

PIPPA COMMENTS TO THE DRAFT RENEWABLE PORTFOLIO STANDARDS

22 JUNE 2016

General comments:

PIPPA supports the full implementation of the RE Law. However, there are concerns raised by stakeholders regarding the draft RPS presented by DOE and NREB.

In particular, one of the concerns raised by some stakeholders at the public consultation on 16 June 2016 was about the additional cost that will be incurred by end-users due to the higher RPS required in the draft circular. This was raised because the stakeholders are aware of the higher costs in putting up RE plants as compared to building conventional generators. RE Plants have higher capital expenses and lower capacity factors. Due to the intermittency of some REs resources, an increase in needed ancillary services will be required to maintain the reliability of the grid and the quality of power, which is another added cost that will be passed on to the end-users. While the relatively high electricity cost has always been attributed to the generators, we would like to underscore that this is misleading and incorrect considering the continuous drive and advocacy of the generators to increase competition which will result to reasonable cost of electricity. Inasmuch as the possible increase in cost of electricity in this instance will be policy driven, we believe that the conduct of cost or price impact study is crucial before the RPS policy is approved and promulgated. This will enable all stakeholders to anticipate its commercial and economic effects and explore possible risk mitigation approaches. It will also be a first step towards ensuring that we do not lose sight of the policies of the EPIRA *"to ensure the quality, reliability, security and affordability of the supply of electric power¹"* and *"to ensure transparent and reasonable prices of electricity"*.²

In Annex A of the proposed RPS, the estimated RE capacity needed up to 2030 reached a total of 32,224MW. This means in 15 years, we have to double our capacity from RE alone. At present, there are already prospective generators which have achieved financial closing and have signed contracts with the DUs, ECs or RES. The increase in RE capacity requirement pursuant to the draft circular will have an impact on these contracts with and the operationalization of prospective conventional generators.. Hence, we would like to request from the DOE that not only the cost analysis should be provided but also a study on the impact to the economy as a

¹ Sec. 2(b) of the EPIRA.

² Sec. 2(c) of the EPIRA.

whole. There should be a balance of both conventional and RE plants in each grid, both in technical and cost perspectives. The RPS should also be linked to the Fuel Mix Policy and the FIT installation targets (and FIT-All).

We would like to take this opportunity to follow-up our request for the grid penetration study for the intermittent RE generation. Considering that the current RPS draft is contemplating on adding 32,224MW of RE capacity, we would like to know how much intermittent capacity can be integrated to each grid. This is crucial, since we can not have a policy that is technically impossible to attain, such that the burdens on mandated participants would simply be put to naught.

The current provisions in the RPS are silent on the baseline RE percentage required for each participant. This information is crucial since the investors are already planning on building generators which can operate a few years from now.

SPECIFIC COMMENTS:

Rule/Section	RPS Provision	PIPPA Comments
Rule 1, Section 5	<p>Definition of Terms. xxx</p> <p>m. “Normalization Procedure” refers to a statistical process of removing the impact of non-recurring events in the analysis of data.</p>	<p>We would like to kindly ask where this term was used in the RPS draft.</p>
Rule 2, Section 7	<p>Minimum Annual RPS Requirement. To maintain the RE share in the national energy mix to at least thirty five percent (35%) by 2030, the minimum annual target per grid shall be equal to the sum of the minimum target of all Mandated Participants in the grid. The minimum annual RPS requirement per Mandated Participant shall be computed by the Composite Team in coordination</p>	<p>In the 16 June 2016 public consultation, we note that the DOE and NREB justified that the 35% RE share is the target since historically the RE share of the country has been around that level. Moreover, they said that the RE Law’s objective is to accelerate RE development.</p>

