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# **Final Report of the “Task Force to Study Ways to Reduce the Price of Electricity”**

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**Hand-over Ceremony for the Task Force’s Report  
Audio Visual Room, Department of Energy**

# Outline

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- **Introduction**
- **Electricity Price Components and Trends**
- **Recommendations**
- **Next Steps**

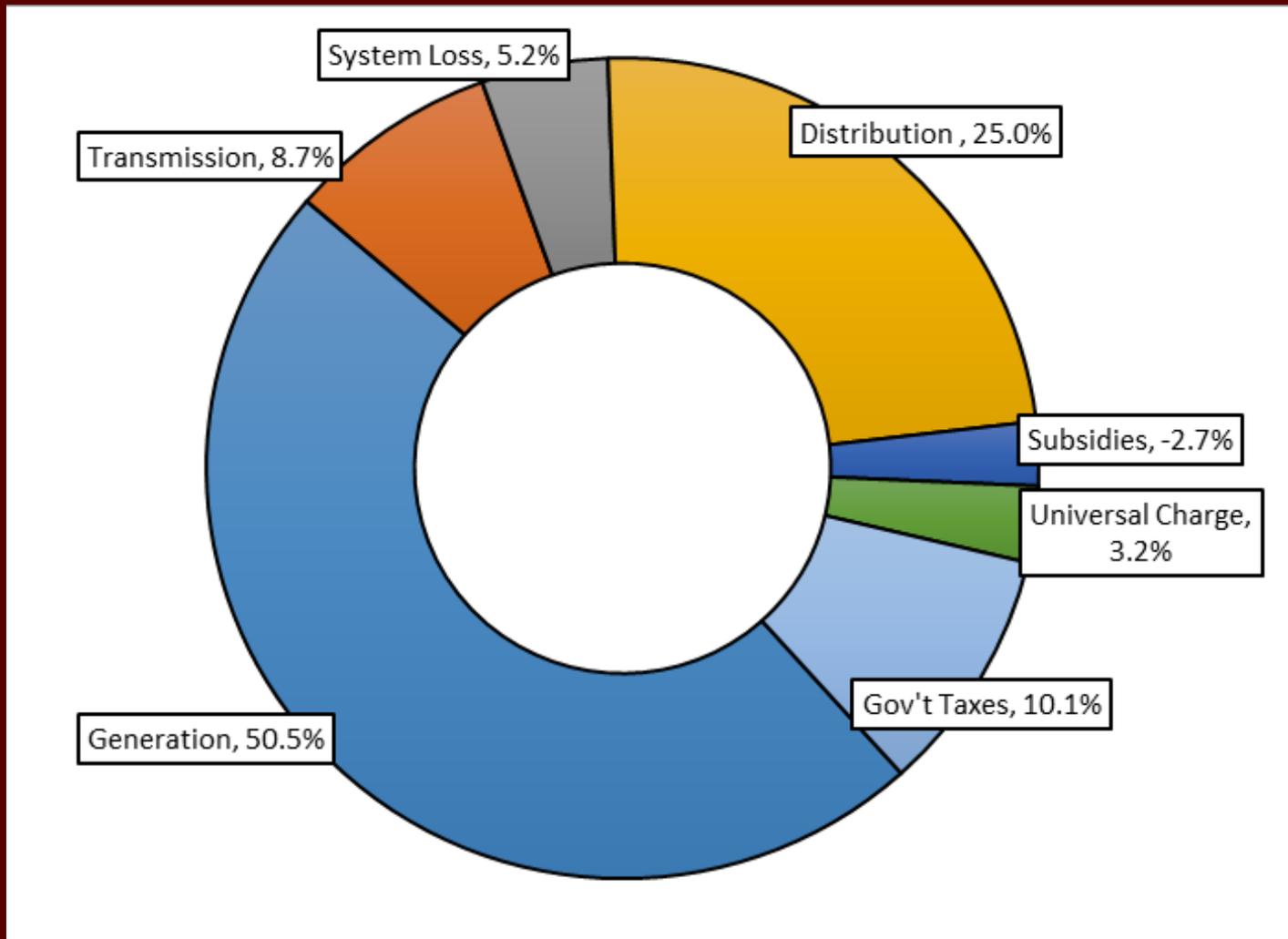
# Introduction

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- **DOE created a multi-sectoral “Task Force to Study Ways to Reduce the Price of Electricity” via Department Order (DO) No. 2014-05-009 with the following responsibilities:**
