mr. Theo C. Sunico (Principal)
Mr. Aris V. Policarpio (Alternate)
Distribution Sector Representatives
Engr. Ciprinilo C. Meneses (Principal)
Engr. Ryan S. Morales (Alternate)
Engr. Jose P. Santos (Principal)
Engr. Roy Rosario F. Alimbuyuguen (Alternate)

¹ During the covered period, Dr. Rowena C. Guevara served as Chair of the RCC until March 2015. Atty. de Castro assumed the Chairmanship of the Committee effective May 2015.

Engr. Gilbert A. Pagobo
Engr. Juanito O. Tolentino (Alternate)
Eng. Ludovico D. Lim (Principal)
Supply Sector Representative
Ms. Loretto H. Rivera (Principal)
Engr. Ernesto N. Padilla, Jr. (Alternate)

II. PEM AUDIT COMMITTEE

A. MANDATE

The PEM Audit Committee (PAC) is tasked with administering the conduct of audits of the operation of the spot market and of the Market Operator in order to reinforce trading participants' confidence in the transparency and adequacy of WESM operations. The PAC also oversees the conduct of the Metering Arrangement Review in the WESM and in the Retail Market to assess the adequacy of security arrangements and compliance to requirements of metering installations.

B. ACCOMPLISHMENTS

1. Metering Arrangements Review. Pursuant to WESM Rules Clause 4.5.5.4 and Retail Rules Clause 4.8, the PAC, in consultation with DOE and PEMC, and in coordination with the Technical Committee facilitated the conduct of the 2nd Metering Arrangements Review covering the period from 26 December 2011 to 25 December 2013.

The general objective of the metering review is to assess the adequacy of the metering standards and security systems and processes in the WESM. Further, the metering review is conducted to confirm that the metering arrangements comply with the WESM Rules, relevant provisions of the Philippine Grid Code and associated manuals, and to identify and report any non-compliances.

During the period, the PAC accomplished the following:

- a. Successfully concluded the competitive bidding for the engagement of an External Auditor for the 2nd Metering Arrangements Review – with Intelligent Energy System Pty Ltd (IES) Australia in partnership with Alliance of Power & Energy Xponents & Navarro Amper (Deloitte Phil);
- b. Supervised the conduct of the 2nd Metering Arrangements Review; and
- c. Participated in the conduct of metering field inspections as part of the ongoing Review

The Review is expected to be completed in September 2015, with the results of the said Review to be presented to the PEM Board in its September meeting.

2. **Operational Audit of the Systems and Procedures of Market Operations.** The PAC supervised the conduct of the 5th Independent Operational Audit of the Systems and Procedures of Market Operations for the PEMC, for the period June 26, 2013 to December 25, 2014. Relative to the conduct of the 5th Market Operations Audit, the PAC successfully conducted the bidding for the engagement of an External Auditor for the said MO Audit Project. RSM Bird Cameron, in partnership with Reyes, Tacandong & Company, was selected as the External Auditor for the engagement. The scope of the Audit included the following tasks:

Task	Summary Description
Task 1: Market Software and Systems Review	Review of systems, tools and programs changed or introduced during the covered period, and review of the billing and settlement programs and tools, without limitation.
Task 2: Information Security and Technology Review	<ul style="list-style-type: none"> a. Review and check the adequacy of the process for software change management; b. Review of market-related systems and network performance; c. Review of market-related back-up and restoration processes; d. Review of WESM Website's security; and e. Vulnerability assessment.
Task 3: Process and Compliance Review	<ul style="list-style-type: none"> a. Review the Marketing Operator's (MO) compliance with its obligations in the WESM and Retail Rules and Market and Retail Manuals; b. Validate the Market Operator Performance Standards (MOPS) Report approved during the period; and c. Propose enhancements in processes and MOPS to achieve best international practices.
Task 4: Bid-to-Bill Analysis	Conduct of chronological testing of the market processes from the market participants' registration, submission of offers, up to invoicing and payment by the Market Operator.

Task 5: Review of Rules and Manuals	To ensure the harmonization and consistency of relevant market documentations, this task includes the following activities: a. Review of the WESM Rules vis-a-vis the WESM Manuals; and b. Review of the Retail Rules vis-a-vis the Retails Manuals.

