

Regulatory Intent and the Energy Regulatory Commission

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Commissioner
Energy Regulatory Commission

September 8, 2015
Kuala Lumpur, Malaysia

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- I. Philippine Electric Power Industry Overview**

 - II. Regulation in the Philippines**
 - I. Creation of the Energy Regulatory Commission**

 - I. ERC's Rate Regulation**

 - I. Current Challenges**

Power Sector Situation

FUEL TYPE	PHILIPPINES			
	Capacity (MW)		Percent Share (%)	
	Installed	Dependable	Installed	Dependable
Coal	5,843	5,354	31.67	33.72
Oil Based	3,608	2,790	19.55	17.57
Natural Gas	2,862	2,760	15.51	17.38
Geothermal	1,918	1,607	10.39	10.12
Hydro	3,556	2,993	19.27	18.85
Wind	373	189	2.02	1.19
Solar	110	75	0.60	0.47
Biomass	183	110	0.99	0.69
TOTAL	18,453	15,878		

Note: Assuming all units of power plants are in operation.
 Installed and Dependable capacity as of 30 June 2015
 Available Capacity based on highest recorded capacity (non-coincidental)
 as of 30 June 2015

Interconnection Line Capacity

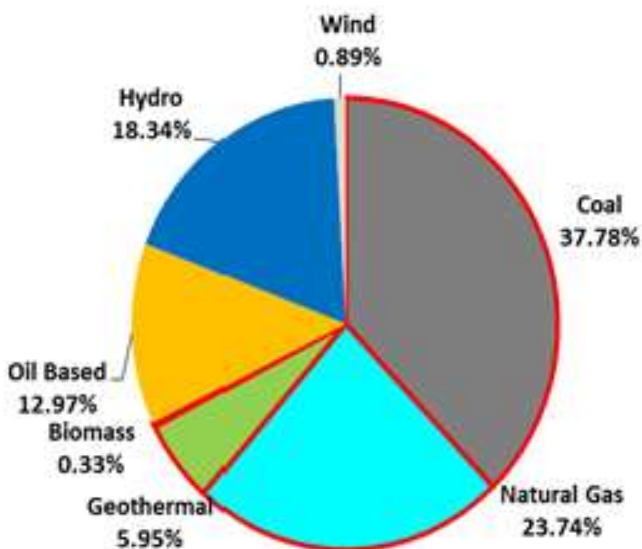
- Leyte-Luzon (440 MW)
- Leyte-Cebu (400 MW)
- Cebu-Negros (200 MW)
- Negros – Panay (100 MW)
- Leyte-Bohol (100 MW)



Source: Philippine Department of Energy Investment Forum 2015

2014 Capacity Mix

LUZON

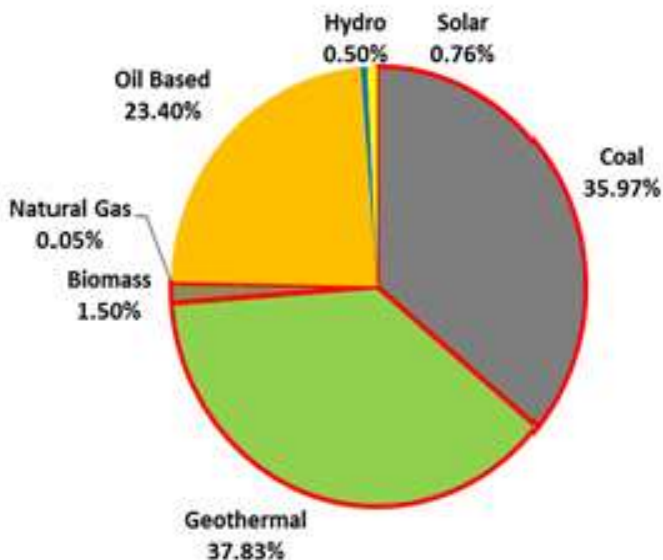


Dependable Capacity
= 11,622 MW

BASE LOAD
POWER PLANTS:

67.48%

VISAYAS

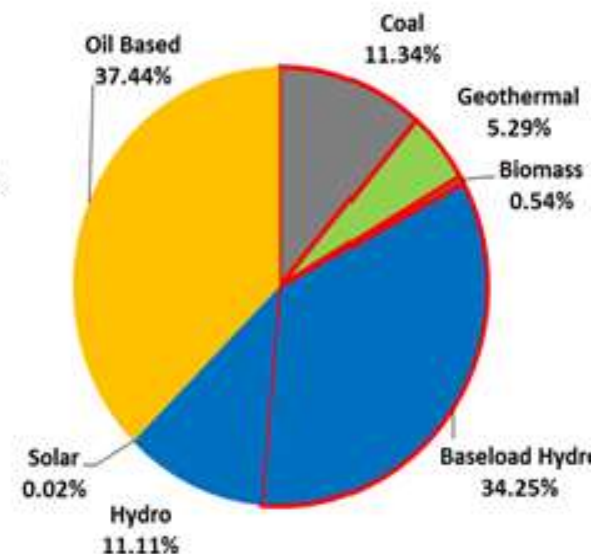


Dependable Capacity
= 2,160 MW

BASE LOAD
POWER PLANTS:

