

MARKET SURVEILLANCE COMMITTEE

Quarterly Accomplishment Report

April to June 2020

JULY 2020

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

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I. Introduction

Pursuant to Section 1.6.2 of the WESM Rules and Section 6.2.1 of the Market Surveillance, Compliance and Enforcement Market Manual (MSCEMM), the Market Surveillance Committee (MSC) carried-out its mandate in the monitoring and assessment of market outcomes in the WESM and in the Retail Market¹, with the PEMC-Market Assessment Group (MAG) as the primary support unit. The MSC also continued with its mandate to review compliance and investigation reports that are prepared by the Enforcement and Compliance Office (ECO)².

In performing its responsibilities, the MSC conducted regular monthly meetings, and frequently communicated through email and other messaging platforms to deliberate on various market issues and topics.

For the duration of the covered period, the MSC adopted the online conduct of meetings in response to the Enhanced Community Quarantine (ECQ) declared by the National Government due to the Covid-19 Pandemic, and during the transition to the Modified Enhanced Community Quarantine (MECQ) in high-risk areas in Luzon, including Metro Manila, and the General Community Quarantine (GCQ) for the remaining areas in the country starting 16 May 2020.

Accordingly, during the second quarter of 2020, the MSC conducted four (4) regular and special meetings³, which were all conducted online. The MSC's accomplishments during the period are outlined in the succeeding section of this report.

II. Accomplishments

1. Activities on Market Monitoring and Assessment

1.1. Monitoring and Assessment of Market Outcomes in the WESM

Pursuant to MSCEM Section 6.2.1 (b)⁴, the MSC monitored and assessed market outcomes, trends, and drivers, as well as the bidding behavior of generator-trading participants (TPs).

¹ Section 1.5.1, Retail Rules: *The provisions of Chapter 1 of the WESM Rules shall apply with respect to the governance of the integration of retail competition in the WESM, the operations of the Central Registration Body, and the participation and transactions in the WESM of Suppliers and Contestable Customers.*

² MSCEM Section 6.2.1: *The MSC shall have following responsibilities: xxx (e) 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; (f) 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; xxx*

³ MSC (Regular) Meeting No. 2020-04 held on 16 April 2020; MSC (Special) meeting No. 2020-05 held on 22 April 2020; MSC (Regular) Meeting No. 2020-06 held on 14 May 2020; and MSC (Regular) Meeting No. 2020-07 held on 11 June 2020.

⁴ MSCEM Section 6.2.1(b): *The MSC shall have following responsibilities: (a) xxx; (b) Review market monitoring indices and Market Assessment Report prepared by the Market Assessment Group; xxx*

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. The periodic Reports include an assessment of market behavior, including the analysis of the market monitoring indices, as contained in the Catalogue of Market Monitoring Data and Indices (CMMDI).

1.1.1. Monthly Market Assessment Reports

The MSC assessed the results of WESM operations for the billing months of March to May 2020, as provided under the Monthly Market Assessment Reports (MMAR) of the MAG (MMAR-2020-03, MMAR-2020-04, and MMAR-2020-05), which are the periodic assessment reports that are approved and published by the MSC.

The MSC took particular note of the market outcome during the prolonged implementation of the Enhanced Community Quarantine (ECQ), as a response to the threat brought about by the Covid-19 pandemic. The MSC highlighted the observation on the depressed demand and prices in the April billing month, due to the ECQ that was implemented on 15 March; and the increasing demand and price trends in May, as market outcomes started to regain normalcy upon implementation of the MECQ in high-risk areas in Luzon, including Metro Manila, and GCQ for the remaining areas in the country beginning 16 May.

The aforementioned MMARs were reviewed, deliberated upon and approved by the MSC, and consequently submitted to the PEM Board, the ERC and the DOE, and published in the PEMC website.

1.1.2. Market Assessment on the Cool-Dry Season

During its Regular Meeting held on 11 June 2020, the MSC reviewed the assessment results for the period 26 November 2019 to 25 February 2020, covering the Cool-Dry Season. The Report featured the assessment results on supply and demand, price, offer behavior, settlement, and market share.

