

1 Second Meeting of the
2 RDC Subcommittee on Power
3 Held on 17 November 2010 at NEDA 7 in Cebu City

4 **MINUTES OF THE MEETING**

5 Attendance: (see annex)

6 **I. PRELIMINARY MATTERS**

7 IDC and RDC Subcommittee on Power Chairman Emmanuel Rabacal called the
8 meeting to order at 9:25 a.m. After which, Ms. Rosa Edna Hubahib, IDC Secretary, called
9 the roll and announced the presence of a quorum. Mr. Rabacal then welcomed the
10 members of the newly-organized power subcommittee to its second meeting.

11 The body approved the proposed agenda as presented. There were no minutes of
12 the 24 September 2010 meeting since that was only an organizational meeting.

13 **II. STATUS OF AGREEMENTS AND INSTRUCTIONS**

14 Ms. Hubahib presented the status of agreements and instructions during the
15 previous meeting.

16 She said that in addition to its four main functions, the subcommittee agreed to
17 add the following to its functions: (a) push for the realization of the power needs of the
18 region; and (b) serve as repository of power-related data for Central Visayas. The body
19 also agreed to be the technical working group in the formulation of the power sector
20 component of the draft Medium-Term Regional Development Plan (MTRDP), and to hold
21 quarterly meetings a week before the scheduled regular IDC meetings.

22 On the instruction for the Secretariat to coordinate with the other Visayas regions
23 to form their own regional power committees, letters were sent to the respective NEDA
24 regional offices regarding the matter.

25 On the instruction for DOE to provide the members a soft copy of the Philippine
26 Energy Plan, the Secretariat had made several follow-ups to DOE on this.

27 On the instruction for the Secretariat to set up an Internet site or e-mail group to
28 serve as venue for posting and discussing power-related data and issues, the Secretariat
29 used electronic mail in the meantime that the former was still being worked on.

30 On the instruction for the Secretariat to start generating power-related data based
31 on the agreed indicators, an initial set of data has been generated.

32 **III. MATTERS FOR DISCUSSION / INFORMATION**

33 **Power Development Structure and Functions**

34 Dir. Antonio Labios of DOE Visayas Field Office briefed the body on the structure of
35 the power industry under the Electric Power Industry Reform Act (EPIRA). The power
36 industry was divided into four sectors, e.g. generation, transmission, distribution and
37 supply. The generation sector consisted of the independent power producers (IPPs) and
38 the Small Power Utilities Group (SPUG) of the National Power Corporation (NPC). The
39 transmission sector, which used to be handled by the National Transmission Corporation
40 (TransCo), was now being operated by the National Grid Corporation of the Philippines
41 (NGCP). The distribution sector consisted of the electric cooperatives (ECs) and
42 distribution utilities (DUs), while the supply sector consisted of the power suppliers. The

43 suppliers referred to any person or entity authorized by the Energy Regulatory
44 Commission (ERC) to sell electricity to end-users. Supply of electricity was defined as the
45 sale of electricity by a party other than a power generator or distributor in the franchise
46 area of the DU using the wires of the DU concerned.

47 The DOE Director then presented the structure of the energy family, citing the
48 roles and relationships of the main entities involved in the energy sector. On top of the
49 structure was the DOE, which prepares, integrates, coordinates, supervises, and controls
50 all plans, programs, projects, and activities of the Government relative to energy
51 exploration, development, utilization, distribution and conservation.

52 In addition to those already mentioned, Dir. Labios also mentioned the Power
53 Sector Assets and Liabilities Management Corporation (PSALM) which manages the sale
54 of the assets and liquidation of the liabilities of NPC; the Philippine Electricity Market
55 Corporation (PEMC) which manages the Wholesale Electricity Spot Market (WESM), and
56 the National Electrification Administration (NEA) which manages all ECs in the country.
57 The ERC is the regulatory body of the power industry.