75.34%

MINDANAO



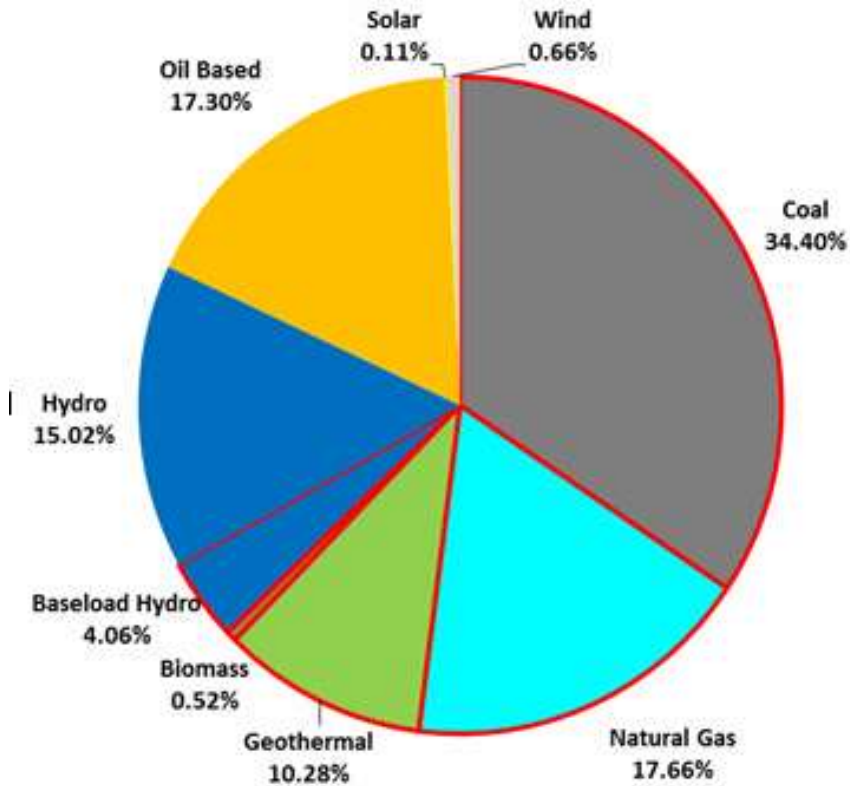
Dependable Capacity
= 1,851 MW

BASE LOAD
POWER PLANTS:

51.43%

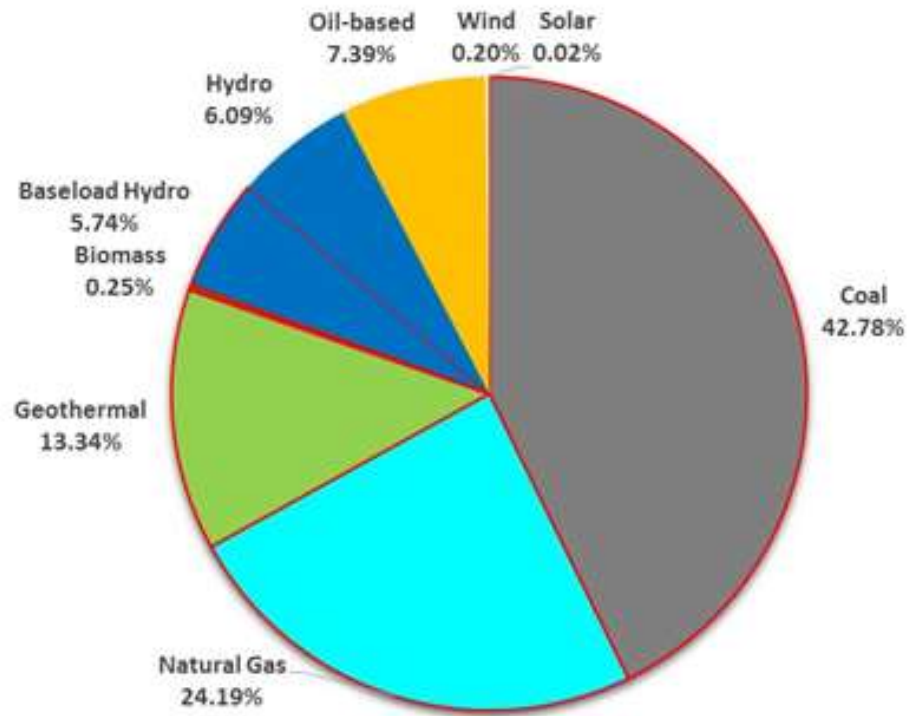
Capacity and Generation

PHILIPPINES



2014 Dependable Capacity = 15,633 MW

BASE LOAD
CAPACITY:
66.91%



2014 Gross Generation = 77,261 GWh

Self Sufficiency = 53.47 %

BASE LOAD
GENERATION:
86.31%

RESTRUCTURING

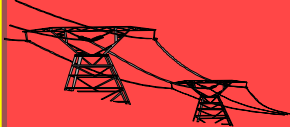
Before the reforms...