  - Evaluate current breakdown/components of electricity price
  - Conduct multi-sectoral public consultations nationwide
  - (For each member) Represent its sector and ensure complete dissemination of all discussions and agreements
  - Submit a report of the results of its study to the DOE
  - Perform such other responsibilities as the DOE may direct
- **A seminar-orientation on WESM (WESM 101) and a total of 6 meetings have been conducted prior to the presentation of this report**

# Electricity Price Components and Trends

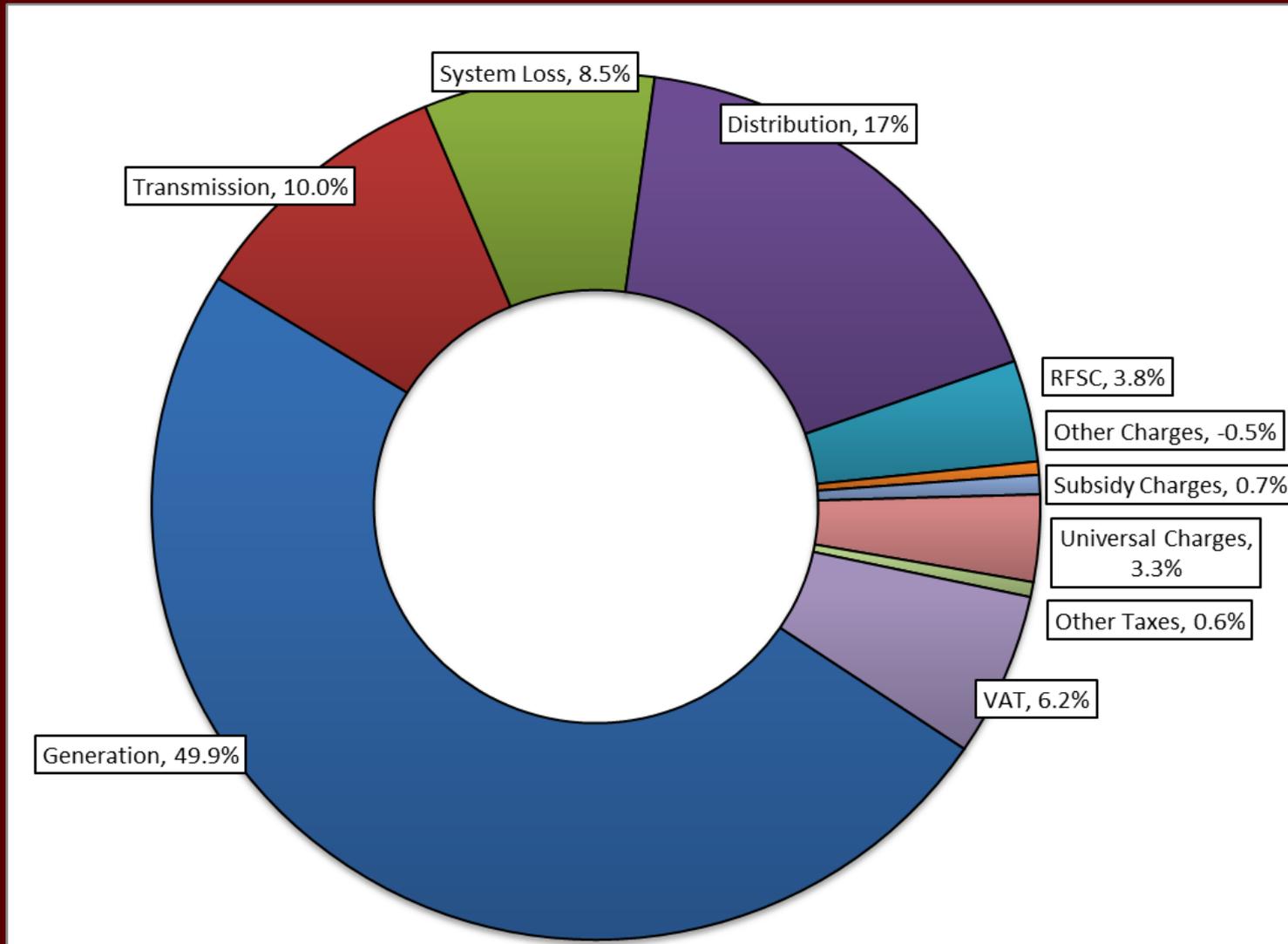
- Breakdown of Meralco's Residential Rates, August 2014



