VISAYAN ELECTRIC COMPANY

22 June 2016

Hon. **Zenaida Y. Monsada**
Secretary
Department of Energy
Energy Center, Rizal Drive
Bonifacio Global City, Taguig City

Attention: **Hon. Mylene Capongcol**
Undersecretary

Re: **Visayan Electric Company (VECO) Comments to the Draft DOE Circular on Renewable Portfolio Standards (RPS)"**

Dear Usec. Capongcol,

We would like to thank the Department of Energy (DOE) for the opportunity to comment on the draft DOE Circular entitled "Providing Rules and Guidelines Governing the Establishment of the Renewable Portfolio Standards (RPS)" (hereinafter, the "RPS Rules and Guidelines"). Please find below our comments, which we hope the DOE will consider before the DOE Circular on RPS Rules and Guidelines is finalized and promulgated.

COMMENTS:

1. ***There should be a new set of public consultations for the new draft of RPS Rules and Guidelines.***

We understand that there were various public consultations on the RPS Rules and Guidelines, conducted in 2011 to 2013 as follows:

Area	Date
Bacolod City	February 16, 2011
Laoag City	February 21, 2011
Cebu City	February 23, 2011
Cagayan de Oro City	February 24, 2011
Davao City	February 25, 2011
Clark Pampanga	March 10, 2012
PICC, Manila	November 14, 2011
DOE AVR, Taguig City	February 25, 2013
DOE AVR, Taguig City	March 04, 2013

We note, however, that the draft RPS Rules and Guidelines presented during the previous public consultations are significantly different from the current version. For instance, the March 2011 version included a proposed minimum annual incremental Renewable Energy (RE) percentage of one percent (1%) compared to the 2.15% in the current version.

Rule 2, Section 7 of the March 2011 version of the RPS Rules and Guidelines provided:

> *"Annual Increase of RE Portfolio. – The DOE shall increase the RPS rate by **at least** one percent **(1%) of its annual energy demand** within the period of ten (10) years from effectivity of this Rules. **Provided: That the annual increase should correspond to the installation target**. Further, all electric power industry participants mandated to comply with the RPS shall also increase the share of RE in their energy portfolio annually by at least one percent (1%) or by the annual rate to be determined by the DOE. xxx" [emphasis supplied]*

On the other hand, Part I, Section 3 of the October 2011 version stated:

> *"Section 3. Annual Increase of RE Portfolio. – The DOE shall increase the RPS rate by **at least one percent (1%) of its annual energy demand** within the period of ten (10) years from effectivity of this Rules: **Provided, That the annual increase should correspond to the targeted dispatchable incremental renewable energy supply established by DOE** in cooperation with the National Transmission Corporation (TRANSCO), or its successor in interest. xxxx " [emphasis supplied]*

Moreover, the 2.15% mandatory annual incremental RE percentage under the current version was calculated based on a target of 35% RE share in energy in 2030, which was also not included in the previous drafts.

Thus, due to the major differences between the latest draft and the drafts presented during the previous public consultations, the latest draft should undergo another set of public consultations to allow affected entities and consumers all over the country the opportunity to clarify new or revised provisions not previously presented during the earlier public consultations.

2. Cost Impact studies should be done prior to the promulgation of the RPS Rules and Guidelines

We believe that the DOE should have a target that is attainable. In order to determine whether such target is attainable, various studies like cost-benefit analysis should be done before setting the target. The mandated entities, as well the consumers, should know the impact to electricity prices with the implementation of the RPS. This is because any increase in electricity rates will decrease their ability to buy other goods and services that they need. The trade-off between lesser emissions from power sources and lesser food for the family should be analyzed and presented to the public.

It is interesting to note that the DOE and NREB intend to have the study done after the promulgation of the subject draft Circular. Rule 5, Section 17 of the 16 June 2016 draft states that the Composite Team shall initiate a cost implications study on the minimum annual RPS after the initial implementation of RPS (comparison of before and after implementation).

Analyzing the data provided as Annex A of the draft DOE Circular, the country will need an additional 32,224MW of RE capacity from 2015 to 2030. Meanwhile, we would like to highlight that the latest FIT-All rate of PhP0.1240/kWh from the installation targets of 500MW solar, 400MW wind, 250MW hydro and 250MW biomass was estimated using the following generation forecast:

Forecast Annual Generation of Eligible RE Plants (kWh) under the Transco Application for FIT-Allowance

	2014-2015	2016	2017	Total
Total	1,451,859	2,479,639	2,939,116	6,870,614

If PhP0.1240/kWh is the additional cost for the total of RE energy generation of 6.870 GWh, then how much would the additional 48,467 GWh cost the consumers who will ultimately bear the charges?

	Total Incremental RE (GWh)	Average per year (GWh)	Additional Rate (PhP/kWh)
FIT	6.870614	2.29	0.1240
RPS (as proposed)	32,224	2,041	?

Using the comparison above, the incremental cost to consumers of the proposed 2.15% mandatory annual incremental RE percentage is expected to be significantly high. Aside from these high electricity prices, these costs will not even be transparent to consumers. These costs will be hidden under the generation charge. Unfortunately, the entities that will be held accountable by the consumers are the distribution utilities (DUs) and other Mandated Entities, while the ultimate beneficiaries are the RE developers.

3. ***The Baseline calculation was not discussed***

One of the most important details of the RPS Rules and Guidelines is the calculation of the baseline RPS. The previous drafts discussed that the baseline is the average of 5 years RE share of the Mandated Participants. However, the current draft is silent on such a very important detail of the RPS Rules and Guidelines. The current draft states that *"the baseline year is the calendar year immediately preceding the start of mandatory compliance"* and that *"the minimum annual target per grid shall be equal to the sum of the minimum target of all Mandated Participants in the grid"*.

The Mandatory Participants have to know the baseline in order to plan for their own compliances. The Mandatory Participants have different RE shares in their current generation supply portfolio. Others may have close to zero, while others have a large percentage of RE supply. What if a DU already has more than 35% RE share in its current portfolio? The DU currently having more RE share will be put to a disadvantage compared with a DU which currently has a low percentage of RE share.

Moreover, we are on the verge of mandatory open access. At this point the demand of the DU may dramatically decrease once mandatory open access is implemented. Thus, the baseline may be inaccurate already, if ever it is defined.

Thus, the baseline calculation should be clearly presented and approved by the stakeholders and that it should consider the current situation on open access, before the the RPS Rules and Guidelines is finalized and promulgated.

4. *Fixed price compliance measure as an alternative to penalties and RE Certificates*

We would like to kindly propose as an alternative compliance measure for the RPS, the option of a fixed price per unit of RE share. The fixed price can be viewed as a price cap for RE Certificates. In the scarcity of RE Certificates, its prices may increase significantly which will affect the consumers and Mandated Participants. There should be a way to control these prices. One way is to introduce another option for the Mandated Participants which is to be compliant using a fixed price. This way, there will be a price control or cap in the RE Market.

We hope for your kind consideration of our comments.

Thank you very much.

Very truly yours,

JUAN ANTONIO E. BERNAD
Director