NATIONAL POWER CORPORATION

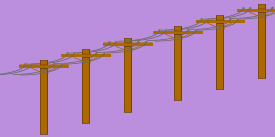
POWER PLANTS & IPPs



TRANSMISSION



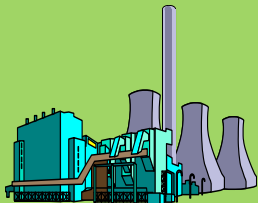
DISTRIBUTION



END USERS



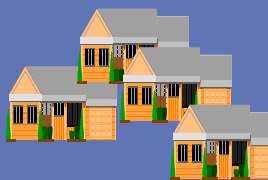
OTHER IPPs



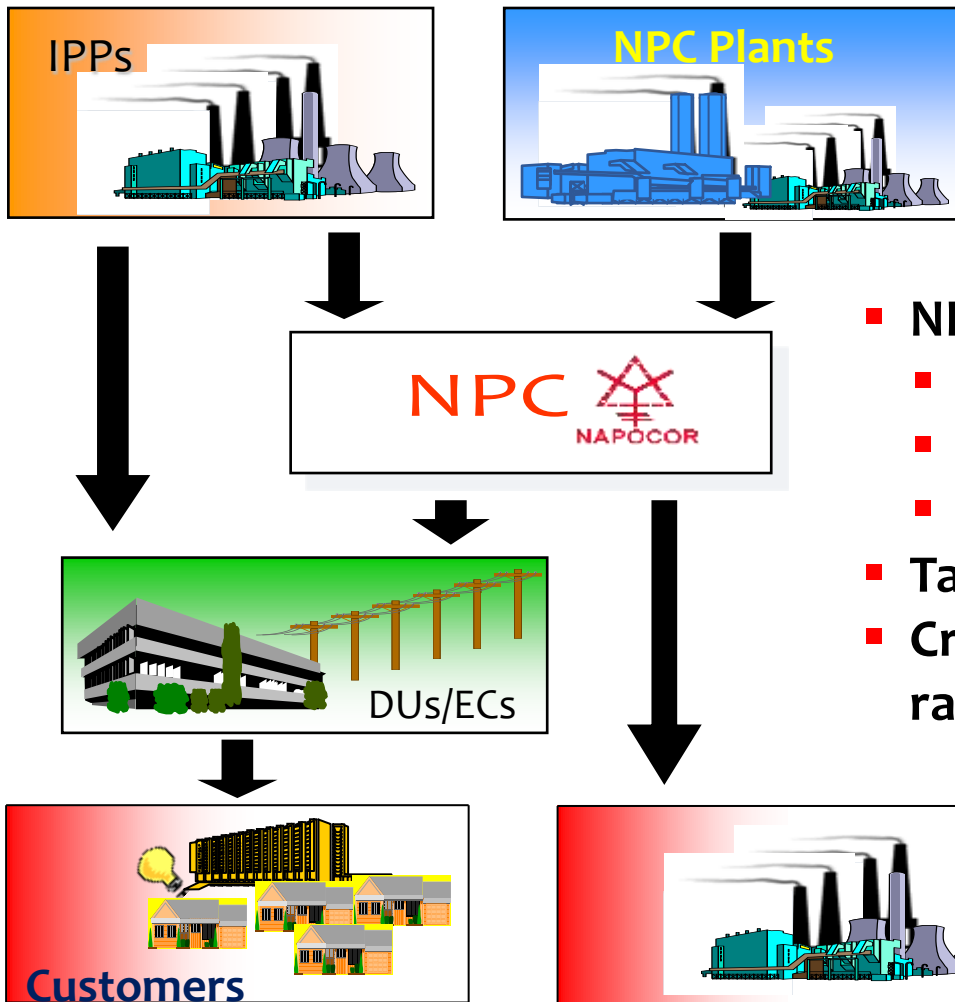
SYSTEMS OPERATIONS



- 18 PRIVATE UTILITIES
- 2 LOCAL GOVERNMENT UNITS
- 120 ELECTRIC COOPERATIVES



END USERS



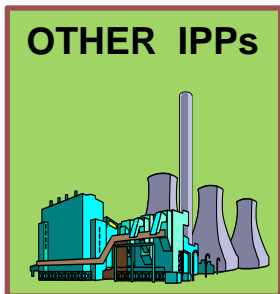
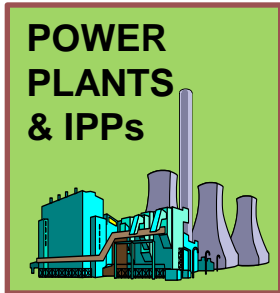
- NPC
 - Vertically Integrated
 - Owns portfolios of plants
 - Contracted IPPs to meet demand
 - Tariffs are regulated
 - Cross Subsidies embedded in the rates

Large Industries and Bulk Users

RESTRUCTURING

After the reforms...

