

**Proposed Amendments to Provisions
related to Audit and Performance
Monitoring under the WESM Rules, Retail
Rules, PEM Audit Manual, and Guidelines
Governing the Constitution of PEM Board
Committees**

PEM Audit Committee

November 2018

I. SUMMARY OF THE PROPOSED RULES CHANGE

This proposal provides amendments to provisions related to audits in the Philippine electricity market under the following documents:

1. WESM Rules;
2. Retail Rules;
3. Guidelines Governing the Constitution of PEM Board Committees, Issue 2.0 (GDL Manual); and
4. PEM Audit Manual, Issue 2.0.

II. BACKGROUND

WESM Rules Clause 1.4.5.2 provides that the PEM Board has the power and duty to oversee and monitor the activities of the Market Operator and the System Operator to ensure that they fulfill their responsibilities under the WESM Rules, and acting in a manner consistent with the WESM Rules.

For this purpose, market audits and performance monitoring on the Market Operator and review on metering arrangements are conducted on a regular basis by the PEM Audit Committee (PAC). Such activities are yet to be conducted on the System Operator.

In particular, the PAC have managed the conduct of six (6) operational audits on the systems and procedures of the Market Operator and three (3) metering arrangements review on WESM and retail Metering Services Providers (MSPs). These PAC's oversight of said activities are in accordance with their responsibility over market audits under WESM Rules Clause 1.5, including the validation of the Market Operator Performance Reports under the Market Operator Performance Standards (MOPS).

To implement the above-mentioned responsibilities, the PEM Auditor, who acts the Chair of the PEM Audit Committee (PAC), together with the members of the PAC, engage independent external auditors through PEMC.

The PAC intends to propose amendments to the above-mentioned rules and manuals to fine-tune the responsibilities of the PAC, who are connected with PEMC as external partners and who are expected to give advice in their capacity as experts. Further, the proposed amendments intend to enhance the preparation and implementation of market audits and the performance monitoring of WESM service providers based on the recommendations of external auditors of prior market audits.

It could be recalled that on 09 November 2011, the Rules Change Committee (RCC) approved and endorsed to the PEM Board the proposed amendments to the WESM Rules by the PAC to establish the oversight functions of the PEM Audit Committee on WESM Audits and the audit of the System Operator, among others.

III. THE PROPOSED RULES CHANGE

Consistent with the provisions under WESM Rules Clauses 1.4.5.2 and 1.5, Table 1 provides the proposed amendments to the WESM Rules, Retail Rules, GDL Manual, and PEM Audit Manual.

Table 1. Proposed Amendments related to Market Audits and PAC

Proposed Amendments	Rationale
1) Market audits to include review of the System Operator (SO)	<p>WESM dispatch scheduling and pricing are reliant on the integrity and accuracy of data being provided by the SO.</p> <p>Under Clause 1.4.5.2 of the WESM Rules , the PEM Board has the duty to oversee and monitor the activities of the SO to ensure that they fulfill their responsibilities under the WESM Rules, and acting in a manner consistent with the WESM Rules.</p> <p>Further, the review of system operations was a 1st MO Audit recommendation to provide confidence to Trading Participants that the actions of the System Operator are in accordance with the WESM Rules.</p>
2) Development and monitoring of System Operator Performance Standards	<p>To oversee and monitor the activities of the SO pursuant to Clause 1.4.5.2 of the WESM Rules.</p> <p>Further, the 6th MO Audit recommended the monitoring of the SO's performance as a means to improve the market and to ensure that the SO fulfills its responsibilities and is acting in a manner consistent with the WESM Rules.</p>
3) Provide that the PAC “oversees”, instead of “conducts” market audits	<p>To fine tune the responsibilities of the PAC to oversight functions, while maintaining its responsibility in the conduct of timely, fair and independent market audits.</p> <p>To also clarify the responsibilities of the PAC, who are connected with PEMC as external partners and who are expected to give advice in their capacity as experts, through participation in meetings and audit activities</p>
4) Changing the term “PEM Auditor” to “PEM Audit Committee”	<p>To clarify that the responsibility over market audits are carried out by an entire committee and not by one person only.</p>
<p>5) Enhancements and clarifications to the audit process and timeline, including:</p> <ol style="list-style-type: none"> 1) Engagement of External Auditors; and 2) Frequency of market audits 	<p>To streamline and fast-track the engagement of external auditors and conduct of market audits, which are well-established under the WESM Rules and PEM Audit Market Manual. Regular reporting of the PAC to the PEM Board will be retained.</p> <p>Proposed changes to the frequency and scheduling by the PAC of market audits to consider market developments, audit fatigue, and funds availability.</p>

Other amendments under this proposal include:

1. Deletion of defined terms that are already defined under the WESM Rules and Retail Rules, and that are not used anywhere in the GDL and PEM Audit Manual;
2. Deletion of provisions under the PEM Audit Manual that are already provided in the GDL Manual. This include the administrative supervision of the PEM Board over the PAC, the selection and appointment of PAC members, among others;
3. Revision of “market information website” to “PEMC website” in the publication of PAC reports to differentiate the websites managed by PEMC and the MO;
4. Added requirement for the MO to develop a Market Manual on change management process; and
5. Clerical and grammatical revisions.