The MSC noted that market prices were particularly high in December 2019 due to low supply margin. This is following the increase in the average price for peak hours that was observed during said month. On the market share outcome during the season, high spot quantity and total trading amounts (TTA) were noted from PSALM and Semirara Mining and Power Corporation (SMPC), while Aboitiz Power (AP) was a net buyer in the market.

The MSC also deliberated upon the result of the bid splitting assessment during the period and suggested further improvements on the said monitoring index.

1.2. Assessment of Over-Riding Constraints

Pursuant to MSCEM Section 6.2.1 (i)⁵, the MSC assessed the over-riding constraints imposed by the System Operator on generators for the billing months of March to May 2020. These are summarized as follows:

Billing Month	Total	Number of Generators	Event Categories
March 2020	4,380 over-riding events	26 Luzon generators and 7 Visayas generators	All events were categorized as non-security limit events, mainly due to the conduct of testing and commissioning (T&C) for a total of 4,106 events involving 15 plants.
April 2020	5,411 over-riding events	16 Luzon generators and 6 Visayas generators	All events were categorized as non-security limit events, mainly due to the conduct of T&C for a total of 5,255 events involving 11 plants
May 2020	5,173 over-riding events	20 Luzon generators and 5 Visayas generators	All events were categorized as non-security limit events, mainly due to the conduct of T&C for a total 5,087 events involving 12 plants

1.2.1. Continued Monitoring of the Conduct of Prolonged Testing and Commissioning in the WESM

The MSC continued with its monitoring and deliberation on issues relative to the prolonged testing and commissioning (T&C) of plants beyond the maximum two (2)-month period allowed under the ERC Resolution No. 16, Series of 2014⁶.

It is noteworthy that the MSC has been monitoring TPs on prolonged T&C since 2015, as an issue arising from its monitoring and analysis of the over-riding constraints imposed on generators.

As part of its due diligence, the MSC followed-up with the Independent Electricity Market Operator of the Philippines (IEMOP) on the status of its issuance of Suspension Notices due to non-compliance with a membership criteria requirement, i.e., non-compliance with WESM registration requirements relative to the prolonged conduct of T&C, as provided for under the WESM Registration Manual, and as directed by the PEM Board during its October 2019 Meeting.

⁵ MSCEM Section 6.2.1(i) *The MSC shall have following responsibilities: (a) xxx; (i) Review Over-Riding Constraints; xxx*

⁶ Resolution No. 16, Series of 2014 entitled 2014 Revised Rules for the Issuance of Certificates of Compliance for Generation Companies, Qualified End-Users and Entities with Self-Generation Facilities

1.3. Monitoring and Assessment of the Retail Market

Pursuant to the Catalogue of Retail Market Monitoring Data and Indices (CRMMDI) Section 3.1.2⁷, the MSC monitored and assessed the performance of the Retail Market, as provided for under the Retail Market Assessment Reports, which discuss the results of retail monitoring indices and provides indications on how the retail market performed during the period in review.

- Annual Retail Market Assessment Report covering the period 26 December 2018 to 25 December 2019 (MAG-ARMAR-2019)

For the covered period, the MSC reported that there were a total of 2,029 qualified electricity end-users issued with the Certificate of Contestability, with 1,408 contestable customers or about 69 percent already registered in the market as of December 2019.

On the other hand, of the 102 Suppliers with license from ERC, only 70 Suppliers are registered in the retail market, two (2) of which are newly registered in the market. 96 switches were recorded from one Supplier to another. This was comprised of 2 switches from LRES to RES, 28 switches from RES to LRES and 66 switches from RES to another RES.

The MSC's Annual Retail Market Monitoring Report for billing year 2019, which adopted in full the MAG-ARMAR-2019 was submitted to the PEM Board on 23 April 2020. The Report was also submitted to the DOE and the ERC on 27 April 2020 and was likewise published in the PEMC website.

- Quarterly Retail Market Assessment Report covering the period 26 December 2019 to 25 March 2020 (MAG-RMAR-2020-01)

For the first quarter of 2020, there were a total of 2,054 qualified electricity end-users issued with the ERC's Certificate of Contestability. Of these, 1,445 contestable customers or about 70% have already registered in the market as of March 2020.

On the other hand, of the 109 Suppliers with license from ERC, only 72 Suppliers are registered in the retail market. Eighty-six (86) switches from one Supplier to another were recorded. Of which, fifty-three (53) was from LRES to RES, eight (8) were from RES to LRES while the remaining twenty-five (25) were from RES to a different RES.