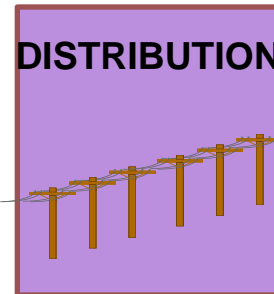
GENERATION



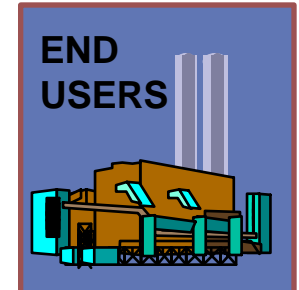
TRANSMISSION DISTRIBUTION



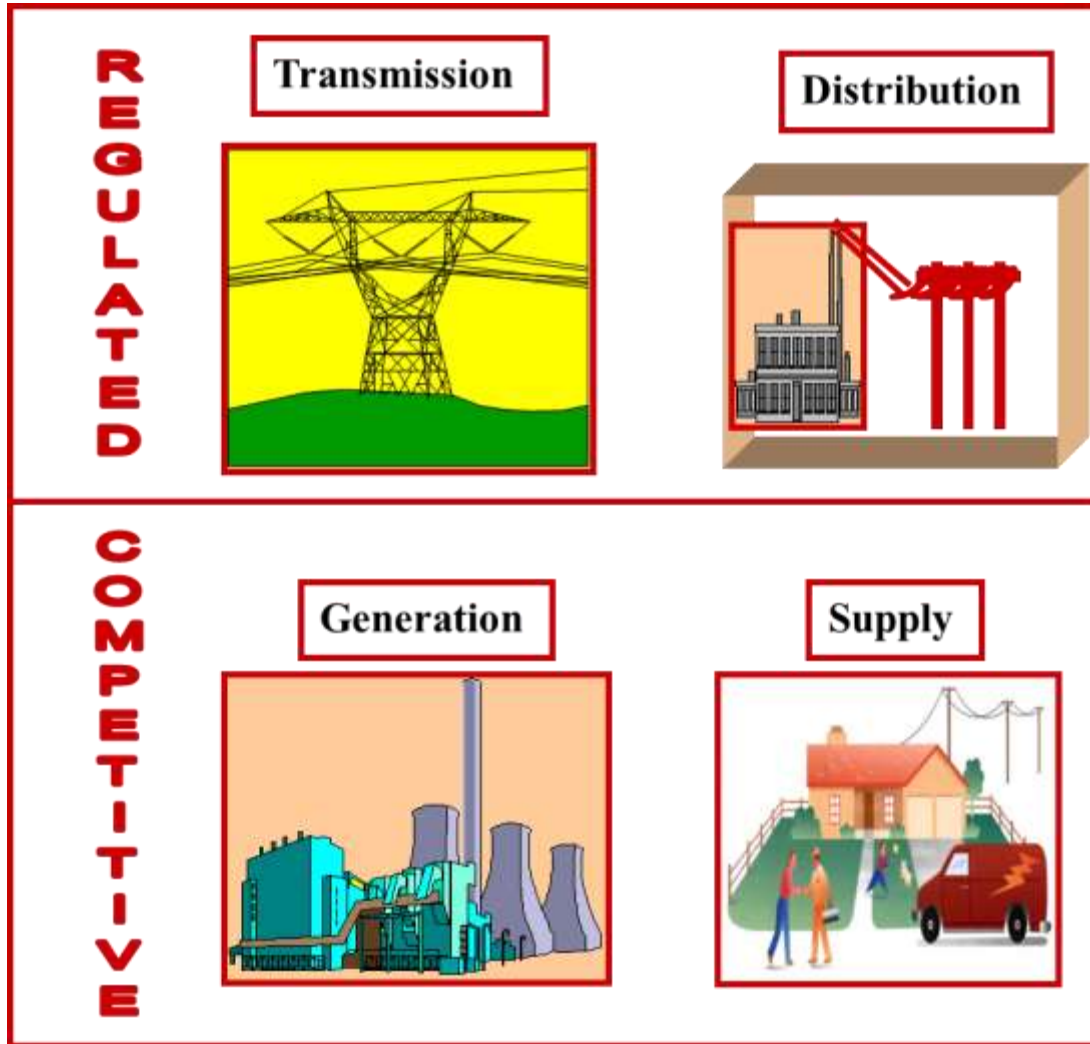
SUPPLY



- 20 PRIVATE UTILITIES
- 120 ELECTRIC COOPERATIVES



RESTRUCTURING



Performance Based Regulation

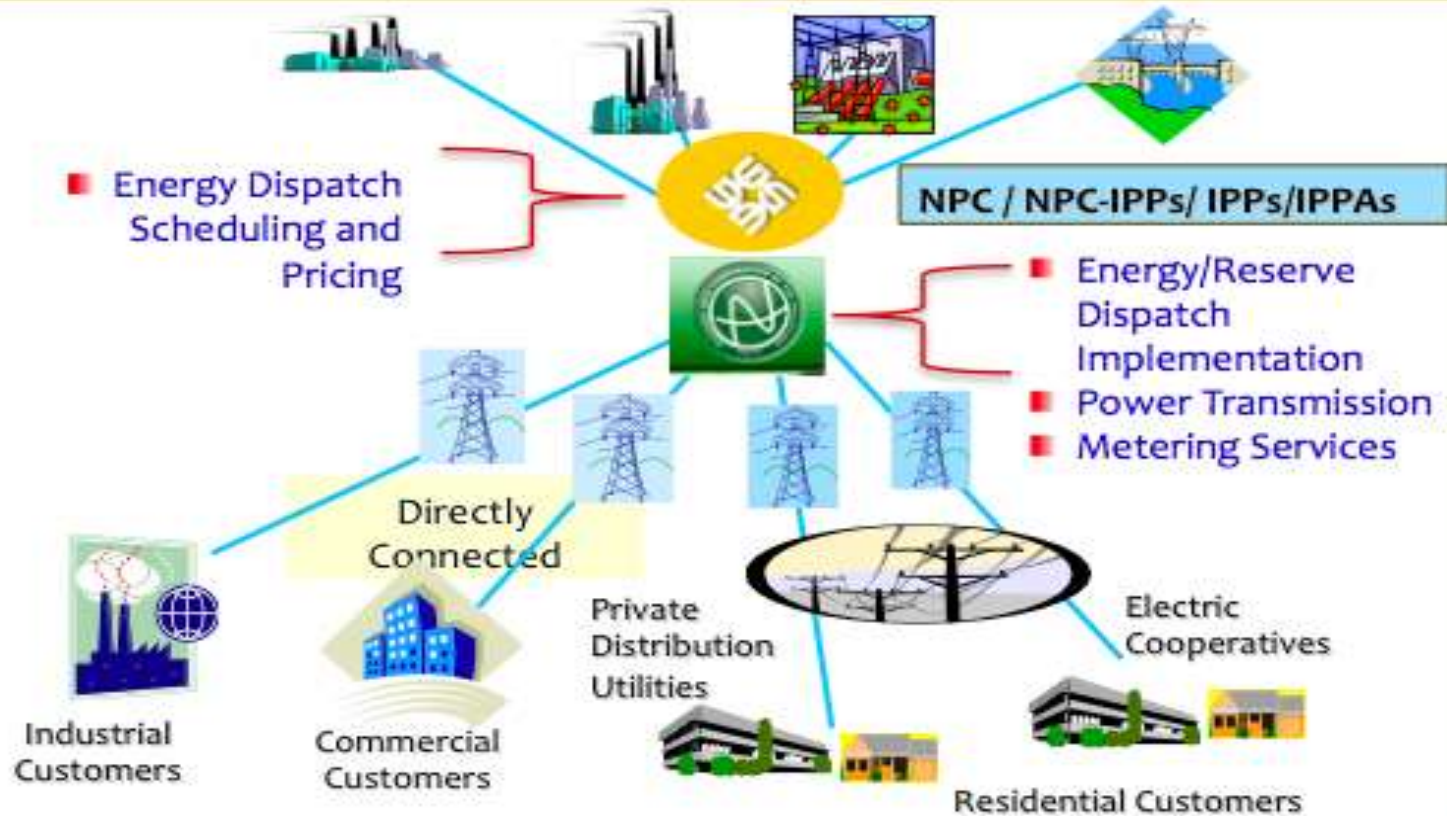
Benchmarking



Competition at the wholesale & retail level

Overview of the Electric Power Industry

Policy and Supervision




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Major Players



DOE

- ⦿ Supervise the restructuring of the industry
- ⦿ Establish the Wholesale Electricity Spot Market (WESM)
- ⦿ Energy Policy and Long-Term Planning
- ⦿ Consumer Education

NPC

- ⦿ Continue to generate and sell electricity from undisposed generating assets and IPP contracts of PSALM;
- ⦿ Perform Missionary Electrification



NEA

- ⦿ Prepare ECs to operate in a competitive market;
- ⦿ Review and upgrade regulatory policies to enhance viability of electric cooperatives

Major Players: EPIRA Created Entities



ERC

- ⊙ Independent, quasi-judicial regulatory body
- ⊙ Promote competition
- ⊙ Ensure customer choice
- ⊙ Penalize abuse of market



PSALM

- ⊙ Management of NPC assets and liabilities and transmission company pending privatization
- ⊙ Manage NPC Privatization process
- ⊙ Assume NPC debt and IPP Contracts
- ⊙ Administer Universal Charge

TRANSCO

- ⊙ Assume the transmission function of NPC
- ⊙ Act as the System Operator of the nationwide electrical transmission and sub-transmission system, transferred to it by NPC
- ⊙ **NGCP was awarded the Concession for the Transmission Business**

Electric Power Industry Reform Act (EPIRA)

Signed: 8 June 2001

Effectivity: 26 June 2001

Implementing Rules & Regulations

Signed: 27 February 2002

SECTION 2. *Declaration of Policy.* – It is hereby declared the policy of the State:

The 11 Declarations:

1. To ensure and accelerate the **total electrification** of the country;
 2. To ensure the **quality, reliability, security and affordability** of the supply of electric power;
 3. To ensure **transparent and reasonable prices of electricity** in a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency and enhance **the competitiveness of Philippine products in the global market;**
-

