

USEC Raul,

Thanks for this invitation (attached here) which Mr. Konishi's office has just forwarded to me.

*(See attached file: DOE invite to EPIRA amendment focus group.pdf)*

Unfortunately, I will not be in the Philippines until the evening of January 23rd, so I will not be able to participate on January 21.

We do have views on these important issues, of course. But if I was to offer you on-the-spot advice (as you are seeking in the attached template), I would say this:

- Successful electricity sectors are usually continuously updated and tweaked; things change and policies, laws, and regulations must adapt and evolve as well
- Given the state of the sector in 2014, with some big issues to be addressed and some updates long overdue, the review of the sector and of EPIRA is a non-trivial exercise
- The Department of Energy should ensure that it has well-resourced, impartial, expert advice; just getting views from stakeholders is insufficient in my view

If I was to go one-step further, I would say this:

1. Institutional strengthening of ERC is important, and in particular, the economic regulatory skills of the agency need to be built up; ERC in general is probably a bit too legalistic and process-oriented, and not driven enough (nor capable enough) by core economic aspects.
2. ERC is aware of the need to get the allowed WACC recovery and RAB re-valuation right in the next re-set period (with re-set processes happening in 2014 and 2015) and these will be critical for tariff management going forward
3. More accountability needs to be demanded of the electric cooperative community, but with a quid pro quo -- EC's need a realistic financial framework within which to operate (especially with regard to contributing to their own investment requirements).
4. The rules regarding affiliated generation should be re-considered. The incentives for private distribution companies to buy from themselves are too strong, in my view. Moving to a generation benchmarking system might be a solution, whether the affiliated generation rules are modified or not.
5. The sector needs some form of generation capacity market, to supplement/complement the investment signals that arise in the WESM. Certainly, reserves to address dry-year requirements would be useful.
6. Related to the point above, the market needs better access to natural gas, which can only come through investment in LNG import infrastructure. Active Government policy initiatives are needed to create space in the market for LNG-fired power that can underpin investment (note -- I am not saying that subsidies are required; I am saying that the value of LNG-fired power, which is least-cost for mid-merit purposes, needs to be recognized in the regulatory framework and market structure)
7. Government should continue to be very cautious about making new public investments in generation; nor should Government change its policies with regard to provision of sovereign guarantees to power generation investors. These policies have provided clarity to the market and have been on balance strongly net positive for the country; with changes to the generation market as (partially) suggested above, the Philippines will have one of East Asia's most competitive generation markets.
8. Mindanao needs a focused, coherent and comprehensive energy strategy

All of this stuff is very complex, and the Bank is very sensitive to both the analytic and political challenges of getting it right.

I am pleased to note that, over the course of the past four years, we have helped support a lot of analytic work benefiting DOE, PEMC, NEA, ERC and other agencies.

Current projects include:

- Philippines Renewable Energy Development (pending approval)
- DOE Natural Gas Master Plan
- ERC Capacity Strengthening -- covering advice on cost-of-capital, asset re-valuation, EC tariffs, and generation benchmarking
- Renewable Energy Market implementation support, including RE Certificate Registrar (w/ PEMC and DOE)
- DOE performance-based solar home system subsidy scheme
- NEA/EC capacity building -- encompassing establishment of NEA's Office of Renewable Energy Development, and updating of Key Performance Standards (KPS) for EC's (encompassing EC credit rating aspects)

There's a lot more to be said on all of these subjects. But it is hard for me to not emphasize the importance of DOE moving forward with impartial, independent, and capable advisors -- this will be an essential element of getting it right.

I hope to see you at the DOE LNG Offsite in Tagaytay on Monday and Tuesday, Jan 27-28, and to follow up with you and your team in Manila later that week.

Warm regards,

Alan

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