58 IDC private sector representative Engr. Jose Mari Bigornia asked about the status
59 of TransCo in view of NGCP's entry in the transmission sector. Dir. Labios' staff, Engr.
60 Aginaldo Briones, replied that TransCo was now maintaining a small residual force in
61 Manila, since most of its personnel were absorbed by NGCP. The remaining TransCo
62 personnel in Cebu were the ones managing the transmission facilities in the MEPZ area.

63 On the structure of the power industry, Engr. Edecio Satina of the Cebu Energy
64 Development Corporation (CEDC) clarified that the distribution sector referred to the
65 operation and maintenance of the distribution system only, since the function of selling
66 electricity would be taken over by new players in the supply sector. This meant that the
67 ECs and DUs like VECO would no longer be allowed to engage in the selling of electricity.
68 The suppliers would take over the selling of electricity to consumers by using the
69 distribution wires of VECO. The suppliers in turn, pay VECO an ERC-regulated wheeling
70 charge for the use of its wires.

71 Mr. Rabacal asked whether VECO, aside from being the owner and operator of the
72 wires, could also be an electricity supplier at the same time. ARD Efren Carreon of NEDA
73 also asked if VECO could refuse the use of its wires by a certain retailer. Atty. Joel
74 Bontuyan of ERC replied that as of the moment, VECO would be considered as the default
75 electricity supplier. But once electricity would be fully unbundled and new suppliers in
76 the industry would be introduced, VECO would eventually cease to be a supplier.
77 Additionally, the DUs, and even NGCP for that matter, could not refuse the use of its
78 wires because of the open access policy provided for in the EPIRA. The open access
79 policy would eventually be beneficial to the consumers as electricity prices normally go
80 down because of retail competition.

81 Engr. Bigornia asked what would happen to the wires owned by private customers
82 once electricity suppliers took over. Engr. Satina responded that there were certain rules
83 that define the recovery of transmission and distribution assets depending on who
84 bought the assets. In the case of private customers, the ownership of the wires would
85 either be kept by the customer, or turned over to the transmission or distribution utility.

86 ARD Carreon and Engr. Bigornia inquired from DOE if there were new geothermal
87 projects in the region and if the energy department had plans of developing nuclear
88 energy. Dir. Labios apprised the body that the proposed 20 MW expansion of the Nasulo
89 Geothermal Power Plant in Negros Oriental was still on, and that his department was not
90 closing its doors on the possibility of using nuclear power later in the future.

91 On the status of the establishment of the WESM, Mr. Edward Olmedo of PEMC
92 informed the body that his company was just waiting for the go signal of DOE to proceed
93 with the commercial operation of WESM in the Visayas because they have already
94 conducted successful trial operations. PEMC targeted the commercial operation of the
95 WESM on December 26, 2010. When asked by Mr. Rabacal about the reason why it took
96 so long for PEMC to operate in the Visayas, Mr. Olmedo replied that there were some
97 regulatory issues that needed to be addressed first which his company did not have
98 control over.

99 Engr. Satina commented that the biggest obstacle facing the Visayas WESM was
100 the opposition of some ECs in Eastern Visayas. He said that the ECs in Region 8 were
101 reluctant to join WESM because of the notion of buying expensive power from the
102 market. WESM rates in the Visayas were expected to be higher compared to Luzon due
103 to the critical power situation in the Visayas Grid. And, as NPC continue to privatize its
104 assets and cease to be the default electricity supplier, the ECs would be in a difficult
105 position to find bilateral contracts that offer cheap rates comparable to that of NPC's. He
106 mentioned a case in Albay where an electric cooperative was forced to buy around P15-
107 P30 per kilowatt hour (kwh) from WESM because the said EC was not able to obtain a
108 bilateral contract from a default supplier.