Source: MERALCO

# Electricity Price Components and Trends

## ▪ Breakdown of Electric Coops' Average Residential Rates, June 2014



Source: NEA

# Electricity Price Components and Trends

## ■ Growth Rates of MERALCO Rate Components (All Customer Groups), 2004-2014

|                         | 2004   | 2014* | Average Annual Growth Rate |
|-------------------------|--------|-------|----------------------------|
| <b>Generation</b>       | 3.458  | 5.425 | 4.6%                       |
| <b>Transmission</b>     | 0.863  | 0.942 | 0.9%                       |
| <b>System Loss</b>      | 0.467  | 0.451 | -0.3%                      |
| <b>Distribution</b>     | 1.111  | 1.628 | 3.9%                       |
| <b>Subsidies</b>        | -0.025 | 0.001 | -                          |
| <b>Universal Charge</b> | 0.040  | 0.328 | 23.5%                      |
| <b>Gov't Taxes</b>      | 0.138  | 0.794 | 19.2%                      |
| <b>TOTAL</b>            | 6.050  | 9.568 | 4.7%                       |

Note: Annual average rates for all customer group.

\*2014 is Year-to-Date annual average, as of October 2014.

Source: Meralco

# Electricity Price Components and Trends

## ■ Growth Rate of ECs' Rate Components (Residential only), 2008-2013

|                                      | 2008 | 2013  | AAGR  |
|--------------------------------------|------|-------|-------|
| <b>Generation</b>                    | 2.92 | 4.88  | 11%   |
| <b>Transmission</b>                  | 1.12 | 1.18  | 1%    |
| <b>System Loss</b>                   | 0.62 | 0.86  | 7%    |
| <b>Distribution*</b>                 | 1.73 | 1.73  | 0%    |
| <b>RSFC</b>                          | -    | 0.37  | -     |
| <b>Subsidies and other charges**</b> | 0.02 | -0.09 | -240% |
| <b>Government Charges***</b>         | 0.53 | 0.96  | 12%   |
| <b>Total</b>                         | 6.94 | 9.89  | 7%    |

