

14th EPIRA Implementation Status Report (Period Covering November 2008 to April 2009)

Prepared by the
Department of Energy

With Contributions from

Energy Regulatory Commission
National Electrification Administration
National Power Corporation
National Transmission Corporation
Philippine Electricity Market Corporation
Power Sector Assets and Liabilities Management Corporation



Contents

| | | |
|------|---|----|
| I. | INTRODUCTION..... | 1 |
| II. | DEVELOPMENTS IN THE PRIVATIZATION EFFORT | 1 |
| A. | Privatization of Generating Assets | 2 |
| 1. | Generating Assets included in the Privatization Plan Approved by JCPC | 2 |
| 2. | Revised Privatization Schedule of NPC Generating Assets..... | 3 |
| 3. | Privatization of Decommissioned Assets | 6 |
| 4. | Privatization of Turned Over NPC-IPP Plants..... | 7 |
| B. | Transfer of NPC- IPP Contracts to IPP Administrators (IPPA) | 8 |
| C. | Operation and Maintenance Agreement between NPC and PSALM..... | 9 |
| D. | Updates on TRANSCO Concession..... | 10 |
| E. | Sale of Sub-Transmission Assets | 11 |
| F. | Management of Liabilities and Transfer of Assets | 13 |
| G. | Privatization of SPUG Areas..... | 14 |
| III. | ELECTRICITY RATES..... | 14 |
| A. | NPC Generation Rate Adjustments..... | 14 |
| B. | Transmission Rates | 16 |
| C. | Distribution Utilities (DUs) Rates..... | 17 |
| D. | Cross-Subsidy Removal..... | 19 |
| E. | Mandatory Rate Reduction (MRR) | 20 |
| F. | Administration of Universal Charge (UC) | 20 |
| G. | Government Assumption of Loans of Electric Cooperatives..... | 22 |
| H. | System Loss Cap..... | 23 |
| I. | Transition Supply Contracts | 24 |
| J. | Lifeline Rate Subsidy Program | 26 |
| IV. | COMPETITION | 28 |
| A. | Wholesale Electricity Spot Market (WESM) Implementation..... | 28 |
| 1. | Highlights of Luzon Commercial Operations | 28 |
| 2. | Visayas Trial Operations..... | 29 |
| 3. | Visayas Supply Augmentation Auction Program (VSAA) | 30 |
| 4. | WESM Organization | 32 |
| 5. | Approval of the level of the Market Fees for the WESM | 34 |
| 6. | Reserve Market..... | 34 |
| B. | Open Access and Retail Competition..... | 36 |
| C. | Market Power Monitoring..... | 37 |
| V. | ENERGY SUPPLY SECURITY AND RELIABILITY | 39 |
| A. | Installed Capacity..... | 39 |
| B. | Electric Power Generation | 39 |
| C. | Electricity Sales And Consumption | 42 |
| D. | System Peak Demand | 43 |
| E. | Status of Private Sector Initiated Power Generation Projects | 44 |
| F. | Status of Transmission Projects | 44 |
| G. | ERC-Approved Capital Expenditure Projects – Within The Period Under Review | 45 |
| VI. | TOTAL ELECTRIFICATION | 46 |
| A. | Accomplishments as of the 31 March 2009..... | 46 |
| B. | Implementation Strategies..... | 46 |

| | |
|--|----|
| 1. Public Sector Contribution | 47 |
| 2. Private Sector Participation | 49 |
| 3. Foreign-Assisted Projects | 51 |
| C. Plans and Programs | 53 |
| VII. ENACTMENT OF RENEWABLE ENERGY ACT OF 2008 (R.A. 9153) | 54 |
| ANNEXES..... | 57 |
| Annex 1 – Status of STA Sales..... | 57 |
| Annex 2 – ERC Approved Rates Schedule for MERALCO | 58 |
| Annex 3 – ERC Approved Rates Schedule for Iligan Light and Power, Inc. | 59 |
| Annex 4 – Summary Decisions on Show Cause Orders on the Implementation of Rate Reduction due to Loan Condonation..... | 60 |
| Annex 5 - Revised Lifeline Program..... | 61 |
| Annex 6 – Summary of Events on PIPPA’s application for Interim Open Access before the ERC..... | 63 |
| Annex 7 - Comparison of DOE and ERC Data Based on ERC Resolution No. 4, Series of 2009 | 64 |
| Annex 8 – Status of Private Sector-Initiated Projects as of September 15, 2009 | 65 |
| Annex 9 – List of Indicative Power Projects as of September 15, 2009 | 68 |
| Annex 10 - ERC-Approved Capital Expenditure Projects (November 2008 - April 2009) 73 | |

LIST OF TABLES

| | |
|---|----|
| Table 1 - Privatization Proceeds | 2 |
| Table 2 - List of Privatized Plants | 3 |
| Table 3 - 2009 Indicative Privatization Schedule of Generating Assets | 4 |
| Table 4 – List of Successfully Bidded-Out Decommissioned Plants..... | 6 |
| Table 5 - Indicative Privatization Schedule – Turned Over IPP Plants..... | 7 |
| Table 6 - List of NPC-IPP Contracts for Privatization..... | 9 |
| Table 7- STA Sale Contracts Signed Nov 2008 - March 2009..... | 11 |
| Table 8 - NPC Loan Prepayments for Calendar Year 2008 | 14 |
| Table 9 – Summary of NPC Rate Adjustment Filings..... | 15 |
| Table 10 - List of ERC Decisions on DU's Rate Applications for the Period November 2008 - April 2009 | 17 |
| Table 11 –PDUs Average Effective Rates, December 2008..... | 18 |
| Table 12 – MERALCO’s Effective Residential Unbundled Rates, December 2008..... | 18 |
| Table 13 – ECs’ Average Effective Rates, December 2008, (PhP/kWh)..... | 19 |
| Table 14 - EC's Average Effective Residential Electricity Rates, December 2008 (PhP/kWh) | 19 |
| Table 15 - Monthly Amount Incurred by NPC for the Grant of MRR, January – September 2009 and CY 2008 | 20 |
| Table 16 - Collections & Disbursements, As of February 2009 (In PhP) | 21 |
| Table 17 - UC Collections/Remittances for the Period October 2008-February 2009 (in PhP) | 21 |
| Table 18 – UC-ME Disbursements as of February 2009 (in PhP)..... | 22 |
| Table 19 – Status of Loan Condonation as of February 2009 (PhP) | 22 |
| Table 20 - Payments per Type of Loan | 23 |
| Table 21 – MERALCO Revised Lifeline Level | 27 |

| | |
|--|----|
| Table 22 - Summary of Market Results | 28 |
| Table 23 - Effective Settlement Prices | 29 |
| Table 24 - Metered Quantities: Energy Consumption | 29 |
| Table 25 - Capacity Limitations, March 2009-March 2010 | 37 |
| Table 26 - Market Share by Utility | 38 |
| Table 27 - Comparative Generation by Resource | 40 |
| Table 28 - 2008 Installed and Dependable Capacity | 40 |
| Table 29 - Comparative Generation by Ownership/Utilities..... | 41 |
| Table 30 - Comparative Demand by Grid | 44 |
| Table 31 - Barangay Electrification Status as of 31 March 2009 | 47 |

LIST OF FIGURES

| | |
|---|----|
| Figure 1 - Amount of Discounts to Lifeline Customers by Linline Level, 2008 | 26 |
| Figure 2 - Share of Lifeline Discounts by Type of DU, 2008 | 27 |
| Figure 3 - Power Generation Mix, 2008 | 41 |
| Figure 4 - 2008 Electricity Consumption | 42 |
| Figure 5 - 2008 Electricity Sales by Sector | 43 |
| Figure 6 - Northern Panay Transmission Backbone Project..... | 44 |
| Figure 7 - Batangas Transmission Reinforcement Project..... | 44 |
| Figure 8 - Mindanao 230 kV Backbone Transmission | 45 |

I. INTRODUCTION

The 14th Status Report of Electric Power Industry Reform Act (EPIRA) Implementation covers the period November 2008 to April 2009. The report highlights continuing implementation of the reforms as set forth in Republic Act 9136 or EPIRA amidst the challenges posed by the global financial crisis which affected several key reforms agenda particularly that of privatizing the remaining generating assets and the transfer of Independent Power Producer (IPP) contracts to independent administrators. The task ahead for the energy sector is more complicated, however, the Department of Energy (DOE), its attached agencies and the Energy Regulatory Commission (ERC) remained steadfast in carrying out their respective and collective mandate towards the fulfillment of EPIRA objectives.

Major highlights of the 14th EPIRA Implementation Status Report includes:

- Updates on privatization of National Power Corporation (NPC) generating assets and the transfer of the management and control of NPC contracts to IPP Administrators (IPPAs);
- Wholesale Electricity Spot Market (WESM) developments particularly the efforts on implementing the Visayas Supply Augmentation Auction Program (VSAAP) to help address the deficient supply situation in the area;
- Updates on pertinent preparations for the implementation of open access and retail competition;
- Recent regulatory actions on electricity rates;
- The 2008 power supply-demand situation;
- Progress of the total electrification program;
- Continuing efforts of the government to achieve coherence in policy and regulatory actions; and,
- Recent legislative actions significantly influencing the reform process.

II. DEVELOPMENTS IN THE PRIVATIZATION EFFORT

Pursuant to relevant EPIRA provisions on privatization of the government's generation and transmission assets including the transfer of the power supply contracts to Independent Power Producer Administrators (IPPAs), the government gained considerable achievement to date. Privatization level for the generating assets stands at 57.4 percent while the operation, maintenance and management of the high-voltage transmission assets were already transferred to the National Grid Corporation of the Philippines. The government nearly reached the 70 percent threshold provided for under Section 31 of the EPIRA, however, in 26 January 2009, Emerald Energy Corporation (EEC), the winning bidder for the 600 MW Calaca coal-fired plant, terminated its purchase of the said plant due to, according to EEC, it observed the deterioration in the condition of the Calaca plant since the bidding date until the end of 2008. However, other reasons have been cited as contributory to the withdrawal of EEC

like the currently “unviable” rates of NPC as claimed by various investor groups like the European Chamber of Commerce in the Philippines (ECCP), AES Corporation and the International Finance Corporation (IFC). Nevertheless, with the revised privatization plan, the government hopes to attain the 70 percent threshold both for the generating assets and the IPP contracts by end of 2009.

In terms of proceeds, the government earned a total of about US\$6.33 billion from the successfully bided out generating and decommissioned power plants as well as the Transco concession (Table 1).

Table 1 - Privatization Proceeds

| Item | Amount (US\$) |
|-----------------------|-------------------------|
| Generating Plants | 2,372,191,971.34 |
| Decommissioned Plants | 5,825,000.00 |
| TransCo Concession | 3,950,000,000.00 |
| TOTAL | 6,328,016,971.34 |

Source: PSALM

A. Privatization of Generating Assets

This section provides an update on the privatization of all NPC generating assets to cover: 1) plants for sale as approved by the Joint Congressional Power Commission (JCPC); and 2) turned-over NPC-IPP plants. Also included are some updates on the sale of NPC’s decommissioned assets.

1. Generating Assets included in the Privatization Plan Approved by JCPC

As of April 2009, seventeen (17) generating or operating plants were successfully bided out with a combined capacity of 2,172.3 MW. Fifteen (15) of the seventeen (17) plants represent about 2,167.20 MW total capacity of operating NPC/PSALM-owned plants in the Luzon and Visayas grids, which translates to 57.4 percent privatization level. These plants generated a total proceeds of US\$2,372.2 million of which 76 percent were fully paid as of end-2008.

a. Panay III and Bohol Diesel Power Plants

The package sale of the 146.5MW Panay and 22 MW Bohol diesel power plants was awarded to Salcon Power Corp. (SPC), which gave the highest bid of US\$5,857,553.34 in a public bidding held last 12 November 2008. SPC’s offer exceeded the reserve price set by the PSALM Board for the two power plants. Last 25 March 2009, the plants were formally turned over to SPC which paid the full purchase price to effectively complete the transaction for the two Visayas-based power plants.

b. Amlan Hydroelectric Plant

PSALM also sold the 0.8 MW Amlan Hydroelectric Power Plant on 10 December 2008 to ICS Renewables Inc. being the highest bidder with an offer price of US\$230,000 in the plant’s second round of bidding. The winning bid exceeded the reserve price set by the PSALM Board for the generating asset.

ICS Renewables was formally declared the winning bidder when PSALM granted the Notice of Award and Certificate of Effectivity (COE) for the Amlan asset last 08 January 2009. The issuance and receipt of the COE signals the effectivity of the Asset Purchase Agreement (APA) and the commencement of the 270-day deadline for PSALM and ICS Renewables to complete their respective closing deliverables and the conditions precedent for the Amlan sale. The COE obligates PSALM and ICS Renewables to execute the provisions stipulated in the APA.

Table 2 - List of Privatized Plants

| Name of Plant | Rated Capacity (MW) | Winning Bidder | Winning Bid Price (US Dollar) | Payment Period |
|----------------------|----------------------------|--|--------------------------------------|------------------------------|
| Talomo | 3.5 | Hydro Electric Development Corp. | 1,370,000.00 | 2005* |
| Agusan | 1.6 | First Generation Holdings Corp. | 1,528,000.00 | 2005* |
| Barit | 1.8 | People's Energy Services Inc. | 480,000.00 | 2005* |
| Cawayan | 0.4 | Sorsogon II Electric Cooperative, Inc. | 410,410.00 | 2005* |
| Loboc | 1.2 | Santa Clara International Corp. | 1,428,000.00 | 2005* |
| Pantabangan-Masiway | 112 | First Generation Hydro Corp. | 129,000,000.00 | 2006-2013 |
| Magat | 360 | SN Aboitiz Power | 530,000,000.00 | 2007* |
| Masinloc | 600 | Masinloc Power Partners Ltd. | 930,000,000.00 | 2008* |
| Ambuklao-Binga | 175 | SNAP Hydro | 325,000,000.00 | 2008* |
| Tiwi-Makban | 747.5 | AP Renewables | 446,888,008.00 | Pending Closing Date of Sale |
| Panay I & III-Bohol | 168.5 | SPC Power Corp. | 5,857,553.34 | 2009* |
| Amlan | 0.8 | ICS Renewables Inc. | 230,000.00 | Pending Closing Date of Sale |
| Total | 2,172.3 | | 2,372,191,971.34 | |

*Fully paid
Source: PSALM

2. Revised Privatization Schedule of NPC Generating Assets

The government hopes to complete by the end of 2009 the privatization of the remaining generating assets included in the Privatization Plan approved by the Joint Congressional Power Commission. A revised privatization schedule for these plants is shown in Table 3 while some details for each plant is included in the following sub-section.

a. Navotas I & II Gas Turbine Power Plants

Navotas I & II Gas Turbines (GT) power plants comprise 3 X 70 MW (Nav I)

and a 100 MW (Nav II) GT units located at Navotas, Metro Manila. Both plants are presently kept under economic shutdown and emergency stand by in the event of total grid failure or blackout. Though these plants are scheduled for privatization in June 2009, it is being recommended that their sale be deferred until the reserve capacity in Luzon has been addressed and tax issues have been resolved.

b. Batangas Coal-Fired Thermal Power Plant (BCFTPP or Calaca power plant)

After bidding out the Calaca power plant in 2007, the government expected to reach the 70 percent privatization threshold, however, the sale did not close as the winning bidder, EEC, (formerly Calaca Holdco Inc.) opted on 23 January 2009 not to proceed with the sale on the basis of its allegations that the plant had deteriorated since it placed its bid in October 2007. One of the conditions for the transfer of the power plant was that it should be delivered to the winning bidder on “as is, where is basis”, or in the same condition as it was at the time of the bid. EEC gave its notice of termination of the asset purchase agreement for the sale of the plant and accordingly, EEC’s US\$15.0 million performance bond for the project paid to PSALM on 9 February 2009 was forfeited. The EEC’s withdrawal reduced the privatization level in Luzon and the Visayas to 57.4 percent.

Table 3 - 2009 Indicative Privatization Schedule of Generating Assets

| Plants | GRID | Fuel Type | Rated Capacity (MW) | Indicative Bid Date |
|---|-------------|------------------|----------------------------|----------------------------|
| Navotas I & II | Luzon | Diesel | 310 | June 2009 |
| Calaca | Luzon | Coal | 600 | July 2009 |
| Palinpinon | Visayas | Geothermal | 192.5 | August 2009 |
| Tongonan | Visayas | Geothermal | 112.5 | August 2009 |
| Bacman | Luzon | Geothermal | 150 | No Schedule Yet |
| Angat | Luzon | Hydro | 246 | September 2009 |
| Iligan I & II | Mindanao | Diesel/Bunker | 114 | No Schedule Yet |
| TOTAL | | | 1,725 | |
| Total Operating Capacity for Luzon and Visayas Grids | | | 3,778.23 | |

Note: Plant line-up may change and individual plants may be considered for pairing or grouping as may be viable, depending on the confluence of factors such as investors’ interest and plant-specific concerns including Operations and Maintenance agreements for multipurpose hydropower plants, fuel supply agreements (e.g. geothermal steam and coal), and land-related issues, as among the major and critical ones. The specific timetable for the asset or the asset package is released publicly a few months before the bid date. The indicative closing date assumes that turn-over of the plant will take place within maximum of 270 days or 9 months after the issuance of Certificate of Effectivity (which is issued 1 month after the bid date).
 Source: PSALM

Last 30 April 2009, PSALM conducted pre-offer conference for the 600 MW Calaca power plant where 11 investor groups participated in the conference to discuss with PSALM technical working group, the issues and concerns on the negotiation procedures for the sale of the said plant. The conference was

held to ensure the transparency, integrity, and fairness of the bidding process for the said plant.

c. Palinpinon- Tongonan Geothermal Power Plants

The packaged sale for the 192.5-megawatt (MW) Palinpinon and 112.5-MW Tongonan geothermal power plants was formally opened last 11 May 2009 with the publication of the Invitation to Bid (ITB) for both generating assets.

Located in Valencia, Negros Oriental, the Palinpinon Geothermal Power Plant consists of two power stations — Palinpinon I and II — which are approximately five kilometers apart. Palinpinon I, which was commissioned in 1983, comprises 3 X 37.5 MW steam turbines for a total rated capacity of 112.5 MW. Palinpinon II, on the other hand, consists of three modular power plants: Nasuji, Okoy 5, and Sogongon. The 20-MW Nasuji was commissioned in 1993, while the 20-MW Okoy 5 was commissioned in 1994. Sogongon, which consists of the 20-MW Sogongon 1 and 20-MW Sogongon 2, was commissioned in 1995.

Situated in Sitio Sambaloran, Barangay Lim-Ao, Kananga, Leyte Province in Eastern Visayas, the Tongonan Geothermal Power Plant consists of three 37.5-MW units which were commissioned in 1983. Both plants use steam supplied by the Energy Development Corporation (EDC).

d. Bacman Geothermal Power Plant

The Bacman Geothermal Power Plant is targeted to be privatized by 2009, subject to the formulation of the Geothermal Resource Supply Contract (GSRC). PSALM and NPC are currently formulating the GSRC, which requires confirmation by the privatized Energy Development Corporation (formerly PNOC-EDC) of the contract terms subject to approval by the JCPC.

e. Angat Hydroelectric Power Plant

PSALM is currently drafting the Operation and Maintenance Agreement (OMA) for the Angat Dam including the non-power components of the complex. The OMA will address operational issues such as: 1) water protocol which is the main concern of the other stakeholders of Angat Dam like MWSS and NIA; and, 2) land issues covered by Presidential Proclamation 555 which declares the area as reserved for watershed purpose and therefore inalienable. Several meetings with the Department of Environment and Natural Resources (DENR) and the National Commission for Indigenous People (NCIP), both of Region 3, and NPC, which has the jurisdiction over the watershed as provided under Proclamation 555, are being conducted for the formulation of a special agreement for the use of the land by the buyer of the plant. The plant is scheduled for bidding in the second semester of 2009.

f. Iligan I & II Diesel Power Plant

PSALM decided to suspend the bidding process indefinitely for these assets due to unresolved outstanding issues regarding the plant.

3. Privatization of Decommissioned Assets

Three decommissioned NPC assets were successfully sold by the government garnering total proceeds of US\$5.8 million. Details for the sale of these plants are shown in Table 4. For 2009, the government is set to bid out three (3) decommissioned power plants namely: a) 108 MW Aplaya Diesel located in Jasaan, Misamis Oriental; b) 22.3 MW General Santos Diesel Power Plant located in General Santos City, South Cotabato; and, c) the 850 MW Sucat Thermal Power Plant located in Sucat, Muntinlupa City. The DOE is looking at the possibilities of retaining the Sucat plant and have it re-commissioned or converted into a natural gas-fired plant as part of the government’s contingency measures in the event of supply shortage particularly in the Luzon grid.

Table 4 – List of Successfully Bidded-Out Decommissioned Plants

| Name of Plant | Rated Capacity (MW) | Winning Bidder | Winning Bid Price (USDollar) | Payment Period |
|----------------------|----------------------------|---------------------------|-------------------------------------|------------------------------|
| Manila Thermal | 200 | Gagasan Steel Inc. | 2,506,000.00 | Fully paid |
| Cebu II | 54 | Taifu Metal Exchange Corp | 460,000.00 | Pending Closing Date of Sale |
| Bataan Thermal | 225 | Rubenori Inc. | 2,859,000.00 | Pending Closing Date of Sale |
| Total | 469 | | 5,825,000.00 | Pending Closing Date of Sale |

Source: PSALM

a. Bataan Thermal Power Plant

Two scheduled public biddings for this plant have failed in the past and the PSALM Board has approved a Negotiated Sale for the asset. The Negotiated Sale with Public Notice commenced on 13 October 2008 with the ITB published on 30, 31 October and 1 November 2008. On 20 February 2009, the scheduled Bid Date, 1 (one) bidder qualified but did not meet the reserve price. Submission of revised financial bid by the only qualified bidder was scheduled on 6 March 2009 but also could not match the reserve price, hence also failed. The PSALM Board is proposing a negotiated sale with the other pre-qualified bidders for approval.

b. Aplaya-General Santos Diesel Power Plant

The PSALM Board approved the declaration of failure of the first round of

bidding for the Aplaya Diesel Power Plant on 7 November 2008 and subsequently approved the second round of bidding for the decommissioned asset package. The ITB will be published on 18-20 March 2009 and the bid date is scheduled on 13 May 2009.

c. Sucat Thermal Power Plant

Sucat Plant Units 1-4 were previously decommissioned. Plans to re-commission the plant are being considered to address power shortage in 2009. It is now scheduled for privatization in August 2009, pending the resolution of the issues on land, rehabilitation and DOE's gas pipeline completion schedule.

4. Privatization of Turned Over NPC-IPP Plants

Four IPP plants recently turned over to PSALM are now included in the revised privatization plan. Shown in Table 5 are details on the on-going activities for the sale of these plants.