The MO Audit has been concluded and the results are to be presented by the External Auditor to the PEM Board during its meeting in August 2015.

3. Proposed conduct of the 1st System Operations Review

Recognizing the significance of SO's operations, processes and input data to the over-all efficiency and effectiveness of the WESM, the PAC continued its efforts in pursuing the review of the System Operations (NGCP) by seeking the support and further instructions of the Tripartite Committee composed of the DOE, ERC and PEMC. In April 2014, the PAC drafted the Terms of Reference (TOR) for the said project and forwarded the same to the DOE for consideration. During the ERC, Market Assessment Group (MAG) and Enforcement and Compliance Office (ECO) 2nd quarter 2014 meeting, the PAC, through the MAG again discussed the possibility of conducting the 1st SO Review, subject to the direction of the ERC.

Following the meeting agreements during the ERC-MAG-ECO Meeting, the ERC requested the PAC to present the proposed TOR for the 1st SO Review before the Commission en banc on September 18, 2014. As a result of that meeting, the ERC resolved to undertake the following: a) ERC to incorporate in the scope of its technical audit of the SO operations, the TOR for the SO Review; b) ERC to coordinate with PEMC and the Grid Management Committee (GMC) for the finalization of the TOR, which includes, among others, the qualifications of the external auditors and project timetable; and c) ERC-Regulatory Operations Service (ROS) to draft a resolution for the creation of a Technical Working Group (TWG) and a directive for the conduct of the SO review.

Subsequent to the above meeting, the ERC again invited the PAC to the Commission en banc meeting on December 18, 2014, where the Commission approved a resolution authorizing the PAC, through an External Auditor, to conduct the 1st SO Review. The draft TOR has been circulated by the ERC to all concerned. The PAC is coordinating with the ERC on the proposal for the conduct of an SO Audit and awaits the ERC's directives to the PAC, if any, regarding the matter.

C. PAC MEMBERS

Prof. Felixbero U. Bustos, Jr. Ph. D, Chairman
Mr. Eduardo Alejandro O. Santos
Engr. Christian Orias

III. DISPUTE RESOLUTION ADMINISTRATOR

A. MANDATE

The Dispute Resolution Administrator (DRA) is tasked to facilitate the resolution of disputes between or among the parties in accordance with the WESM dispute resolution process. The WESM alternative dispute resolution is a process which follows the stages of negotiation, mediation and arbitration.

B. ACCOMPLISHMENTS

1. The DRA spearheaded the development of a comprehensive handbook covering the procedures during the Negotiation, Mediation and Arbitration stages in the WESM dispute resolution process. The Handbook is intended to serve as a guide to WESM Members, Arbitrators and Mediators on the dispute resolution processes in the WESM.
2. The DRA likewise coordinated with the Philippine Institute of Arbitrators (PiArb) for the technical review of the Handbook. Said Handbook has been reviewed by the PiArb and shall be published in the WESM Information Website in September 2015.
3. The DRA called for the submission from WESM and Retail Market participants of their respective designated Dispute Management Protocol (DMP) Focal Persons. The list of DMP Focal Persons and Alternates was thereafter uploaded to the Market Information Website on October 13, 2014. A corresponding Notice to Participants announcing the availability of the list was posted on the website on the same day. Further, the list of DMP Focal Persons and their respective contact details were published at the MyWESM section of the WESM Market Information Website for the exclusive access of market participants.

The DMP Focal Person is the first point of contact for the notification of disputes relating to the WESM and should be familiar with and has an understanding of the dispute resolution processes in the WESM Rules. He or she must also have a high level of authority for the resolution of disputes or has quick and easy access to people with requisite level of authority.

