**PIPPA COMMENTS**

**6 March 2014**

House Bill

AN ACT ESTABLISHING THE ENERGY SECURITY ASSETS PROGRAMS AND APPROPRIATING FUNDS THEREFOR

| **Original Provision** | **Suggested Amendment[s]** | **Comment/Basis** |
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| General Comment: It is our position that there is no need for the government to procure additional generating units as security assets. The funds should instead be utilized by government for additional socio-economic projects which will have a direct impact in alleviating the lives of the Filipino people. | | |
| **Sec. 2. Declaration of State Policy. –** It is hereby declared the policy of the state to ensure sufficient source of power supply at all times and therefore allow government to undertake necessary interventions during imminent shortage in power supply, consistent with the goal of promoting public welfare as well as the country’s economic development. |  | * Based on the Explanatory Note, the bill seeks to establish the Energy Security Assets Program to address future power supply needs of the country and projected shortages in supply due to maintenance and forced outages of plants.   The premise for the bill and its declaration of policy is misplaced for the following reasons:  **1.** **Securing reserve capacity is the responsibility of the System Operator, not the government.**  In the explanatory note, it was stated that the projected 700MW shortfall of the DOE comprise of 31MW in generation capacity and 647 MW in reserves. As one may conclude, the projected crisis in actuality is **a crisis of reserves** and not of supply, since the 647MW pertain to contingency reserve capacity.  Reserve capacities are Ancillary Services which in general support the reliable operation of the transmission system as it moves electricity from generating sources to customers. This includes Regulating Reserve, Contingency Reserve, Dispatchable Reserve, Reactive Power Support and Black Start Reserves.[[1]](#footnote-1) Contingency Reserve, in particular, is allocated to cover the loss of the largest synchronized generating unit in the Grid.[[2]](#footnote-2)  In the Philippine Grid Code, securing reserve capacity is the responsibility of the System Operator, as part of the Grid Ancillary Services[[3]](#footnote-3). As the current System Operator, it is the obligation of the National Grid Corporation of the Philippines to contract sufficient reserve capacities to maintain power quality, reliability and security of the Grid[[4]](#footnote-4).  Needless to state, the thinning of reserves is a matter that should be addressed by NGCP and not by the government of the Philippines.  We suggest conducting further review of the grounds upon which the bill was proposed, which should include a supply/demand projection from the DOE with a breakdown on whether the requirement is energy or supply.  **2. There is already a provision in the EPIRA[[5]](#footnote-5) that allows for the establishment of additional generating capacity to address electric power crisis.**  The declaration of policy intends to “allow government to undertake necessary interventions during imminent shortage in power supply”.  The objective of HB 5305, for all intents and purposes, is identical to Section 71 of the EPIRA which states:  “Upon the determination by the President of the Philippines of an imminent shortage of the supply of electricity, the Congress may authorize, through a joint resolution, the establishment of additional generating capacity under such terms and conditions are it may approve.” [[6]](#footnote-6)  While we support the efforts of the author of HB5305 to promote energy sufficiency in the country, passing an identical law is not necessary.  **3. Shortage in supply can be short term such as those caused by disturbances in the power system due to outages of generating units, transmission lines and transformers[[7]](#footnote-7).**  Considering time and capital needed to put up, operate and maintain a power generating plant, the focus must be on how to timely attract, secure and protect needed investments in the generation sector. With the growing demand for electricity, a competitive generation sector may yield long-term benefits that will redound to the welfare of consumers.  Rather than purchasing generating units itself, government should adopt policy that encourages private sector to use its capital and knowledge to build new plants. |
| **Sec. 3. Purchase of Modular Generator Sets (GenSets).** – The Department of Energy (DOE), through the Power Sector Assets and Liabilities Management Corporation (PSALM) , is mandated to negotiate contracts for the purchase of additional generating capacity equivalent to at least 1,000 megawatts to cover possible shortages in power supply and/or reserves and forced outages and maintenance of existing power plants; xxx | same | * The purchase of at least 1,000MW modular generator sets is contrary to the objectives of the EPIRA to restructure the electric power industry through the privatization of the assets of the National Power Corporation[[8]](#footnote-8) and to enhance the inflow of private capital and broaden the ownership base of the power generation[[9]](#footnote-9). The existing safeguards in the EPIRA are sufficient and sound policies, which must not be disturbed overnight without much thought and deliberation. Impact on the entire power industry must also be carefully considered, as well as any effect on the power supply needs of the country and the welfare of consumers. * Mandating the DOE and the PSALM to negotiate contracts for the purchase of additional generating capacity is also contrary to the powers granted to both government instrumentalities under the EPIRA.   PSALM was created with the principal purpose of managing “the orderly sale, disposition, and privatization of NPC generation assets, real estate and other disposable assets, and IPP contracts with the objective of liquidating all NPC financial obligations and stranded contract costs in an optimal manner[[10]](#footnote-10)”.  The DOE, on the other hand, was “mandated to supervise the restructuring of the electricity industry[[11]](#footnote-11)” and “encourage private sector investments in the electricity sector[[12]](#footnote-12)”.  Any purchase of additional generating capacity must be done upon determination by the President of an imminent shortage in supply and through a joint resolution by the Congress, in compliance with Section 71 of the EPIRA.   * For clarification:   + The proposed additional generating capacity to be secured is “at least 1,000MW”. What methodology was used in determining this capacity?   + What aspect of electricity security is being addressed? Is it the long term, medium term or short term security?   + In proposing that the government purchase generator sets, did the proponent consider other technologies, i.e. coal, diesel, natural gas, renewable energy, etc., to determine the optimal mix in addressing baseload, mid-merit and peak demands?   + Was there a study conducted to determine the costs of purchasing generator sets and its impact on electricity prices in light of the declared policy of the state in the EPIRA to ensure “affordability of the supply of electric power[[13]](#footnote-13)” and “transparent and reasonable prices of electricity[[14]](#footnote-14)”?   + Will the additional generating capacity be for the entire Grid (Luzon, Visayas and Mindanao) or for the Luzon Grid only? |
| **Sec. 3. Purchase of Modular Generator Sets (GenSets).**  “xxx *Provided*, That the modular generator sets to be purchased under this Act shall only serve as a backup generator and shall only be used during Yellow and Red Alert status of power supply, which modular generator sets shall not be counted as part of the country’s current power supply;” |  | * Dispatching the generator sets during Yellow and Red Alert status not only takes away the responsibility from NGCP to contract sufficient ancillary services, but also displaces Generators that are available to run at that time. * Clarification   + If the generator sets are not to run when it is not Yellow/Red Alert status, how will the government recover its costs in purchasing the same? In addition, how will the government fund the operations and maintenance of the plant? Will these costs ultimately end up as stranded costs, and thus contravene the EPIRA?   PSALM is currently managing the plants in their portfolio in such a way that they may ultimately recover their costs. The proposed bill is contrary to PSALM’s objectives, since the procurement of additional capacity and using it for contingency purposes will only add to PSALM’s liabilities. |