Table 5 - Indicative Privatization Schedule – Turned Over IPP Plants

| Plants | Fuel Type | GRID | Rated Capacity (MW) | Indicative Sale Schedule |
|------------------------|------------------|-------------|----------------------------|---------------------------------|
| PB 118 | Diesel | Mindanao | 100.0 | March 2010 |
| PB 117 | Diesel | Mindanao | 100.0 | March 2010 |
| Limay | Diesel/Bunker | Luzon | 620.0 | April 2010 |
| Naga (Cebu) LGBT 1 & 2 | Diesel/Bunker | Visayas | 55.0 | No Schedule Yet |
| Total | | | 875.0 | |

Source: PSALM

a. Power Barge 117 Diesel Power Plant

The ITB for the privatization of the 100 MW Power Barge 117, located in Brgy. Sta. Ana, Nasipit, Agusan del Norte, was issued on 1 October 2008. The bidding date was originally scheduled on 28 January 2009 but was declared a failure as only one bidder submitted the documentary deliverables. The 2nd round of bidding is set on 25 April 2009.

b. Power Barge 118 Diesel Power Plant

The ITB for the 100 MW Power Barge 118, located in Barangay San Roque, Maco, Compostella Valley, was issued on 8 October 2008. However, the first round of bidding last 25 February 2009 was declared a failure as only one bidder submitted the documentary deliverables. The second round of bidding for PB 118 is slated on 28 May 2009 and is expected to sail smoothly as the

prospective bidders seem bent on acquiring the 100-megawatt (MW) bunker-fired diesel power generating station.

c. Limay Block A & B Combined Cycle Power Plant

The 1st round of bidding for the 620 MW Limay Combined-Cycle Power Plant in 2008 was declared a failure after it was left with only one interested bidder who submitted the Documentary Deliverables on the scheduled deadline. On 10 December 2008 the second round of bidding was approved with the bid date scheduled on 4 January 2009, and in case this fails, a negotiated sale was also approved. The second round of bidding also failed since only one (1) bidder submitted the documentary deliverables. A negotiated sale was then conducted on the same date, to the only qualified bidder of the second round but also failed since no bid was submitted. A negotiated sale for the Limay plant will be pursued, pursuant to the PSALM Board approval on 21 January 2009.

d. Naga Land Based Gas Turbine Power Plant

Located at the Cebu I Power Plant Complex in Barrio Colon, Naga, Cebu Province, the plant is scheduled for bidding on 22 April 2009. The privatization of the Naga Plant started with the publication of an Invitation to Bid on 7-9 January 2009. There are two interested parties, both Filipino-owned corporations, which are currently undertaking their Due Diligence on the Naga LGBT power plant. This particular exercise will end on 20 April 2009. The Asset is being privatized on an “as is, where is” basis.

B. Transfer of NPC- IPP Contracts to IPP Administrators (IPPA)

After an in-depth and careful study, the government has finally decided on the scheme that will be adopted in the transfer of contracted outputs of NPC to IPPA. The final scheme/approach adopted is termed as Ownership Approach with the use of the back-to-back contract between PSALM and the appointed IPPA. The back-to-back contract will mirror the applicable provisions of the original Energy Conversion Agreements (ECAs) between IPP and NPC. The responsibilities, benefits, and risks which can be legally and commercially transferred from NPC to the IPPA are to be reflected in an IPPA agreement now between PSALM and the appointed IPPA. The most crucial of the responsibilities is the transfer of the fuel procurement activities from NPC to the IPPA. This should bring private sector efficiency in procurement activities to result in lower fuel costs for the IPP plants.

To date, the first wave of the Appointment of IPPAs will cover the management and control of the contracted energy of the Sual and Pagbilao Coal Fired Power Plants.

With a successful bid process for the Sual and Pagbilao contracted capacities, the next wave of contracted capacities to be tendered are those for the Casecnan, Bakun, and San Roque’s Power Purchase Agreements (PPAs). The approach and commercial structure to be adopted can differ from the one being used for the 1st wave of tendering (Sual and Pagbilao), considering that these hydro plants are Build-Operate-Transfer (BOT) projects of other government agencies (other than NPC), have irrigation requirements, or are already owned by the private sector.

The 3rd wave will involve the contracted capacity of the Ilijan Natural Gas Plant which has a take or pay gas obligation with its Gas Suppliers.

The oil-fired IPPs such as the Limay and Malaya Plants have Energy Conversion Agreement (ECAs) and/or Operation and Maintenance (O&M) contracts which expired or will expire this year and in 2010. These plants will undergo the original path of privatization adopted for the NPC-owned generating power plants.

Table 6 - List of NPC-IPP Contracts for Privatization

| Plant Name | Fuel Type | Location | Contracted Quantity (MW) | Type of Contract | Cooperation Period (years) | End of Cooperation Period |
|---|-------------|---------------------|--------------------------|------------------|----------------------------|---------------------------|
| LUZON GRID: | | | | | | |
| Hedcor | Hydro | Benguet | 31 | BOO/PPA | 25 | Jan-2018 |
| Sual Coal-Fired | Coal | Sual, Pangasinan | 1,000 | BOT/ECA | 25 | Oct-2024 |
| Pagbilao Coal-Fired | Coal | Quezon | 700 | BOT/ECA | 29 | Aug-2025 |
| Bauang Diesel | Diesel | Bauang, La Union | 215 | BOT/ECA | 15 | Jul-2010 |
| Malaya Thermal | Thermal | Pililia, Laguna | 630 | ROMM/ECA | 15 | Sep-2010 |
| Casecnan Multi-Purpose | Hydro | Nueva Ecija | 140 | BOT/PPA | 20 | Apr-2022 |
| Bakun Hydro | Hydro | Calilim, Ilocos Sur | 70 | BOT/PPA | 25 | Feb-2026 |
| San Roque Multi-Purpose | Hydro | San Manuel, Pang. | 95 | BOT/PPA | 25 | May-2028 |
| Ilijan Natural Gas | Natural Gas | Ilijan, Batangas | 1,200 | BOT/ECA | 20 | Jun-2022 |
| Kalayaan I & II | Hydro | Kalayaan, Laguna | 685 | BROT/PPA | 25 | Feb-2026 |
| Botocan | Hydro | Majayjay, Laguna | 21 | BROT/PPA | 25 | Feb-2026 |
| Caliraya | Hydro | Lumban, Laguna | 23 | BROT/PPA | 25 | Feb-2026 |
| Total | | 4,809 MW | | | | |
| 70% IPPA Threshold for Open Access | | 3,366 MW | | | | |

Source: PSALM

C. Operation and Maintenance Agreement between NPC and PSALM

Continuing their commitment to realize the reforms outlined in the EPIRA, PSALM and NPC entered into an Operation and Maintenance Agreement (OMA). The OMA is a document that defines the responsibility of NPC in operating and maintaining the generating assets and other disposable assets of PSALM from the time said

assets are transferred from NPC to PSALM until its privatization and disposal. It also provides for the terms and conditions by which NPC shall continue to operate/administer/manage the NPC-IPP contracts in behalf of PSALM.

The OMA proceeds from the mandate under Sec. 49 of the EPIRA for PSALM to take ownership of all existing generation assets, liabilities, independent power producer contracts, real estate, and all other disposable assets of NPC, except those pertaining to the Small Power Utilities Group (SPUG), which will remain with the NPC.

The agreement implements Sec. 5(q), Rule 21 of the EPIRA Implementing Rules and Regulations (IRR) which provides that PSALM may operate the generation assets directly or through the NPC prior to the privatization of these assets. The OMA, moreover, facilitates compliance with Sec. 51 of the EPIRA which requires the PSALM to optimize the value and sale prices of the assets transferred to it from NPC.

The OMA takes advantage of NPC's expertise in managing and operating power plants and related facilities as it is tasked under the OMA to efficiently operate, maintain, and manage the PSALM assets.

D. Updates on TRANSCO Concession

The government formally turned over last 15 January 2009 the 25-year concession of the National Transmission Corporation (TransCo) to the NGCP. The NGCP remitted US\$987.5 million to PSALM as its upfront payment for the operation of the transmission system and in compliance with the provisions of the sale transaction. The amount comprises 25 percent of the US\$3.950 billion purchase price to acquire the concession contract.

The Concession Agreement was executed and became effective on 28 February 2008. The TransCo Franchise Law (Republic Act No. 9511) was enacted on 01 December 2008 and became effective on 20 December 2008 (15 days after its publication on 05 December 2008).

Since the transmission assets are still owned by TransCo, a transition task force for the residual of TransCo was formed to handle the following responsibilities:

- Ensure NGCP's compliance with the terms and conditions of the concession agreement and monitor its compliance with the Philippine Grid Code and other regulatory laws, rules, and regulations;
- Handle all existing cases, including right of way claims and other actions and claims retained by TransCo under the concession agreement;
- Divest remaining sub-transmission assets to qualified distribution utilities even as the operation and maintenance of such assets are already transferred to NGCP; and

- Undertake operation and maintenance, management, consultancy and other technical services for the power distribution systems under the Philippine Economic Zone Authority (PEZA).

E. Sale of Sub-Transmission Assets

Section 8 of the EPIRA provides for the divestment of sub-transmission assets (STAs) from TransCo to electric cooperatives (ECs) and private distribution utilities (PDUs). Compliance to the said provision is preparatory to open-access. The acquisition of the said assets will provide an opportunity for ECs/PDUs to compete when open-access has been declared effective.

The STAs for sale include assets like step-down transformers, substations and overhead power lines which serve as the main grid’s link to distribution utilities. These assets involve a total of about 6, 500 circuit-kilometers comprising mostly 69kV transmission lines and 1,600 MVA of substation capacity. Estimated cost of these assets is placed at about PhP 7.6 billion based on 31 December 2007 net book values. Acquisition of such assets would pave the way for these ECs to improve their operations and expand their network which could result in serving more customers in their franchise areas.

Table 7- STA Sale Contracts Signed Nov 2008 - March 2009

For the period November 1, 2008 to March 31, 2009 eight sale contracts amounting to PhP 262.1 million were signed as shown in Table 7.

| Distribution Utility | Contract Amount PhP Million |
|--|--------------------------------|
| Cagayan 1/Cagayan 2 Electric Coop (CAGELCO 1/CAGELCO 2) Consortium | 82.88 |
| Camarines Norte Electric Coop. (CANORECO) | 25.62 |
| Sorsogon 1 Electric Coop (SORECO 1) | 31.16 |
| Bohol Light Co. Inc. (BLCI) | 1.16 |
| Cagayan Electric Power and Light Co. Inc. (CEPALCO) | 30.24 |
| Bukidnon Second Electric Coop/ First Bukidnon Electric Coop (BUSEO/FIBECON Consortium) | 51.45 |
| Zambales 1 Electric Coop (ZAMECO 1) | 24.25 |
| Batangas 2 Electric Cooperative (BATELEC 2) | 15.32 |
| TOTAL | 262.08 |

Source: TransCo

Meetings and negotiations with some 27 Distribution Utilities nationwide is underway to further push for the sale of STAs including 320 MVA transformers to 54 distribution utilities (DUs).

Included in the sale packages are 34 Lease Purchase Agreements with 32 ECs under concessional terms amounting to about PhP 2.16 billion. The balance of over 918 million represents sales to PDUs. Twenty four sale contracts have been approved by the ERC amounting to PhP 1.32 billion as of 15 March 2009 (per ERC website postings). Details of status of STA sales is provided in Annex

The inability of ECs to meet the financial and technical requirements set by ERC is becoming a growing concern not only by TransCo but by the government as well in view of the ECs’ capacity and readiness for the new environment of competitive market. For its part, TransCo, will continue to shoulder maintenance expenses including the obligation to sustain technical experts until it has fully disposed the STAs. The failure of TransCo to completely divest the STAs is beyond their control

but it will be a burden to them. In fact, the turn-over of TransCo operation to the private concessionaire is expected to streamline the budget and manpower of the residual to approximately less than one (1) percent from the current.

TransCo to date has only achieved 37.4 percent sales of the total packages identified. The slow turnover is mostly due to buyer's incapability to buy the assets, mostly financially unviable ECs. Despite TransCo's effort to provide more flexible payment terms, it still find it difficult to sell the assets as most of the remaining STAs are those that are situated in areas where the ECs have poor financial conditions. Various issues were raised in the acquisition of STAs by concerned groups like ECs and government entities like National Electrification Administration (NEA) and TransCo. Issues raised by various groups concerning STAs include:

- a. Recovery of the invested amount used to acquire the STAs will not be feasible for low load factor DUs.
- b. High maintenance cost for lines traversing mountainous areas and areas prone to typhoon damage.
- c. A number of ECs are neither financially nor technically qualified or both based on ERC Guidelines on the Sale and Transfer of the TransCo's STAs.
- d. ECs non-submission of documentary requirements needed to evaluate the technical and financial capability for ECs acquisition of STAs.

The call for revision of the ERC's existing guidelines on the sale of STAs was due to the need to revisit the following provisions:

1. Terms and conditions in the lease purchase agreement;
2. Eligibility of entities operating within ecozones to purchase STAs;
3. Eligibility of directly connected end-users to purchase STAs vis-à-vis the franchised DU;
4. Cost of right-of-way acquisition;
5. Asset valuation (third-party appraisal of STAs);
6. TransCo rates;
7. Subscription rights; and,
8. Eligibility of qualified consortiums to apply for a franchise.

The ERC issued Resolution No. 1, Series of 2009 amending the "Guidelines to the Sale and Transfer issued on October 17, 2003 for the disposal of such assets, providing more lenient payment terms and turn-over periods for the ECs. With the amendments, the guidelines and requirements were relaxed and according to the ERC resolution, it will be easier for the ECs to negotiate with TransCo. Key features of the amendments include:

- Provision for the right of a Distribution Utility (DU) as the only entity qualified to purchase an STA asset serving a directly connected customer within its franchise area

- More relaxed technical capability criteria such as: a) level of inventory of materials used for repair during emergencies; b) increase in the Interruption Frequency Rate (IFR) from 5 times to 20 times; and c) a DU may submit a written explanation and other relevant documents to the ERC in case it is not in full compliance to the requirements of the Philippine Grid and Distribution Code.
- More relaxed financial capability criteria such as: a) current ratio of not less than 0.70:1 or a quick ratio of not less than 0.50:1; b) a debt ratio of not more than 80 percent; and c) average collection period of not more than ninety (90) days.
- In case the DU still did not meet the criteria, it may submit to the ERC a letter-guarantee from an entity acceptable to TransCo or a written waiver from TransCo that it is willing to sell the subject STA despite the DU not meeting the prescribed financial criteria
- TransCo shall grant concessional financing to ECs, subject to but not limited to the following conditions: a) maximum payment period of twenty (20) years but not less than the remaining life of the STA; b) No downpayment required; c) provision for a grace period of one year; and d) applicable interest is less than the market rate.
- A prescribed timeline of 31 December 2010 for the disposal of the STAs after which said assets will remain with TransCo/Concessionaire and will be included in its Regulatory Asset Base (RAB).
- Revised asset valuation methodology (in reference to Sinclair Knight Merz) based on a reference date the contract was entered into by TransCo and the DU.

As the most outstanding concern on the divestment of STA is the ECs capability to comply with the set criteria, it is also imperative to look into the NEA's programs in view of providing financial and technical support to ECs to prepare them in the new environment like open access and WESM. NEA, pursuant to Section 58 of the EPIRA, is mandated to develop and implement programs which will: a) prepare the EC's in operating and competing under the deregulated electricity market specifically in an environment of open access and retail wheeling; b) strengthen the technical capability and financial viability of ECs; and c) upgrade regulatory policies with a view to enhancing the viability of ECs.

F. Management of Liabilities and Transfer of Assets

In accordance with EPIRA, the final transfer of NPC's assets and liabilities (except those related to SPUG) to PSALM's books was completed on 01 October 2008 through the Transfer Deed. Said transfer increased PSALM assets to PhP 830.0 billion from PhP 57.0 billion, while liabilities has likewise increased to PhP 864.0 billion from PhP 46.0 billion.

In terms of managing the liabilities of NPC, through prepayments made by PSALM, NPC's debt was reduced to \$5.7 billion as of end 2008. Table 8 summarizes the prepayment of NPC loans that PSALM has undertaken in 2008.

Table 8 - NPC Loan Prepayments for Calendar Year 2008

| Loans | Currency | Date of Prepayment | PREPAYMENT AMOUNT | |
|---------------------------|----------|--------------------|-------------------|------------------|
| | | | Original Currency | USD Equivalent |
| OECF Direct | JPY | 19-Mar-08 | 16,887,848,963.00 | 174,106,022.97 |
| Miyazawa Tranche B | JPY | 2-Jun-08 | 27,200,000,000.00 | 262,118,107.06 |
| ROP Relent | JPY | 20-Jun-08 | 49,518,736,898.00 | 458,464,372.72 |
| JBIC JPY26.84B - Masinloc | JPY | 15-Aug-08 | 10,207,019,982.00 | 92,665,909.00 |
| ADB 1398 - Masinloc | USD | 18-Aug-08 | 125,967,259.46 | 125,967,259.46 |
| ADB 1042 - Masinloc | JPY | 16-Sep-08 | 12,658,794,933.00 | 117,816,923.40 |
| JBIC JPY18.60B - Masinloc | JPY | 16-Sep-08 | 7,101,859,061.00 | 66,318,321.58 |
| Total - In USD Equivalent | | | | 1,297,456,916.19 |

Source: PSALM

G. Privatization of SPUG Areas

Of the nine islands which already have private investment in power generation, only Bantayan Island has a private sector which is now providing the required full electricity supply service.

The DOE, together with NEA, NPC and PSALM, is now conducting an institutional review of implementation of the Private Sector Participation (PSP) program in power generation in SPUG areas and at the same is providing customized assistance to each of those islands in order to resolve the issues which are causing the impasse in the transactions, particularly the commissioning and construction of the power plants.

Although it is currently articulated in the EPIRA and its IRR, the governance arrangement among the energy agencies in implementing the PSP program is being strengthened through the clarification and reiteration of the direction and responsibilities of each of the agencies related to missionary electrification.

III. ELECTRICITY RATES

This section covers updates on electricity rates focusing on electricity rate adjustments approved by the ERC, updates on Universal Charge, Condonation of ECs' Loans, Mandated Rate Reduction, systems loss adjustments and Lifeline subsidy.

A. NPC Generation Rate Adjustments

In its move to sustain its operation, the PSALM and NPC jointly filed for the recoveries of NPC's allowable adjustments relative to its fuel and foreign exchange rates for the test periods July 2006 to September 2008 as well as the revision of its basic generation rates. NPC's petition to revise its basic generation rate was in consideration of: 1) impact of the sale, transfer and disposal of NPC's generating assets; 2) update its rate base to uphold the NPC's operations and be able to carry out its mandate based on EPIRA; and 3) reflect the true cost of producing power to include items not recovered in the currently implemented deferred accounting adjustments for fuel and foreign exchange such as materials and supplies, system improvements and accruing depreciation of the plants among others.

Table 9 – Summary of NPC Rate Adjustment Filings

| Petition for | Test Period | Status |
|---|---|--|
| 9th GRAM and 8th ICERA | July 2006 to December 2006 | The ERC granted Provisional Authority (PA) and eventually final/ permanent authority dated November 24, 2008 effective for the billing period November 26 - December 25, 2008, with the ff. rates: (a) GRAM: Luzon: -PhP 0.5611 per kWh; Visayas: P0.0599 per kWh; Mindanao: PhP 0.4007 per kWh, with a recovery periods of: six (6) months for Luzon, 18 months for Visayas and 8/12 months for Mindanao. (b) ICERA: Luzon: -(PhP 0.1820 per kWh, Visayas: PhP 0.0279 per kWh, Mindanao: -PhP 0.0042 per kWh, with recovery periods of: six (6) months for Luzon; 10/30 months for Visayas & six (6) months for Mindanao. |
| 10th GRAM and 9th ICERA 11 th GRAM and 10 th ICERA | January 2007 to April 2008 May 2008 to June 2008 | ERC released its grant for PA on December 15, 2008 effective for the month of December, 2008 (November 26-December billing period) giving the approved rate for refund in the amount of -PhP 0.2358 per kWh for 10 th and 11 th GRAM and -PhP 0.3242 per kWh for 9 th & 10 th ICERA, specifically for Luzon grid only. The said approvals have a recovery period of twenty four months effective December 2008 onwards. |
| 12 th GRAM and 11 th ICERA | July 2008 to September 2008 | ERC released PA granting reduction of PhP 0.3622 per kWh effective for a period of 23 months starting December 26, 2008 to January 25, 2009. The ERC evaluation covers not only the period of July 2008 to September 2008, but also the prior periods where Deferred Accounting Adjustment (DAA) had not been fully refunded yet. The refund under the 12th GRAM amounts to PhP 0.3132 per kWh and the 11th ICERA refund resulted to P0.0490 per kWh or a total of PhP 0.3622 per kWh reduction. This will result to a net upward adjustment of PhP 0.1978 per kWh when compared to the current reduction in NPC's TOU rates at PhP 0.5600 per kWh. |
| Revised Basic Generation Charge | CY2002-2004 | ERC dismissed the case/application since the documents submitted by NPC cannot be given any probative value as such is not reflective of NPC's true costs, and as far as the CY 2007 data submitted, for being irrelevant and inadmissible considering the applications are based on CY2002 and 2004 test years. |
| New Basic Generation Rates Application | CY2007 | On February 16, 2009, ERC released PA granting an upward adjustments on the NPC's Basic Generation Charge effective February 26-March 25, 2009 billing period onwards covering the test year CY 2007 with the following approved rate: Luzon: PhP 4.3648 per kWh; Visayas: PhP 4.0339 per kWh; Mindanao: PhP 2.8177 per kWh. However, on March 23, 2009, the ERC modified its decision on the above stated PA particularly on the Visayas grid rate amounting to PhP 3.7255 per kWh giving an upward adjustment of PhP 0.8376 per kWh instead of PhP 1.1460 per kWh effective on the March 2009 billing period (February 26-March 25, 2009). |

Meanwhile, ERC has conducted a series of public consultations for the draft Rules for the Automatic Recovery of Monthly Fuel Purchased Power Cost and Foreign Exchange Related Cost of the NPC as early as February 2009. Said rules will modify the existing Generation Rate Adjustment Mechanism (GRAM) and the Incremental Currency Exchange Rate Adjustment (ICERA) mechanisms, to allow the timely recovery or refund by NPC of any incremental or downward adjustments in its fuel and purchased power costs, and foreign exchange related costs, so as to minimize regulatory lags, make NPC's rates more reflective of its true cost of operations, and avoid the need to impose carrying charges on any over- or under-recoveries by NPC. The ERC is set to finalize and promulgate the said rules before the second semester of this year.

B. Transmission Rates

Pursuant to the Transmission Wheeling Rates Guidelines promulgated by the ERC on 29 May 2003, TransCo has filed on 16 October 2008 its petition for the approval of its proposed Maximum Allowable Revenue (MAR) for the 2009 calendar year in accordance with the alternative form of rate setting methodology under the transmission wheeling rate guidelines (TWRG) including over and under-recoveries for the preceding years.

Docketed as ERC case no. 2008-056, TransCo prayed for a 2009 MAR of PhP 56,929.6 million, an increase of PhP20,358.6 from the 2008 ERC approved MAR of PhP36,571.0 million. The significant increase, according to TransCo application, was due to under-recovery of the previous year. Relatively, the ERC's comparison of its calculations vis-à-vis that of TransCo showed a difference arising from the rounding off figures and the computation of the related business revenue (RBR) resulting to a 2009 MAR of PhP56,766.90 Million. However, the ERC, in its decision dated 15 December 2008, set TransCo's 2009 MAR at PhP39,510.98 million which already includes the Performance Incentive Scheme (PIS) reward in the amount of PhP334.32 million. Accordingly, the ERC deemed said petition reasonable and was approved in the following rate schedule:

| I – System Operator Charge | | |
|--|--------------------------------|----------------------------------|
| Firm (PhP/kW/Month) | Non-Firm (PhP/kW/Month) | |
| 22.55 | 0.7414 | |
| II – Metering Service Provider Charge | | |
| | PhP/Meter Point/Month | |
| Common Asset Charge | 2,983 | |
| | PhP/Meter Point/Month | |
| Voltage Level(s) | First | 2nd up to last |
| 230 kV | 33,202 | 18,617 |
| 138 / 115 kV | 22,818 | 13,782 |
| 69 / 67 kV | 13,139 | 3,096 |
| 34.5 / 23 kV | 7,729 | 3,096 |
| 13.8 kV | 5,662 | 3,096 |
| Below 13.8 kV | 3,822 | 3,096 |

III – Power Delivery Service Rate (P/kW/Month)

| | 2008Average* | 2009 (without PIS) | Change 2009 From 2008 |
|----------|--------------|-----------------------|--------------------------|
| Luzon | 295.04 | 309.41 | 4.87% |
| Visayas | 305.54 | 282.25 | -7.62% |
| Mindanao | 290.53 | 264.09 | -9.10% |

Note: *Jan to Oct 2008 PDS Rates

C. Distribution Utilities (DUs) Rates

During the report period, the ERC has decided on five (5) cases including MERALCO for distribution utilities petition for rate adjustments as listed in Table 10.