Notes: \* includes Distribution, Metering and Supply

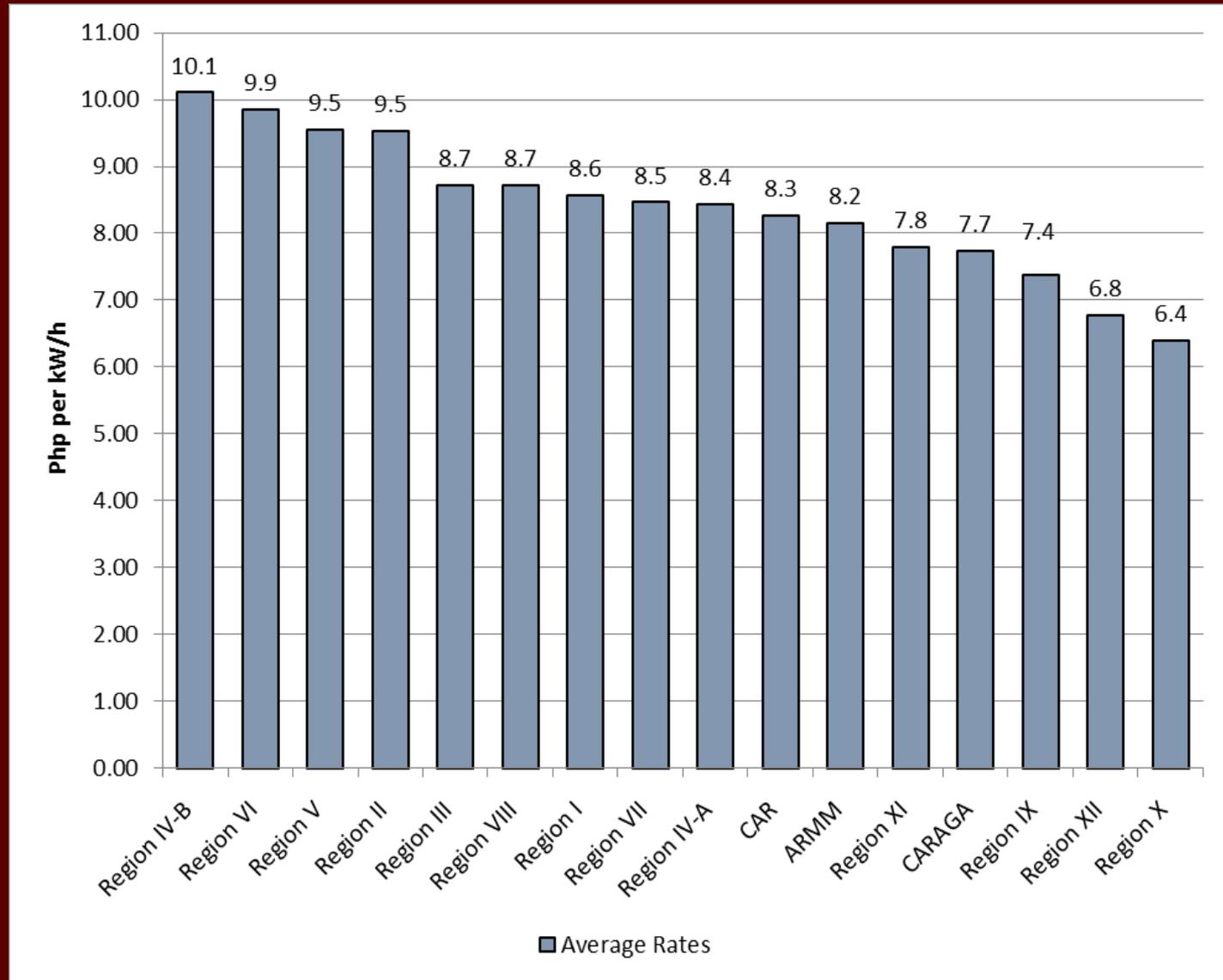
\*\* includes Lifeline and Inter-class cross subsidies

\*\*\* includes Universal Charges, VAT, and other taxes

Source: National Electrification Administration

# Comparison of Electricity Prices across Geographical Areas

- ECs' Average System Rates per Region, December 2013



Source: NEA

# Recommendations

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## ■ GENERATION

### – Short-term recommendations

- Streamline the approval process for new generating plants and address permitting issues and other bureaucratic impediments, so as to encourage the construction of new power plants
- Declare power projects as projects of national significance
- Maximize the Ilijan power plant's capacity using straight diesel during the Malampaya maintenance shutdown in the summer months of 2015
- Fast-track the tender of banked gas

# Recommendations

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## ■ GENERATION

### – Short-term recommendations (cont.)

- Ensure power supply reliability since power plant outages reduce the available capacity; drive for more effective coordination / synchronization of maintenance to minimize supply interruptions
- Review the must-offer rule in the wholesale electricity spot market (WESM) as violations of this lead to lower available capacity
- Fast-track the rehabilitation of Malaya-1
- Auction long-term power supply agreements (PSAs)

# Recommendations

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## ■ GENERATION

### – Short-term recommendations (cont.)

- Undertake generation mapping, as a policy and regular practice, and implement optimal decision-making on genco location
- Implement the 10% income tax (instead of the 30% income tax) for renewable energy (RE) plants in accordance with the RE Law
- Implement a refund for the November and December 2013 price overcharging