4. The DRA facilitated and coordinated with the PEMC Training and Communications Division for further trainings of WESM Mediators and Arbitrators about the Retail Competition and Open Access (RCOA), the Reserve Market and the Interim Mindanao Electricity Market (IMEM). Accredited WESM Mediators/Arbitrators were invited to undergo trainings on the RCOA, the Reserve Market and the IMEM offered by PEMC for the fourth quarter 2014, in an effort to continue their education about the WESM.
5. The DRA also coordinated with the Philippine Dispute Resolution Center Inc. (PDRCI) for the possibility of engaging the firm on a regular or ad hoc basis as service provider. The DRA, together with the Secretariat and a representative from PEMC-Legal, met with the officers of the PDRCI, an Alternative Dispute Resolution (ADR) Support Service Provider and thereafter toured the said Center's facilities. The discussions centered on the possibility of accrediting the PDRCI as the ADR Support Service Center (ASSC) of the WESM, subject to the approval of the PEM Board, tasked to handle WESM disputes and serve as the Secretariat for the entire duration of a case. Pending the accreditation, PEMC will use the services of the PDRCI in an ad hoc arrangement, wherein PEMC will handle the main administrative tasks when a mediation or an arbitration case is initiated, but at the same time, will avail of the PDRCI's facilities and partial administrative services.
6. Coordination was made to enlist members of the Institute of Electrical and Electronics Engineers (IEEE) as possible technical experts to the Pool of WESM Mediators and Arbitrators. Efforts towards this end are still ongoing.

C. DISPUTE RESOLUTION ADMINISTRATOR

Atty. Jesusito G. Morillos, Senior Partner from Follosco Morillos and Herce Law Offices, was appointed by the PEM Board on September 1, 2011 as the Dispute Resolution Administrator for the WESM.

IV. Technical Committee

A. MANDATE

The Technical Committee (TC) is responsible for the monitoring and review of technical matters under the WESM Rules, Grid Code and Distribution Code in relation to the operation of the spot market.

B. ACCOMPLISHMENTS

During the covered period, the TC accomplished the following:

- 1. Proposed Amendments to the WESM Rules and Manual on Metering Standards and Procedures.** The TC completed its review of the WESM Rules on metering provisions and the Manual on Metering Standards and Procedures, and submitted the same to the Rules Change Committee.

Pursuant to its mandate provided under the WESM Rules, the TC initiated the review of the WESM Rules and the WESM Manual on Metering Standards and Procedures, Issue 9.0 (Metering Manual) with the view to proposing amendments to both the WESM Rules and the Metering Manual to enhance and clarify the provisions regarding metering in both documents.

The TC particularly focused its review on the provisions related to Site Specific Loss Adjustment (SSLA) provided under the Metering Manual.

- 2. Publication of the TC study on Luzon Hydro Electric Power Plants (HEPP).** The TC reviewed its report on the TC Study on Luzon HEPPs in view of the provisions in the TC Market Manual as regards the publication and information disclosure and confidentiality. The TC finalized the public version of the report and thereafter published the same in the WESM Information Website.
- 3. PAC-TC Joint conduct of the 2nd Metering Arrangements Review.** As part of the PAC-TWG, the TC assisted the PAC with the conduct of the 2nd Metering Arrangements Review. The TC provided assistance to the PAC in supervising the conduct of the said Review. The TC also joined the PAC during the latter's regular meetings and the harmonization Technical Working Group meetings held during the period to discuss matters as regards the 2nd Metering Review.
- 4. Submission of comments to the RCC on various proposed amendments to the WESM Rules and Manuals.** The TC submitted its comments to various proposals to amend the WESM Rules and Market Manuals to the RCC and discussed the same with the RCC when required.
- 5. As part of its mandate to review technical matters affecting the WESM, the TC undertook the review of the following:**
 - a. Study on the Impact of N-1 Contingency Imposed on Transmission Lines and Substation Transformers to the Delivery of Power.** The said study has been completed and the results of the same have been submitted to the Market Surveillance Committee, the party that requested the study, and the PEM Board;
 - b. WESM Rules and relevant Manuals relative to the Implementation of Market Intervention, Market Suspension and Market Restoration.** The TC's review of the WESM Rules on the matter, as

well as the Dispatch Protocol Manual, have been reviewed by the TC and further refinements are being made by the Committee before the same is finally submitted to the RCC for consideration; and

- c. **Review of Dispatch Tolerance Limits.** The TC received a request from the MSC for the TC to conduct a simulation and further review of the reasonability of the rule allowing +/-3% deviation in real time dispatch (RTD) in accordance with PEM Board Resolution No. 2005-15. Said request is in connection with the monitoring of the MSC on the possible non compliances by generator TPs to the RTD Schedule and instruction. Specifically, the MSC requested that RTD deviations below 10 MW to be included in the scope of the study and for simulations to be conducted, as necessary, with a view to amending the above rule, as applicable.