Table 10 - List of ERC Decisions on DU's Rate Applications for the Period November 2008 - April 2009

| Case No. and Date of Filing | Description | Decision/Order Date and Summary |
|--|---|--|
| 2008-004 RC/2008-018 RC | Various Motion for Reconsideration/Petition to Intervene by various groups (Consolidated Industrial Gases, Incorporated (CIGI), National Association of Electricity Consumers for Reforms, Incorporated (NASECORE), Federation of Village Association (FOVA) and Federation of Village Association (FOLVA) etc.) on the ERC's approval/decision on MERALCO's maximum average price for the 2 nd regulatory year of the 2 nd regulatory year and the translation into distribution rates of different customer classes for the first regulatory year of the ERC-approved annual revenue requirement for MERALCO under the performance-based regulation for the regulatory period 2007-2011 | April 13, 2009/ERC ordered for the amendment of its decision dated 29 May 2008 and revised MERALCO's rate schedule (Annex 1A) to reflect a zero corporate income tax rate and the removal of rate distortions. ERC likewise ordered MERALCO to include a separate distribution rate category for its 69 kV customers for regulatory year 2011 based on proper allocation of assets and operations involved in serving these customers. |
| 2006-026RC/ 2009-009RC/9 February 2009 | Approval for the translation into distribution rates of different customer classes for the first regulatory year of the ERC-approved Annual Revenue Requirement for Iligan Light and Power, Inc. (ILPI) under the Performance Based Regulation (PBR) for the Regulatory Period 2010-2013 | March 30, 2009/ Approved an average total rate of PhP 0.9729 per kWh for the regulatory year 2010 starting May 1, 2009 and a revised lifeline structure with Subsidy Rate to Non-Lifeline Customers of PhP0.0878 per kWh (discussed in Section III.I). |
| 2009-006RC/ January 26, 2009 | Approval for the translation into distribution rates of different customer classes for the first regulatory year of the ERC-approved Annual Revenue Requirement for Cotabato Light and Power, Inc. (CLPI) under the Performance Based Regulation (PBR) for the Regulatory Period 2009-2013 | March 30, 2009/ Approved an average total rate of PhP 1.3189 per kWh for the regulatory year 2010 starting May 1, 2009 and a revised lifeline structure with Subsidy Rate to Non-Lifeline Customers of PhP0.0741 per kWh (discussed in Section III.I). |
| 2009-008RC/ February 6, 2009 | Approval for the translation into distribution rates of different customer classes for the first regulatory year of the ERC-approved Annual Revenue Requirement for Mactan Electric Co., Inc. (MECO) under the Performance Based Regulation (PBR) for the Regulatory Period 2009-2013 | March 30, 2009/ Approved an average total rate of PhP0.999 per kWh for the regulatory year 2010 starting May 1, 2009 and a revised lifeline structure with Subsidy Rate to Non-Lifeline Customers of PhP0.0963 per kWh (discussed in Section III.I). |
| 2003-12 - RC/ January 6, 2003 | Approval of a reduction in rate in compliance with Section 60 of RA 9136 & EO 119 with prayer for Provisional Authority for Oriental Mindoro Electric Cooperative, Inc.(ORMECO)- <i>motion for reconsideration on (1) its loan amortization on Mini-Hydro amounting to P12.473M & (2) deferment of the implementation of the final loan condonation pending reconsideration of the Decision of the Commission dated May 23, 2005</i> | December 15, 2008 / PA granted with modification on the implementation of recalculated final rate reduction due to loan condonation and was further directed to file for an application for the recalculation of its Distribution, Supply & Metering Charges as well as its Generation Charge in view of the recalculated Final Rate Reduction due to loan condonation within 3 months from receipt of the order. |

Based on regular reports submitted by the DUs to the DOE and its attached agencies which include PDUs' Monthly Operations Report (MOR) and the ECs' Monthly Financial and Statistical Report (MFSR) and their unbundled effective average rates, the DOE analyzed average electricity rates for the billing month December 2008.

For the said billing month, DUs' average effective rates ranged from PhP4.5104/kWh for Davao Lights to PhP 7.1910/kWh (MERALCO). Among the PDUs and among the customer classes, MERALCO has the highest average effective rates as shown in Table 11. Meanwhile, MERALCO's unbundled effective average rate for residential customers consuming 400 kWh and below is shown in Table 12.

Meanwhile, ECs' average effective rate in the Philippines is around PhP6.1266/kWh. Among the ECs major customer class, on the national average, residential customers has the highest effective rate at PhP6.9392 while on a per grid basis, Luzon ECs has the highest at PhP 6.7746/kWh. Of the ECs' national average effective rates for December 2008, 42 percent comprised generation cost, 25 percent comprised distribution, supply and metering charges, 16 percent for transmission cost and the remaining 17 percent are systems loss charges, government taxes and subsidies (Table 14).

Table 11 –PDUs Average Effective Rates, December 2008

| PDU | Residential | Commercial | Industrial | Others | Average |
|----------|-------------|------------|------------|--------|---------|
| DECORP | 6.1055 | 5.5451 | 5.4522 | 6.9148 | 5.8095 |
| AEC | Nda | nda | Nda | nda | |
| SFELAPCO | 5.5009 | 5.2597 | 4.7605 | 4.3412 | 5.0915 |
| MERALCO | 8.0962 | 7.3399 | 5.8663 | 9.2413 | 7.1910 |
| VECO | 6.1676 | 5.9791 | 4.9251 | 5.2137 | 5.5368 |
| BLCI | 4.6279 | 5.5137 | 5.5137 | 5.0537 | 5.1175 |
| CEPALCO | 5.8873 | 5.7669 | 4.4275 | 5.2210 | 5.1979 |
| DALIGHT | 4.9095 | 4.7816 | 4.1751 | 4.4998 | 4.5104 |
| COLIGHT | 5.4451 | 5.6275 | 4.1076 | 4.9319 | 4.8928 |

Note: Based on Monthly Operations Report submitted by Private DUs

Table 12 – MERALCO's Effective Residential Unbundled Rates, December 2008

| Bill Subgroup | 0-200 kWh | | 201-300 kWh | | 301-400 kWh | | 401-over kWh | |
|-----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | PhP/kWh | Percent Share | PhP/kWh | Percent Share | PhP/kWh | Percent Share | PhP/kWh | Percent Share |
| Generation | 4.5793 | 60 | 4.5793 | 58 | 4.5793 | 56 | 4.5793 | 52 |
| Transmission | 0.9922 | 13 | 0.9922 | 12 | 0.9922 | 12 | 0.9922 | 11 |
| Distribution * | 1.3435 | 18 | 1.6471 | 21 | 1.9334 | 23 | 2.4321 | 28 |
| System Loss | 0.7119 | 9 | 0.7119 | 9 | 0.7119 | 9 | 0.7119 | 9 |
| Total ** | 7.6269 | 100 | 7.9305 | 100 | 8.2168 | 100 | 8.7155 | 100 |

* Includes Distribution, Supply and Metering Charges

** Total rates excluding Subsidies and Government Taxes.

Source: MERALCO Website

Table 13 – ECs' Average Effective Rates, December 2008, (PhP/kWh)

| BILL SUBGROUP | LUZON | VISAYAS | MINDANAO | PHILIPPINES |
|--------------------------------|---------------|---------------|---------------|---------------|
| Residential | 7.5970 | 7.2645 | 5.9561 | 6.9392 |
| Commercial | 6.5815 | 6.3361 | 5.3013 | 6.0730 |
| Small Commercial | 6.2549 | 6.1128 | 5.2054 | 5.8577 |
| Large Commercial | 6.2975 | 5.9684 | 4.9678 | 5.7446 |
| Industrial | 6.5160 | 6.2296 | 4.9385 | 5.8947 |
| Public Building | 6.5357 | 6.1821 | 5.1921 | 5.9700 |
| Streetlights | 7.7510 | 6.7931 | 7.1313 | 7.2251 |
| Others | 6.6630 | 4.8185 | 4.4434 | 5.3083 |
| Effective Average Rates | 6.7746 | 6.2131 | 5.3920 | 6.1266 |

Based on Monthly Financial and Statistical Reports submitted by ECs to NEA

Table 14 - EC's Average Effective Residential Electricity Rates, December 2008 (PhP/kWh)

| Bill Subgroup | LUZON | | VISAYAS | | MINDANAO | | NATIONAL | |
|------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | PhP/kWh | Percent share | PhP/kWh | Percent share | PhP/kWh | Percent share | PhP/kWh | Percent share |
| Generation | 3.2283 | 43 | 3.1708 | 44 | 2.3642 | 40 | 2.9211 | 42 |
| Transmission | 1.1350 | 15 | 1.1687 | 16 | 1.0541 | 18 | 1.1193 | 16 |
| System Loss | 0.7157 | 9 | 0.6242 | 8 | 0.5343 | 9 | 0.6248 | 9 |
| Distribution * | 1.8662 | 24 | 1.7190 | 24 | 1.5911 | 27 | 1.7254 | 25 |
| Subsidies | 0.0173 | 0.23 | 0.0403 | 0.55 | (0.0092) | (0.15) | 0.0161 | 0.23 |
| Government Taxes | 0.6345 | 8 | 0.5416 | 8 | 0.4215 | 7 | 0.5325 | 8 |
| Total | 7.5970 | 100 | 7.2645 | 100 | 5.9561 | 100.00 | 6.9392 | 100 |

* Includes Distribution, Supply and Metering Charges

Based on ECs submission of their unbundled effective rates to NEA

D. Cross-Subsidy Removal

Pursuant to Section 74 of the EPIRA, the ERC approved the removal of Inter-class cross-subsidies simultaneously with the Unbundling of rates application filed by the DUs. As of March 15, 2009, 73 percent of the ECs has already completed the removal of inter-class cross subsidies and the remaining 27 percent are still in the process of removal in various phases (i.e. ¼ removal & 1/3 removal). Fifty six percent of the ECs will able to complete the removal this year (2009), 43.7 percent will complete the removal by 2010 and 0.03 percent will complete the removal in 2011.

For the PDUs, on the other hand, majority of them have already completed the removal process. The remaining PUs which has not yet completed the removal will be able to complete it by this year (2009).

E. Mandatory Rate Reduction (MRR)

Pursuant to Section 72 of the EPIRA, NPC has continuously granted a 30-centavo/kWh or a proportionate reduction on electricity rates of residential end-users of DUs who sources power from NPC. Total costs incurred by NPC for the grant of MRR in 2008 amounted to PhP2,755.9 million while for the first trimester of 2009, total MRR grant was PhP 869.5 million. Of the same amount, residential customers of MERALCO alone shared 25.7 percent and 21.5 percent respectively, for the same period. During the implementation period (2001 to April 2009), NPC has already incurred a cumulative total of PhP21,938.7 million.

Table 15 - Monthly Amount Incurred by NPC for the Grant of MRR, January - September 2009 and CY 2008

| Billing Month | MERALCO | REST OF LUZON | TOTAL LUZON | VISAYAS | MINDANAO | TOTAL |
|---------------------|-----------------------|-----------------------|-------------------------|-----------------------|-----------------------|-------------------------|
| CY 2008 | 707,934,850.72 | 849,261,554.31 | 1,557,196,405.03 | 565,083,230.78 | 633,620,246.63 | 2,755,899,882.44 |
| Jan-09 | 47,806,643.10 | 62,542,055.24 | 110,348,698.34 | 47,015,229.93 | 55,007,710.33 | 212,371,638.60 |
| Feb-09 | 42,273,187.20 | 64,217,843.86 | 106,491,031.06 | 50,088,622.44 | 58,532,264.35 | 215,111,917.85 |
| Mar-09 | 44,040,781.71 | 72,167,723.34 | 116,208,505.05 | 40,353,083.65 | 45,253,008.77 | 201,814,597.47 |
| Apr-09 | 53,118,020.70 | 72,821,969.18 | 125,939,989.88 | 54,326,480.12 | 59,947,414.10 | 240,213,884.10 |
| Jan-Apr 2009 | 187,238,632.71 | 271,749,591.62 | 458,988,224.33 | 191,783,416.14 | 218,740,397.54 | 869,512,038.01 |

Source: NPC

F. Administration of Universal Charge (UC)

The Universal Charge (UC) is a non-bypassable charge, mandated under Section 34 of the EPIRA, to be imposed on all electricity end-users, including self-generation entities, for the following specific purposes:

- Payments for stranded debts (SD) and stranded contract costs (SCC);
- Missionary electrification (ME);
- Equalization of taxes and royalties applied to indigenous or renewable sources of energy vis-à-vis imported energy fuels;
- An environmental charge for watershed rehabilitation and management; and
- A charge to account for all forms of cross-subsidies.

The UC is collected from all end-users every month by the TransCo and distribution utilities based on the approval made by the ERC and remitted to PSALM every 15th of the following month.

PSALM administers the UC fund collections which are placed in Special Trust Fund Accounts (STF) established separately for each of the intended purposes of the UC,

for disbursement in an open and transparent manner. At present, only the Universal Charge for Missionary Electrification (UC-ME) and Universal Charge for Environment and Watershed Rehabilitation (UC-EWR) have been imposed and are being collected. The total UC currently imposed to all customers amounts to Php 0.0398/kWh which is composed of Php 0.0373/kWh for missionary electrification and Php 0.0025/kWh for environment and watershed rehabilitation.

Total collections/remittances to PSALM as of 28 February 2009 amounted to Php10.1 billion, Php9.7 billion of which was disbursed by PSALM to NPC for missionary electrification and environment and watershed rehabilitation in accordance with the provisions of the EPIRA. This leaves the UC fund with a balance of about Php455.3 million as of 28 February 2009. For the period October 2008 to February 2009, PSALM received Php803.6 million in UC remittances.

Table 16 - Collections & Disbursements, As of February 2009 (In Php)

| Particulars | Collections/ Remittances | Disbursements | Balances |
|----------------------------|-------------------------------------|-------------------------|-----------------------|
| Missionary Electrification | 8,747,718,330.10 | 8,369,720,590.41 | 377,997,739.69 |
| Environmental Charge | 589,540,444.38 | 338,928,492.72 | 250,611,951.66 |
| Main Trust Account- UC | 473,085.22 | - | 473,085.22 |
| Total: | 9,337,731,859.70 | 8,708,649,083.13 | 629,082,776.57 |

Source: PSALM

Total disbursements to NPC as of February 2009 includes Php1.3 billion for the recovery of the Deferred Accounting Adjustment (DAA) portion of NPC-SPUG's ICERA and GRAM pursuant to the ERC Orders issued on 19 December 2005 and 10 February 2006, respectively. Total amount for recovery is Php2.0 billion, chargeable against the UC-ME fund depending on the level of the fund, until fully recovered. For the period October 2008 to February 2009, PSALM disbursed to NPC-SPUG the total amount of Php977.4 million. The disbursement relative to the UC-ME is in accordance with ERC Decision dated 28 February 2006 which authorized the annual release of Php1.3 billion to NPC-SPUG's missionary electrification from the UC-ME fund for the years 2005 to 2008.

Table 17 - UC Collections/Remittances for the Period October 2008-February 2009 (in Php)

| Month | UC - ME | UC - EWR | Total |
|---------------|-----------------------|----------------------|-----------------------|
| October 2008 | 156,620,919.68 | 10,493,982.07 | 167,644,067.63 |
| November 2008 | 158,965,162.34 | 10,678,905.29 | 169,644,067.63 |
| December 2008 | 144,756,096.33 | 9,764,805.50 | 154,520,901.83 |
| January 2009 | 139,054,559.45 | 9,323,787.42 | 148,378,346.87 |
| February 2009 | 153,667,732.68 | 10,293,290.09 | 163,961,022.77 |
| Total: | 753,064,470.48 | 50,554,770.37 | 803,619,240.85 |

Source: PSALM

PSALM is currently preparing for the filing of the UC-SD for CY 2009 and UC-SCC for CY 2008 by the second quarter of this year. Pursuant to the *Guidelines on the Recovery of Stranded Debt and Stranded Contract Costs portion of the Universal Charge*, filing of said petitions chargeable against the UC should be made on or

before March 15 of each year. However, inasmuch as the certified financial

Table 18 – UC-ME Disbursements as of February 2009 (in PhP)

| Month | UC - ME |
|---------------|-----------------------|
| October 2008 | 138,394,039.34 |
| November 2008 | 215,000,000.00 |
| December 2008 | - |
| January 2009 | 223,000,000.00 |
| February 2009 | 401,000,438.15 |
| Total | 977,394,477.49 |

Source: PSALM

statements of NPC for CY 2008 will be available only after 30 March 2009, and considering that it is the basis in calculating the UC-SD and UC-SCC, PSALM requested the ERC for an extension in the deadline for filing the two (2) petitions from 15 March 2009 to 30 June 2009. This will also ensure that the rates proposed are fair, just and reasonable to all electricity end-users.

G. Government Assumption of Loans of Electric Cooperatives

As of February 2009, PSALM has paid a total of PhP8.9 billion worth of financial obligations of ECs to NEA comprising around 49.3 percent of ECs' loans to NEA for assumption of PSALM. This leaves a balance of PhP 9.1 billion. Of the total payments to NEA, about 74.9 percent or PhP6.6 billion was used to pay the rural electrification loans incurred by the EC's, 15.5 percent or PhP1.38 billion was for Mini-hydro loans, and 9.5 percent or PhP 842.38 million was for Dendro Thermal loans. Payments intended for house wiring services only amounted to PhP6.83 million or 0.08 percent.

Table 19 – Status of Loan Condonation as of February 2009 (PhP)

| | Total Assumption | Actual Payments | | Balance | |
|--------------|--------------------------|-------------------------|--------------|-------------------------|--------------|
| | | Amount | % | Amount | % |
| NEA | 17,977,951,553.40 | 8,866,052,096.59 | 49.32 | 9,111,899,456.81 | 50.68 |
| LGU/OGA | 99,614,779.89 | 80,291,473.88 | 80.60 | 91,323,306.05 | 19.40 |
| TOTAL | 18,077,566,333.29 | 8,946,343,570.47 | 49.49 | 9,131,222,762.82 | 50.51 |

Source: PSALM

Meanwhile, PSALM's assumption of ECs' loans to Other Government Agencies (OGAs) and Local Government Units (LGUs) was estimated PhP246.1 million as of the report period. Out of this loan amount PSALM has approved for assumption the total loan amount of PhP85.2 million owed by various ECs with OGAs (PhP49.9 million) and LGUs (PhP35.3 million). Out of the amount approved for assumption, PhP80.3 million was already paid by PSALM to the OGAs and LGUs. The balance of PhP4.9 million approved for assumption is being processed and documented for payment to concerned OGA/LGU.

The remaining amount of PhP160.9 million for assumption represents the estimated loan of four (4) ECs with respective creditor OGA/LGU, namely: a) Aklan Electric Cooperative (AKELCO) with the Philippine Tourism Authority (PTA); b) Busuanga Island Electric Cooperative (BISELCO) with the Province of Palawan; c) Negros Occidental Electric Cooperative (NOCECO) with the Province of Negros Occidental

and DOE; and d) VMC Rural Electrification Service Cooperative (VRESCO) with 3 creditors: the San Carlos City Government, Province of Negros Occidental, and the Asset Privatization Trust (APT), now named Privatization Management Office (PMO).

Pursuant to Section 60 of the EPIRA, following PSALM’s assumption of the ECs’ loans, the ERC is mandated to ensure a commensurate reduction in the ECs’ rates as a result of loan condonation. However, there are still twelve (12) ECs which have not yet implemented the final rate reduction due to loan condonation. Accordingly, the ERC issued SCOs to these ECs to explain why the final rate reduction and refund have not yet been implemented.

Table 20 - Payments per Type of Loan

| Type of Payment | Amount Paid (In PhP) | Percentage to Total |
|----------------------------|-------------------------|---------------------|
| Rural Electrification Loan | 6,641,661,571.59 | 75 |
| Mini-hydro | 1,375,179,505.00 | 16 |
| Dendro Thermal | 842,378,091.00 | 10 |
| House wiring | 6,832,929.00 | 0.1 |
| TOTAL | 8,866,052,096.59 | 100 |

Source: PSALM

- 1) Central Pangasinan Electric Cooperative, Inc. (CENPELCO);
- 2) Quezon II Electric Cooperative, Inc. (QUEZELCO II);
- 3) Ticao Island Electric Cooperative, Inc. (TICELCO);
- 4) Pampanga III Electric Cooperative, Inc. (PELCO III);
- 5) Oriental Mindoro Electric Cooperative, Inc. (ORMECO);
- 6) Zambales II Electric Cooperative, Inc. (ZAMECO II);
- 7) First Catanduanes Electric Cooperative, Inc. (FICELCO);
- 8) Cagayan de Sulu Electric Cooperative, Inc. (CASELCO);
- 9) Nueva Ecija III Electric Cooperative, Inc. (NEECO III);
- 10) Pampanga I Electric Cooperative, Inc. (PELCO I);
- 11) Lanao del Sur Electric Cooperative, Inc. (LASURECO); and
- 12) Soreco I Electric Cooperative, Inc. (SORECO I).

As of the report period, the ERC has issued decision for four ECs namely AURELCO, CENPELCO, ORMECO and PELCO III. The summary of the cases and decisions is shown in Annex 2.

H. System Loss Cap

The ERC issued a Resolution adopting a new system loss cap for DUs on December 8, 2008 pursuant to Republic Act No. 7832, otherwise known as the, “Anti-Pilferage of Electricity and Theft of Electric Transmission Lines/Materials Act of 1994” mandating the then Energy Regulatory Board (ERB) to determine at the end of the fourth (4th) year for Private Utilities (PUs) and fifth (5th) year for ECs whether the caps shall be reduced further, but in no case, be lower than 9.0 percent.

The IRR of RA 7832 required PDUs, before the end of fourth (4th) year, and ECs, before the end of the fifth (5th) year, to file with the then ERB an application for further system loss cap reduction. However, no such application was filed. The said IRR also allowed an additional actual company use but not to exceed 1.0 percent of total kilowatt-hours purchased and generated.

Republic Act No. 9136 (EPIRA) amended Section 10 of RA 7832 and authorized the ERC to determine the new cap on the recoverable rate of system loss based on load density, sales mix, cost of service, delivery voltage and other technical considerations it may promulgate.

Accordingly, ERC Resolution No. 17 Series of 2008 provided for a new system loss cap for DUs based on the following:

1. The actual company use (administrative loss) shall be treated as an expense of the distribution utilities (DUs) in the following manner:
 - a. For PDUs that are under PBR, it shall be treated as Operation and Maintenance (O&M) Expense in its next reset;
 - b. For PDUs that are yet to enter PBR, it shall be treated as an O&M Expense in its PBR application; and
 - c. For ECs, it shall be treated as O&M Expense in the benchmarking methodology.
2. The maximum rate of system loss (technical and non-technical) that the utility can pass on to its customers shall be the actual but not to exceed 8.5 percent for PUs and 13.0 percent for ECs of the total kWh purchased and generated.
3. The new caps shall be effective starting January 2010 billing.

I. Transition Supply Contracts

Section 67 of the EPIRA provided for the NPC's offer of Transition Supply Contracts (TSC) to DUs subject to ERC approval. The TSCs' shall contain terms and conditions of supplying electricity and a corresponding schedule of rates including applicable adjustments.

As of March 15, 2009, the ERC approved a total of 119 contracts as follows: (a) 56 contracts for the Luzon Grid, (b) 31 contracts for the Visayas Grid, and (c) 32 Contracts for the Mindanao Grid, all of which were approved by ERC. The NPC filed for the renewal of eighteen (18) contracts for the Luzon Grid and eight (8) contracts

for the Visayas Grid on June 13, 2008. The ERC approved the term extension of the TSCs on September 22, 2008.

In view of the continuous privatization of NPC's generating assets, various issues surfaced particularly on the assignability of TSC to NPC successor generating companies (SGCs). As it can be recalled, the earlier privatization efforts was relatively difficult due to various factors to include slack investor's interest in the absence of ready market for certain plants scheduled for sale. This was aggravated by the fact that the rates schedule indicated in the TSCs were based on NPC's portfolio which make it below the actual cost of production compared to new entrant rates. This is also in view of the then accumulating lag in the adjustments of NPC's effective generation rate. Likewise, there is a need to provide clarity on some of the features of NPC's TSCs upon transfer to SGCs to include among others, implementation of basic time-of-use rates, recovery of rate adjustments (GRAM and ICERA) and implementation of the mandatory 30-centavos rate reduction for residential customers.