The MSC's Retail Market Monitoring Report for the first quarter of 2020 (RMMR-2020-01), which adopted in full the MAG-RMAR-2020-01 was submitted to the PEM Board on 16 June 2020. The Report was also submitted to the DOE and the ERC, and was likewise published in the PEMC website.

⁷ CRMMDI Section 3.1.2 *The Market Surveillance Committee shall have the following responsibilities: 3.1.1 xxx; 3.1.2. Review the retail market monitoring indices and reports submitted by the Market Assessment Group. Xxx*

1.4. Review of Market Intervention Events

During its April 2020 Meeting, the MSC deliberated upon the MAG's revised draft Review Report on the Market Intervention (MI) events on 24 October 2019 from 0400H to 0500H, as declared by the IEMOP for the Luzon and Visayas regions, due to the stoppage of Market Management System (MMS).

Consequently, the MSC met with IEMOP representatives for a discussion on the MSC's conclusions and recommendations during MSC Meeting No. 2020-06 held on 14 May 2020.

The MSC Review Report was then submitted for the approval of the PEM Board during its May 2020 Meeting. Furthermore, the MSC endorsed the MI incidents attributed to the failures of the current Market Management System (MMS) to the PEM Audit Committee (PAC), for inclusion in the scope of the upcoming 7th Market Operations (MO) Audit.

1.5. Request for Study from the Technical Committee

During its 16 April 2020 Meeting, the MSC discussed its earlier request for the Technical Committee (TC) to conduct a study on the appropriateness of the 1.2 price trigger factor (PTF) in the application of the Price Substitution Methodology (PSM) in the MMS.

Having considered the imminent launch of the New Market Management System (NMMS) to replace the current MMS, the MSC agreed to request the TC to focus its review on the proposal submitted by PEMC to the ERC in 2018 on the Price Determination Methodology (PDM), which includes the proposed methodology in setting the threshold for PSM application for the enhanced WESM Design. The Study Request was received by the TC for consideration.

1.6. Discussion on the Study regarding the Concerns Raised by PIPPA

The MSC deliberated upon the Study on the Concerns of the Philippine Independent Power Producers' Association's (PIPPA) regarding the Economic Viability of the Generation Sector during the Covid-19 Pandemic. The PIPPA request was initially discussed during MSC (Special) Meeting No. 2020-05 held on 22 April 2020, and discussed in further detail on 14 May 2020, together with representatives from IEMOP, NGCP-SO, MAG and ECO.

The Study, which focused on the following scenarios that were raised by the PIPPA: (a) Removal of the Must Offer Rule (MOR), (b) Setting the Minimum Stable Load (Pmin) at zero (0), and (c) Rotational Shutdown of Generators, was approved by the MSC for submission to the DOE and the ERC. The Study was likewise presented to the PEM Board for information.

On 11 June 2020, the MSC met with PIPPA representatives, together with representatives of NGCP-SO for a discussion on the result of the MSC Study that was submitted to the DOE and the ERC.

The MSC agreed with the points of view expressed by NGCP representatives and the MAG on the validity of the requests on the suspension of the Must-Offer-Rule (MOR), setting of zero (0) Pmin and rotational shutdown, considering that demand has already started to increase, and has risen to a level that is comparable to the demand recorded in 2019. MAG likewise commented that prices have also started to recover during the May billing month, along with the increasing demand trend.

1.7. Review of Position Paper on MMS Failure

During its Special Meeting No. 2020-05 held on 22 April 2020, the MSC reviewed the draft position paper regarding the issue on Market Management System (MMS) Failure and deliberated upon the recommendations to be submitted for the PEM Board's consideration. Communicating further revisions by email, the MSC went-on to approve the Position Paper and Recommendations on MMS Failure. The same was consequently presented by the MSC during the PEM Board Meeting held on 29 April 2020.

Acting upon the PEM Board directive on the matter, the MSC reviewed the options on the proposed amendments to the Administered Price Determination Methodology (APDM). The MSC then directed MAG to review the occurrences of market intervention and market suspension events and undertake simulations to consider its effects to the supply margin. MAG was further requested to propose administered prices based on supply margin, and finally, to come-up with a comparison of methodologies to finalize the proposed amendments.