C. COMMITTEE MEMBERS²

Prof. Jordan Rel C. Orillaza, Chair
Engr. William C. Alcantara, Independent
Engr. Jaime V. Mendoza, Distribution Management Committee Representative
Engr. Fidel D. Dagsaan, System Operator Representative

V. Market Surveillance Committee

A. MANDATE

The MSC primarily monitors and assesses the trading activity in the WESM to ensure market efficiency and fair competition. In line with this mandate, the MSC deliberated on a number of compliance matters and monitored participants during the period covered.

B. ACCOMPLISHMENTS

1. As part of its mandate to monitor compliance by the WESM members, the MSC regularly reviews the market behavior of Trading Participants (TPs) and assesses the price trading and offer patterns of plants, the supply and demand condition and the significant events affecting the market.

During the period, the MSC submitted to the PEM Board its Monthly Monitoring Reports for the covered period, detailing its monthly accomplishments together with the Market Assessment Report prepared by the Market Assessment Group. The MAR, reviewed and adopted by the MSC as Part II of its Report, provides an assessment of market

² One seat, the seat for the Grid Management Committee representative, is currently vacant. Engr. Santiago Dimaliwat of the NGCP served as System Operator representative until April 30, 2015 with Engr. Dagsaan, also of NGCP, assuming the SO seat in the TC effective May 1, 2015.

behavior and analysis of the monitoring indices as contained in the Catalogue of Market Monitoring Data and Indices.

In addition to the regular reports of the MSC, it also submitted Special Reports to the PEM Board and the ERC and elevated market issues as necessary.

2. Pursuant to Section 6.2.1 (i) of the Market Surveillance, Compliance and Enforcement Market (MSECM) Manual, the MSC is tasked to review over-riding constraints imposed on the market dispatch optimization model at the recommendation of the System Operator. During the covered period, the MSC reviewed on a monthly basis, the Report on Over-riding Constraints submitted by the MAG. As necessary, the MSC also conducted meetings with the System Operator and/or the Market Operator to assess the constraints imposed and assess the impact of the imposition of said constraints on the market.
3. Pursuant to Section 6.2.1 (i) of the MSECM Manual, the MSC is tasked to review the Investigation Reports prepared by PEMC-ECO to assess the Investigation Report with respect to: a) Compliance by the ECO with the procedures set forth in this Manual for the conduct of Investigation; and b) Validity and completeness of the data and documents upon which the factual findings are based.

During the period covered, the MSC submitted to the PEM Board, the MSC's Review of 34 ECO Investigation Reports for possible breach of the Must Offer Rule (MOR) covering the period November to December 2013 and another 14 Consolidated ECO Investigation Reports for possible breach of the MOR and Real Time Dispatch (RTD) instructions, covering the period December 2013 to March 2014, together with the MSC's recommendations;

4. The MSC filed a total of 1,241 Requests for Investigation (RFIs) from June 26, 2014 to June 25, 2015 on alleged breaches of the WESM Rules for the billing months of May to December 2014 and January to April 2015. The RFIs were based on the MSC's assessment, finding possible non compliances of Trading Participants to the WESM Rules regarding the Submission of Offers and Compliance to Real Time Dispatch (RTD) Schedules and Instructions.
5. The MSC spearheaded the development of a Catalogue of Retail Market Data and Indices. The said catalogue was finalized after undergoing a series of stakeholder consultations during the period. This catalogue of monitoring data and indices was developed as a guide in monitoring and assessing the performance of the retail market and the activities conducted by the retail market participants with the end view of ensuring

the effective functioning or overall efficiency of the integrated WESM and retail market.

The MSC presented the Catalogue of Retail Market Data and Indices as part of the consultation process, during the WESM Lecture Series held on July 18, 2014, the Rules Change Committee in its meeting on September 3, 2014 and to the ERC on February 2, 2015.

C. COMMITTEE MEMBERS³

Engr. Francis Mapile, Chair
Ms. Eulinia Valdezco
Engr. Jose Mari T. Bigornia
Dr. Peter Lee U
Atty. Doroteo Aguila

³ Atty. Bernarda C. Lavisores served as MSC member until June 30, 2015. Atty. Aguila occupied the seat vacated by Atty. Lavisores effective August 1, 2015.