On 15 December 2008, the ERC issued Resolution No. 16 entitled "A Resolution Adopting Policies to Govern the Transition Supply Contracts Which Have Been Assigned and Transferred to NPC Successor Generating Companies". The said resolution was released in view of addressing the various issues governing the transfer of TSCs to SGCs. In summary, significant provisions of the said resolution are as follows:

- The TSCs assigned and transferred to NPC SGCs shall retain their nature until the expiration of the term originally agreed upon in the contract or the extension granted by the ERC
- If the TSC is about to expire, the NPC-SGC and the DU may negotiate and enter into a bilateral supply contract to be filed with the ERC for approval; For TSCs which are about to expire in six months and without a new bilateral contract filed with the ERC, the terms and conditions of the TSC may be allowed for a period of up to six months, subject to mutual agreement between the SGC and the DU and notification to the ERC
- The TSC contract period cannot be extended unless allowed by the ERC, in view of the pending approval by the ERC of a bilateral supply contracts between the SGC and the DU
- The applicable rates for the power supplied by the NPC-SGC to its DU customer under the TSC shall be the NPC-TOU rates, which shall also include GRAM and ICERA adjustments as approved by the ERC;
- The NPC-SGCs shall be responsible for the GRAM and ICERA adjustments for test periods after the closing date of their respective NPC plant sale;
- The MRR which will be shouldered by the NPC-SGC shall continue to apply and be enjoyed by the end-users during the original term of the assigned TSCs;

- The applicable VAT rate shall depend on the nature of the plant acquired by the NPC-SGC.

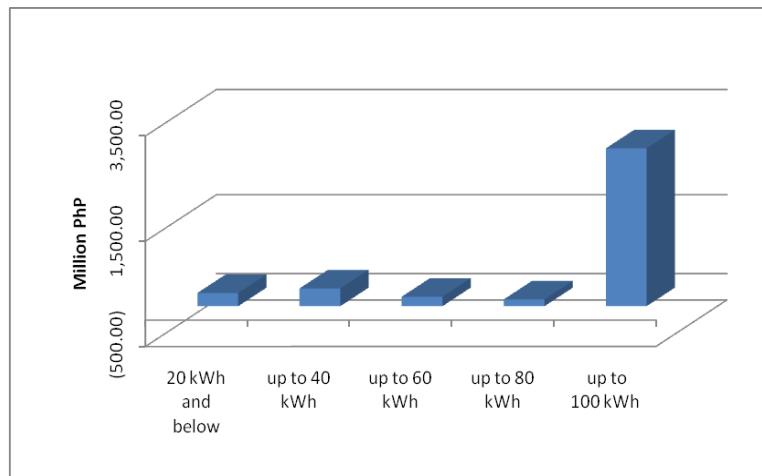
While the above-mentioned ERC Resolution is intended to provide clarity on the assumption of NPC-SGCs of the TSCs assigned, these may have adverse impact to the privatization efforts. Of particular concern is the imposition of the MRR obligation to NPC-SGCs which should not be their responsibility since it is derived from “NPC rates” and is an obligation by NPC as clearly stipulated in the EPIRA. The MRR was enacted to ensure the residential end-users that the assumption by the National Government (NG) of NPC’s financial obligations would result in lower power rates. According to MPPCL, the NG’s absorption of NPC debts was the mechanism adopted to allow and guarantee the implementation of the MRR. Thus, given that no debts of SGCs were absorbed by the NG and they did not benefit from the assumption of NPC debts, the very rationale of MRR of lowering power rates and the benefit/incentive that guarantees the financial feasibility of MRR implementation are inexistent. By requiring SGCs to shoulder MRR, the ERC has totally veered away from the primary purpose of the TSCs which is to assure investors of a guaranteed market for the electricity produced from the privatized NPC generating assets.

J. Lifeline Rate Subsidy Program

The provision of lifeline rate subsidy is allowed by Section 73 of the EPIRA. To date, the lifeline subsidy is enjoyed by residential end-users falling within the lifeline level determined based on consumption as approved by the ERC while subsidizing class are the non-lifeline residential end-users as well as the industrial, commercial and other customer types. The lifeline level per DU and discounts per lifeline customer as approved by ERC varies from 20 kWh to 100 kWh and 100 percent to 20 percent, respectively. As of the

report period, around 54 percent of the distribution utilities nationwide have an approved lifeline level of 20 kWh and below while four (4) DUs have an approved lifeline level of up to 100 kWh. The four DUs which have a 100 kWh lifeline level are Manila Electric Company (MERALCO), Panay Electric Co., Inc. (PECO), Iligan Light and Power, Inc. (ILPI), and Davao Light and Power Company (DLPC).

Figure 1 - Amount of Discounts to Lifeline Customers by Lineline Level, 2008

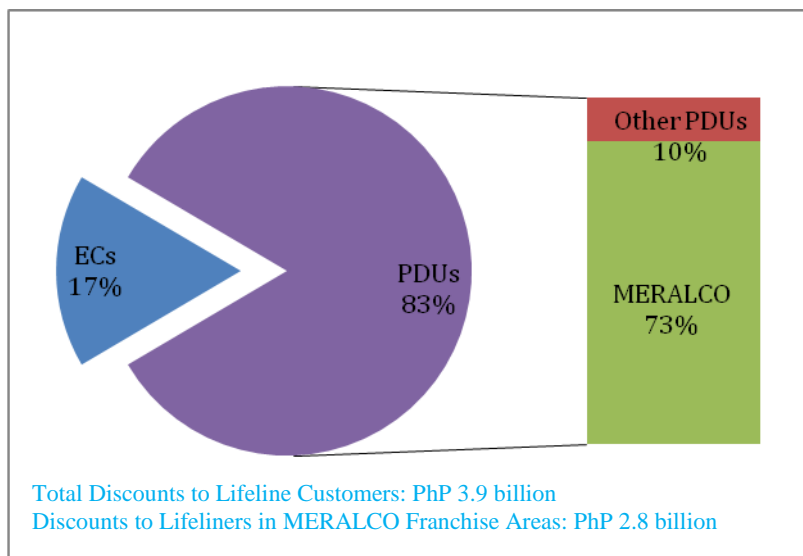


Based on preliminary data provided by ERC, total discounts extended to lifeline customers in 2008 amounted to PhP 3.9 billion of which 77 percent were availed by lifeline customers of DUs with an approved lifeline level of up 81 to 100 kWh (Figure 1). Eighty-three (83) percent of the total lifeline discounts in 2008 went to customers of private distribution utilities of which 73 percent were enjoyed by MERALCO customers (Figure 2).

For the report period, the ERC has approved revised lifeline program of four (4) DUs namely MERALCO, Iligan Light and Power, Inc. (ILPI), Cotabato Light and Power Co. (DLPC) and Mactan Electric Co. (MECO).

The MERALCO lifeline program revision was based on the petition filed by the Bureau of Trade Regulation and Consumer Protection/ Department of Trade & Industry (BTRCP-DTI). On 10 November 2008, has ordered MERALCO to implement a revised lifeline program as shown in Table 21.

Figure 2 - Share of Lifeline Discounts by Type of DU, 2008



On the other hand, the ERC has approved a new lifeline program for the three other PDUs mentioned above, as contained in ERC's decisions of rate applications of the said PDUs who are entering their first regulatory year of the regulatory period 2009-2013 under Performance-Based Regulation (PBR). Accordingly, the decisions provide for a 100 percent discount for customers consuming 20 kWh and below. These decisions were made in reference to the BTRCP petition on the revised lifeline rate for MERALCO franchise area. A comparison of the old and new lifeline program for these DUs is provided in Annex 3.

One of the issues raised in the implementation of lifeline program is whether or not all those who benefit from it fall under the category of "marginalized consumers". It can be noted that the bulk of the discounts were availed by customers of DUs having a lifeline level of 80 kWh to 100 kWh, which cannot be considered consumption of a marginalized consumer.

Table 21 - MERALCO Revised Lifeline Level

| kWh Consumption | Discount Level |
|-----------------|----------------|
| 0-20 kWh | 100% |
| 21-50 kWh | 50% |
| 51-70 kWh | 35% |
| 71-100 kWh | 20% |

IV. COMPETITION

A. Wholesale Electricity Spot Market (WESM) Implementation

After 34 months of WESM commercial operations in Luzon there are already 18 generating companies who are directly participating in the WESM, eight (8) DUs while there are five (5) registered direct suppliers. The latest direct WESM member in the distribution sector is the Kalinga Electric Cooperative, , Inc. (KAELCO) which membership was approved on 26 March 2009.

1. Highlights of Luzon Commercial Operations

For the duration of the covered period, average demand levels were lowest in January 2009, posting only 4,191MW, as demand for electricity declined due to lesser economic activities during the Christmas and New Year holidays and the cooler weather which caused the typical seasonal drop in demand from December 2008 to mid-February 2009.

Table 22 - Summary of Market Results

| Billing Month | | Peak Demand, MW | Coincident Energy Offers, MW | Ave. Demand, MW | Ave. Energy Offers, MW | Ave. Capacity on Outage, MW |
|---------------|------------|-----------------|------------------------------|-----------------|------------------------|-----------------------------|
| 29 | Nov 2008 | 6395 | 6361 | 4986 | 5828 | 1204 |
| 30 | Dec 2008 | 6338 | 6826 | 4711 | 6327 | 946 |
| 31 | Jan 2009 | 6050 | 6512 | 4191 | 5603 | 1472 |
| 32 | Feb 2009 | 6421 | 6240 | 4853 | 5969 | 1281 |
| 33 | March 2009 | 6638 | 6721 | 5167 | 6315 | 1104 |
| 34 | April 2009 | 6810 | 7220 | 5068 | 6374 | 1383 |

Maximum demand for the 6-month period was registered at 6,810 MW in April 2009 while the average energy offers which were offered by the WESM-registered generators were highest in April 2009 at 7,220 MW. Higher levels of energy supply may be attributed to high contribution of generation from Sta. Rita, San Lorenzo and Ilijan natural gas plants with the lifting of the gas supply restrictions upon completion of the maintenance activities of the Malampaya Gas Field facilities.

Average energy offers were lowest in January 2009 at 5,603 MW as the average capacity on outage for this month was significantly high at 1,472 MW on account of scheduled maintenance of gas and coal-fired power plants during the holiday season when demand is expected to be low.

Effective Buying Prices in the WESM during the covered billing months ranged from an all-time low of PhP1,244.97/MWh in December 2008 to a maximum of PhP5,520.95/MWh during the November 2008 billing month.

The low offer price in December 2008 was on account of: (1) high spot volume available; (2) reduction in demand due to cooler weather conditions and lesser economic activities during the holidays; (3) lower price offers in the market, with average ex-ante Load Weighted Average Price (LWAP) of only PhP1,224/MWh; (4) higher availability of hydro plants compared to the previous month; and (5) low average capacity on outage. The monthly effective settlement prices for the report period are presented in Table 23.

Table 23 - Effective Settlement Prices

| Billing Month | Buying Price (w/ Surplus), PhP/MWh | Selling Price (w/o Surplus), P/MWh |
|---------------|------------------------------------|------------------------------------|
| Nov 2008 | 5,520.95 | 4,833.61 |
| Dec 2008 | 1,244.97 | 786.69 |
| Jan 2009 | 1,881.33 | 1,797.76 |
| Feb 2009 | 3,062.87 | 2,893.06 |
| March 2009 | 3,395.09 | 2,774.38 |
| April 2009 | 4,350.10 | 3,798.38 |

Luzon energy supply covered by bilateral contract quantities (BCQ) posted an average of 83.0 percent of the total monthly energy consumption for the said covered billing months or 2,697 GWh. The average spot transaction for the same period is 17.0 percent or 567 GWh.

Table 24 – Metered Quantities: Energy Consumption

| Billing Month | Metered Quantity (Load), MWh | Spot Quantity, MWh | Percent Share | Bilateral Quantity, MWh | Percent Share |
|---------------|------------------------------|--------------------|---------------|-------------------------|---------------|
| Nov 2008 | 3,447,266.38 | 535,759.02 | 16 | 2,911,507.37 | 84 |
| Dec 2008 | 3,151,245.74 | 545,175.13 | 17 | 2,606,070.61 | 83 |
| Jan 2009 | 2,906,720.56 | 604,622.65 | 21 | 2,302,097.92 | 79 |
| Feb 2009 | 3,358,810.66 | 766,465.14 | 23 | 2,592,345.53 | 77 |
| March 2009 | 3,222,969.29 | 537,701.69 | 17 | 2,685,267.60 | 83 |
| April 2009 | 3,503,547.55 | 414,910.72 | 12 | 3,088,636.83 | 88 |

2. Visayas Trial Operations

The Live Dispatch Operation (LDO) program is the final phase of the Trial Operations Program (TOP) and serves as the final phase of preparation for commercial operation. It is the actual implementation of the Security-Constrained Dispatch Schedule (SCED) produced by the Market Dispatch Optimization Model (MDOM) in the Market Management System (MMS) without any financial settlement.

The LDO is intended to enable the Trading Participants, the System Operator (SO) and the Market Operator (MO) to perform their respective roles and responsibilities in preparation for the WESM Commercial Operation. It is also intended to finalize testing of all interfaces to the MMS, including WESM procedures and protocols, as well as to address arising operational issues that may impact on the commercial operations of the WESM.

However, on March 24, 2009, with permission from the Department of Energy, the MO has issued a notice of the temporary conclusion of the WESM TOP in Visayas and suspension of the LDO while preparations and implementation of the Visayas Supply Augmentation Auction (VSAA) program is underway.

3. Visayas Supply Augmentation Auction Program (VSAA)

The prevailing electric power supply situation has been determined that it may not be feasible to start the commercial operations of the WESM in the Visayas. Thus, there is a need to implement interim measures in order to augment the supply of electric power in the Visayas grid, while awaiting the operation of the new generation plants and in preparation for the eventual commencement of the commercial operations of the WESM in the Visayas.

In order to address such situation, the DOE issued Department Circular No. DC2009-01-0001 "Directing DOE Attached Agencies and Various Stakeholders to Adopt and Implement Contingency Measures to Ensure Adequate and Reliable Electric Power Supply in Visayas Grid Particularly in the Islands of Cebu, Negros and Panay."

The issuance of the Circular was the result of the series of consultations conducted by the DOE with its attached agencies, other government agencies, local government units, industry participants and stakeholders, culminating with the Visayas Power Stakeholders Meetings held on 15-16 January 2009 in Cebu City. The Power Stakeholders Meetings were participated in by industry participants and local government officials in the islands of Cebu, Negros and Panay.

The participants in the meeting also entered into a Covenant whereby they agreed to:

- fully cooperate in ensuring that there will be adequate and reliable supply of electric power in the Visayas region ;
- assist in resolving power emergency situation in the Visayas Area and work out schemes to achieve this purpose; and
- agree on specific timelines and deliverables in implementing the schemes and programs considered including but not limited to the obligations

provided in Department Circular DC2009-01-0001 of the Department of Energy

The Circular provided for the specific responsibilities of the various power industry agencies in the implementation of contingency measures as well as the implementation of a VSAA Program as a supply management measure.

The VSAA Program is a voluntary, day-ahead market which would allow embedded generators to sell their non-contracted capacity and grid-connected customers to sell an interruptible portion of their loads through an auction process.

The Philippine Electricity Market Corporation (PEMC), together with the SO, shall implement the VSAA Program through a day-ahead auction where the participants offer their net embedded capacity and interruptible load capacity in order to provide capacity augmentation during peak hours.

As participation is voluntary, the grid customers (i.e., distribution utilities or directly-connected large customers) that will not participate will not share in the augmentation and will be subject to the usual manual load dropping and automatic load dropping allocations implemented by the SO.

PEMC held a series of consultation meetings with the stakeholders on the first week of February 2009 in preparation for the VSAA Program. Simultaneously, the PEMC has initiated the formulation of VSAA Rules, filing of applications for regulatory approvals of the methodologies for pricing and cost recovery and for the collection of administration fees, development and acquisition of auction systems, preparation of participants through orientation and training, development of internal business processes, coordination with the SO and other participants/service providers of the program, and issuance of invitation to register in the program to participants.

On March 6, 2009, an application was filed with the ERC for approval of the "Pricing and Cost Recovery Methodology and Level of Administration Fees" for the implementation of the VSAA Program. The ERC on its Order on Case No. 2009-015RC dated March 23, 2009 issued Provisional Authority to PEMC to operate the VSAA Program.

To date, the VSAA Program is now in its 5th week of Trial Operations. It started with a survey among the Distribution Utilities/Electric Cooperatives (DUs/ECs), Grid-Connected Customers and Grid/Embedded Generators located in the Cebu-Negros-Panay (CNP) to solicit information and determine the potential participants of the program.

4. WESM Organization

The governance and operations of the WESM is currently undertaken by the PEMC Board of Directors (PEM Board) while the various governance committees serve as the governance arm of the WESM. The PEMC was constituted as the Autonomous Group Market Operator (AGMO) pursuant to Section 30 of the EPIRA. As an interim provision of the WESM Rules, the DOE Secretary serves as the Chairman of the PEM Board.

One year after the implementation of the WESM, the EPIRA requires that an Independent Market Operator (IMO) shall be formed and the functions, assets and liabilities of the AGMO shall be transferred to the said IMO upon joint endorsement of the DOE and the electric power industry participants. This has yet to be implemented since transition to IMO involves moving towards the WESM final structure and achieving a competitive and credible market, attracting timely and efficient investment and active private sector participation. It requires implementing a set of checks and balances to ensure IMO's independence and efficiency. In addressing all these issues, designing adequate new governance arrangements is critical. For the past two years, various problems and operational issues in the WESM were identified wherein effective governance is urgently necessary. Likewise, the appointment of the regular PEM Board will be set to do strictly comply with the required provisions. Under the WESM Rules (Section 1.4.3.2) all new appointments/reappointments of Directors and the Chairperson of the Regular PEM Board shall be made once the IMO assumes the duties, functions and responsibilities of the AGMO.

Appointing an IMO would require in depth study, consultations and agreement by the DOE and the electric market participants which include among others the:

- Revisit of the governance structure as to its consistency with the provisions under the EPIRA, IRR and WESM Rules in order to ensure adequate and effective electricity market governance; and implement amendments if necessary;
- Review of the provisions in the EPIRA, IRR and WESM Rules on the structure of the Philippine WESM and the IMO;
- Review and identification of the functions and responsibilities of the IMO and its corresponding protocols and agreement with relevant entity such as the system operator, metering services provider and other service providers;
- Study on the approach for the selection, formation and appointment of the IMO;

- Development of guidelines and procedures and formulation of qualifications and criteria for the selection, formation and appointment of the IMO taking into consideration the requirement under EPIRA IRR Rule 9 Section 6 (a) “ xxx: *Provided, That the IMO shall be financially and technically capable, with proven experience and expertise of not less than two (2) years as a leading independent market operator of similar or larger size electricity market.*”; and,
- Clarification of legal and regulatory framework; and identification and delineation of DOE, ERC and PEM Board roles for policy making, rule making, regulation and market operations.

The DOE determined that market issues in the WESM in the Luzon grid should be resolved and mitigated first prior to the appointment of the IMO which opted the DOE to defer the implementation of the IMO and the WESM Visayas to ensure a competitive, efficient, transparent and reliable electricity spot market.

In March 2008, the DOE formed the Special WESM Rules Review Committee (SWRRC) to review and revisit the WESM Rules and address a number of issues that were experienced in the market. The SWRRC identified issues in the market entitled “Problems and Operational Issues Learned from the Philippines WESM”, and submitted the proposed amendments to the WESM Rules addressing the operational issues. On October 08 & 14, 2008, the WESM Rules Change Committee (RCC) approved the proposed rules changes submitted by the SWRRC and finally approved by the PEM Board on January 13, 2009. Likewise, the Market Operator submitted a report to the PEM Board which documented the actions being undertaken by the PEMC to address and resolve the problems issues cited by the SWRRC.

The DOE also reviewed the PEM Board composition to make it more consistent with the provision of the WESM Rules and to reflect the continuing progress in the market and ensure fair sectoral representation. Some of the issues determined in the composition of the Board were: 1) the NGCP representation for the transmission sector instead of the TransCo; 2) the representation of new private owners of the privatized government plants for the generation sector; 3) the inclusion of accredited retail energy suppliers in the supply sector; and 4) the creation of an Advisory Board composed of TransCo residual, NEA, and the DOE to act as resource persons of the PEM Board with regard to the policy guidelines.

In improving the governance and the operation of the WESM, one of the major DOE activities lined up for 2009 is the implementation of the WESM Audit. The WESM audit shall include audit of the systems and procedures on the Market Operations and Billing and Settlement. The main objective of the audit is to review and assess the whole operation of the WESM which will provide reference and guidance to DOE on the implementation of the IMO.

5. Approval of the level of the Market Fees for the WESM

PEMC has already filed with the ERC an application for approval of the WESM market fees for the three-year period from 2009 to 2011. This is to secure the approval of the new level of Market Transaction Fees (Market Fees) for the calendar years 2009 to 2011 to be imposed on all transaction in the WESM. The market transaction fees are assessed on generators trading in the WESM to defray the costs of operating and administering the WESM.

This present application is different from the applications filed for CY 2006 and CY 2007 as it shifts towards a three (3) year regulatory period. This is in order to provide opportunities for a medium to long-term planning and to result in a budget that will take into account a long term capital requirements and market developments that may take several years to complete. Further, PEMC proposes the output-based budget where output components are the services it provides to meet the objectives of the WESM and produce the outcomes desired by the participants.

The proposed level of Market Fees for the three year period is equivalent to the total PEMC projected budgetary requirements for as follows: a) 2009, at PhP1.089 billion; b) 2010, at PhP998.132 million, and c) 2011, at PhP977.614. The estimated market fees for the three year period will be PhP0.025/kWh for year 2009; PhP0.022/kWh for 2010; and PhP0.020/kWh for 2011. If approved, this would apply only in the Luzon market.

6. Reserve Market

The PEMC has been waiting for the ERC's approval of the Pricing and Cost Recovery Mechanism for Reserves in the WESM which was filed last January 8, 2007. PEMC has already submitted its "Formal Offer of Evidence" and additional requirements by the ERC. The operationalization of the reserve market is critical in ensuring stability of supply given that NPC can no longer sustain its role in providing for the ancillary requirements. It is intended likewise to supplement the Ancillary Service Cost Recovery Mechanism (AS-CRM) of the TransCo which has been approved provisionally by the ERC in its order dated October 11, 2006.

It can be recalled that the NGCP, in its effort to comply with its obligation of ensuring supply reliability, has applied for the approval of the Electronic Ancillary Services Tendering (EAST) on 19 January 2009 at the ERC. According to NGCP, they envisioned to provide a systematic and transparent means of acquiring medium term supply of Ancillary Services (AS). It will serve as a competitive procurement process for medium term supply of AS thereby ensuring a more stable price of the services. It is perceived that upon the

operation of the EAST, the existing contracts for the supply of the said services of TransCo and its Concessionaire will be replaced.

Further, NGCP stressed that the EAST is intended to facilitate the procurement process for all types of ancillary services such as Frequency Regulating Reserve, Contingency Reserve, Dispatchable Reserve, Reactive Power Support, and Back Start Service that are required in the different grids. The ERC has undergone jurisdictional hearing, expository presentations, pre-trial conferences and evidentiary hearings for the said application in Luzon, Visayas and Mindanao in February 2009.

However, the DOE viewed the said application as in violation to the existing provisions of the EPIRA, its IRR and the WESM Rules hence, on 05 March 2009, the Department submitted its position paper regarding the application to the ERC requesting for its dismissal.

The EPIRA states that the power and function to establish the WESM including the ancillary services market are solely mandates of the DOE. It is also clear that EPIRA and its IRR have placed upon the DOE the establishment and supervision of the WESM, including the ancillary services spot market, as specified under Section 30 of the EPIRA and detailed in Rule 9 of its IRR.