SECTION 2. *Declaration of Policy.*

The 11 Declarations:

4. To enhance the **inflow of private capital and broaden the ownership base of the power generation, transmission and distribution sectors;**

5. To **ensure fair and non-discriminatory treatment of public and private sector entities in the process of restructuring the electric power industry;**

6. To **protect the public interest as it is affected by the rates and services of electric utilities and other providers of electric power;**

SECTION 2. *Declaration of Policy.*

The 11 Declarations:

7. To assure **socially and environmentally compatible energy sources** and infrastructure;
8. To promote the **utilization of indigenous and new and renewable energy resources** in power generation in order to reduce dependence on imported energy;
9. To provide for an **orderly and transparent privatization of the assets and liabilities** of the National Power Corporation (NPC);

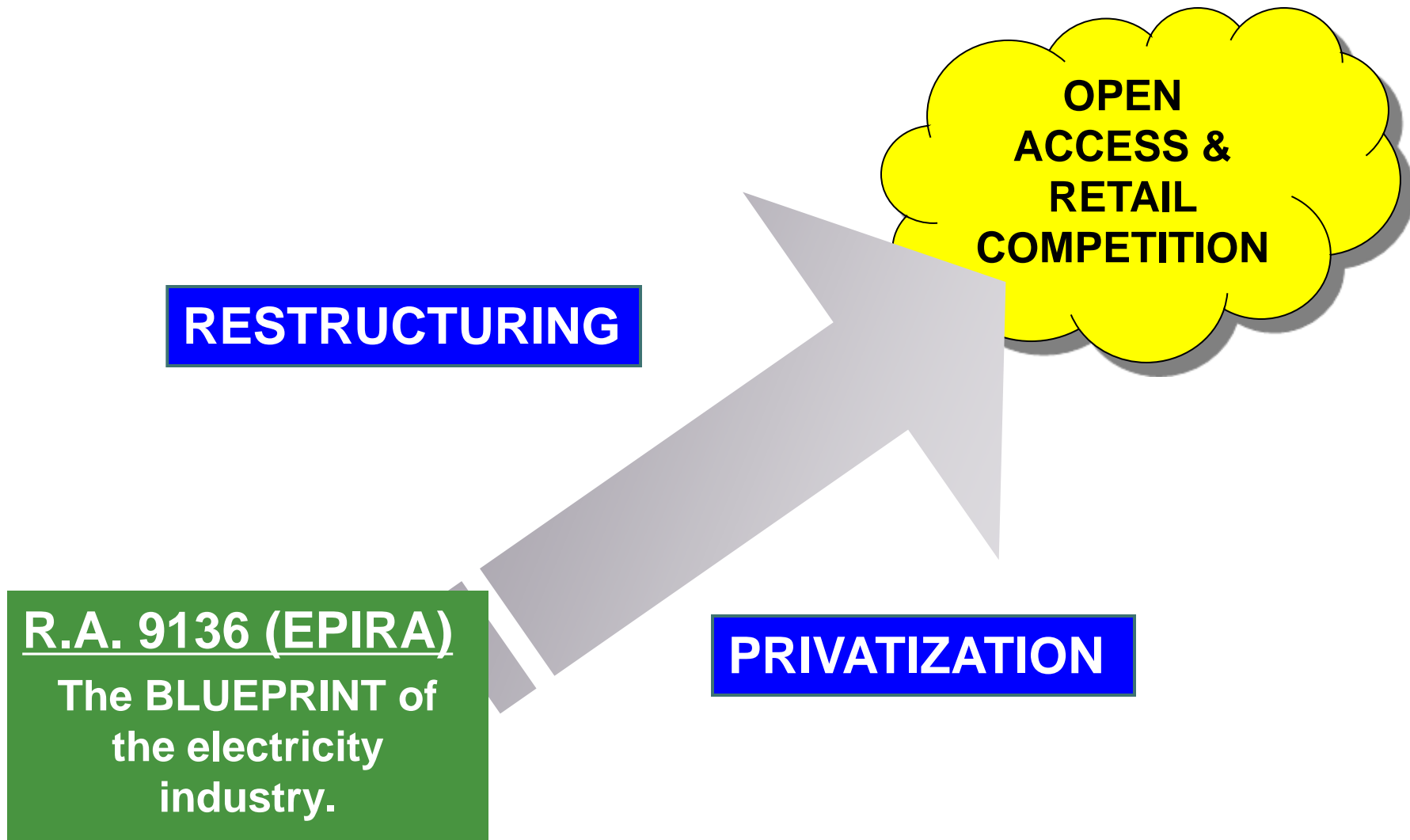
SECTION 2. *Declaration of Policy.*

The 11 Declarations:

10. To establish a strong and purely independent regulatory body and system to ensure consumer protection and enhance the competitive operation of the electricity market; and

