13th EPIRA Implementation Status Report
(Period Covering May to October 2008)

Prepared by the
Department of Energy

With Contributions from

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National Electrification Administration
National Power Corporation
National Transmission Corporation
Philippine Electricity Market Corporation
Power Sector Assets and Liabilities Management Corporation

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I. INTRODUCTION

The 13th Status Report of EPIRA Implementation covers the period May 2008 to October 2008. The report contains recent developments in the reform implementation and as well the renewed vigor of the government in addressing key issues and its effort to implement responsive measures towards achieving the goals of the EPIRA.

One major achievement during this period is the near completion of the fourth precondition to Open Access and Retail Competition, i.e. seventy percent (70%) privatization of NPC generating assets in Luzon and Visayas, and the concluding activities towards the turnover to the Concessionaire of the operation of the country's national transmission business. In terms of establishing a competitive electricity market, the Energy Family (DOE, PSALM, NPC, NEA and TransCo) headed by the DOE made bold steps in assessing the Wholesale Electricity Spot Market (WESM) Rules particularly on the governance and operational aspects of the electricity market operation as envisioned in the EPIRA.

Various activities towards ensuring that the goals set by the EPIRA will be met, the Energy Family likewise embarked on a multi-stakeholders consultative forum through the creation of a Technical Working Group to address issues relating to power sector.

II. DEVELOPMENTS IN THE PRIVATIZATION EFFORT

This section provides an update on the government's continuing privatization efforts pursuant to the EPIRA.

A. Privatization of Generating Assets

During the report period, the government is able to privatize fourteen (14) NPC generating assets which translate to 69 percent level of privatization. Twelve (12) of these plants are located in the Luzon and Visayas grids with a total rated capacity of 2,597.93 MW. Eleven (11) plants have been turned over to the new owners, namely: Barit, Cawayan, Loboc, Agusan, Talomo, Pantabangan, Masiway, Magat, Ambuklao and Binga Hydroelectric Plants, and Masinloc Coal-Fired Power Plant.

As of December 2008, privatization level reached 73.3 percent with the successful bidding for Panay-Bohol and Amlan. Following are details on these privatized assets.

1. Amlan

On 10 December 2008, PSALM declared ICS Renewables Inc. as the highest bidder in the government's second round of bidding for the 0.8-megawatt (MW) Amlan Hydroelectric Power Plant. The Amlan power plant was first bid out on 23 July 2008. The bidding was declared a failure as only one bidder was prepared to submit a bid. ICS Renewables offered USD230,000 for the Visayas-based hydropower facility.

ICS Renewables will be declared the winning bidder of the Amlan plant as soon as PSALM has verified the accuracy, authenticity and completeness of the bid documents that the company had submitted. PSALM will then issue the Notice of Award to formally notify ICS Renewables as the winning bidder.

2. Panay-Bohol

On 12 November 2008, the government marked its compliance to the fourth precondition to open access and retail competition, i.e. privatization of 70% of NPC's generating assets in Luzon and Visayas, when SPC Power Corp. (SPC) won the bidding for the package of 146.5-megawatt (MW) Panay and 22-MW Bohol diesel power plants for a bid price of USD5.86 million, exceeding the reserve price set for the two power plants.

3. Tiwi-Makban Geothermal Power Plant Package.

The 747.53 MW Tiwi-Makban Geothermal Plant Package was successfully bid-out on 30 July 2008. AP Renewables, Inc., was declared the highest bidder with an offer of US$ 446.8 million for the Tiwi-Makban geothermal assets. PSALM issued the Notice of Award on 21 August 2008 and the Certificate of Effectivity was handed over to AP Renewables on 22 August 2008.

4. Calaca

Relative to the successful bidding of the Batangas Coal-Fired Power Plant located in Calaca, Batangas last 16 October 2007 at a bid price of US$ 786.5 million, its consortium now Emerald Energy Corporation (EEC) posted a performance bond of USS 15,730,540.02 (at 2% of its bid price). This can be called by PSALM if EEC would be unable to comply with its deliverables for asset turnover.

Meanwhile, sunset date for the asset turnover is 5 August 2008. PSALM should have delivered its portion of conditions precedent; non-delivery of which would trigger an event where EEC could walk-away from the sale. PSALM was able to comply with the conditions precedent by said date and has notified EEC of such compliance.

The Calaca plant has been allocated a total of 287.127 MW of transition supply contract which consist of both Meralco and non-Meralco loads.

Table 1 - List of Successfully Privatized Plants, as of October 2008

Name of Plant	Winning Bidder	Bid Date
Talomo Hydro	Hydro Electric Development Corp.	25 March 2004
Agusan Hydro	First Generation Holdings Corp.	04 June 2004
Barit Hydro	People's Energy Services Inc.	25 June 2004
Cawayan Hydro	Sorsogon II Electric Cooperative, Inc.	30 September 2004
Loboc Hydro	Santa Clara International Corp.	10 November 2004
Pantabangan Hydro Masiway Hydro	First Generation Hydro Corp.	8 September 2006
Magat Hydro	SN Aboitiz Power	14 December 2006
Masinloc Coal	Masinloc Power Partners Ltd.	26 July 2007
Calaca Coal	Holdco Inc. (CHI)	16 October 2007
Ambuklao-Binga Hydro	SNAP Hydro	28 November 2007
Manila Thermal (Decom)	Gagasan Steel Inc.	25 April 2008
Tiwi-Makban Geothermal	AP Renewables	30 July 2008

Source: PSALM

5. Ambuklao-Binga

On 28 August 2008, SN Aboitiz Power Benguet Inc. (SNAP Benguet), the winning bidder for the Ambuklao-Binga power complex, paid the last installment equivalent to 30% balance of the US$ 325.0 million bid it offered for the Benguet based power facilities. The last installment is equivalent to US$ 99.1 million inclusive of the accumulated interest deemed from the time PSALM turned over the power facilities last 10 July 2008.