1.8. Analysis on Unusual Total Trading Amounts (TTA)

The MSC reviewed the Total Trading Amount (TTA) of an electric cooperative, for the period October 2019 to March 2020, and found that results for the covered period showed unusual TTA results. In this regard, the MSC invited the IEMOP for a discussion on its own findings and recommendations on the issue.

The MSC findings and conclusions, including the ways forward that were initially identified by the IEMOP, were submitted by the MSC to the PEM Board during the Board Review Committee Meeting held in May.

The MSC convened another meeting with IEMOP representatives, held on 11 June 2020, for a further discussion on its ways forward.

The MSC then requested the IEMOP for the submission of a report containing the conclusions and measures undertaken, as well as a summary on similar cases.

1.9. Review of the Ongoing Study on the Reserve Market

The MSC continued its discussion on the Competitiveness Study on Reserves and have looked-at the additional data and information from MAG, following the MSC's instructions.

The MSC reviewed the data on the NGCP-SO-Certified Reserve Plants in Luzon and Visayas, including their firm and non-firm contracted capacities; data on potential A/S providers per the NGCP-SO; and finally, the benchmarking results on the reserve markets in other jurisdictions.

After thorough deliberations, the MSC deferred approval of the Study, and requested the MAG for a discussion on the results of the simulation on the co-optimization of energy and reserves, to determine the ideal reserve capacity level and mix of reserve resources that are needed in the reserve market.

1.10. Review of Consolidated Report on Interesting Pricing Events for Billing Year 2019

The MSC reviewed the highlights of the Consolidated Report on Interesting Pricing Events from September 2018 to December 2019. It was discussed that most of the interesting pricing events were mainly due to generating unit outages. For the March, April, September and December billing months, high demand likewise caused of some of the high prices.

On the other hand, interesting pricing events that breached the lower threshold in January 2019 were mainly due to the low demand in the New Year's day.

The write-up on the consolidated IPER will be reviewed by the MSC, for submission to the PEM Board, the DOE and ERC.

1.11. Monitoring of the Grid Operating Program for Q1 2020

The MSC deliberated upon the result of the MAG's monitoring of the Grid Operating Program (GOP) Revision 1, a copy of which was provided to PEMC by the NGCP-SO on 20 April 2020.

The MSC looked at the difference between the NGCP-SO report from the outage monitoring data being maintained and updated by MAG through the Market Assessment System (MAS).

After deliberation, the MSC recommended further improvements on the monitoring of MAG and its analysis on the GOP Revision 1.

1.12. Review of Offer Pattern Analysis

The MSC also reviewed the result of the MAG's Offer Pattern Analysis (OPA) during the ECQ period. The analysis made-use of the MSC-approved methodology on OPA to evaluate the change in offer behaviour of generator-trading participants based on historical data.

1.13. Review of the Initial Proposal on Nodal Monitoring

The MSC reviewed the MAG's proposal on the conduct of nodal analysis on settlement data. This involves the monitoring and analysis of total trading amounts (TTA) for all resources, including the ex-ante quantity (EAQ), bilateral contract quantity (BCQ) and metered quantity (MQ).

During the discussion, the MSC noted the unusual MQ data with one of the generator-trading participants. The MSC then requested MAG to come-up with an analysis of the same, in coordination with the IEMOP.

2. Activities on Compliance and Enforcement

2.1. Review of Compliance Monitoring and Assessment

Compliances of Generator-Trading Participants (TP) with the Real Time Dispatch (RTD) schedule, the Must Offer Rule (MOR) and the rule on the Nomination of Loading Levels and Projected Output (NOM) for the billing months of February 2020, March 2020 and April 2020, were deliberated upon by the MSC, as contained in the Compliance Monitoring and Assessment Reports (CMARs) prepared by the Enforcement and Compliance Office (ECO).

The CMAR is a result of the daily compliance monitoring activities by the ECO after assessing the generator-TPs' compliance with the RTD schedule and MOR. The ECO's monitoring activity was carried out by issuing Daily Compliance Notices to the generator-TPs that are initially flagged for possible non-compliance, and by validating and assessing the generator-TPs' explanations in the Significant Event Report Form and Dispatch Discrepancy Report Form, supporting documents, and other market data or reports from the MO and SO.