109 He announced though, that DOE, PSALM, the power generators and NEA have
110 started negotiations with the ECs with the end view of starting the WESM once and for
111 all. But the negotiations were stalled by the power rate issue. The ECs wanted an
112 extension of their contracts, while PSALM preferred a renewal of their contracts. The
113 extension would have allowed the ECs to continue buying power at highly-subsidized NPC
114 rates, but this would run counter to the policy of the new administration to veer away
115 from subsidies. He estimated that if all the rate applications of NPC pending at the ERC
116 were approved, the rate in the Visayas would be more than P6 per kwh. Atty. Bontuyan
117 reacted that approval of NPC's rate adjustment would still depend on the strength of the
118 documents and evidences submitted. Engr. Satina however, was optimistic that many
119 ECs and DUs would still buy electricity from WESM despite its high cost because only
120 WESM could give assurance of a steady power supply, and buying from WESM would be
121 hassle free because the rates would be pre-approved by ERC.

122 **Update on Power Indicators**

123 Ms. Hubahib presented the status of power indicators gathered by the Secretariat.
124 On access to electricity, the Secretariat got the following data from DOE: (a) share of
125 total population with and without electricity (urban/rural) by barangay; (b) Visayas power
126 demand-supply outlook for 2010-2030 (demand was growing at an average of 4.6
127 percent annually); and (c) Visayas power demand for 1985-2009 and 1998-2009, which
128 showed an average annual growth rate of 5.4 percent and 6.87 percent, respectively. On
129 power generation, the Secretariat got the data on electricity supply by type of source
130 from Global Business Power Corporation (GBPC), and the recent power projects as well as
131 Cebu native generation sources from DOE.

132 On electricity consumption, Ms. Hubahib requested the ECs and DUs to submit the
133 following data to the Secretariat: (a) quarterly electricity consumption by type of user to
134 be used by NEDA in the preparation of the quarterly Regional Economic Situationer; (b)
135 monthly electricity consumption by type of user from 2009 to third quarter 2010 to be
136 used by NEDA in the formulation of the MTRDP for Central Visayas; and (c) average
137 annual growth rate or annual consumption by type of user for the past 5 to 10 years.
138 The last indicator was suggested by Mr. Fernando Fajardo of the Cebu Business Club to
139 enable a more accurate projection of the power demand.

140 The Secretariat was also able to get data on renewable energy sources. The
141 following data however, were still to be retrieved from the entities concerned: power
142 capacity, transmission and distribution, and reliability.

143 With regard to costs of electric generation, Atty. Bontuyan admitted that ERC had
144 a hard time providing these because these varied from plant to plant. He explained that
145 different power plants use different kinds of fuel or power source (i.e. diesel, coal, hydro,
146 gas, geothermal, solar, wind), hence, the cost of generation would depend on the cost of
147 the fuel/source used. In addition, some plants did not pass the ERC for the approval of
148 their contracts, leaving the Commission uninformed of their generation costs. Thus, he
149 proposed that NPC and the IPPs provide these data instead. On end-use electricity
150 prices, Atty. Bontuyan also said that they had a hard time providing this data because of
151 the difficulty in tracking all past ERC decisions. He suggested that the DUs and ECs
152 provide data on their approved distribution rates instead.

153 **Current Systems Reliability**

154 Mr. Romulo Vitor of NGCP briefed the body on the Visayas power situation from 01
155 October - 07 November 2010. He reported that except during one weekend, All Saint's
156 Day and All Soul's Day, the Visayas experienced a power reserve deficit. This was due to
157 the low overall capacity, aggravated by the maintenance shutdowns of some plants and
158 the tripping of the 50 MW Cebu Thermal Power Plant II.

159 On the topic about power reserve, he mentioned that there were three reserve
160 requirements prescribed in the Grid Code, namely: the regulating reserve, contingency
161 reserve and dispatchable reserve. The regulating reserve was needed to stabilize the
162 frequency of power supply in the Visayas Grid, especially if there was a forward flow of
163 power from Visayas to Luzon. The contingency reserve was the equivalent of the
164 capacity of the largest power plant synchronized into the system, while the dispatchable
165 reserve was the standby power needed to replenish the spinning reserve.