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	<p>with NREB.</p> <p>Provided, That the annual RPS requirement shall be calculated in accordance with the following formula, all expressed in MWh:</p> $ \begin{aligned} \text{RPS}(n) &= \text{RPS}(n-1) + \text{AMI}(n) \\ &= \text{RPS}_0 + \sum \text{AMI}(n) \\ &= \text{RPS}_0 + K \sum \text{AMI}(n-1) \end{aligned} $	<p>However, before EPIRA, the development and exploration of these RE resources were the responsibility of the government. The government, and by extension, all taxpayers were subsidizing the cost of power whether they benefitted from its use or not. People did not realize that the subsidy of power rates resulted in less funds to spend supporting other social or infrastructure needs of the country. Since the passing of EPIRA, it is now the consumer who eventually shoulders the cost of power. Industry has therefore been mandated to be more transparent through the unbundling of the cost components.</p> <p>It is important that the DOE should be cognizant of the resulting increase in power rates due to the RPS, as proposed. The RE mix has been decreasing since the increase in demand is being supported by additional conventional generators, which has contributed to lower electricity costs and more reliable and stable power supply. The 35% RE share should be studied further. The resulting new optimal mix should be integrated in the Fuel Mix Policy and FIT rules as well.</p> <p>The DOE and NREB should have already proposed the basis for the baseline (RPS₀) or at</p>

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		<p>least identified the parameters for setting the baseline. We are also proposing that a target RE percentage mix per participant be included (if the participant already has that target percentage then it no longer needs to increase its RE).</p>
<p>Rule 2, Section 8</p>	<p>Minimum Annual Incremental RE Percentage. The minimum annual increment in the RPS level shall be initially set at 2.15 percent (2.15%) to be applied to the actual supply portfolio of the Mandated Participant in each grid for the previous year. This is to determine the current year’s requirement for the RECs of the Mandated Participant: Provided, That the minimum annual percentage may be adjusted by the NREB when:</p> <ul style="list-style-type: none"> a. There are substantial changes in relevant to the market in the grid; or b. The set percentage is deemed insufficient to attain the target set by the DOE. 	<p>We note that from the 35% target RE percentage share on 2030, the resulting increase per year should be 2.15%. We further note that Annex A, as distributed by DOE in the public consultation shows an increase of RE per year. The calculation shows the requirement of 1,362MW in 2015. Then the requirements increase per year until up to 2,832MW in year 2030, for a total of 32,224MW. We would like to reiterate the need for the RE penetration study per grid, since it may not be possible to integrate this much RE to the grid, unless a significant fraction will consist of geothermal and impounding hydro power plants that are going to be built.</p>
<p>Rule 3, Section 9</p>	<p>Eligible Renewable Energy Technologies. – For purposes of compliance with the RPS rules, the following RE resources shall be eligible:</p> <ul style="list-style-type: none"> a. Biomass; 	<p>We would like to clarify why there is an additional qualification for impounding hydropower sources to meet internationally</p>

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	<ul style="list-style-type: none"> b. Waste to energy technology; c. Wind energy; d. Solar energy; e. Run of river hydropower sources; f. Ocean energy; g. Hybrid systems as defined in the RE Law; h. Impounding hydropower sources that meet internationally accepted standards; i. Geothermal energy; and j. Other renewable energy technologies that may be later identified by the DOE, through a separate issuance, upon the recommendation of the NREB. 	<p>accepted standards. What warranted this distinction from other eligible RE resources? What specifically are the internationally accepted standards contemplated by the DOE?</p>
Rule 3, Section 11	<p>RPS Mandated Participant. The following entities are mandated to comply with the RPS:</p> <ul style="list-style-type: none"> a. All DUs for all its existing customers and subsequently, upon commencement of the Retail Competition and Open Access (RCOA), for its captive customers; b. All licensed RES for the Contestable Market upon commencement of RCOA; c. All local RES upon commencement of RCOA; d. Any SOLR as may be identified upon commencement of RCOA; e. Generating companies only to the extent of their actual supply to their DCCs; f. Entities duly authorized to operate as distributors within the economic zones; and g. Other entities as may be recommended by NREB 	<p>How will entities like NPC or PSALM, which may still have bilateral contracts with DCCs, comply with the RPS?</p> <p>How is a SOLR who has just received news that he will have to accommodate a new contestable customer who failed to get its own supply expected to comply with this? Will the SOLR be given a comfortable period of time to obtain the renewable source? Can the SOLR pass on the entire RPS cost to the delinquent contestable customer, even if this is above the SOLR rates?</p>