The WESM Rules provides for the efficient manner by which the SO should acquire ancillary services. Therefore, the introduction of the EAST will complicate the operation of the Reserve Market as envisioned under the EPIRA and the WESM Rules as it will create two Spot Market for ancillary service. Further, it will cause an increase in the electricity rates due to additional costs that will be added to the generation cost for additional infrastructure that will be used in trading in the EAST. These costs will eventually be added to the consumer's electricity bills.

Another issue that the DOE raised is on the engagement of a third party which will be called EAST Administrator. As mentioned above, the EAST will definitely raise the electricity rates due to recovery of costs incurred in its administration. However, the application did not mention what specific costs or expenses will be included in its recovery of the administration fee.

Another ground for DOE's petition for dismissal is on the provision in the EPIRA on the net income derived from related business engaged by TransCo. Section 20 of the EPIRA states that not exceeding 50 percent of the net income derived from related businesses of TransCo, a portion should be allocated to reduce transmission wheeling rates. Since, the EAST Administrator will be a third party, the said provision in the EPIRA will be defeated and will not give benefit to the electric power consumers.

B. Open Access and Retail Competition

The fulfillment of the fourth EPIRA imposed pre-condition to open access and retail competition was almost realized with the sale of Tiwi-Makban closing in the privatization level to 70 percent. However, the termination by the Emerald Energy Corporation on the purchase of Calaca power plant reduces the privatization level to only 57.4 percent of the aggregate capacity in Luzon and Visayas. Meanwhile, the ERC reported that the establishment of all necessary infrastructures including the customer switching system is yet to be finalized with the PEMC.

The ERC also reported that they have been preparing the guidelines in preparation for open access. The drafting of the Dispute Resolution Procedures for Retail Competition is ongoing. The set of rules provides the prompt resolution of disputes concerning transaction in the competitive retail market and ensures an opportunity for unprejudiced dispute resolution. The ERC is likewise in the process of drafting the Rules on Retail Aggregation in preparation for retail aggregation, which will take place two (2) years after the initial implementation of retail competition.

With respect to the petition on the interim open access filed by the Philippine Independent Power Producers Association (PIPPA) before the ERC, the ERC has issued a Decision on November 10, 2008 granting the said request with modifications and subject to some conditions. In lieu of the Interim Open Access (IOA), the ERC then modified it to Power Supply Option Program (PSOP) for the industry. The PSOP shall commence from the transfer of the operation of the Calaca privatized NPC Generation and shall initially be implemented in Luzon. It shall cease to be operational upon commencement of actual open access and retail competition, and all contracts and transactions related to the scheme shall be automatically terminated.

However, as the Calaca turn-over did not materialize, the ERC then issued an Order directing the Petitioners to file their comment on their intention to maintain the privatization of the Calaca NPC Generation Assets as a precondition for the implementation of the PSOP. Masinloc Power Partners Co., Ltd (AES Philippines) submitted its comment/suggestion for the ERC to consider substituting the privatization of Calaca with the Tiwi-MakBan geothermal facilities. According to them, this will give a better assurance of actual competition as the capacity of the said plant, at 745 MW, is higher than the 600 MW capacity of the Calaca plant. They recommended that the implementation of the PSOP commence six (6) months after the closing of the said plant.

The ERC has already drafted the rules to implement the PSOP which has been subjected to public consultation. The Rules however has yet to be finalized as it will be subject to a ruling that the ERC will issue concerning the issues raised in a motion for reconsideration filed by the MERALCO, as well as the transfer of the Calaca assets.

The DOE earlier, in the 13th EPIRA Implementation Status Report, has raised policy and legal concerns on some aspects of the interim open access, among these:

- The implementation of open access and retail competition should be strictly subjected to EPIRA-set preconditions;
- The conditions for eligibility proposed in the IOA is anti-competitive and discriminatory; and
- There is no assurance that the IOA will help lower the prices.

For additional information, a summary of events for the IOA is included in Annex 4.

C. Market Power Monitoring

Monitoring of market power in the electric power industry is pursuant primarily to Section 45 (a) of the EPIRA which provides that no company or related group can own, operate or control not more than 30 percent of the installed generating capacity of a grid and/or 25 percent of the national installed generating capacity.

On 14 December 2005, the ERC issued Resolution No. 26, series of 2005, adopting the Guidelines for the Determination of Installed Generating Capacity in a Grid and the National Installed Generating Capacity and Enforcement of the Limits on Concentration of Ownership, Operation or Control of Installed Generating Capacity under the EPIRA. As provided under Section 3 of the said guidelines, the ERC shall adjust the installed generating capacity per grid, the national installed generating capacity, and the market share limitations every 15th day of March of the succeeding year and/or as often as may be necessary based on the maximum capacity of the power plants as submitted by the generation companies and other entities that are required by the ERC to submit reports.

The latest adjustment is based on ERC Resolution No. 4, Series of 2009 which will be enforced until March 2010 which provides for capacity limitations as indicated in Table 25:

Table 25 - Capacity Limitations, March 2009-March 2010

| Grid | Installed Generating Capacity (kW) | Market Share Limitations as per RA 9136 (in percent) | Installed Generating Capacity Limit (kW) |
|-------------|---|---|---|
| Luzon | 10,664,228.00 | 30 | 3,199,268.40 |
| Visayas | 1,645,315.40 | 30 | 493,594.62 |
| Mindanao | 1,729,576.00 | 30 | 518,872.80 |
| National | 14,039,119.40 | 25 | 3,509,779.85 |

First Gen Corporation has expanded its market share to 19 percent in Luzon and around 8 percent in the Visayas. If viewed on its acquisition and operation of the PNOC-EDC geothermal assets in the Visayas, namely, the 610MW Tongonan II & III and the 49MW Northern Negros Geothermal Power Plants, First Gen will comprise 37 percent of the installed capacity in the Visayas and will exceed the grid ownership limitation. The said facilities are under Build-Operate-Own (BOO) scheme and their outputs are under PPA with NPC.

Table 26 – Market Share by Utility

| GROUP | LUZON | | VISAYAS | | MINDANAO | | PHILIPPINES | |
|-------------------------------|---------------|---------------|--------------|---------------|--------------|---------------|---------------|---------------|
| | MW | Percent Share | MW | Percent Share | MW | Percent Share | MW | Percent Share |
| NPC (Includes Calaca) | 1,106 | 9.3 | 456 | 24.9 | 1,117 | 57.8 | 2,679 | 17.1 |
| NPC-IPP | 6,296 | 52.8 | 772 | 42.2 | 712 | 36.9 | 7,780 | 49.6 |
| <i>Sub-Total NPC/NPC-IPP</i> | <i>7,402</i> | <i>62.1</i> | <i>1,228</i> | <i>67.0</i> | <i>1,829</i> | <i>94.6</i> | <i>10,459</i> | <i>66.7</i> |
| MERALCO-IPPs | 2,316 | 19.4 | 144 | 7.8 | 2 | 0.1 | 2,462 | 15.7 |
| ABOITIZ Group | 1,362 | 11.4 | 166 | 9.0 | 72 | 3.7 | 1,600 | 10.2 |
| Other-IPPs | 836 | 7.0 | 295 | 16.1 | 30 | 1.6 | 1,161 | 7.4 |
| <i>Sub-Total Private IPPs</i> | <i>4,514</i> | <i>37.9</i> | <i>605</i> | <i>32.9</i> | <i>104</i> | <i>5.4</i> | <i>5,223</i> | <i>33.3</i> |
| TOTAL | 11,916 | 100.0 | 1,833 | 100.0 | 1,933 | 100.0 | 15,682 | 100.0 |

Note: Details may not add up to totals due to rounding-off.

NPC's share in Luzon went down to 9.3 percent in Luzon, 24.9 percent in the Visayas, while still at 57.8 percent in Mindanao since, the grid is still exempted from the privatization requirements of the EPIRA specifically on the Agus hydro power complex. Generally, NPC is now down from the national share of 31.0 percent prior to privatization to only 17.1 percent after the sale of Panay DPP I & II and the Bohol DPP in the Visayas.

Summarized on Table 26 is the share of major generating companies in the country based on the DOE data of existing power plants.

With regard to other private IPPs, the Aboitiz Group has increased considerably its share to 11.4 percent in Luzon after its purchase of major hydro and geothermal power plants namely Magat Hydro Power Plant, Ambuklao-Binga Hydroelectric Complex and Tiwi-Makban Geothermal Power Plants.

The DOE noted the need to harmonize concepts and definitions in the computation of markets shares in view of the ERC guidelines and market share limitations. A comparison of the DOE and ERC data with regards to the installed generating

capacity of the power plants were made but was limited only to those plants that are listed in ERC Resolution No. 4, Series of 2009. A difference of 1,154.6 MW was noted.

In order to come up with consistent figures based on a widely and generally accepted definition, the DOE initiated a survey on all power generators. The said survey required the plant owners to provide basic plant information particularly on installed generating capacity, dependable capacity, and available capacity and rated capacity. The figures were required to be provided with details such as seasonal plant condition specifically for wet and dry season including averages for a year. The DOE is currently waiting for the submission of other power generators for the completion of the data and once completed, the DOE will post the survey result at the DOE website for public consumption. The said survey will give way for the policy in the determination of the power industry participant's compliance to Section 45 (a) of the EPIRA.

V. ENERGY SUPPLY SECURITY AND RELIABILITY

This section presents the country's power supply and demand situation for the year 2008, and the status of power generation, transmission and distribution projects as of the period under review.

A. Installed Capacity

The country's installed capacity totaled 15,681 MW. Fossil fueled power plants, which are largely located in Luzon grid, remain the dominant source with coal-fired power plants topping at 26.9 percent and oil-based power plants following at 21.4 percent. Other fuels such as hydro, natural gas, geothermal and New RE (wind and solar) have a share of 21.0 percent, 18.0 percent, 12.5 percent and 0.2 percent, respectively. The

installed capacity of renewable energy has increased due to the addition of the 8 MW Northwind Power Phase II located in Bangui, Ilocos Norte which became operational in September 2008 and the 2.5 MW Sevilla Mini Hydro located in Bohol which was commissioned in November 2008. Total dependable capacity was 13,049 MW, which is 83.2 percent of the total installed capacity (Table 28).

B. Electric Power Generation

Gross power generation in 2008 reached 60,821 gigawatt-hours (GWh), 2.0 percent higher than 59,612 GWh in 2007. Fossil fuel production decreased by 1.4 percent, from 40,775 GWh in 2007 to 40,193 GWh in 2008. On the other hand, generation from renewable energy is higher by 9.5 percent at 20,628 GWh in 2008 from 18,837 GWh in 2007 (Table 27).

Natural gas-fired remains the top producer of electricity with a total generation of 19,576 GWh, accounting for 32.0 percent of the country's total gross generation.

This marks the fourth consecutive year in which natural gas-fired had the biggest share on gross generation since replacing coal-fired in 2005. The increase of 4.2 percent on natural gas-fired generation shows also an increase in its average capacity factor by 3.9 percent, from 75.8 percent in 2007 to 78.9 percent in 2008.

Table 27 - Comparative Generation by Resource

| Plant Type | PHILIPPINES | | | | | |
|-------------------------|---------------|---------------|---------------|---------------|--------------|---------------|
| | 2008 | | 2007 | | Difference | |
| | GWh | Percent Share | GWh | Percent Share | GWh | Percent Share |
| Fossil Fuel | 40,193 | 66 | 40,775 | 68 | (582) | (1.4) |
| Coal | 15,749 | 26 | 16,837 | 28 | (1,088) | (6.5) |
| Oil-based | 4,868 | 8 | 5,148 | 9 | (280) | (5.4) |
| Natural Gas | 19,576 | 32 | 18,789 | 32 | 786 | 4.2 |
| Renewable Energy | 20,628 | 34 | 18,837 | 32 | 1,791 | 9.5 |
| Geothermal | 10,723 | 18 | 10,215 | 17 | 508 | 5.0 |
| Hydro | 9,843 | 16 | 8,563 | 14 | 1,279 | 15.0 |
| New RE (Wind/Solar) | 63 | 0.10 | 59 | 0.10 | 4 | 6.0 |
| Total Generation | 60,821 | 100 | 59,612 | 100 | 1,209 | 2.0 |

Source: DOE

Coal-fired generation was the second leading contributor to total gross generation with 26 percent share of the mix. However, its share to the total generation mix declined by 6.0 percent, from 16,837 GWh in 2007 to 15,749 GWh in 2008. Some coal-fired power plants in Luzon were unavailable to operate due to annual overhauling (e.g. 300 MW Calaca 2 on November 2007 to May 2008 and 300 MW Masinloc 1 from August 2007 to April 2008). Also, in July 2008 the Luzon transmission line experienced transformer congestion at San Jose Substation in Bulacan. The congestion constrained the flow of energy from coal and hydro plants in Northern Luzon, in which Sual (1,294 MW) and Masinloc (600 MW) plants are located, and occurred until 6 October 2008 with the completion of the replacement transformer at the San Jose Substation. In Mindanao, coal-fired generation decreased by 4.6 percent from 1,571 GWh in 2007 to 1,499 GWh in 2008 due to the increased utilization of hydroelectric plant.

Table 28 - 2008 Installed and Dependable Capacity

| PLANT TYPE | PHILIPPINES | | | |
|-------------|---------------|------------|---------------|------------|
| | Capacity (MW) | | Percent Share | |
| | Installed | Dependable | Installed | Dependable |
| Coal | 4,213 | 3,412 | 27 | 26 |
| Oil Based | 3,353 | 2,702 | 21 | 21 |
| Natural Gas | 2,831 | 2,562 | 18 | 20 |
| Geothermal | 1,958 | 1,388 | 12 | 1 |
| Hydro | 3,291 | 2,950 | 21 | 23 |
| Wind | 33 | 33 | 0.21 | 0.25 |
| Solar | 1 | 1 | 0.01 | 0.01 |
| TOTAL | 15,681 | 13,049 | | |

Source: DOE

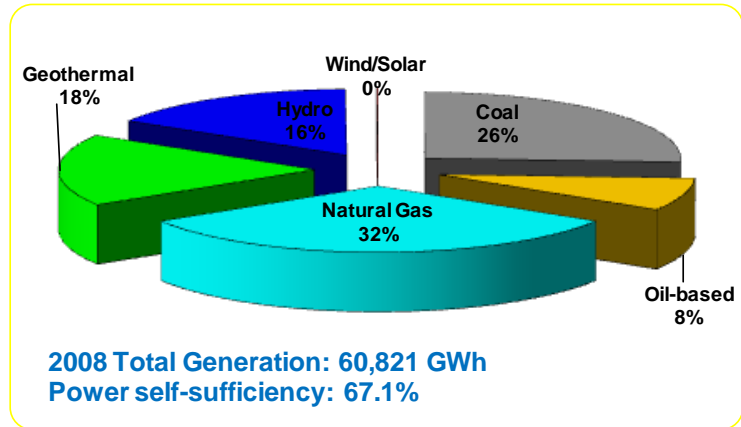
Gross generation from geothermal energy recorded an increase of 5.0 percent, from 10,215 GWh in 2007 to 10,723 GWh in 2008. This was attributed to the increase of energy transferred from Leyte-Samar to Luzon via Leyte-Luzon High Voltage Direct Current (HVDC).

Total energy transfer increased by 55.2 percent from 720 GWh in 2007 to 1,117 GWh in 2008. Also, the unavailability of coal fired plants in Luzon gave way to more utilization of geothermal, hydro and natural gas. Geothermal generation accounted for 18 percent of total gross generation in 2008.

Due to frequent rains in the summer months of 2008, generation from hydroelectric plant increased by 14.9 percent, from 8,563 GWh in 2007 to 9,843 GWh in 2008. Its share to total generation mix increased by two points from 14.0 percent in 2007 to 16.0 percent in 2008.

Oil-based gross generation which accounted for 8.0 percent of the total gross generation, dwindled by 5.4 percent, from 5,148 GWh in 2007 to 4,868 GWh in 2008. On a per grid basis, despite the high dispatch of oil-based plants during the period which constrained the flow of coal and hydro plants in San Jose Substation, its share to total generation in Luzon grid was only 4.0 percent. Meanwhile, oil-based power plants in Visayas grid has an increased generation equivalent to 1,665 GWh in 2008. This is 12.7 percent higher than the 2007 generation level of 1,477 GWh. Oil-based generation in Mindanao decreased by 13.77 percent, from 1,479 GWh in 2007 to 1,275 GWh in 2008 (Table 27).

Figure 3 - Power Generation Mix, 2008



Generation of New RE such as wind in Luzon and solar in Mindanao increased by 6.0 percent from 59 GWh in 2007 to 63 GWh in 2008. Its share to total gross generation remained unchanged from 2007 at 0.10 percent (Figure 3).

As the privatization of NPC-owned plants progresses, the share of NPC power plants to the total generation by ownership continues to decline. With the transfer of NPC's 600 MW Masinloc CFTPP to Masinloc Power AES and 175 MW Ambuklao-Binga to SN Aboitiz Power Corp., the share of NPC to the total generation decreased by 16.0 percent. This development in turn increased the contribution of non-NPC plants by 10.2 percent, from 17,867 GWh in 2007 to 19,658 GWh in 2008. Gross generation

Table 29 - Comparative Generation by Ownership/Utilities

| Total PHILIPPINES | 2008 | | 2007 | | Change | |
|-------------------|---------------|---------|---------------|---------|--------------|------------|
| | GWh | % Share | GWh | % Share | GWh | % |
| NPC | 12,743 | 21 | 15,151 | 25 | -2,408 | -15.9 |
| NPC-SPUG | 448 | 1 | 437 | 1 | 11 | 2.4 |
| NPC IPP | 27,972 | 46 | 26,156 | 44 | 1,816 | 6.9 |
| Non-NPC | 19,658 | 32 | 17,867 | 30 | 1,790 | 10.0 |
| Total | 60,821 | | 59,612 | | 1,209 | 2.0 |

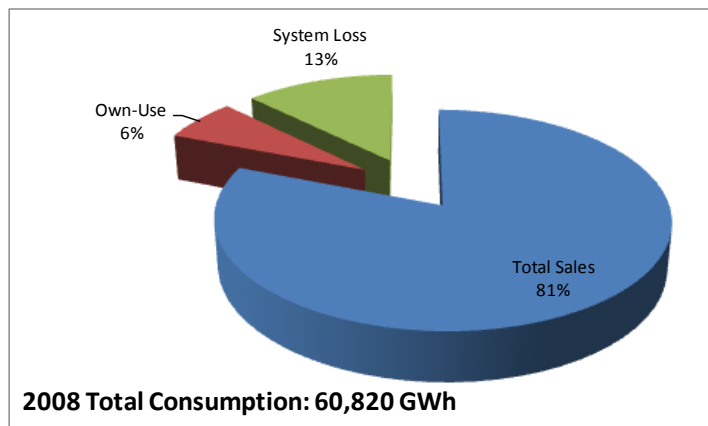
from NPC-IPP and NPC-SPUG also went up by 6.9 percent and 2.4 percent, respectively.

Electric power generation from NPC-IPP contributed the largest share at 46.0 percent or 27,972 GWh. This was followed by non-NPC at 32.3 percent or 19,658 GWh. NPC accounted for 21.0 percent or 12,743 GWh of the total generation in 2008 as compared to 25.42 percent or 15,151 GWh in 2007. The share of NPC-SPUG to total generation remained unchanged from 2007 at less than one percent (Table 29).

C. Electricity Sales And Consumption

The country's electricity sales slightly increased by 2.5 percent from 48,009 GWh in 2007 to 49,206 GWh in 2008. Out of these total sales, 33,097 GWh or 67.3 percent was contributed by PUs, while electricity sales from ECs and Non-utilities were 10,992 GWh or 22.0 percent and 5,117 GWh or 10.0 percent, respectively. Total sales accounted for 49,206 GWh or 81.0 percent to total consumption. "Own-use" of power plants and distribution utilities was pegged at 3,935 GWh or 6.0 percent. Losses from generator, transmission and distribution accounted for 7,680 GWh or 13.0 percent (Figure 4).

Figure 4 – 2008 Electricity Consumption



1. Industrial Sector

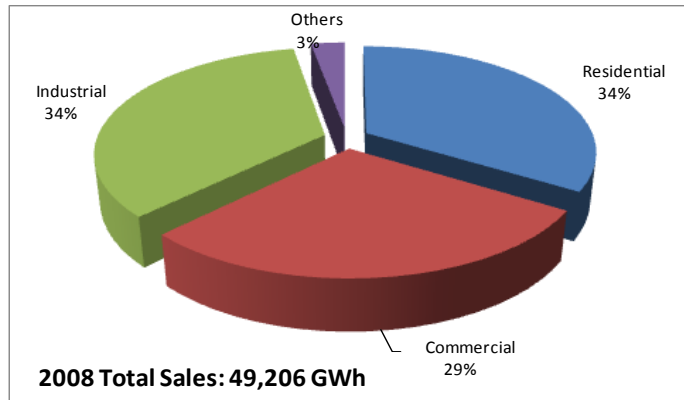
Electricity sales to the industrial sector accounted for 35.0 percent or 17,031 GWh of total electricity sales, 3.1 percent higher than 16,522 GWh in 2007. The increase in electricity sales to the industrial sector in Luzon was 3.0 percent. However, the increase in electricity sales to the industrial sector in the Visayas and Mindanao was only 0.6 and 0.2 percent, respectively. The minimal increase was attributed to food manufacturing and beverages industries.¹ The effect of the global financial crisis on the last quarter of 2008 affected the performance of export oriented industries such as finished electrical machinery, semiconductors and electric microcircuits. They either closed/shutdown their operations or decreased their loads which resulted in suppress electricity sales. (Figure 5).

2. Residential Sector

¹ NSCB 4th Quarter 2008 National Account-Industry, Posted 29 January 2009/ NEDA, Statement of Socio-Economic Planning Full Year 2008 National Income Accounts

Electricity sales to the residential sector amounts to 16,644 GWh or 34.0 percent of the total electricity sales. Such sales increased by only 1.6 percent from 16,376 GWh in 2007. Specifically, Luzon grid posted only 0.9 percent increase, from 12,129 GWh in 2007 to 12,236 GWh in 2008. With rains and typhoons during summer months which resulted in lower temperature, the use of cooling system was reduced throughout the region. Electricity sales in the Visayas and Mindanao grid increased by 2.4 percent and 5.3 percent, respectively. Highest electricity sales in the Visayas and Mindanao grid occurred in the latter part of the year due to the Christmas holiday season.

Figure 5 - 2008 Electricity Sales by Sector



3. Commercial Sector

Of the entire sector consuming electricity, commercial sector posted the highest increase by 4.9 percent. For the past five years, average annual growth rate of electricity sales to the commercial sector recorded at 5.0 percent as compared to residential and industrial sectors at 1.6 percent and 2.3 percent, respectively. Electricity sales to the commercial sector in 2008 increased by 4.9 percent (Luzon), 4.1 percent (Visayas) and 6.4 percent (Mindanao) compared to previous year. The growth of personal services such as recreational services, hotels and restaurant and other services to the Gross Domestic Product (GDP) and the increasing commercial building due to continuing demand for office space justified the increased of electricity sales to the commercial sector.

Others uses such as public buildings, street lights, irrigation and “others not elsewhere classified” decreased by 15.1 percent, from 1,641 GWh in 2007 to 1,395 GWh in 2008 (Figure 5).

D. System Peak Demand

Historically, annual peak demand in Luzon occurs in May. However, this trend did not occur as early rains and typhoon brought down the temperature at an average of 27.96°C during month of May. Lower temperatures may have resulted in reduced use of cooling system. As of the this Report, peak demand was recorded in 4 June 2008 at 6,681 MW, where the temperature was higher at 35°C. Peak demand in Luzon grid increased by 1.4 percent compared to previous year 6,590 MW peak, for the past five years the average annual growth rate in Luzon is only 1.7 percent.

The peak demand in Visayas grid increased by 6.7 percent in spite of supply problem being experienced particularly in Negros and Panay sub-grid.