166 NGCP addressed the reserve shortfall by implementing the manual load dropping
167 (MLD) scheme since January 2010. The provinces of Negros and Panay bore the brunt of
168 the MLD by having the highest frequency of events (outages), followed by Cebu, Leyte-
169 Samar and Bohol. But in terms of megawatt-hours, Cebu was most affected because it
170 had the highest demand, followed by Negros, Panay, Leyte-Samar and Bohol,
171 respectively.

172 On the power outlook for July 2010 to June 2011, a bleak scenario in the power
173 supply for the Visayas was expected from July 2010 to January 2011. However, a reserve
174 surplus would be expected starting March 2011 with the synchronization of four new
175 power plants in the system.

176 At this juncture, Engr. Satina commented that NGCP and DOE might not have
177 painted the true picture of the Visayas power supply and demand outlook considering the
178 distortions in the system. He lamented that the supply figures were just computed by
179 adding the full capacities of the power plants, when the most appropriate addends to use
180 should have been the contracted capacities of the plants.

181 Among the distortions he mentioned were: (a) the use of rated capacity vs. net
182 capacity (deliverable) capacity of the power plants; (b) the use of rated capacity vs.
183 actual contracted capacity of the power plants; (c) the systems losses that lowers total
184 net capacity; (d) the exclusion of a number of power plants that have no contract, on
185 economic shutdown or on standby; and (e) the use of rated capacity vs. actual
186 contracted capacity of the DUs.

187 On the power plants that have the potential to increase overall capacity but were
188 currently not contracted, on economic shutdown or on standby, he mentioned the
189 following as examples: Bohol Diesel, Panay Diesel, and Carmen Diesel. He admitted
190 though that these plants, ideal for peak generation, were very expensive to operate
191 because of their high fuel cost. On systems losses, he said that the 3.67 percent cap
192 pegged by the ERC and consequently billed to the consumers should be reevaluated
193 because he believed that actual losses could be lower than this as transmission and
194 distribution systems became more efficient. On the DU contracts, Engr. Satina said that
195 this should also be looked into because many DUs were not contracting their full
196 capacities. The contracted capacity was said to be a much better measure in quantifying
197 demand.

198 Mr. Rabacal asked whether consumers needed to pay for the undistributed power
199 generated by NPC and the IPPs, but which were part of the contracted capacities of the
200 DUs. Engr. Satina answered that the contracts of the DUs usually consisted of the
201 minimum and maximum deliverable quantities. Going beyond these limits would mean
202 penalties, but NPC was said to have adjustments for undelivered capacities.

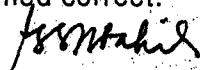
203 Mr. Rabacal asked which among the agencies could do a detailed study on the
204 said distortions. Dir. Labios replied that this matter could be brought to the attention of
205 their planning bureau in Manila. It was suggested to involve all the power players
206 concerned in the study, with DOE at the helm.

207 Relatedly, ARD Carreon suggested to the subcommittee to consider having a low,
208 medium, and high scenario growth rate for the Visayas power demand. He noted that
209 based on the presentation of NGCP, power demand growth rates varied according to the
210 reference timeframe used, e.g. the longer the timeframe, the lower the growth rate.
211 Conversely, the shorter the timeframe, the higher the growth rate. He said that by
212 having three scenario growth rates, planners could have more leeway in choosing which
213 projection to use, e.g. short term, medium term or long term.


214 IV. ADJOURNMENT

215 The meeting was adjourned at around 11:30 am.

216 Certified correct:

217 
218 **ROSA EDNA L. HUBAHIB**
219 IDC / RDC Subcommittee
on Power Secretary

Attested:


EMMANUEL S. RABACAL
IDC / RDC Subcommittee
on Power Chairman