



Philippine Chamber of  
Commerce and Industry

28 April 2014



**HIS EXCELLENCY BENIGNO SIMEON C. AQUINO, III**  
**President, Republic of the Philippines**  
Malacanan Palace, Manila



**Chamber of Mines  
of the Philippines**

Dear **Mr. President**:

Greetings!



**Employers  
Confederation  
of the  
Philippines**

The sudden power rate hike in December, which brought our electricity prices to being the highest in the world, as well as the recent Mindanao-wide power outage, exacerbated two specific obstacles to achieving sustained economic growth: 1) lack of power supply security and 2) uncompetitive power rates.



As everyone recognizes, Luzon now needs 600 MW and thereafter 300 MW per annum, Visayas needs 150 MW and some 150 MW per annum, while Mindanao needs 300 MW and about 120 MW per annum to meet desired regional economic growth targets. Nevertheless, no clear and specific supply sources are on sight, other than those various "commitments" being undertaken on a best-effort basis. It remains uncertain whether the original capacities earlier projected to come on line within 2014 can still do so. But even if we were to assume positively, it is readily apparent that the deficiency cannot yet be sufficiently addressed. The problem will be most glaring in Mindanao, where the earliest foreseeable time when new significant capacity can come in is not until 2015.



There is also no clear program for achieving reasonable and competitive power rates. It seems we are merely assuming that the entry of competition would suffice to solve our problems.



On the positive side, recent events have not only surfaced these two challenges but also brought the private sector closer in support of your leadership in formulating and implementing executive actions and programs addressing these issues with a sense of urgency and without need to amend Republic Act 9136 or the Electric Power Industry Reform Act (EPIRA). Doing so will only cause uncertainties that will slow down the progress of new investments/projects in the power generation sector, and



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ultimately, further delay the gains that the EPIRA was envisioned to bring.

The National Economic and Development Authority (NEDA) has also acknowledged that we must overcome these challenges if we are to realize the perfect threesome of capital, labor, and technology, which will accelerate industrialization and bring in significant foreign direct investments that will create employment opportunities for our people. One can only imagine how exciting our economy would be if we could manage to achieve a combination of \$22B worth of OFW remittances and \$10B worth of foreign direct investments annually.

It is in this spirit and sense of readiness that we join hands with your leadership in confronting these daunting challenges of achieving power supply security and reasonable and competitive power prices that we present this advocacy.

We submit that to effectively address those challenges, certain key decisions and premises must first be assumed and decided as follows:

1. Power supply security and competitive power rates must be defined as major twin initiatives to realize aggressive industrialization and inclusiveness. The leadership must give utmost attention to both public and private sector cooperation to achieve these objectives.
2. The entire Economic Cluster, acting as one team and speaking as one voice, should evaluate the situation and strategize on how to achieve these goals and be accountable for the results. DOE should not be left alone to figure out the solutions.
3. The response to these challenges should be approached with broader perspective and mindset giving full consideration of the real and apparent successful power sector strategies of our regional competitors.
4. Promoting fair competition is a necessary condition to achieve our goals.
5. We must recognize that there are enough provisions in the EPIRA which the Executive Department can use to improve processes and policies. Amending the EPIRA is therefore unnecessary.
6. Our power issues must be addressed with a strong sense of urgency, and the private sector is ready to provide its full support.

With a strong sense and trust that the above shall all be considered, we are attaching herewith some key starting points to investigate, assess, evaluate, and draw policies and processes in overcoming those challenges.

Respectfully yours,



**ALFREDO M. YAO**

President, Philippine Chamber of Commerce and Industry



**ERNESTO M. ORDÓÑEZ**

President, Alyansa Agrikultura



**ARTEMIO F. DISINI**

Chairman, Chamber of Mines of the Philippines



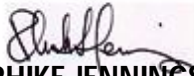
**EDGARDO G. LACSON**

President, Employers' Confederation of the Philippines



**SERGIO R. ORTIZ LUIS, JR.**

President, Philippine Exporters Confederation



**RHIKE JENNINGS**

President, American Chamber of Commerce of the Philippines



**MICHAEL K. RAEUBER**

President, European Chamber of Commerce of the Philippines



**MR. EUN GAP CHANG**

President, Korean Chamber of Commerce of the Philippines

# ANNEX A

## LONG-TERM RECOMMENDATIONS

### Power Supply Security:

- A national power supply roadmap specifying, among other things, the required power plants, their configurations (fuel type, size, etc.), locations, and schedule of operations
- A supporting power supply agreement (PSA) template that will be adopted by all distribution utilities (DUs) as classified and qualified
- A regular and transparent power supply bidding process that will cover base load, peaking, and reserves

### Competition:

- Developing programs and processes that ensure fair and transparent competition among stakeholders in the supply side, where the final major stakeholders do not number less than five and are not partners among themselves or with DU stakeholders in other major industrial ventures in the country
- Increasing the market power of various DUs in order to create fair competition and increase power supply security

### Competitive Power Rates:

- Fostering closer coordination among economic, fiscal, industrial, and energy sectors to develop a competitive tariff sweet spot
- Bringing the regulatory sector to the same table in order to address the impression that there is a lack of coordination among planners and implementers

### Implementation:

- Developing a strong public-private coordinating task force to provide leadership in promoting the program and overcoming anxiety or resistance from LGUs and civil sectors
- The task force to clear the way for the efficient implementation of the program (e.g., LGU permitting, licensing, etc.)

# ANNEX B

## MID-TERM RECOMMENDATIONS

Creation of a Market for Long-Term Contracts. We propose requiring distribution utilities to contract 100 percent of their forecast energy requirements for the next three years and no less than 90 percent for seven years thereafter. These requirements should then be subjected to competitive public auctions. This policy can create a market for long-term contracts that provide incentives for investment in the generation sector and offer greater protection for consumers from exposure to spot market volatility. Without long-term contracts, investors will be less willing to build new capacity in a small and undeveloped merchant market.

Creation of a Forward Market<sup>1</sup>. The Energy Regulatory Commission (ERC), together with the generators and DUs, should develop a standard template for forward contracts and rules governing procurement, the compliance to which should permit the pass-through of such costs by the DUs to end-users. It is further recommended that a forward market for power be established either at the Wholesale Electricity Spot Market (WESM) or under a trading platform operated by industry stakeholders and duly accredited by the private sector, subject to market rules prescribed by the DOE.

Creating an Ancillary Services (Reserve) Market. The creation of a reserve market is vital in achieving the level of ancillary services reserves to have power quality and service reliability required by commercial and industrial users. We recommend that we require the National Grid Corporation of the Philippines (NGCP) to secure firm contracts for ancillary services; for the ERC to monitor the NGCP's compliance; and for the Department of Energy (DOE) to set the parameters delineating a role for the National Transmission Corporation in the determination of the levels of ancillary services, the role of NGCP in the deployment of ancillary services, and the rationalization of NGCP's role in its procurement of Ancillary Services.

Streamlining Business Permit and Licensing Systems. Simplifying and streamlining the permitting process will facilitate generation project development and early commissioning of badly needed additional capacity. It is recommended that a law be enacted that will place national interest on significantly large projects, shield the implementation of such projects from local politics, and streamline permitting processes under a one-stop shop.

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<sup>1</sup> A forward contract is an agreement between DUs and generators for the supply of a fixed quantity of electricity at a pre-agreed period within the year at an agreed fixed price. A forward contract mitigates the price volatility of replacement power from the WESM and allows supply gaps from PSAs during maintenance to be filled without speculative pricing (if generators are otherwise required to include in their power rate the replacement power cost during maintenance outage).