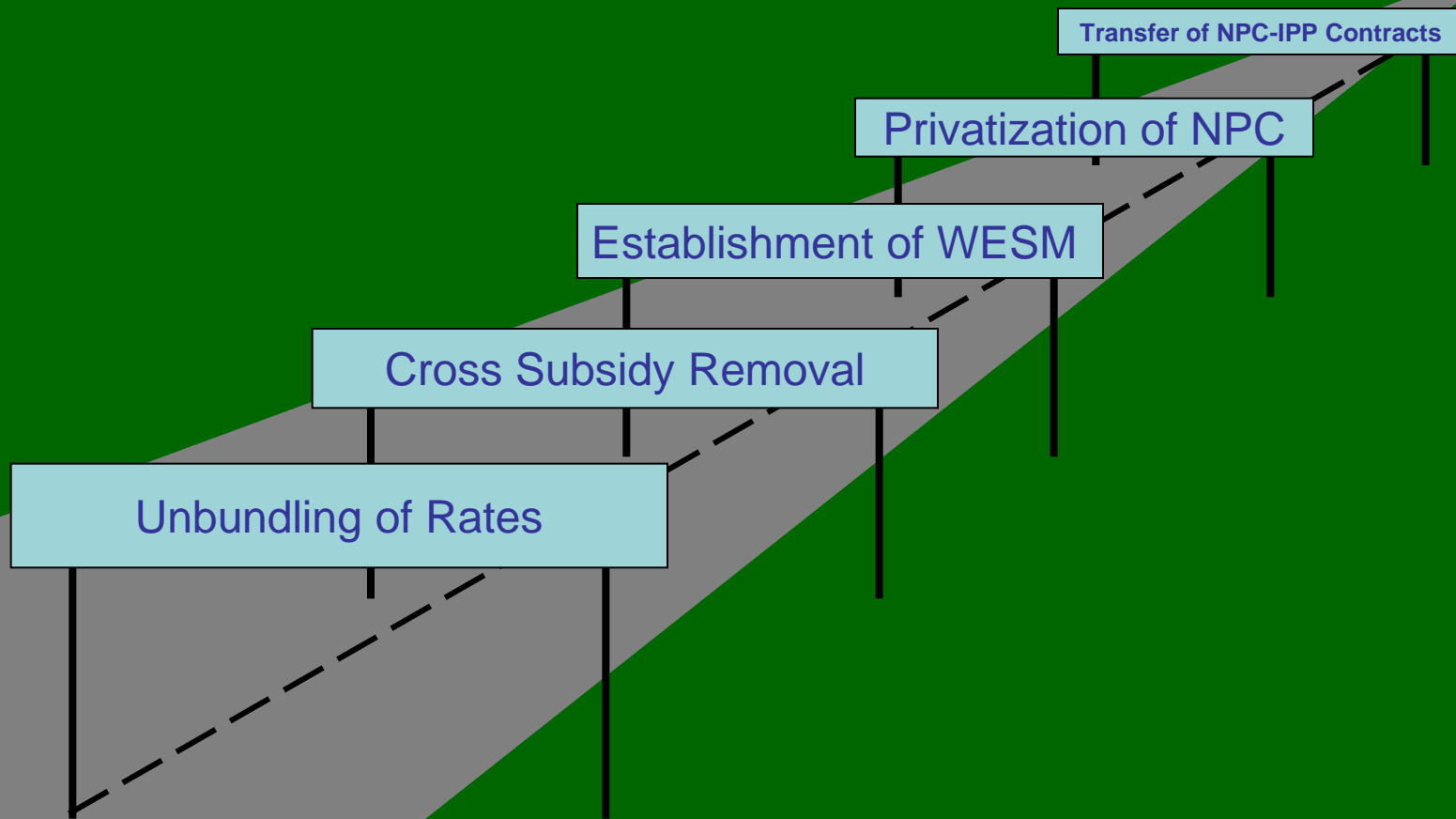
11. To encourage the **efficient use of energy and other modalities of demand side management.**

Objective of EPIRA



The Journey

**Open Access
and Retail
Competition**



Retail Competition and Open Access

Moving Towards A Competitive Power Market ...

Privatization

- 79.56 % of NPC GenCos
- NGCP as the TransCo Concessionaire
- 76.85% transferred to IPP Administrators

Complied with.



Establishment of WESM

- Luzon Commercial Operation on June 2006
- Integration of Visayas Grid, 26 Dec. 2010

Complied with.



Removal of Cross Subsidies

Inter-Grid, Sept. 2002; Intra-Grid, Oct. 2005 and Inter-Class, Oct. 2005

Complied with.



Unbundling

Unbundling of NPC rates (26 Mar. 2002) and Unbundling of DUs rates (June 2003)

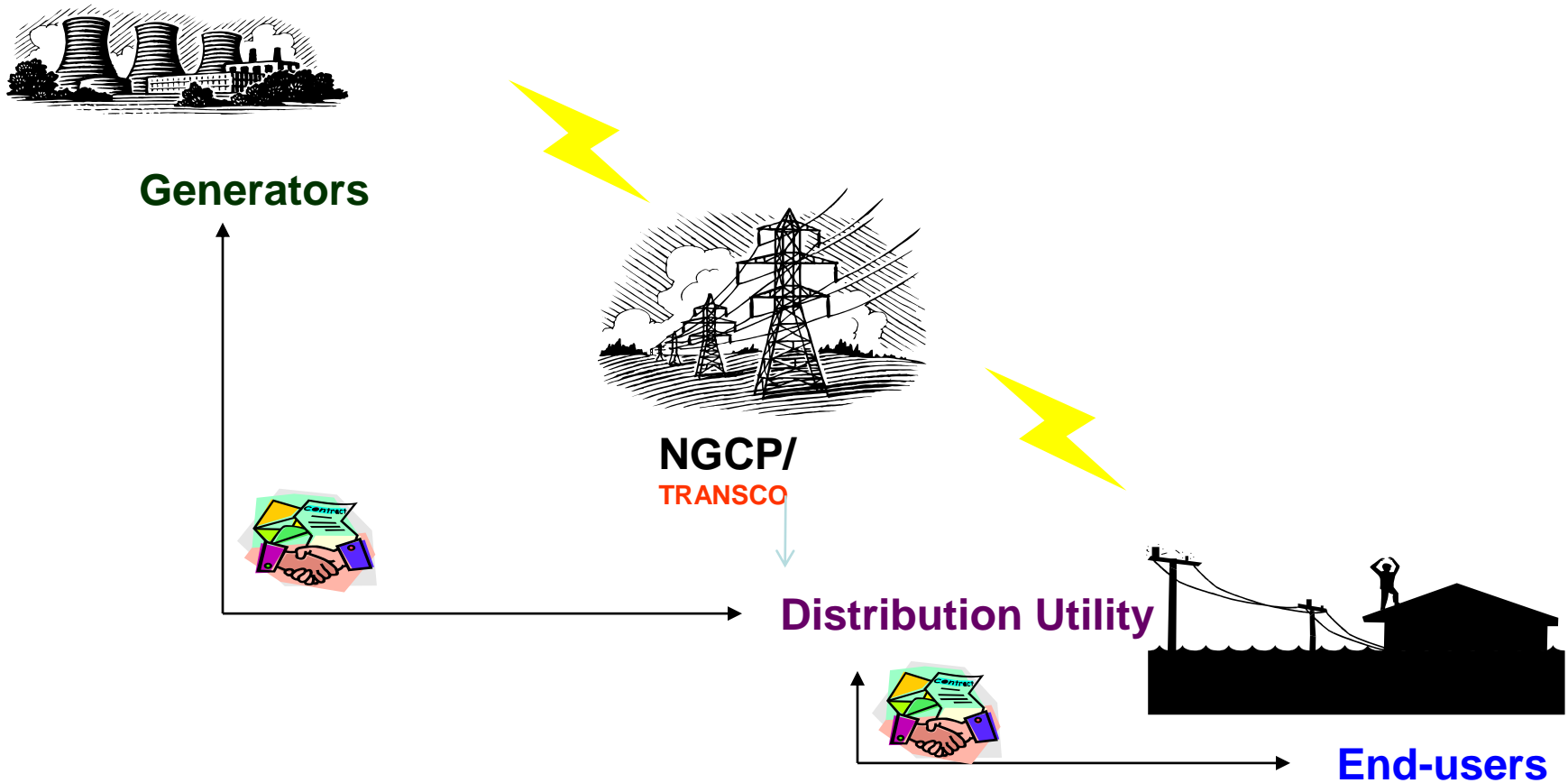
Complied with.