Peak demand in Mindanao historically occurs in November or December. With the global financial crisis in 2008, some large industrial customers in Mindanao decreased their electricity consumption. Global Steelworks International Inc. which had an average demand of 38.0 MW decreased their load to 9.3 MW in November and 4.6 MW in December. Maria Christina Chemical Ind., which had an average demand of 7.7 MW, shutdown its operations in the last quarter of 2008. These events decreased the demand in Mindanao grid by 3.0 percent, from 1,241 MW in 2007 to 1,204 MW in 2008 (Table 30).

Table 30 - Comparative Demand by Grid

| GRID | 2008 (MW) | 2007 (MW) | Difference | |
|-------------------|-----------|-----------|------------|--------|
| | | | MW | % |
| Luzon | 6,674 | 6,643 | 31 | 0.7 |
| Visayas | 1,176 | 1,102 | 74 | 6.68 |
| Mindanao | 1,204 | 1,241 | (38) | (3.04) |
| Total Philippines | 9,054 | 8,987 | 67 | 0.75 |

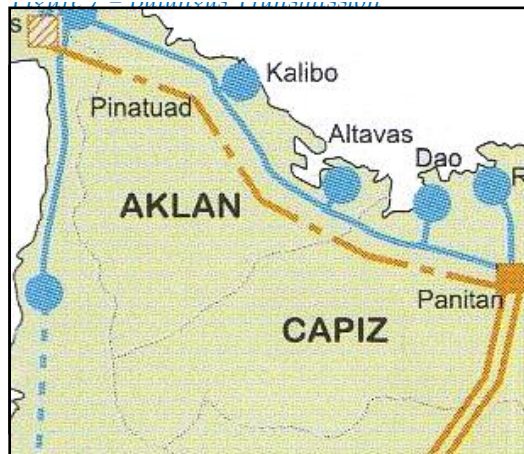
E. Status of Private Sector Initiated Power Generation Projects

As of the report period, a total of 1,354 MW private sector initiated projects were committed and already has secured financing. Of this amount, 600 MW are expected in Luzon, 653.5 MW in the Visayas and 100.5 MW in Mindanao. Projects which are considered indicative, meaning in the early stages of development and have not secured financing are expected to provide around 4,165.0 MW. Details and status of these committed and indicative projects are shown in Annex 8.

F. Status of Transmission Projects

In the transmission sector in Luzon, Schedule IV (Calamba Tower 50 – Biñan T/L) of the Batangas Transmission Reinforcement Project (BTRP) was completed.

Figure 6 - Northern Panay Transmission Backbone Project



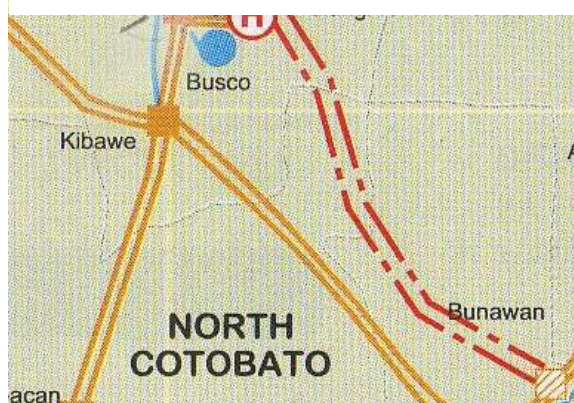
Particularly, Makban – Biñan Line 2 was energized on March 28, 2009. The BTRP is intended to strengthen the existing transmission network’s southern corridor for the efficient and reliable transmission of power generation from various Independent Power Producers in Southern Luzon. This reinforcement is needed to allow the full dispatch of natural gas plants from the Malampaya gas fields (1,100 MW Sta.Rita, 500 MW San Lorenzo and 1,200 MW Ilijan).

In the Visayas, civil works and right-of-way negotiation are on-going with regard to the Northern Panay Backbone Project. This

project is part of the Panay Power Transmission Backbone Project which is divided into northern and southern Panay. The Northern Panay Transmission Project involves the installation/construction of a total of 107 kilometers of 138 kV and 69 kV overhead transmission line utilizing steel tower structures and aims to: (1) accommodate load growth and address the low voltage problem; (2) improve the system reliability and operational flexibility; and (3) extend service to previously un-electrified areas.

In the Mindanao Grid, of the three transmission projects that composes the Mindanao 230 kV Backbone Transmission, the Maramag (Pulangi) – Bunawan 230

Figure 8 - Mindanao 230 kV Backbone Transmission Project



kV T/L is about 80.0 percent completed. The Mindanao 230 kV Backbone Transmission is aimed to strengthen the existing transmission system, thereby ensuring the stability, reliability and efficiency transmission of power in the entire Mindanao Grid. The proposed transmission network, which will be initially energized at 138 kV level, will also enhance the transmission integrity even at the weakest node of the system, especially during contingency condition.

G. ERC-Approved Capital Expenditure Projects - Within The Period Under Review

The Energy Regulatory Commission (ERC) approved nine (9) CAPEX applications of Distribution Utilities (DU) from Visayas and Mindanao for the period November 2008 to April 2009, amounting to P586 Million pesos. These projects include, replacement of transformers, rehabilitation and repair of distribution lines, upgrading of feeder protection, procurement of distribution poles, construction/upgrading of substations, etc. which are intended to comply with the standards set by the Philippine Grid Code, improve reliability, reduce system loss and to meet the growing demand of customers. Likewise, included in their applications are procurement of service vehicles, digger trucks, utility vehicles, procurement of kilowatthours meters, electronic handheld meters for meter readers, computers and office equipment, construction/repair of building, which aims to improve operations efficiency and customer service response. Provided in Annex 9 is the list of ERC-approved transmission infrastructure capital expenditure projects for the period in review.

VI. TOTAL ELECTRIFICATION

In support of the Government's efforts to alleviate poverty, the DOE launched a massive and focused action to increase and accelerate access to electricity services by the country's unenergized communities.

In 1999, the Accelerated Barangay Electrification Program (ABEP) was launched with the initial partnership of the following energy agencies: DOE, NEA, NPC-SPUG, and PNOC-EDC. In 2000 the ABEP was renamed the "O' Ilaw Program" wherein the IPPs were encouraged to participate as part of their corporate social responsibility. Under the O' Ilaw and IPP Partnership, the Adopt-a-Barangay Scheme and Advance Financing Scheme were adopted.

To further strengthen and integrate efforts on rural electrification by both the Government and the private sector, and assist the DOE to develop innovative and sustained policies and strategies consistent with the power sector reforms embodied in the EPIRA, the Expanded Rural Electrification Program (ER Program) was established, building around the basic concepts and objectives of its predecessors. The ER Program aims to achieve 100 percent barangay electrification by 2009 and 90 percent household electrification by 2017.

A. Accomplishments as of the 31 March 2009

Prior to the launching of ABEP, barangay electrification level stood only at 76.9 percent having a recorded electrified barangays of 32,281 out of 41,980 total barangay coverage. As of 31 March 2009, the ER Program had accomplished electrification level of 97.8 percent (Table 31). The accomplishment of 41,078 barangays was spearheaded by the DOE, along with its attached agencies, and together with the private sector notably the IPPs, as part of their Corporate Social Responsibility Program, reducing the number of unenergized barangays to 902 nationwide.

B. Implementation Strategies

Electrification Program today faces various and bigger challenges than years before. A large portion of the remaining unenergized barangays are mostly remote and disperse and more difficult to electrify, requiring extensive resources, time and efforts. As such, the ER Program integrates the rural and missionary electrification efforts of the government in collaboration with the private sector, non-government organizations, and several donor-funded projects with the view to attaining the goals of the ER Program.

Table 31 - Barangay Electrification Status as of 31 March 2009

| Region | Potential Barangays | Electrified Barangays | Unelectrified Barangays | Electrification Level (%) |
|---------------------------|---------------------|-----------------------|-------------------------|---------------------------|
| CAR | 1,176 | 1,132 | 44 | 96.26% |
| I | 3,265 | 3,264 | 1 | 99.97% |
| II | 2,311 | 2,240 | 71 | 96.93% |
| III | 3,102 | 3,097 | 5 | 99.84% |
| IV-A | 4,011 | 3,949 | 62 | 98.45% |
| IV-B | 1,458 | 1,411 | 47 | 96.78% |
| V | 3,471 | 3,402 | 69 | 98.01% |
| NCR | 1,695 | 1,695 | - | 100.00% |
| SUB-TOTAL LUZON | 20,489 | 20,190 | 299 | 98.54% |
| VI | 4,051 | 4,031 | 20 | 99.51% |
| VII | 3,003 | 3,003 | - | 100.00% |
| VIII | 4,390 | 4,261 | 129 | 97.06% |
| SUB-TOTAL VISAYAS | 11,444 | 11,295 | 149 | 98.70% |
| IX | 1,904 | 1,863 | 41 | 97.85% |
| X | 2,020 | 1,938 | 82 | 95.94% |
| XI | 1,160 | 1,157 | 3 | 99.74% |
| XII | 1,194 | 1,156 | 38 | 96.82% |
| ARMM | 2,459 | 2,188 | 271 | 88.98% |
| CARAGA | 1,310 | 1,291 | 19 | 98.55% |
| SUB-TOTAL MINDANAO | 10,047 | 9,593 | 454 | 95.48% |
| TOTAL PHILIPPINES | 41,980 | 41,078 | 902 | 97.85% |

1. Public Sector Contribution

As part of its mandate, the Government continues to be the major contributor in delivering access to electricity services.

a. DOE Programs and Projects

Currently, the DOE has several programs to extend access to electricity services. Two of these are through locally-funded projects, namely: the Barangay Electrification Program (BEP), which provides cost-of-capital subsidies of renewable energy systems like Solar Photovoltaic (PV) Battery Charging Stations (BCS), individual Solar Home System, micro-hydro systems and wind turbine energy systems; and the Remote Area Electrification Subsidy (RAES) Program, which focuses on implementing reforms in the rural power sector as embodied under the EPIRA.

The RAES Program involves the implementation of missionary electrification using innovative service delivery mechanism that ensures sustainability of the projects and greater ownership from the beneficiaries. The RAES adopts the Sustainable Solar Market Packages (SSMP) concept, which aims to facilitate the market development of solar

PV systems through the provisions of technical assistance, market development support, and subsidies to qualified PV companies and consumers.

The RAES Program shall pilot-test a viable alternative to “business-as-usual” approach of the DUs in providing electricity services in its franchise area. Thereby, ensuring greater outreach to un-electrified households in a sustainable manner and creating awareness on the potential of renewable energy technologies such as solar PV systems for electrification. Under this DOE-EC Partnership, the DOE shall provide capital subsidy to the ECs for the procurement of the systems while the EC shall conduct the procurement of the Contractor who shall supply and install the systems to the unenergized barangays. Maintenance of the systems in the barangays shall be the responsibility of the EC concerned. Six (6) ECs covering 101 barangays, have partnered with the DOE for this Project.

Another electrification program that DOE is currently pursuing is the 211 Priority Barangays of President Gloria Macapagal-Arroyo using the Malampaya Proceeds (SC 38). This program applies various technologies and implementation strategies such as grid connection and off-grid electrification solar.

Meanwhile, through Financial Benefits to Host Communities, a.k.a the Energy Regulations 1-94, as amended. Under ER 1-94, power generators and/or energy resource developers are mandated to set aside one centavo per kilowatt-hour (P0.01 per kWh) of the total electricity sales as financial benefits to host communities for electrification, development and livelihood, reforestation, watershed management, health and/or environment enhancement. ER 1-94 Electrification Fund (EF) supports any electrification solution including sitio electrification e.g., grid-extension and off-grid electrification of host communities, following the radiating order i.e., based on proximity of the un-electrified areas to the contributing power plant/s. To date, ER 1-94 EF provided funding for 1,961 electrification projects amounting to approximately Php 1.667 Billion.

b. NEA Programs and Projects

The NEA provides technical, financial and institutional assistance to ECs to ensure the provision of the reliable and adequate electric services in their respective franchise areas. There are 119 ECs operating in the country today, which are mostly serving remote and unviable barangays. NEA’s subsidy program covers barangays and sitio electrification, implemented through its own set of criteria in prioritizing beneficiaries.

c. NPC-SPUG Programs and Projects

The NPC-SPUG, on the other hand is responsible for providing small-scale power generation and its associated power delivery systems in areas that are not connected to the main transmission grid. It is currently serving 75 small islands nationwide. It is noted, however, that NPC-SPUG's implementation is dependent on the availability of its internal cash generation or the share of UC-ME.

d. PNOC-Energy Development Corporation's Programs and Projects

The PNOC-EDC, on the other hand, provides assistance in areas where its geothermal fields are located namely in Albay and Sorsogon, Leyte Provinces and Samar Provinces, Negros Oriental and Occidental, and North Cotabato. However, this would be the last year of PNOC-EDC's participation in the ER Program since it is already privatized.

2. Private Sector Participation

The success of the ER Program is being accomplished with support from the private sector.

a. Independent Power Producers

While DOE provides policy direction and over-all program management, the private sector particularly the IPPs extend participation in the ER Program through provision of advanced financial assistance where the cost incurred can be recovered through the available electrification fund under ER 1-94, as amended or "benefits to host communities." The other option available for the IPPs is the "Adopt-a-Barangay" scheme where IPPs provide entire funding for rural electrification of chosen barangays. Under this scheme, the IPP can either implement the project by itself or through the relevant franchise holder.

To date, Mirant Philippines Foundation has provided support to some 1,500 barangays. The Korea Electric Power Corporation (KEPCO), on the other hand, has supported more than 200 barangays and is currently collaborating with the DOE for the electrification of the 200 barangays.

KEPCO has committed additional 500 barangays/sitios under the "Adopt-a-Barangay." Out of this number, 208 barangays will be provided with solar PV systems using the Sustainable Solar Market Packages (SSMP) Approach. Under the SSMP approach, KEPCO shall fund the installations of solar PV

systems in the public facilities (ie., barangay hall, barangay day care or school, rural health center and streetlights) including some appliance like television sets and DVD players in the barangay school as educational aid to teachers. Household electrification on the other hand, shall be undertaken through commercial sales. The DOE through the RPP shall assist KEPCO contractors in partnering with the micro-finance institutions that can provide consumer lending to households who are willing to avail of the solar PV systems. Meanwhile, GOP subsidy shall be provided to the availing households as price discount to address the “affordability” concerns of rural households.

For the reporting period, KEPCO undertakes procurement of Contractors for the supply, installation, and maintenance of the systems for the 136 barangays or the KEPCO Phase 1 project. Procurement will be undertaken for the remaining 72 barangays beginning 3rd quarter of 2009.

b. Qualified Third Party (QTP) Program

The EPIRA opened opportunities for private sector participation and investment in the rural electrification activities of Government. Specifically, Section 59 of the EPIRA and Rule 14 of the EPIRA-IRR stated that “the provision of electric service in remote and unviable villages that the franchised utility is unable to service for any reason shall be opened to other qualified third parties.” This means that once the concerned franchised holder deems the barangay/s unviable for it to serve (having negative impact on its financial and economic viability), then an electric service provider other than the adjacent distribution utility may be authorized to provide the electricity services, subject to approval or authorization by the ERC.

In compliance with its mandate, the DOE facilitated the following issuances:

- Department Circular DC 2004-06-006 on 18 June 2004 “Prescribing the Qualification Criteria for the QTPs.” This issuance is used as the basis for determining whether or not a certain interested non-governmental organization, a local government unit or a private firm, is qualified to participate in the missionary electrification program of the Government.
- Department Circular 2005-012-011 on 12 December 2005, the “Prescribing the Guidelines for the Participation of QTPs in the Provision of Electric Services in Remote and Unviable Areas” (QTP Participation Guidelines). This issuance complemented the earlier DOE Circular and set the guidelines to encourage investment by QTPs in remote and unviable areas consistent with the Missionary

Electrification Program of the Government as prescribed in the Missionary Electrification Development Plan (MEDP).

- ERC Resolution No. 22 prescribed the rules and regulations to govern the operation of the QTPs and availment of the UC-ME.

The DOE and ERC, along with other concerned Government agencies, are collaborating on the full development of the QTP Program.

c. PowerSource's Community Energizer Platform

A hybrid QTP project was initiated in 2005 in Rio-Tuba, Bataraza, Palawan. The project is a showcase of a public-private partnership consisting of DOE, KEPCO, PALECO and PowerSource. PowerSource is a private firm engages in small-scale energy generation with various attendant services to be offered to community entrepreneurs such as restaurant, movie showing, entertainment and educational training. The project uses innovative design of stand-alone electrification system by integrating basic elements of a sustainable electrification solution: (i) provision of a viable, cost effective generation platform; (ii) provision of a local distribution system; (iii) provision of a customer service facilities; and (iv) provision of a community development platform ensuring, at a minimum, integrated skills training, technology transfer and livelihood training leading to community-based enterprise creation.

ERC had issued its PA to Powersource on 31 March 2009 which embodied the following conditions: (i) operate as a QTP in Brgy. Riotuba, Bataraza, Palawan; (ii) implement the QTP Service Contract it has entered into with NPC with a full cost recovery rate (FCRR) of PhP20.66/kWh and a Socially Acceptable Retail Rate (SARR) of PhP8.50/kWh, which is the existing tariff rate for PALECO consumers; and (iii) recover from the UC-ME the difference between the FCRR and SARR. To date, a total of 1,132 households are being served 20 hours/7 days a week by Powersource's mini-grid system.

The DOE is assisting PowerSource in securing from the ERC its QTP status.

3. Foreign-Assisted Projects

Various donor-funded projects through grants/loans also contributed in the achievement of the total electrification target of the country. These grants are aimed at increasing access to electricity, better delivery of electricity services, capacity building for the energy sector, and, increase participation of private sector in the rural electrification efforts.

a. Rural Power Project

The DOE implements the Rural Power Project funded by the World Bank-Global Environment Facility (WB-GEF). It is aimed at carrying out the key reforms and priority investments in the rural power sector.

The Project provided assistance to the private sectors in the commercialization of solar PV systems for community applications and household electrification through the following: (i) grant of incentives for market development, (ii) technical assistance, (iii) establishing technical standards and specifications, (iv) defining appropriate warranty arrangements and after-sales services. These assistance resulted in the electricity service provisions to 4,263 unenergized households and 396 public facilities in unenergized barangays.

The Project likewise supports private sector participation in rural electrification and resulted to the accreditation of nine private companies. The companies will be eligible to receive output-based GEF incentives and GOP subsidy for every systems installed to unenergized households and public facilities. Market development support facility is also being made available to these companies to beef up their marketing efforts, develop their business plan, improve on the quality of products and services, and establish after-sales service in the areas where they are operating.

The project expects to contribute a minimum of 10,000 households connections by the end 2009.

b. Solar Home System (SHS) Distribution Project

The PNOC implements the SHS Distribution Project with fund support from the Dutch Government. The Project seeks to install 15,000 SHS in selected regions in the country to induce countryside development. The Dutch Government provides 60 percent grant to the total system cost and the remaining 40 percent is being shouldered by the end-users.

c. Solar Power Technology Supports Project (SPOTS)

The Department of Agrarian Reform (DAR) undertakes the SPOTS which aimed to address poverty in the unenergized and off-grid agrarian reform communities (ARCs) through the introduction of appropriate solar PV applications for agricultural and rural enterprise. One of the project components was the solar electrification which involves provision of variety of solar packages (ie., home lighting, alternating current power supply systems for various agribusiness uses, level II potable water pumping and lighting of public facilities such as barangay halls, school buildings, health centers, and, streets).

d. Alliance for Mindanao Off-grid Rural Electrification (AMORE) Project

The AMORE Project is a joint undertaking of United States Agency for International Development (USAID), Mirant Philippines, Autonomous Region of Muslim Mindanao (ARMM), Winrock International and DOE. It envisions to establish sustainable renewable energy systems in remote and conflict-affected off-grid communities in Mindanao Regions.

From October 2005 to April 2009, AMORE has provided electricity services through solar PV systems and micro-hydro systems in 198 barangays with 5,469 households in Mindanao. Barangay Renewable Energy and Community Development Associations (BRECDAs) were organized to manage the systems and ensure project sustainability.

e. Philippine Rural Electrification Service (PRES) Project

The PRES Project is being proposed through the French Filipino Loan Protocol financing amounting to some Euro17.5 million. The project aims to improve the living conditions of the Masbate residents by providing them adequate and reliable energy services. About 18,000 households located in 128 barangays shall benefit from the project. Aside from this, basic services such as lighting for barangay halls and school building, provision of vaccine refrigerators and lighting for rural health units as well as provision of streetlights to major thoroughfares will also be the project's main concern. The Project will eventually be operated by a private operator.

For the reporting period, a total of 107 barangays benefiting about 8,807 households were provided with electricity services through mini-grid and solar PV systems. The Project is expected to be completed by December 2009.

NPC-SPUG is the Interim QTP for the Project. Prior to project completion, NPC envisions to have identified an appropriate QTP that will operate and maintain the systems in a sustainable manner.

C. Plans and Programs

1. The Department has programmed the electrification of the remaining 902 unenergized barangays through CY 2009 thereby achieving the national target of 100 percent barangay electrification.
2. The DOE aims to energize 404 barangays until CY 2009 through various funding sources, i.e., ER 1-94, BEP and RAES, in collaboration with government and

private agencies. The said target also includes 211 barangays to be funded through SC 38 under PGMA's Priority Areas Project.

3. NEA will also energize 182 barangays for the same period under its Subsidy Program in partnership with the local government units and electric cooperatives nationwide, while NPC-SPUG will energize 17 barangays through the PRES project.
4. In collaboration with the private sector, the Program will also be able to energize 255 barangays within the said period.
5. The remaining 44 unenergized barangays will be accomplished through the efforts of the stakeholders both from government and private sector.
6. Furthermore, areas with implementation issues, especially those identified with security problems, will be coordinated with the Office of the Presidential Adviser for Peace Process (OPAPP) for possible assistance to address the said issues appropriately.

VII. ENACTMENT OF RENEWABLE ENERGY ACT OF 2008 (R.A. 9153)

After undergoing long deliberations in both Houses of Congress, consolidated version of Senate Bill No. 2046 and House Bill No. 4193 was passed and become Republic Act No. 9513, "An Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes". It was signed into law by the President on 16 December 2008. As defined in the law, renewable energy resources refer to energy resources that do not have upper limit on the total quantity to be used. Such resources are renewable on a regular basis, and whose renewal rate is relatively rapid to consider availability over an indefinite period of time. These include among others biomass, solar, wind, geothermal, ocean energy, and run-of-river hydropower conforming to internationally accepted norms and standards on dams, and other emerging energy technologies.

To encourage suppliers of electricity to contribute to the growth of renewable energy, the renewable portfolio standard (RPS) will be put in place which requires all suppliers of electricity to source a portion of their energy supply from eligible renewable energy resources. Moreover, to promote participation in the utilization and development of renewable energy, the following fiscal incentives in proportion to their renewable energy components shall be given to developers of renewable facilities, including hybrid systems and local manufacturers of machineries and equipment:

Income Tax Holiday (ITH) – For the first seven (7) years of its commercial operations, the duly registered RE developer shall be exempt from income taxes levied by the national government.

Duty-free Importation of RE Machinery, Equipment and Materials – Within the first ten (10) years upon the issuance of a certification of an RE developer, the importation of machinery and equipment, and materials and parts, including control and communication equipment, shall not be subject to tariff duties.

Special Realty Tax Rates on Equipment and Machinery. Realty and other taxes on civil works, equipment, machinery, and other improvements of a Registered RE Developer actually and exclusively used for RE facilities shall not exceed one and a half percent (1.5%) of their original cost less accumulated normal depreciation or net book value.

Net Operating Loss Carry-Over (NOLCO). – The NOLCO of the RE Developer during the first three (3) years from the start of commercial operation which had not been previously offset as deduction from gross income shall be carried over as a deduction from gross income for the next seven (7) consecutive taxable years immediately following the year of such loss.

Corporate Tax Rate – After seven (7) years of income tax holiday, all RE Developers, shall pay a corporate tax of ten percent (10%) on its net taxable income as defined in the National Internal Revenue Act of 1997, as amended by Republic Act No. 9337. The RE Developer shall pass on the savings to the end-users in the form of lower power rates.