Following the MSC's monthly review of the CMAR, the MSC endorsed to the ECO for appropriate action, the following requests for investigations (RFIs):

Billing Month	MSC-Issued RFIs
February 2020	MOR – 1 NOM – 1 RTD – 5
March 2020	MOR – 2 NOM – 3 RTD – 1

Billing Month	MSC-Issued RFIs
April 2020	MOR – 3 RTD – 2

2.2. Review of ECO Investigation Reports

The MSC deliberated upon ECO Investigation Reports (IRs) that were submitted during the period for the MSC’s review. The ECO IRs covered the non-compliances of generator-trading participants with the Real Time Dispatch (RTD) schedule, the Must Offer Rule (MOR) and the rule on the Nomination of Loading Levels and Projected Output (NOM).

The MSC reviewed the submitted ECO IRs with respect to: (a) the ECO’s compliance with the procedures set forth in the MSCEM for the conduct of investigation, and (b) the validity and completeness of the data and documents upon which factual findings are based, pursuant to Section 10.7 of the MSCEM Manual.

For the covered period during its regular monthly meetings, the MSC completed its review on the following:

MSC Meeting	ECO IRs Reviewed and Deliberated-Upon
16 April 2020	Four (4) Consolidated Reports involving 4 generator-TPs
14 May 2020	Two (2) Consolidated Reports involving 2 generator-TPs
11 June 2020	Seven (7) Consolidated Reports involving 6 generator-TPs

The MSC then submitted and presented to the PEM Board for its approval and appropriate action the result of its review and recommendation on the ECO IRs on 29 April 2020, 27 May 2020, and 24 June 2020.

2.3. Proposed Compliance Rating for Generators

The MSC discussed the ECO-proposed Guidelines for the Conferment of WESM Compliance Awards/Criteria and noted the completion of the consultation conducted by ECO with stakeholders and trading participants with respect to the proposal.

During its April Meeting, the MSC, after due deliberations, approved the ECO-proposed Compliance Rating for Generators, subject to the ECO’s submission to the MSC of a simulation of the results, to verify the profile of those with the highest compliance ratings.

The ECO then presented to the MSC in its May 2020 Meeting the results of the compliance rating for generators, following the criteria/guidelines that were deliberated upon and approved by the MSC. The MSC also looked-at the ECO compliance rating online platform that could be accessed by the public through the PEMC website, which shows the rating and ranking of generators.

ECO was then requested to provide the MSC with monthly updates on the result of the ECO's compliance rating.

2.4. Compliance Monitoring during the Covid-19 Public Health Emergency

During the MSC Special Meeting held on 22 April 2020, the MSC reviewed the DOE Memorandum dated 23 March 2020 on the subject: *WESM Operations under the State of Public Health Emergency*, enjoining the MSC and the ECO to closely monitor the compliance of Trading Participants. The MSC deliberated upon the impact of Covid-19 to the WESM, and to the compliance monitoring process.

Upon due deliberation, the MSC agreed to direct MAG and ECO, in coordination with the IEMOP and the National Grid Corporation of the Philippines (NGCP), to study the prolonged and substantial reduction in power demand in the market during the COVID-19 Public Health Crisis. The MSC further directed the ECO to consider, on a case-to-case basis, reasons that may be cited by a Trading Participant for non-compliance that are primarily attributable to the effects of the COVID-19 Public Health Crisis, provided, that such reasons have adversely affected the plant operations of such Trading Participant, and provided further, that compliance monitoring and evaluation shall still be undertaken by ECO in accordance with existing guidelines and procedures as set forth under the WESM Rules.

Relative to the first directive as stated above, the MSC completed its review, and thereafter approved the Study on the Economic Viability of the Generation Sector during the Covid-19 Pandemic, as prepared by MAG and ECO, in coordination with the IEMOP and in consultation with the NGCP-SO. The same was submitted to the DOE and the ERC, for consideration, and was likewise presented to the PEM Board for information.

The MSC is composed of four (4) members, namely, Engr. Francis V. Mapile, Dr. Peter Lee U, Atty. Doroteo B. Aguila and Mr. Fernando Martin Y. Roxas.