26 October 2012 ...

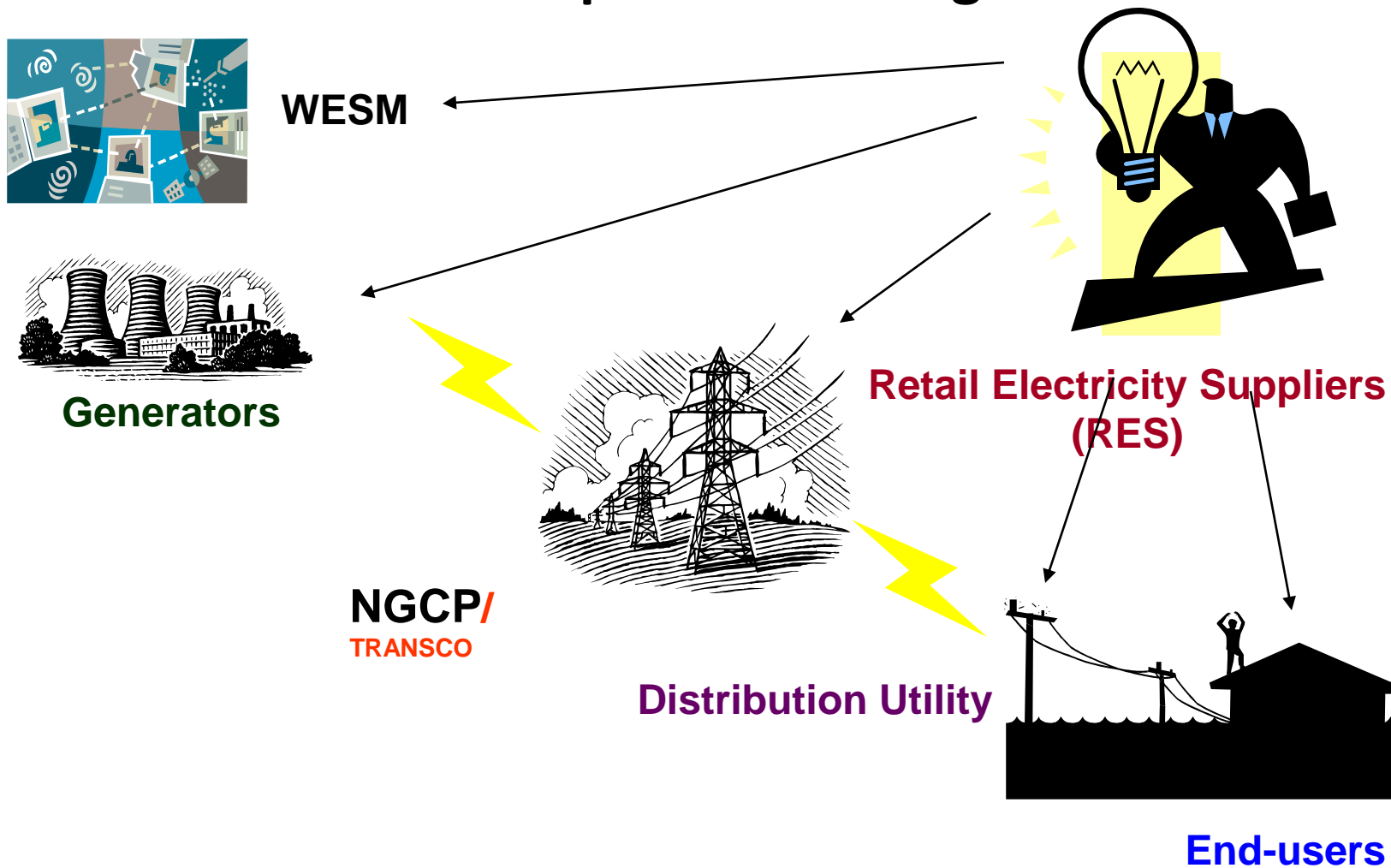
- RCOA-SC Res. No 2011-01
- ERC Resolution No. 10 Series of 2011
- ERC Decision on ERC Case No. 2011-004 RM
- DOE Circular No. 2011-06-0006