Accelerated Depreciation. – If an RE project fails to receive an ITH before full operation, it may apply for Accelerated Depreciation in its tax books and be taxed based on such.

Zero Percent Value-Added Tax Rate – The sale of fuel or power generated from renewable sources of energy such as, biomass, solar, wind, hydropower, geothermal, ocean energy and other emerging energy sources using technologies such as fuel cells and hydrogen fuels, shall be subject to zero percent (0%) value-added tax (VAT).

Tax Exemption of Carbon Credits—All proceeds from the sale of carbon emission credits shall be exempt from any and all taxes.

Tax Credit on Domestic Capital Equipment and Services. – A tax credit equivalent to one hundred percent (100%) of the value of the value-added tax and custom duties that would have been paid on the RE machinery, equipment, materials and parts had these items been imported shall be given to an RE operating contract holder who purchases machinery, equipment, materials, and parts from a domestic manufacturer.

The law establishes a Renewable Energy Trust Fund (RETF) administered by the DOE to finance the research, development, demonstration and promotion of the widespread and productive use of renewable energy systems for power and non-power applications.

Under Section 6 of the RE Law, the DOE shall establish Renewable Energy Market (REM) and shall direct the PEMC to implement changes to the WESM Rules in order to incorporate the rules specific to the operation of the REM under the WESM. Through the Renewable Energy Management Bureau (REMB) and Electric Power Industry Management Bureau (EPIMB), the PEMC, is mandated to establish a Renewable Energy Registrar within one (1) year from the effectivity of the Act and shall issue, keep and verify Renewable Energy (RE) Certificates corresponding to energy generated from eligible RE facilities.

The harmonization of the renewable energy resources with the WESM Rules is critical to facilitate effective competition rules. Towards this end, the WESM Technical Committee (TC) has submitted proposed rules changes to harmonize the RE Law provisions on the use of renewable energy resources with the EPIRA and the WESM Rules as well as consider the impact of renewable energy resource to the system and the WESM. The WESM RCC deferred the approval of the proposed amendments, subject to the publication of the IRR of RE law.

The Technical Working Group (TWG) drafting the Implementing Rules and Regulations (IRR) of the law is currently conducting consultations in various parts of the country. The law will take effect 15 days after the publication of the Implementing Rules and Regulations.

ANNEXES

Annex 1 – Status of STA Sales

| (A) Region | Sold (B) | | | | Likely to be Sold (C) | | | | Balance (D) | | | | To be Sold (E) = (C + D) | | | | Overall Total (B + E) | | | |
|---------------|----------------------|-------------------|------------|----------------------|-----------------------|-------------------|------------|----------------------|---------------------|-------------------|----------------|----------------------|--------------------------|-------------------|-----------------|----------------------|-----------------------|-------------------|--------------|----------------------|
| | No. Of Sale Packages | Line Length (CkM) | MVA | Amount (PhP Million) | No. of Sale Package | Line Length (CkM) | MVA | Amount (PhP Million) | No. of Sale Package | Line Length (CkM) | MVA | Amount (PhP Million) | No. of Sale Package | Line Length (CkM) | MVA | Amount (PhP Million) | No. of Sale Package | Line Length (CkM) | MVA | Amount (PhP Million) |
| North Luzon | 17 | 696.46 | 110 | 885.46 | 8 | 264.29 | | 202.44 | 18 | 754.47 | 258.5 | 931.79 | 26 | 1,018.76 | 258.5 | 1,134.23 | 43 | 1,715.22 | 369 | 2,020 |
| South Luzon | 8 | 305.26 | 5 | 312.56 | 2 | 154.28 | | 291.99 | 5 | 208.47 | 682.25 | 146.36 | 7 | 362.75 | 682.25 | 438.35 | 15 | 668.01 | 687 | 751 |
| Visayas | 17 | 499.16 | 210 | 808.58 | 6 | 296.84 | 190 | 352.1 | 7 | 611.48 | 107.7 | 950.02 | 13 | 908.32 | 297.7 | 1,302.12 | 30 | 1,407.48 | 508 | 2,111 |
| Mindanao | 16 | 1018.78 | | 1,068.69 | 8 | 539.25 | | 616.58 | 19 | 774.35 | 52.2 | 1,047.20 | 27 | 1,313.60 | 52.2 | 1,663.78 | 43 | 2,332.38 | 52 | 2,732 |
| TOTAL | 58 | 2,519.66 | 325 | 3,075.29 | 24 | 1,254.66 | 190 | 1,436.36 | 49 | 2,411.77 | 1100.65 | 3,075.37 | 73 | 3,666.43 | 1,290.65 | 4,538.48 | 131 | 6,186.09 | 1,616 | 7,614 |

Annex 2 – ERC Approved Rates Schedule for MERALCO

| | Units | ERC Approved | Revised | Incr./ (Dec.) |
|--|-------------|--------------|-----------|---------------|
| DISTRIBUTION | | | | |
| Residential & General Service A | | | | |
| Up to 200 kWh | P/kWh | 0.7784 | 0.6917 | (0.0867) |
| 201-300 kWh | P/kWh | 1.1522 | 0.9953 | (0.1569) |
| 301-400 kWh | P/kWh | 1.5046 | 1.2816 | (0.2230) |
| 401 kWh & Over | P/kWh | 2.1186 | 1.7803 | (0.3383) |
| General Service B (Small NIS/IS) | | | | |
| | P/kW | 140.83 | 200.60 | 59.77 |
| | P/kWh | 0.0210 | 0.0210 | 0 |
| General Power | | | | |
| Secondary | P/kW | 140.83 | 200.60 | 59.77 |
| Below 13.2 kV | P/kW | 139.53 | 152.60 | 13.07 |
| 13.8/13.2 kV | P/kW | 139.53 | 152.60 | 13.07 |
| 34.5 kV | P/kW | 139.53 | 152.60 | 13.07 |
| 115 kV & 69kV | P/kW | 135.82 | 122.76 | (13.06) |
| Unit charge : General Power users | | | | |
| Normal consumption | P/kWh | 0.0210 | 0.0210 | 0 |
| 34.5 kV (with ODPS load) | P/kWh | 0.4600 | 0.3860 | (0.0780) |
| 115 kV (with ODPS load) | P/kWh | 0.3800 | 0.3260 | (0.0554) |
| GHMS | P/kWh | 0.7300 | 0.6860 | (0.0419) |
| Flat streetlights | P/kWh | 2.7100 | 1.5360 | (1.1740) |
| 125W MV or 70W HPS | Lamp | | | |
| 250W MV or 150W HPS | Lamp | | | |
| 400W MV or 250W HPS | Lamp | | | |
| 400W HPS | Lamp | | | |
| SUPPLY | | | | |
| Residential & General Service A | | | | |
| | P/Cust./mo | 15.80 | 15.70 | (0.1000) |
| | P/kWh | 0.4765 | 0.4720 | (0.0045) |
| General Service B (Small NIS/IS) | P/Cust./mo | 696.00 | 700.00 | 4.00 |
| General Power | | | | |
| Medium (Demand 40-200 kW) | P/Cust./mo | 1,530.00 | 1,600.00 | 70.00 |
| Large (demand 200-750 kW) | P/Cust./mo. | 8,070.00 | 8,140.00 | 70.00 |
| Very & extra large (demand >= 750 kW) | P/Cust./mo | 13,375.00 | 13,500.00 | 125.00 |
| GHMS | P/Cust./mo | 279.50 | 276.80 | (2.70) |
| Flat streetlights | P/kWh | 0.5812 | 0.5745 | (0.01) |
| 125W MV or 70W HPS | Lamp | | | |
| 250W MV or 150W HPS | Lamp | | | |
| 400W MV or 250W HPS | Lamp | | | |
| 400W HPS | Lamp | | | |
| METERING | | | | |
| Residential & General Service A | P/Cust./mo | 5.3600 | 5.3000 | (0.0600) |
| | P/kWh | 0.3402 | 0.3380 | (0.0022) |
| General Service B (Small NIS/IS) | P/Cust./mo | 359.00 | 360.00 | 1.00 |
| General Power | | | | |
| Medium (Demand 40-200 kW) | P/Cust./mo | 823.00 | 844.20 | 21.20 |
| Large (demand 200-750 kW) | P/Cust./mo | 3,470.60 | 3,500.00 | 29.40 |
| Very & extra large (demand >= 750 kW) | P/Cust./mo | 11,941.50 | 12,000.00 | 58.50 |
| GHMS | P/Cust./mo | 263.75 | 261.20 | (2.55) |

Annex 3 – ERC Approved Rates Schedule for Iligan Light and Power, Inc.

| | Units | Approved Rates for the Regulatory Year 2010 (PhP) |
|--------------------------------------|-----------------|---|
| DISTRIBUTION | | |
| Residential | PhP/kWh | 0.8059 |
| Commercial | PhP/kWh | 0.8108 |
| General Power | PhP/kWh | 0.3683 |
| | PhP/kW | 143.98 |
| Bulk Power | PhP/kWh | 0.0337 |
| | PhP/kW | 22.43 |
| Flat Rate | PhP/kWh | 0.9067 |
| SUPPLY | | |
| Residential | PhP/kWh | 0.2004 |
| Commercial | PhP/Cust./Month | 32.71 |
| General Power | PhP/Cust./Month | 32.34 |
| Bulk Power | PhP/Cust./Month | 32.34 |
| Flat Rate | PhP/Cust./Month | 32.34 |
| METERING | | |
| Residential | PhP/kWh | 0.2952 |
| | PhP/Cust./Month | 5.00 |
| Commercial | PhP/Cust./Month | |
| 1 Phase/Sec. Metered | PhP/Cust./Month | 59.54 |
| 1 Phase CT Rated/ Primary Metered | PhP/Cust./Month | 795.39 |
| General Power | PhP/Cust./Month | |
| 1Phase/Sec. Metered | PhP/Cust./Month | 1,478.42 |
| 1Phase CT Rated/ Primary Metered | PhP/Cust./Month | 3,899.46 |
| Bulk Power | PhP/Cust./Month | |
| 1Phase CT Rated/ Primary Metered | PhP/Cust./Month | 4,459.35 |
| Flat Rate | PhP/Cust./Month | - |
| AVERAGE TOTAL RATE | PhP/kWh | 0.9729 |

Annex 4 – Summary Decisions on Show Cause Orders on the Implementation of Rate Reduction due to Loan Condonation

| ECs | ERC CASE NO. | DATE OF SHOW CAUSE ORDER | DATE OF DECISION | REASON FOR FAILURE TO IMPLEMENT THE RATE REDUCTION | ERC DECISION |
|-------------------------------|--------------|--------------------------|-------------------|---|--|
| Aurora (AURELCO) | 2006-092 MC | May 10, 2006 | February 16, 2009 | Received the Commission’s Decision dated March 21, 2005 in ERC Case No. 2003-88 re its Final Loan Condonation on May 23, 2005 and was able to implement only in August 2005 on the ground that its Board of Directors has passed a resolution on June 18, 2005, requesting for a consideration from the Commission to allow it to defer its implementation of the Final Loan Condonation Order for at least two (2) years and an extension of time to refund the Final Rate Reduction due to losses in its monthly operations since January 2005. On August 19, 2005 the Commission denied said Resolution. Upon receipt of the Order denying its request it implemented the same in August 2005 billing. | AURELCO is reprimanded for its failure to implement on time the ERC’s directive and warned that a similar offense in the future shall be dealt with more severely |
| Central Pangasinan (CENPELCO) | 2005-319 MC | December 7, 2005 | March 16, 2009 | Implementing the rate reduction due to loan condonation will result to immediate bankruptcy of the coop. Hence, the management of CENPELCO opted to defer implementation of the rate reduction. Based on its submitted bills, CENPELCO started implementing the said reduction on January 2009. | CENPELCO is reprimanded for its failure to implement on time the ERC’s directive and warned that a similar offense in the future shall be dealt with more severely. |
| Pampanga III (PELCO III) | 2005-303 MC | No date indicated | July 3, 2008 | PELCO III sent a letter on June 4, 2008, offering to pay as settlement of the case fifty percent (50%) of the total amount of the imposable penalty for the late implementation of ERC’s provisionally approved reduced rates due to loan condonation. | The ERC accepted and approved the settlement and directed PELCO III is to remit the total amount of Php69,800.00 in the name of ERC within fifteen days (15) from of the decision. |

Annex 5 - Revised Lifeline Program

Cotabato Light and Power, Inc. (ERC Decision Case No. 2009-006 RC, 30 March 2009)

| kWh Consumption | Per Approved Unbundled Rates | Per Proposed | Approved Consumption Threshold and Discount Levels | |
|--|------------------------------|---------------|--|-------------------|
| | Level of Discount | | kWh Consumption | Level of Discount |
| 0-20 | 50% | 100% | 0-20 | 100% |
| 21-35 | | 50% | 21-35 | 50% |
| 36-40 | 45% | 45% | 36-40 | 45% |
| 41-45 | 40% | 40% | 41-45 | 40% |
| 46-50 | 35% | 35% | 46-50 | 35% |
| 51-55 | 30% | 30% | 51-55 | 30% |
| 56-60 | 25% | 25% | 56-60 | 25% |
| 61-65 | 20% | 20% | 61-65 | 20% |
| 66-70 | 15% | 15% | 66-70 | 15% |
| 71-75 | 10% | 10% | 71-75 | 10% |
| 76-80 | 5% | 5% | 76-80 | 5% |
| Subsidy Rate to Non-Lifeline Customers | PhP0.0855/kWh | PhP0.0628/kWh | Subsidy Rate to Non-Lifeline Customers | PhP0.0741/kWh |

Mactan Electric Company (ERC Decision Case No. 2009-008 RC dated 30 March 2009)

| kWh Consumption | Per Approved Unbundled Rates | Per Proposed | Approved Consumption Threshold and Discount Levels | |
|--|------------------------------|---------------|--|-------------------|
| | Level of Discount | | kWh Consumption | Level of Discount |
| 20 and below | 50% | 50% | 20 and below | 100% |
| 21-25 | 45% | 45% | 21-25 | 50% |
| 26-30 | 40% | 40% | 26-30 | 40% |
| 31-35 | 35% | 35% | 31-35 | 30% |
| 36-40 | 30% | 30% | 36-40 | 20% |
| 41-45 | 25% | 25% | 41-45 | 15% |
| 46-50 | 20% | 20% | 46-50 | 10% |
| 51-55 | 15% | 15% | 51-55 | 10% |
| 56-60 | 10% | 10% | 56-60 | 5% |
| 61-65 | 5% | 5% | 61-65 | 5% |
| Subsidy Rate to Non-Lifeline Customers | PhP0.0528/kWh | PhP0.0643/kWh | Subsidy Rate to Non-Lifeline Customers | PhP0.0963/kWh |

Iligan Light and Power, Inc. (ERC Decision Case No. 2009-009 RC dated 30 March 2009)

| | Per Approved Unbundled Rates | Per Proposed | Approved Consumption Threshold and Discount Levels | |
|---|-------------------------------------|----------------------|---|--------------------------|
| kWh Consumption | Level of Discount | | kWh Consumption | Level of Discount |
| 40 and below | 50% | 50% | 0-20 | 100% |
| 41 to 50 | 45% | 30% | 21-30 | 50% |
| 51-60 | 40% | 20% | 31-40 | 40% |
| 61-70 | 35% | 0 | 41-50 | 30% |
| 71-80 | 30% | 0 | 51-60 | 20% |
| 81-90 | 20% | 0 | 61-70 | 10% |
| 91-100 | 10% | 0 | 71-80 | 5% |
| | | | 81-90 | 5% |
| | | | 91-100 | 5% |
| Subsidy Rate to Non-Lifeline Customers | PhP0.0096/kWh | PhP0.0608/kWh | Subsidy Rate to Non-Lifeline Customers | PhP0.0878/kWh |

Annex 6 – Summary of Events on PIPPA’s application for Interim Open Access before the ERC

| Date | Summary of Events |
|--|---|
| May 23, 2008 | The signatories to the “Terms of Reference (TOR) of the Interim Implementation of Open Access (IOA)” namely PIPPA, MERALCO, Visayan Electric Company (VECO), Davao Light & Power Co. (DLPC), Inc., Clark Electric Distribution Corp. (CEDC), Cagayan Electric Power and Light Company (CEPALCO), San Fernando Electric Light & Power Co. (SFELAPCO) and Panay Electric Company, Inc. (PECO) filed a joint petition to the ERC for the approval of the implementation of the IOA in the Luzon and Visayas grid. |
| May 26, 2008 | An Order and Notice of Public Hearing were issued setting the same for jurisdictional hearing, expository presentation, pre-trial conference and evidentiary hearings on various dates. |
| June 11, 2008 | “Petition for Intervention” filed by Masinloc Power Partners Co., Ltd. (AES Philippines) praying for its admission as Intervenor based on its interest as the new owner and operator of the Masinloc Thermal Power Plant “Motion for Intervention, Compliance and Motion for Production of Documents” filed by NASECORE, opposing the instant Petition for violation of the pre-conditions provided under Sec. 31 of the EPIRA, and praying for leave to intervene |
| June 12, 2008 | Pre-trial Brief wherein PSALM filed a Petition to Intervene and posed the following issues: 1. Whether or not the proposed Interim Open Access is in accordance with the EPIRA or such other applicable law 2. Whether or not the exclusion of NPC/PSALM to sell or directly contract with Eligible Contestable Market under the Interim Open Access is valid and justified |
| June 24, 2008 | NASECORE’s raised arguments was resolved by the ERC |
| July 8, 2008 | ERC in its order provisionally allowed the performance of the following acts: 1. All Suppliers, duly licensed by the ERC, may market their business, provided that the sourcing of supply is limited to the eligible companies defined and identified under the proposed TOR; and 2. MERALCO may put up the necessary metering facilities pursuant to the provisions of the Commission’s Rules for Contestability but only within its franchise area. |
| July 17, 2008 | The Philippine Electric Cooperatives Association, Inc. (PHILRECA) filed a “Motion to Dismiss” which in essence was posited on the alleged premature filing of the subject Petition due to non-fulfillment of all preconditions enumerated under Section 31 of R.A. 9136 |
| July 25, 2008 | ERC directed the Petitioners to file their Comment to the foregoing Motion |
| July 28, 2008 | The Petitioners complied to the directive by filing their “Opposition (To the Motion to Dismiss)” |
| August 2008 | Hearings were conducted by the ERC |
| September 4, 2008 | Public Consultation |
| October 8, 2008 | ERC issued an Order denying PHILRECA’s motion to dismiss for lack of merit, the argument therein being a mere rehash of the same arguments made by NASECORE in its previous motion to dismiss in the Luzon Grid |
| November 10, 2008 (Docketed December 4, 2008) | ERC issued an Order approving the application for interim open access in the Luzon and Visayas grid and its implementation in accordance with approved TOR. In lieu of the Interim Open Access (IOA), the approved scheme/program shall be referred to as the Power Supply Option Program (PSOP). Accordingly, one of the conditions for its implementation is the transfer of the operation of the Calaca Privatized NPC Generation Asset. |
| December 19, 2008 | MERALCO filed a motion seeking the partial consideration and clarification of the ERC’s decision. In the said motion, MERALCO raised the following arguments: 1. Eligible DUs should be allowed to adjust the TSC contracted volumes for the movement of customers into and out of the PSOP to ensure that the PSOP has no detrimental effect on the customers of the DU not participating in the PSOP; 2. In the absence of express prohibition thereto, the participation of the DU’s local RES as a potential Eligible Supplier for PSOP should be allowed; 3. The treatment of distribution system losses should be clarified |
| January 19, 2009 | ERC issued an order directing all interested parties to file their respective comments regarding the MERALCO’s motion |
| March 13, 2009 | ERC issued an order directing the Petitioners to file their comment on their intention to maintain the privatization of the Calaca NPC Generation Assets as a precondition for the implementation of the PSOP |
| March 27, 2009 | Masinloc Power Partners Co., Ltd.’s (AES Philippines) submitted to ERC their comments/suggestion on the failure of the privatization of the Calaca power plant as a pre-condition to the implementation of PSOP. They suggested that the ERC consider substituting the privatization of Calaca with the Tiwi-MakBan geothermal facilities. According to them, this will give a better assurance of actual competition as the capacity of the said plant, at 745 MW, is higher than the 600 MW capacity of the Calaca plant. They recommended that the implementation of the PSOP commence six (6) months after the closing of the said plant. |

Annex 7 - Comparison of DOE and ERC Data Based on ERC Resolution No. 4, Series of 2009

| GRID | BASED ON DOE DATA | | BASED ON ERC RESOLUTION NO. 4 S. OF 2009 | | DIFERENCE IN INSTALLED CAPACITY (MW) |
|--------------------|------------------------------------|---------------------|--|------------------------------------|--------------------------------------|
| | INSTALLED GENERATING CAPACITY (MW) | RATED CAPACITY (MW) | NAMEPLATE RATING (MW) | INSTALLED GENERATING CAPACITY (MW) | |
| LUZON | 12,172.02 | 9,533.17 | 12,054.11 | 10,664.22 | 1,507.80 |
| NPC | 1,321.73 | 268.82 | 1,306.00 | 569.32 | 752.41 |
| NPC-IPPs | 6,280.45 | 5,830.47 | 6,471.73 | 6,219.93 | 60.52 |
| NON-NPC | 4,569.84 | 3,433.88 | 4,276.39 | 3,874.98 | 694.86 |
| | | | | | |
| VISAYAS | 1,831.42 | 1,493.93 | 1,868.59 | 1,645.32 | 186.11 |
| NPC | 423.00 | 347.49 | 455.50 | 373.13 | 49.87 |
| NPC-IPPs | 812.28 | 762.98 | 820.50 | 785.46 | 26.82 |
| NON-NPC | 596.14 | 383.46 | 592.585 | 486.725 | 109.42 |
| | | | | | |
| MINDANAO | 1,933.42 | 1,682.08 | 1,881.83 | 1,729.58 | 203.85 |
| NPC | 1,116.80 | 953.12 | 1,076.80 | 940.80 | 176.00 |
| NPC-IPPs | 712.48 | 646.55 | 708.48 | 694.46 | 18.02 |
| NON-NPC | 104.144 | 82.4 | 96.55 | 94.32 | 9.82 |
| | | | | | |
| PHILIPPINES | 15,936.86 | 12,709.18 | 15,804.53 | 14,039.12 | 1,897.75 |
| NPC | 2,861.53 | 1,569.43 | 2,838.30 | 1,883.25 | 978.28 |
| NPC-IPPs | 7,805.21 | 7,240.00 | 8,000.71 | 7,699.84 | 105.37 |
| NON-NPC | 5,270.12 | 3,899.74 | 4,965.52 | 4,456.02 | 814.10 |

Notes:

The comparison is based on data prior to the privatization of Calaca Coal Power Plant