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	and approved by the DOE.	
Rule 4, Section 14	<p>Compliance Mechanisms. The Mandated Participant shall use any one, a combination, or all of the following in complying with this Circular:</p> <ul style="list-style-type: none"> a. Allocation from the System Operator, currently the NGCP, pursuant to the FIT Rules or the relevant rules issued by the ERC therefor. RE Generation allocated by the System Operator pursuant to FIT Rules shall be used for compliance purposes and cannot be traded; b. Generation from Embedded RE power generating facilities, duly certified by the DOE and issued a Certificate of Compliance (COC) by the ERC; c. Generation from an eligible RE power generating facility with a Power Supply Agreement (PSA) duly approved by the ERC; d. A REC acquired from the Renewable Energy Market (REM) where the ownership and value per unit shall be defined by the DOE in a separate circular; and e. Any generation from Net Metering arrangements. 	<p>We would like to clarify the mechanism that DOE is proposing. Specifically, what is the rationale on why SO will be allocating the RE Generation? We believe that what the DOE needs are metered quantities of the each of the RE plants. The dispatch will correspond to RE certificates. The RE Certificates will be allocated depending on the BCQ declarations of each of the RE plants, or based on the WESM allocation for market related activities.</p>
Rule 4, Section 15	<p>Section 15. General Principles on the Establishment of the REM and the RE Registrar. The DOE shall establish the REM to facilitate the issuance, commercialization and verify compliance with the annual RPS</p>	<ul style="list-style-type: none"> • We would like to inquire on how WESM sales and purchases from RE generating facilities will be allocated. Currently, WESM is proportionately allocating the REs on a

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	<p>requirement. As part of the REM, the PEMC, under the supervision of the DOE shall establish the RE Registrar and shall issue, keep and verify RECs corresponding to energy generated from eligible RE facilities. The following principles shall be considered in the establishment of the rules and guidelines governing the REM and the RE Registrar:</p> <ol style="list-style-type: none"> a. The RE Registrar will issue one certificate per MWh of generation produced from a registered generating unit. b. The registration shall be designed so a REC can be claimed only once. c. All Mandated Participants shall have registered with the RER their individual RPS Compliance Accounts. d. Excess RECs of the Mandated Participant can be traded pursuant to Section 14 (b) Rule 4; e. A REC shall be valid for three (3) years and can be banked only during its validity. f. The Mandated Participant may be assessed periodically with corresponding penalties for non-compliance with the RPS requirement consistent with the REC validity. g. A Mandated Participant will prove compliance with the RPS by having the proper quantity of RECs in their RPS Compliance Account in the RE Registrar, consistent with Section 8, Rule 2 of this Circular. 	<p>per interval basis for each spot purchase. Will it be the same?</p> <ul style="list-style-type: none"> • Moreover, how would RE dispatch from ancillary be allocated? • What if the RE unit is on MRU? How will this be allocated? • On Item (f), will the DOE provide the guidelines/procedures for the assessment of non-compliance and determination of appropriate penalties? The draft circular simply provides a range of PhP100,000.00 – PhP500,000 for the penalties. It is not clear if the amount of penalties is left to the discretion of the DOE. We would recommend providing a table of penalties with the corresponding violations to avoid the imposition of arbitrary amounts that are not commensurate with the violations, especially if the non-compliances are very minimal.