# Recommendations

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## ■ GENERATION

### – Medium-term recommendations

- Develop a sustainable and optimal energy mix policy
- Continue the implementation of BOI incentives for power generation and extend the Board of Investment (BOI) fiscal incentives for required new plants
- Review the WESM design and transform the WESM into a more competitive market

# Recommendations

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## ▪ TRANSMISSION AND SYSTEM OPERATIONS

### – Short-term recommendations

- Individually identify the components of the transmission cost in order to determine which components can be reduced
- Resolve transmission congestion
- Fast-track the NGCP studies for new power plants and fast-track the transmission projects for new power plants or expansion projects; fast-track the completion of NGCP transmission projects that are already in the pipeline
- Pursue longer term contracting of ancillary services including prospective plants

# Recommendations

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## ▪ TRANSMISSION AND SYSTEM OPERATIONS

### – Short-term recommendations (cont.)

- Upgrade or add transmission lines in the areas affected by the NGCP's N-1 contingency requirement and congestion. The location of the additional lines should be subject to further analysis and simulation in order to determine its impact.

### – Medium-term recommendations

- Undertake capital expenditures (CAPEX) to further strengthen transmission (and this also applies to distribution) systems, resolve transmission congestions and modernize the infrastructure

# Recommendations

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## ▪ DISTRIBUTION

### – Short-term recommendations

- Improve the generation mix at the DU level
- Streamline and fast-track the approval of power supply agreements (PSAs)
- Truly encourage the connection of renewable energy like roof solar and distributed generation
- Pursue efficiency improvements in the retail supply sector in order to reduce charges
- Review the Performance-Based Rate (PBR) setting for DUs with the aim of reducing the price burden to consumers while balancing the viability objectives of DUs

# Recommendations

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- **DISTRIBUTION**

- *Medium-term recommendations*

- Review the cross-ownership rules and the current market dominance status of players

# Recommendations

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- **SYSTEM LOSSES (in transmitting and distributing power)**
  - **Short- to medium-term recommendations**
    - Carefully examine the components of the systems loss in order to identify ways of reducing this
    - Review the ERC-set cap on systems losses
    - Strictly enforce RA 7832 (the law on system losses) and aim for a long-term goal of single-digit losses

# Recommendations

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## ▪ UNIVERSAL CHARGES

### – Short- to medium-term recommendations

- Judicious action on any new universal charges, e.g., Stranded Debt recovery, Feed-In Tariff Allowance (FIT-All)
- Improve the missionary electrification implementation so as to reduce the universal charges
- Look into the prospect of the national government absorbing universal charges

# Recommendations

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## ■ TAXES

### – *Short- to medium-term recommendations*

- Review whether or not the government is “overtaxing” the energy sector
- Review the legislations on taxes on electric power and whether or not these can be gradually reduced or phased out

# Recommendations

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## ▪ DEMAND MANAGEMENT

### – Short- to medium-term recommendations

- Contain the consumers' spending on power through intensive campaigns
- Mobilize the self-generating capacity of large end-users to address the foreseen shortfall in Luzon (and possible high impact on electricity price)
- Adopt flexible work arrangement to help alleviate the tightness of energy supply

# Recommendations

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## ▪ **VARIOUS CROSS-CUTTING RECOMMENDATIONS**

### – *Short- to medium-term recommendations*

- Help create an environment that encourages investors to do business in the power sector
- Apply part of the government's natural gas royalty take to reduce power rates
- Strengthen the planning units of the DOE
- Establish a public-private steering committee to guide initiatives
- The ERC must exercise its mandate strictly and efficiently given the pending cases (e.g., interim bid cap, secondary price cap)

# Next Steps for the DOE

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- **Stakeholders' session with the DOE Secretary and ERC Chairperson**
- **Strategy Paper as a follow-through to the Task Force's Final Report**
  - Elements: Committed strategies, timetable, government agencies, and monitoring mechanism
  - For short-term or 'actionable' recommendations
- **Quantitative simulations by DOE Technical Staff or hired experts (e.g., 2013 DOE-contracted study, with USAID funding, on simulations of impacts of tax reductions on electricity price, among others)**
- **DOE to initiate drafting of amendments to the existing laws, if needed**

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**Thank you!**