Comparison is based on the plants listed in the ERC Resolution

Annex 8 – Status of Private Sector-Initiated Projects as of September 15, 2009

| No. | Name of the Project | Location | Grid | Project | | Proponent | Project Status | Target Completion |
|-----|---|--------------------------------------|---------|---------------------|--------------------|--|--|---|
| | | | | Rated Capacity (MW) | Fuel/Energy Source | | | |
| 1 | 2 X 300 MW Coal-Fired Power Plant | Mariveles, Bataan | Luzon | 600 | Coal | GN Power | <ul style="list-style-type: none"> > Granted Environmental Compliance Certificate by the DENR (April 2007) > EPC contract signed (Feb 2009) > Signed contracts with 13 DUs and some capacity with contestable markets > Contracted 75% of the plant capacity > Grid Impact Studies completed > Equity partners (July 2009) > Purchased Land Site (Sept '07) > Geothermal Studies on Site | 4th Qtr. of 2012 |
| 2 | 3 X 82 MW CFB Power Plant Expansion Project <i>Unit I - (1 X 82 MW)</i> <i>Unit II - (1 X 82 MW)</i> <i>Unit III - (1 X 82 MW)</i> | Brgy. Daanlungsod, Toledo City, Cebu | Visayas | 246 | Coal | Cebu Energy Development Corporation (Global Business Power Corp) | <ul style="list-style-type: none"> > Groundbreaking on January 2008 > Engineering Procurement & Construction contract signed January 2008 > ECC for the 138 KV Double Circuit Transmission Line Project granted July 10, 2009 > Overall site construction progress is 35% against 37.3% target (as of July 21, 2009) > Ongoing negotiations with offtakers. Awaiting finalization of proposed rates > Common Facilities (sea water intake, jetty, Ship Loader, Water Treatment, Substation) target completion is December 2009 | Unit I - March 2010 Unit II - June 2010 Unit III - Jan 2011 |
| 3 | Cebu Coal-Fired Power Plant, Phils <i>Unit I - (1 X 100 MW)</i> <i>Unit II - (1 X 100 MW)</i> | Naga, Cebu | Visayas | 206 | Coal | KEPCO SPC Power Corporation (KSPC) | <ul style="list-style-type: none"> > Start of construction December 2007 > Total accomplishment as of July 2009 is 64.6% from 33.5% as of January 31, 2009 > ERC approved the PSCs for the following off-takers: NORECO 1 & 2, CENECO, NOCECO and VRESCO > Awaiting for final approval from ERC for CEBECO 1 & 2, and MECO > Plant construction is currently proceeding, with Doosan Heavy Industries as EPC Contractor > Signed PSC with an aggregator (iN2) > Contracted 171 MW out of the 200 MW installed capacity | Unit 1 - Feb. 2011 Unit 2 - May 2011 |

| No. | Name of the Project | Location | Grid | Project | | Proponent | Project Status | Target Completion |
|-----|--|------------------------------------|----------|---------------------|---------------------|---|--|--|
| | | | | Rated Capacity (MW) | Fuel/ Energy Source | | | |
| 4 | 17.5 MW Panay Biomass Power Project | Brgy. Cabalabaguan, Mina, Iloilo | Visayas | 17.5 | Biomass | Green Power Panay Philippines, Inc. | <ul style="list-style-type: none"> > DOE Endorsement in process (for signing by Sec. Reyes) > BOI application filed, awaiting DOE Endorsement > ESAs with local cooperatives ILECO 1 & ILECO II signed; preparation for ERC presentation on-going > Land acquisition under negotiation > Stakeholders' consultation completed > ECC issued 6 July 2009 > Preliminary & Intermediate design of plant finished > Biomass supply contract done > Recapitalization of GPPPI submitted to SEC | Q1 - 2011 |
| 5 | Nasulo Geothermal | Nasuji, Valencia, Negros Oriental | Visayas | 20 | Geothermal | Energy Development Corporation (EDC) | <ul style="list-style-type: none"> > Ongoing discussions on power plant facilities and technical consultancy contracts > Project estimated cost is US\$ 3 Million per MW > No major developments for the next few months, status valid until first half of 2009 | 2011 |
| 6 | 2 X 82 MW CFB Power Plant <i>Unit I - (1 X 82 MW)</i> <i>Unit II - (1 X 82 MW)</i> | Brgy. Ingore, La Paz, Iloilo | Visayas | 164 | Coal | Panay Energy Development Corporation (Global Business Power Corp) | <ul style="list-style-type: none"> > Land acquired on August 2008 > Land conversion approved by Department of Agriculture on July 2009 > Environmental Compliance Certificate (ECC) acquired August 2008 > Test Pile started June 1, 2009 > Piling and other civil works currently ongoing > The project will be embedded to PECO but will also sell to other Distribution Utilities > PEDC will finance its connection to TL as agreed with National Grid Corp of the Phils. | Unit I - Sept 2010 Unit II - Dec 2010 |
| 7 | Sibulan Hydroelectric Power <i>(Unit 1 - 26 MW)</i> <i>(Unit 2 - 16.5 MW)</i> | Sta. Cruz, Davao del Sur | Mindanao | 42.5 | Hydro power | Hedcor Sibulan, Inc. | <ul style="list-style-type: none"> > As of January 31, 2009, the project is 65% complete since it started construction on June 25, 2007 > Off-taker is Davao Light > Transmission Service Agreement signed already with the NGCP as of 2008 | Unit 1 - Dec 2009 Unit 2 - Apr 2010 |
| 8 | Cabulig Mini-Hydro Power Plant | Plaridel, Jasaan, Misamis Oriental | Mindanao | 8 | Hydro power | MINERGY | <ul style="list-style-type: none"> > Project Access Road already completed > Civil Works and Supply of Electro-Mech equipment will be awarded within Sept. 2009 > Civil works will start late Sept. 2009 or early October 2009 | June 2011 |

| No. | Name of the Project | Location | Grid | Project | | Proponent | Project Status | Target Completion |
|--|-----------------------|---------------------------|----------|---------------------|---------------------|--------------------------------------|--|-------------------|
| | | | | Rated Capacity (MW) | Fuel/ Energy Source | | | |
| 9 | Mindanao 3 Geothermal | Kidapawan, North Cotabato | Mindanao | 50 | Geothermal | Energy Development Corporation (EDC) | <ul style="list-style-type: none"> > Project schedule (Dec. 2011) was moved due to the financial crisis and operational priorities > Ongoing resource assesment > Project estimated cost is US\$ 4 Million per MW > No major developments for the next few months, status valid until first half of 2009 | July 2014 |
| Total Committed Rated Capacity = 1,354.0 MW | | | | | | | | |

Annex 9 – List of Indicative Power Projects as of September 15, 2009

| No. | Name of the Project | Location | Grid | Project | | Proponent | Project Status | Target Completion |
|-----|---|---------------------------------------|-------|---------------------|---------------------|---|---|--|
| | | | | Rated Capacity (MW) | Fuel/ Energy Source | | | |
| 1 | CFB Coal-Fired Power Plant, Phase II | Mabalacat, Pampanga | Luzon | 50 | Coal | Asia Pacific Energy Corporation | > Obtained the DOE Endorsement; awaiting for release of Environmental Compliance Certificate; > Grid Impact Studies completed on November 2003 | 2010 |
| 2 | Burgos Wind Power Project Unit I - (1 X 6 MW) Unit II - (1 X 40 MW) Unit III - (1 X 40 MW) | Saoit, Burgos, Ilocos Norte | Luzon | 86 | Wind | Energy Development Corporation (EDC) | > Financing options are currently being explored > Resource validation to be undertaken > Bidding activities are ongoing > Project estimated cost is US\$ 2.4 Million per MW > No major developments for the next few months, status valid until first half of 2009 | Unit I - 2009 Unit II - 2010 Unit III - 2011 |
| 3 | Wind Farm Power Project | Gen. Nakar, Quezon Province | Luzon | 50 | Wind | Energy World International Ltd | > Already identified proposed site for installing monitoring equipment > on going coordination with the office of Renewable Energy Office (DOE) and LGU officials for the setting up of the monitoring equipment | Mid 2011 |
| 4 | Liquefied Natural Gas and Combined Cycle Gas Turbine | Pagbilao, Quezon | Luzon | 300 | LNG | Energy World International Ltd | > Lease of property for use of the project has been signed with Malory Properties Inc. > Initial site investigation and preparation are ongoing > Liquefaction facility in Senkang, Indonesia is nearing completion per target end of 2009 > Information dissemination on going with LGUs and others for social acceptance | End 2011 |
| 5 | 17.5 MW Nueva Ecija Biomass Power Project | Barangay Tambo, Nueva Ecija | Luzon | 17.5 | Biomass | Green Power Nueva Ecija Philippines, Inc. | > ESA's under negotiations with off-takers > Land purchased 6.5 Hectars (additional 2.5 hectares under negotiation) > Prelim & Intermediate design of plant finished > Biomass supply contract done > ECC issued 13 March 2009 | Q2 - 2011 |
| 6 | 17.5 MW Malasiqui Biomass Power Project | Brgy. Nacapian, Malasiqui, Pangasinan | Luzon | 17.5 | Biomass | Green Power Pangasinan Philippines, Inc. | > ESA's under negotiations with off-takers > Land acquisition under negotiation > Prelim & Intermediate design of plant finished > Biomass supply contract done | Q3 - 2011 |

| No. | Name of the Project | Location | Grid | Project | | Proponent | Project Status | Target Completion |
|-----|---|-----------------------------------|-------|---------------------|---------------------|---|---|---|
| | | | | Rated Capacity (MW) | Fuel/ Energy Source | | | |
| 7 | San Gabriel Power Plant | Sta Rita, Batangas City | Luzon | 550 | Natural gas | First Gen Holdings Corp and BG Consolidated Corp. | > Obtained the DOE Endorsement and Environmental Compliance Certificate; > Grid Impact Studies completed on 24 May 2007 | 2011 |
| 8 | Tanawon Geothermal Project | Bacman Geothermal Field, Sorsogon | Luzon | 40 | Geothermal | Energy Development Corporation (EDC) | > Geothermal resource is being assessed while discussions with potential EPC contractos and initial civil works are ongoing > Project estimated cost is US\$ 4 Million per MW > No major developments for the next few months, status valid until first half of 2009 | 2012 |
| 9 | 2 X 150MW Coal-Fired Power Plant | Sitio Naglatore, Cawag, Subic | Luzon | 300 | Coal | Redondo Peninsula Energy Inc. | > Received an Environmental Compliance Certificate (ECC) from SBMA > Received ECC from DENR last Dec. 2008 > EPC under negotiation. Target signing is March 2009 > Land Lease Agreement w/ SBMA under negotiation. Target signing is March 2009. > Financing under negotiation. Target closing is June 2009 | 2012 |
| 10 | Quezon Power Expansion Project | Mauban, Quezon | Luzon | 1 | Hydropower | Quezon Power Phils. | > Feasibility study stage | 2012 |
| 11 | 17.5 MW Isabela Biomass Power Project Phase 2 | Isabela | Luzon | 17.5 | Biomass | Green Power Isabela Philippines, Inc. | > Feasibility Study Completed > Negotiations on request for Offers | 2012 |
| 12 | 17.5 MW Mindoro Biomass Power Project Phase 2 (SPUG) | Mindoro | Luzon | 17.5 | Biomass | Green Power Mindoro Philippines, Inc. | > Feasibility Study Completed > Negotiations re-starting in Mindoro | 2012 |
| 13 | Kanan B1 Hydro Power Project | Gen. Nakar, Quezon Province | Luzon | 145 | Hydropower | Energy World International Ltd | > Information dissemination on going for social acceptance > Payment of water rights annual fee being paid by Energy World Int'l. > Close coordination with Gov. Rafael P. Nantes and Mayor Leovigildo Ruzol | Phase I - End 2012 Phase II - End 2013 |
| 14 | Kalayaan Pumped Storage Power Plant III (CBK Expansion) | Lumban, Laguna | Luzon | 360 | Hydropower | J Power and Sumitomo Corp. | > Conducting feasibility study and EIA study > Grid Impact Studies completed by TRANSCO > ECC being processed/signed now at the EMB Director's Office as of 16 February 2009 | 2013 |

| No. | Name of the Project | Location | Grid | Project | | Proponent | Project Status | Target Completion |
|-----|---------------------------------------|--|-------|---------------------|---------------------|---|--|-------------------|
| | | | | Rated Capacity (MW) | Fuel/ Energy Source | | | |
| 15 | Quezon Power Expansion Project | Mauban, Quezon | Luzon | 500 | Coal | Quezon Power Phils. | > Development stage | 2014 |
| 16 | Rangas Geothermal Project | Bacman Geothermal Field, Sorsogon | Luzon | 40 | Geothermal | Energy Development Corporation (EDC) | > Ongoing pre-feasibility activities > Project estimated cost is US\$ 4 Million per MW > No major developments for the next few months, status valid until first half of 2009 | September 2015 |
| 17 | Balintong River Multi-Purpose Project | General Tinio, Nueva Ecija | Luzon | 30 | Hydropower | National Irrigation Administration | > Updating of feasibility study; signed MOU with MWSS and NIA | 2015 |
| 18 | NorthWind Pamplona Project | Pamplona, Cagayan Valley | Luzon | 30 | Wind | NorthWind Power | > Conducting feasibility study. Negotiation with Electric Cooperatives on going. | 2015 |
| 19 | Manito-Kayabon Geothermal Project | Bacman Geothermal Field, Sorsogon | Luzon | 40 | Geothermal | Energy Development Corporation (EDC) | > Ongoing pre-feasibility activities > Project estimated cost is US\$ 4 Million per MW > No major developments for the next few months, status valid until first half of 2009 | February 2016 |
| 20 | Pagbilao Expansion | Pagbilao, Quezon | Luzon | 400 | Coal | Team Energy Corporation | > Still unable to provide requested activity/timelines, and PERT-CPM; Conducting further studies in view of current events, including the bidding that will be conducted by PSALM for the IPP Administrator for the 700 MW contracted capacity of the Pagbilao Power Situation, and the world-wide financial crisis; > Have not received any formal notice of "Temporary Restraining Order" issued by Provincial Gov't. of Quezon. Continue constant discussion w/ local Gov't. Officials for possible settlement of real property tax issue. | N / A |
| 21 | Pantabangan Expansion | Pantabangan, Nueva Ecija | Luzon | 78 | Hydropower | First Gen Hydro Power Corp. | | N / A |
| 22 | Pagudpud Wind Power Project | Pagudpud, Ilocos Norte | Luzon | 40 | Wind | Energy Development Corporation (EDC) | > Awaiting DOE's approval of the Pre-Commercial Contract (PCC) > No major developments for the next few months, status valid until first half of 2009 | N / A |
| 23 | 2 X 135 MW Coal Fired Power Plant | Brgy. Puting Bato West, Calaca, Batangas | Luzon | 270 | Coal | Trans-Asia Power Generation Corporation | > Feasibility Study Stage | N / A |

| No. | Name of the Project | Location | Grid | Project | | Proponent | Project Status | Target Completion |
|-----|--|------------------------|----------|---------------------|---------------------|--------------------------------------|---|-------------------|
| | | | | Rated Capacity (MW) | Fuel/ Energy Source | | | |
| 24 | Aklan Hydropower Project | Libacao, Aklan | Visayas | 41 | Hydropower | CalEnergy International Ltd. | > Signed MOU with Provincial Governor of Aklan > To conduct project feasibility study | July 2012 |
| 25 | 17.5 MW Negros Biomass Power Project Phase 2 | Negros | Visayas | 17.5 | Biomass | Green Power Negros Philippines, Inc. | > Undergoing feasibility study | 2012 |
| 26 | Villasiga HEP | Sibalom, Antique | Visayas | 8 | Hydropower | SUNWEST Water & Electric Co., Inc. | > NCIP Certificate to be issued within the month of January 2009 > Ongoing ERC ESA application > 23 Km. Access Road is 90% completed > Ongoing construction of temp. facilities > Ongoing ROW acquisition > Ongoing hauling of heavy equipment to project site | 2013 |
| 27 | Dauin Geothermal | Dauin, Negros Oriental | Visayas | 40 | Geothermal | Energy Development Corporation (EDC) | > Geothermal resource is being assessed and initial civil works are ongoing > Project estimated cost is US\$ 4 Million per MW > No major developments for the next few months, status valid until first half of 2009 | Jan. 2014 |
| 28 | Southern Leyte Geothermal Project (formerly Cabalian Geothermal Project) | Southern Leyte | Visayas | 80 | Geothermal | Energy Development Corporation (EDC) | > For validation of resource assessment > No major developments for the next few months, status valid until first half of 2009 | 2019 |
| 29 | 18 MW Samar Biomass Power Project | Samar | Visayas | 18 | Biomass | Global Green Power PLC | > On Hold | N / A |
| 30 | Bunker Fired Power Plant | | Mindanao | 20 | Oil | MINERGY | > Depending on the demand and supply condition of the 20 MW Bunker Fired Power Plant may be replaced by a 55 MW Coal Plant | 4Q of 2010 |

| No. | Name of the Project | Location | Grid | Project | | Proponent | Project Status | Target Completion |
|---|--|-----------------------------|----------|---------------------|---------------------|--|--|-------------------|
| | | | | Rated Capacity (MW) | Fuel/ Energy Source | | | |
| 31 | 27.5 MW Tamugan Hydropower Project (20 MW Tamugan Plant & 7.5 MW Panigan Plant) | Baguio District, Davao City | Mindanao | 27.5 | Hydropower | HEDCOR | <ul style="list-style-type: none"> > Obtained certificate of endorsement from the DOE > Registered as a pioneer project with the BOI > Completed Grid Impact Study by the TransCo > Signed a MOA with the Indigeneous People > Issued a Free and Prior Informed Consent (FPIC) by the National Commission of Indigenous Peoples (NCIP) December 2005 > Ready for construction; completed good for construction drawings > Negotiated with the landowners affected by the hydropower development > Signed MOAs with barangays, Wines, Tawan-Tawan, Tambobong, Tamugan Proper, Carmen, Cadalian, Tamayong > Secured ECC from DENR last March 2009 > Favorable decision from National Water Resources Board (NWRB) last July 2009 | July 2011 |
| 32 | Agus 3 Hydroelectric Plant | Lanao del Norte | Mindanao | 225 | Hydropower | Lanao Hydropower Development Corporation | <ul style="list-style-type: none"> > Udated feasibility study; secured ECC; signed Joint Sales agreement with NPC | 2011 |
| 33 | SM 200 MW CFBB CFTPP | Southern Mindanao | Mindanao | 200 | Coal | Conal Holdings Corp. | <ul style="list-style-type: none"> > Ongoing Construction | 2012 |
| 34 | 17.5 MW Cagayan de Oro Biomass Power Project | Cagayan de Oro | Mindanao | 17.5 | Biomass | Green Power Cagayan de Oro Philippines, Inc. | <ul style="list-style-type: none"> > Request for DOE Endorsement and BOIC application being finalized for submission > ESA's under negotiations with off-takers > Potential sites identification on-going > Prelim & Intermediate design of plant finished > Biomass supply contract done | Q4 - 2011 |
| 35 | Tagoloan Hydropower | Bukidnon | Mindanao | 68 | Hydropower | Luzon Hydro Corp. | <ul style="list-style-type: none"> Completed feasibility study | 2012 |
| 36 | 17.5 MW Davao Biomass Power Project | Davao | Mindanao | 17.5 | Biomass | Global Green Power PLC | <ul style="list-style-type: none"> > Awaiting RE Feed-in-Tariff to determine feasibility of the project > Appropriate site for the project is still under consideration | 2012 |
| 37 | 5 MW Camiguin Island Wind Power | Camiguin | Mindanao | 5 | Wind | Energy Development Corporation (EDC) | <ul style="list-style-type: none"> > In the pre-feasibility stage > No major developments for the next few months, status valid until first half of 2009 | N / A |
| Total Indicative Rated Capacity = 4,135.0 MW | | | | | | | | |

Annex 10 - ERC-Approved Capital Expenditure Projects (November 2008 - April 2009)

| APPLICANT | PROJECT | PROJECT COST PhP million | DATE APPROVED |
|--|--|-----------------------------|-------------------|
| Visayan Electric Company, Inc. (VECO) | North Reclamation Area (NRA) Substation and 69 kV Line | 63.72 | November 24, 2008 |
| | VECO-CEMEX Interconnection | 108.56 | |
| | Digger Truck | 10.02 | |
| Surigao Del Sur II Electric Cooperative, Inc. (SURSECO II) | Construction and Installation of 3.75 MVA Substation at Brgy. Ganayon, Lianga, Surigao del Sur | 11.81 | |
| | Upgrading of Madrid Substation from 3.75 MVA to 5 MVA | 20.00 | |
| Cotabato Electric Cooperative, Inc. (COTELCO) | Construction of 10 MVA Substation and Accessories with 2.5 km 69 kV Line at Kidapawan City | 29.50 | November 17, 2008 |
| | Construction of 5 MVA Substation at Bagontapay, Mlang | 15.00 | |
| | Upgrading of the Arakan to Antipas Line | 4.29 | |
| | Installation of Three (3) way 69 kV Air Break Switch | 0.98 | |
| | Upgrading of Feeder Protection | 3.50 | |
| | Installation of 69 kV Power Circuit Breaker | 3.80 | |
| | Installation and Upgrading of Feeder Metering | 1.30 | |
| Aklan Electric Cooperative, Inc. (AKELCO) | Repair of Submarine Cable | 4.03 | January 12, 2009 |
| Panay Electric Company, Inc. (PECO) | Improvement of Buildings and Facilities | 0.93 | January 26, 2009 |
| | Improvement of Substation and Plant Equipment | 0.65 | |
| | Acquisition of Furniture and Equipment | 0.56 | |
| | Acquisition of Vehicle Spare-parts and Equipment | 0.26 | |
| | Procurement of Communication Equipment, Tools and Devices | 0.41 | |
| | Corrective and Maintenance Works | 26.36 | |
| | Procurement and Installation of Watthour Meters | 11.11 | |
| Aklan Electric Cooperative, Inc. (AKELCO) | Rehabilitation and Repair of Damaged Distribution Lines | 61.31 | March 2, 2009 |

| APPLICANT | PROJECT | PROJECT COST PhP million | DATE APPROVED |
|--|---|-----------------------------|------------------|
| | Repair of the Andagao Office Building and Replacement of Damaged Office Equipment | 4.46 | |
| Bantayan Electric Cooperative, Inc. (BANELCO) | Rehabilitation and Restoration of its Distribution Lines | 14.33 | March 2, 2009 |
| Zamboanga City Electric Cooperative, Inc. (ZAMCELCO) | Construction of a Single Phase Line Extension | 2.09 | March 16, 2009 |
| | Rehabilitation/upgrading of Line | 1.65 | |
| | Replacement of Overloaded Distribution Transformer | | |
| | Replacement of Rotten Poles | 2.65 | |
| | Re-routing of Backbone Three (3) Phase Primary Line | 2.31 | |
| | Procurement of kilowatthour (kWh) Meters | 32.99 | |
| | Procurement of Potential Transformers and Current Transformers | 6.22 | |
| | Procurement of Distribution Transformers, Pole Type Conventional | 10.56 | |
| | Procurement of Distribution Poles | 5.09 | |
| | Emergency Rewinding of Busted Power Transformer | 1.70 | |
| | Procurement of Handheld Computers for Meter Reading | 3.96 | |
| | Installation of Integrated Accounting System and Wireless Communication | 5.50 | |
| | Procurement of Vacuum Circuit Breaker | 2.53 | |
| | Procurement of PWS2.3 Plus MTE Testing Equipment | 2.50 | |
| | Procurement of Maintenance/ utility Trucks | 2.16 | |
| Procurement of Service Vehicles | 1.99 | | |
| Construction of Multi-Purpose Building | 15.72 | | |
| Agusan Del Norte Electric Cooperative, Inc. (ANECO) | Installation of a New 5 MVA Substation in Cabadbaran, Agusan Del Norte | 18.02 | April 27, 2009 |
| | Construction of 69 kV line for 5 MVA Cabadbaran Substation | 2.66 | |
| | Procurement of kilowatthour Meters | 17.11 | |

| APPLICANT | PROJECT | PROJECT COST PhP million | DATE APPROVED |
|-----------|---|-----------------------------|------------------|
| | Conversion and Procurement of Current Transformer (CT) and Potential Transformer (PT) for Commercial and Industrial Consumers | 4.79 | |
| | Procurement of Electronic kWhr Meters for Commercial and Industrial Customers | 3.53 | |
| | Replacement of Under-loaded or overloaded Transformers | 12.68 | |
| | Acquisition of Load Logger | 0.58 | |
| | Procurement of 69 kV Power Circuit Breaker (CB) for the Santiago Substation | 2.73 | |
| | Procurement of 69 kV Power Circuit Breaker (CB) for the Soriano Substation | 2.73 | |
| | Acquisition of Thermal Scanner | 1.01 | |
| | Construction of Additional Double Circuit Line from Ambago Substation to Butuan City Proper | 3.55 | |
| | Construction of 1.6 km 69 kV Line to Robinson's Mall | 3.56 | |
| | Upgrading of Hot Line Equipment | 2.45 | |
| | Procurement of Concrete Poles | 5.74 | |
| | Procurement of Aluminum Concrete Steel Reinforced (ACSR) Wires | 8.35 | |
| | TOTAL | 585.96 | |