Existing contractual arrangements

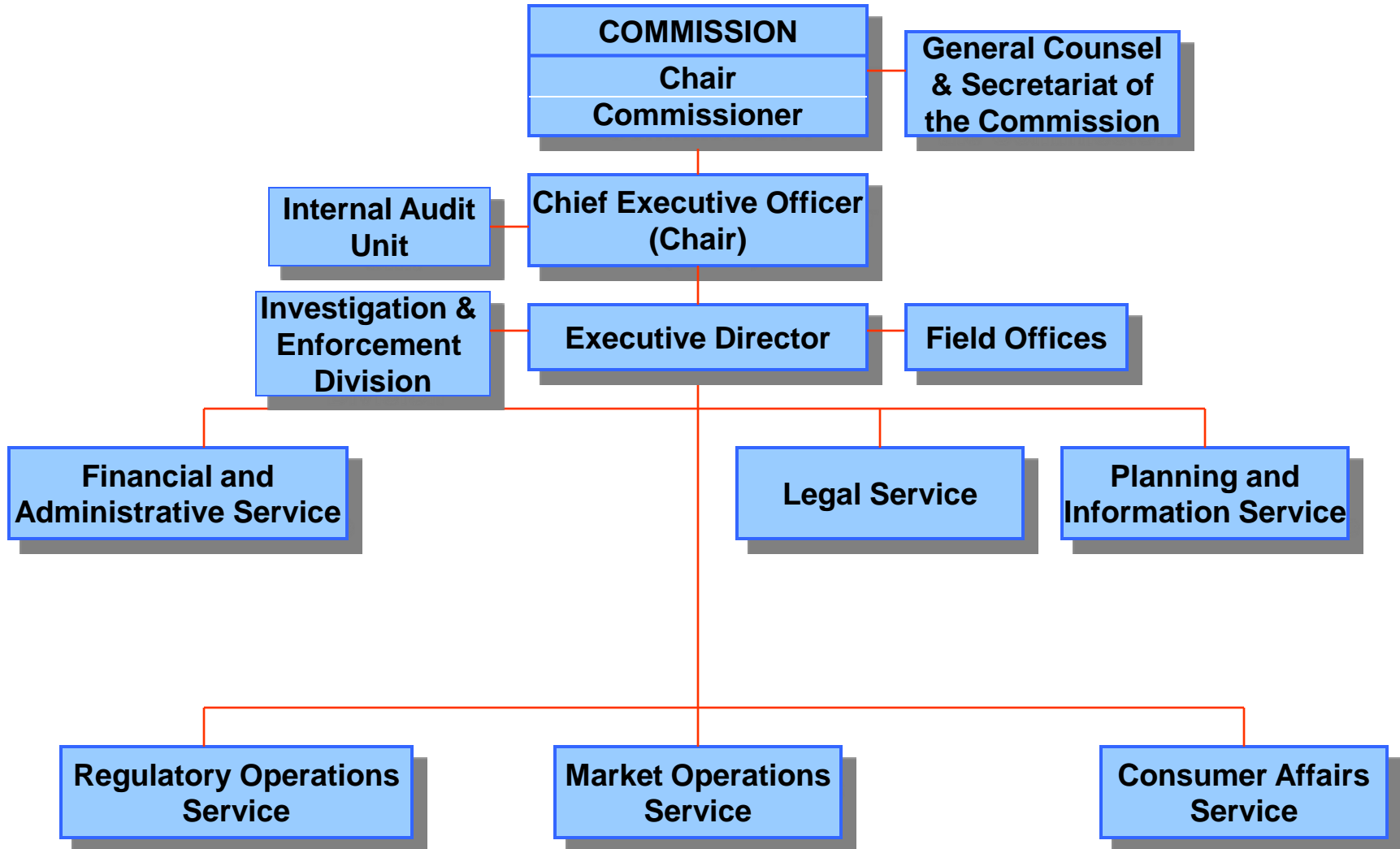


RESTRUCTURING

Transaction flow under Open Access Regime



Our ORGANIZATION



ERC's MAJOR FUNCTIONS – Sec. 43 EPIRA

Promote
competition

Monitor the
Market

Encourage
market
development

Ensure
customer
choice

Penalize
abuse of
market power

Our MAJOR FUNCTIONS

Generation

- Certificate of Compliance
- Generation tariffs = Bilateral power supply contracts
- Feed-in-Tariffs (RE)
- SPUG (Missionary Electrification)
- WESM monitoring
- Competition Rules

Transmission

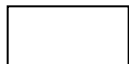
- Tariffs of NGCP
- Philippine Grid Code
- CAPEX plans
- Ancillary services

Supply

- Suppliers' licenses
- Issuance of needed rules for retail competition
- Declaration of open access and retail competition

Distribution

- Tariffs of distribution utilities
- Philippine Distribution Code
- Lifeline rate
- Franchise for consortium of sub-transmission assets
- Stranded contract cost
- Systems loss
- CPCN
- Spot inspections/ audits
- Bilateral power supply contracts
- CAPEX plans
- Magna Carta and DSOAR enforcement



Competitive



Natural Monopolies

ERRC
towards a brighter future

ENERGY REGULATORY COMMISSION • PHILIPPINES

GLOSSARY

CAPEX	Capital Expenditures
CC	Contestable Customer
CM	Contestable Market
COC	Certificate of Compliance
COE	Certificate of Endorsement
CRB	Central Registration Body
CRR	Cost Recovery Revenue
DCC	Directly Connect Customer
DOE	Department of Energy
DSOAR	Distribution Services and Open Access Rules
DU	Distribution Utilities
EC	Electric Cooperative
EPIRA	Electric Power Industry Reform Act
ERC	Energy Regulatory Commission
FIT	Feed-In Tariff
FIT-ALL	Feed-In-Tariff Allowance
GenCo	Generation Company
GR	Generation Rate
ICCS	Inter-Class Cross Subsidy
IPPA	Independent Power Producer Administration
IPPs	Independent Power Producers
IRR	Implementing Rules and Regulation
LR	Lifeline Rate
MAP	Maximum Average Price
MAR	Maximum Annual Revenue
NEA	National Electrification Administration
NGCP	National Grid Corporation of the Philippines
NPC	National Power Corporation
NPC-SPUG	National Power Corporation-Small Power Utilities Group

NREB	National Renewable Energy Board
O&M	Operation and Maintenance
PBR	Performance Based Regulation
PDC	Philippine Distribution Code
PEC	Philippine Electrical Code
PEMC	Philippine Electricity Market Corporation
PPD	Prompt Payment Discount
PSA	Power Supply Agreement
PSALM	Power Sector Assets and Liabilities Management
RCOA	Retail Competition and Open Access
RDWR	Rules for Setting Distribution Wheeling Rates
RE	Renewable Energy
REPA	Renewable Energy Payment Agreement
RES	Retail Electricity Supplier
RESA	Renewal Energy Supply Agreement
RORB	Return on Rate Base
RP	Regulatory Period
RSC	Retail Supply Contract
RSEC-WR	Rules for Setting the Electric Cooperatives' Wheeling Rates
RTWR	Rules for Setting Transmission Wheeling Rates
SGC	Successor Generating Company
SLR	System Loss Rate
SOLR	Supplier of Last Resort
SPUG	Small Power Utilities Group
TCGR	True Cost Generation Rate
TR	Transmission Rate
TRANSCO	National Transmission Corporation
TSC	Transition Supply Contract
TWRG	Transmission Wheeling Rates Guidelines
UC	Universal Charge
UCME	Universal Charge - Missionary Electrification
WACC	Weighted Average Cost of Capital
WESM	Wholesale Electricity Spot Market