Table 2 provides the mapping of the proposed amendments in Table 1 as against the sections/clauses of the relevant market documents.

Table 2. Mapping of Proposed Amendments

Proposed Amendments	Sections/Clause
1) Market Audits to include review of the System Operator (SO)	<ul style="list-style-type: none"> • WESM Rules Clause 5.2.6 (Market Audit) • PEM Audit Manual Sections <ul style="list-style-type: none"> ○ 1 (Introduction) ○ 3 (The PEM Auditor) ○ 5 (Audits) • GDL Manual Sections <ul style="list-style-type: none"> ○ Recitals ○ Article 5 (PEM Audit Committee)
2) Development and monitoring of System Operator Performance Standards	WESM Rules Clause 1.3.5 (System Operator Performance) - NEW
3) Fine tuning of the responsibilities of the PAC to oversight functions	<ul style="list-style-type: none"> • WESM Rules Clause 1.5.2 (Responsibilities of the Auditor) • Retail Rules Clause 4.8 (Audit of Metering Arrangements) • PEM Audit Manual Sections <ul style="list-style-type: none"> ○ 1 (Introduction) ○ 3 (The PEM Auditor) ○ 5 (Audits) • GDL Manual Sections <ul style="list-style-type: none"> ○ Recitals ○ Article 5 (PEM Audit Committee)
4) From “PEM Auditor” to “PEM Audit Committee”	<ul style="list-style-type: none"> • WESM Rules Clauses: <ul style="list-style-type: none"> ○ 1.4.6 (Formation of Committees) ○ 1.5.1 (Appointment to the PEM Audit Committee) ○ 1.5.2 (Responsibilities of the Auditor) ○ 1.5.3 (Review of the WESM Rules) ○ 4.5.5 (Security of Metering Equipment) ○ 5.2.6 (Market Audit) ○ 6.9.4 (Intervention Report) ○ Glossary • Retail Rules Clauses: <ul style="list-style-type: none"> ○ 1.4.3 (Audit) ○ 4.5.3.10 (Rights of Access to Metering Data)

Proposed Amendments	Sections/Clause
	<ul style="list-style-type: none"> ○ 4.8 (Audit of Metering Arrangements) • PEM Audit Manual Sections: <ul style="list-style-type: none"> ○ 1 (Introduction) ○ 2 (Definitions, Interpretation and Construction) ○ 3 (The PEM Auditor) ○ 4 (Expert Support) ○ 5 (Audits) ○ 13 (Data and Information) • GDL Manual Sections <ul style="list-style-type: none"> ○ Recitals ○ Article 1 (Definition of Terms) ○ Article 2.01 (PEM Board Committees) ○ Article 5 (PEM Audit Committee)
5) Enhancements and clarifications to the audit process and timeline	<ul style="list-style-type: none"> • WESM Rules Clause 5.2.6 (Market Audit) • Retail Rules Clause 4.8 (Audit of Metering Arrangements) • PEM Audit Manual Sections: <ul style="list-style-type: none"> ○ 1 (Introduction) ○ 3 (The PEM Auditor) ○ 4 (Expert Support) ○ 5 (Audits) ○ 6 (Field Audits) ○ 7 (Market Audit) ○ 8 (Audit of the Market Assessment System) ○ 9 (Review of WESM Rules) ○ 10 (Software of the Market Operator) ○ 11 (Metering Review) ○ 12 (Compliance with WESM Rules) ○ 13 (Data and Information) ○ 14 (Limitation of Liability and Indemnification)

This proposal does not require system development/enhancement and thus will not have any cost implication to PEMC.

IV. BACKGROUND AND DESCRIPTION OF THE PROPONENT

Members of the PEM Audit Committee:

Prof. Felixberto Bustos, Jr., Ph.D. - Chairman
Mr. Eduardo Alejandro Santos
Engr. Christian Orias

http://www.wesm.ph/inner.php/the_market/market_governance/pem_committees/pem_audit_committee

V. CONCLUSIONS AND RECOMMENDATIONS

The aforementioned proposed amendments are recommended for approval.

VI. REFERENCES

1. http://www.wesm.ph/inner.php/downloads/pac_reports
 - a. PAC Summary Report of the 6th MO Audit:
 - b. PAC Report On MO Audit (1 July 2007 - 25 June 2009) – 1st MO Audit
2. RCC Resolution No. 2018-02 - Proposed Amendments to the WESM Rules to Implement the Approved Plan for Transition to the Independent Market Operator of the WESM (http://www.wesm.ph/inner.php/downloads/rcc_resolutions)