1. 1.2 Definition of Terms, Ancillary Services Procurement Plan (Rules, Terms and Conditions for the Provision of Open Access Transmission Service). [↑](#footnote-ref-1)
2. 1.6. Definitions, Philippine Grid Code, Amendment No. 1 (April 2, 2007). [↑](#footnote-ref-2)
3. Section 6.3.1.2 Operational Responsibilities of the System Operator, Philippine Grid Code, Amendment No. 1 (April 2, 2007).

   “6.3.1.2 The System Operator shall be responsible for determining, acquiring and dispatching the capacity needed to supply the required Grid Ancillary Services… xxx” [↑](#footnote-ref-3)
4. Section 1. Nature and Scope of Franchise, Republic Act No. 9511, otherwise known as “*An Act Granting The National Grid Corporation Of The Philippines A Franchise To Engage In The Business Of Conveying Or Transmitting Electricity Through High Voltage Back-Bone System Of Interconnected Transmission Lines, Substations And Related Facilities, And For Other Purposes”*

   “xxx there is hereby granted to the National Grid Corporation of the Philippines, hereunder referred to as the Grantee, its successors or assigns, a franchise to operate, manage and maintain, and in connection therewith, to engage in the business of conveying or transmitting electricity through high voltage back-bone system of interconnected transmission lines, substations and related facilities, system operations, and other activities that are necessary to support the safe and reliable operation of the transmission system xxx”  [↑](#footnote-ref-4)
5. Republic Act No. 9136, otherwise known as the *“Electric Power Industry Reform Act of 2001”.* [↑](#footnote-ref-5)
6. Section 71, R.A 9136. [↑](#footnote-ref-6)
7. WESM Manual for Administered Price Determination Methodology. [↑](#footnote-ref-7)
8. Section 3, RA 9136. [↑](#footnote-ref-8)
9. Section 2 (d) RA 9136. [↑](#footnote-ref-9)
10. Section 50, RA 9136. [↑](#footnote-ref-10)
11. Section 37, RA 9136. [↑](#footnote-ref-11)
12. Section 37(e)(ii), RA 9136. [↑](#footnote-ref-12)
13. Section 2(b), RA 9136. [↑](#footnote-ref-13)
14. Section 2(c), RA 9136 [↑](#footnote-ref-14)