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	<ul style="list-style-type: none"> h. During the first three years of the RPS program, the DOE shall review the REM Rules for possible revisions based on the rate of compliance of the Mandated Participant, REC market activity and general success in meeting RPS goals; and i. A transaction fee may be imposed by PEMC for transactions undertaken in the REM and RE Registrar subject to the setting of operational charges to be approved by the ERC; Provided, that a separate issuance will be issued to serve as guidelines for the same. 	
Rule 5, Section 16	<p>Creation of a Composite Team</p> <p>For the purpose of implementing the provisions of this Circular, a Composite Team is hereby created to be composed of representatives from the following:</p> <ul style="list-style-type: none"> a. Designated representative of the NREB Chair; b. Electric Power Industry Management Bureau (EPIMB); c. Renewable Energy Management Bureau (REMB); d. Legal Services (LS); and e. Energy Policy and Planning Bureau (EPPB). <p>Provided, That the NREB representative shall serve as Chair of the Composite Team.</p>	<p>It seems that this Section puts much power to the NREB Chair to designate its own the Chair of the Composite Team. We propose that the Chair of the Composite team to have specific qualifications , with the Mandated Participants having the ability to nominate..</p>
Rule 5, Section 17	<p>Responsibilities of the Composite Team.</p> <p>xxxx</p>	<p>PIPPA believes that the study on cost implications should be done first before the promulgation of the RPS rules. This is in line with the government advocacy for more</p>

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	<p>d. Initiate a study on the cost implication of minimum annual RPS requirement before and after the initial implementation of RPS; and</p> <p>xxxx</p>	<p>transparency. The consumers should know the impact of such policies to prevent confusion. Moreover, it will enable participants to already identify possible rate increase mitigation measures.</p>
<p>Rule 8, Section 24</p>	<p>Reportorial Requirements. The DOE shall establish a reliable database to serve as the baseline in the calculation and monitoring of the compliance of the Mandated Participants: provided, That EPIMB and REMB will coordinate in this regard. To this end, the following entities shall be required to submit within six (6) months from the effectivity of this Circular, the following documents:</p> <p>xxxx</p> <p>b. All Generating Companies shall be required to submit data on sales to their DCCs for the period to be identified by the DOE</p> <p>c. The NGCP shall submit for approval of the DOE the following:</p> <p>i. A committed Transmission Development Plan (TDP) that identifies network expansion/rehabilitation to enable delivery of new RE resources to the grid that will include the total investments</p>	<ul style="list-style-type: none"> • We would like to clarify the meaning of “baseline” in the 1st paragraph of this provision. • Regarding the requirement for all generating units, we believe that all dispatch and BCQ declaration data is available in the WESM. There is no need for generating companies to submit their sales data to DOE on the DCCs for the RPS. • We would like to clarify what will happen if the DCC rejects the generator offer to mix its current supply with RE? • Regarding the requirements for NGCP – Similarly in other DOE Circulars, NGCP was also given several requirements and one of them is the penetration study. The generators have not seen the study yet, if there is already one. The result of this study should be one of the major inputs to the RPS, since it identifies the current technical constraints of the grid.

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	<p>required to support the RE industry;</p> <ul style="list-style-type: none"> ii. A list of Transmission Services Agreements and other related transmission services signed between the RE developer and NGCP; iii. A technical study/evaluation on the required incremental ancillary services needed to provide to maintain a reliable power service delivery with the entry of new RE technologies. <p>d. Each Mandated Participant shall submit an Implementation/Compliance Plan to the DOE which shall contain the following:</p> <ul style="list-style-type: none"> i. Existing bilateral contracts, if any, that will be used as mechanism to secure compliance with the RPS Rules; ii. Any existing Transition Supply Contracts (TSCs) that can be used as mechanism to secure compliance with the RPS Rules; iii. Forecast of DU's compliance with the RPS in kWh and corollary kW, which may include, among others, Embedded Generation, bilateral contracts, purchases from the REM and other mechanisms identified as means of compliance herein; iv. Distribution network expansion/upgrade plans for RE Embedded Generation 	

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	facilities. e. Such other reports from any person or entity as may be required by the DOE.	