SNAP Benguet secured loans from international creditors that include the International Finance Corporation (IFC) of the World Bank Group and the Norwegian Investment Bank. It also secured financial support from six (6) local banks to fully pay its winning bid for the Ambuklao-Binga power facilities.

Meanwhile, SNAP Benguet has disclosed plans to expand the capacity of the power facilities it has acquired. SNAP Benguet will boost the current capacity of the Ambuklao plant from 75 megawatts (MW) to 105 MW while the capacity of the Binga facility will be increased from 100 MW to 125 MW.

B. Updated Sale Sequence of NPC's Assets

With nearly 70 percent privatization level achieved, PSALM firmed up on 3 September 2008 the sale of more generating assets, including decommissioned or retired power plants of the NPC. Invitation to Bid (ITBs) for the sale of the following plants was issued:

1. Limay Block A & B Combined Cycle Power Plant.

The ITB for the 620 MW Limay Combined-Cycle Power Plant was published on 19 May 2008. This formally opened the sale of another major generating asset. A Pre-bid Conference for qualified participants was conducted on 04 June 2008 and the bid date was set in August 2008. In July 2008, the PSALM Board declared the sale of the Limay Combined Cycle Power Plant a failure after it was left with only one interested bidder who submitted the Documentary Deliverables on the Documentary Deliverables Deadline. PSALM bidding rules explicitly state that the bidding for a power plant is considered failed if there is only one participant in the process. The second round of bidding is scheduled in January of 2009.

2. Power Barges 117 and 118.

The ITB for the privatization of the 100 MW Power Barge (PB) 117 located in Barangay Sta. Ana, Nasipit, Agusan del Norte, was issued on 01 October 2008. Bidding date is scheduled on 28 January 2009. The ITB for the 100MW PB 118 located in Barangay San Roque, Maco, Compostela Valley was issued on 08 October 2008. Bidding date is scheduled on 25 February 2008.

Table 2 - Indicative Privatization Targets for Generating Assets, 2008-2009

YEAR	GRID	Plants	Fuel Type	Rated Capacity (MW)
2008	Luzon	Tiwi *	Geothermal	289
	Luzon	Makban *	Geothermal	458.53
	Mindanao	Iligan I & II	Diesel/ Bunker	114
	Visayas	Panay	Diesel	146.5
	Visayas	Bohol	Diesel	22
	Visayas	Amlan	Hydro	0.8
	Sub-Total of Operating Capacities/Year (excluding Iligan I & II)			***916.83***
	Sub-Total of Operating Capacities/Year			***1,030.83***
2009	Luzon	Angat	Hydro	246
	Luzon	Navotas I & II	Diesel	310
	Visayas	Palinpinon	Geothermal	192.5
	Visayas	Tongonan	Geothermal	112.5
	Luzon	Bacman	Geothermal	150
	Sub-Total of Operating Capacities/Year			***1,011.00***
	T O T A L (Without Iligan I & II)			***1,927.83***
	T O T A L			***2,041.83***

* *Successfully bid-out as of August 2008*
Source: PSALM

3. Iligan Diesel Power Plants.

The ITB for the sale of the 114-megawatt Iligan I & II Diesel Power Plant (IDPP 1&2) Complex in Northern Mindanao was issued on 07 July 2008. Three (3) interested parties submitted letters of interest (LOI) by the LOI Submission Deadline and attended the Pre-bid Conference held in August 2008. Prior to the scheduled Bidding Date of 15 October 2008, only one investor group submitted the Documentary Deliverables that is deemed compliant with the Bidding Procedures. As such, a failure of bidding will be declared by PSALM.

The overall sale schedule for the privatization of generation assets may change depending on the confluence of factors such as investors' interest and plant-specific concerns including Operations and Maintenance agreements for multipurpose hydropower plants, fuel supply agreements (e.g. geothermal steam and coal), and land-related issues, as among the major and critical ones. The specific timetable for the asset or the asset package is released publicly a few months before the bid date.

C. Privatization of Decommissioned Power Plants

PSALM shall also continue selling NPC's decommissioned power plants and other non-operating assets as included in the updated sale sequence. Last 25 April, the decommissioned Manila Thermal Power Plant was successfully sold at US$ 2.5 million on an "as is where is" basis and did not include the underlying land. As of September, two diesel/bunker-fired decommissioned plants were scheduled for bidding in the last quarter of 2008, namely the 108 MW Aplaya in Luzon and the 22.3 MW General Santos Plant in Mindanao.

Last 26 November 2008, the Pre-bid Conference for the decommissioned 54-megawatt Cebu Diesel Power Plant II (Cebu II) was held where four interested parties attended. The package for the said retired plant includes only the structures, plant equipment, auxiliaries and accessories of the Visayas-based power asset.

D. Transfer of the Contracted Energy Outputs of NPC-IPPs to IPP Administrators

The EPIRA mandated PSALM to choose, through public bidding, Independent Power Producers Administrator/s (IPPA/s) who will administer, conserve, and manage the contracted energy output of NPC-IPP contracts.

Table 3 - Indicative Privatization Targets for Decommissioned Assets, 2008-2009

YEAR	GRID	Plants	Fuel Type	Capacity (MW)
2008	Luzon	Manila Thermal *	Bunker	200.0
	Luzon	Aplaya	Diesel/Bunker	108.0
	Mindanao	General Santos	Diesel/Bunker	22.3
			Sub-Total	***330.3***
2009	Luzon	Sucat	Bunker	850.0
	Visayas	Cebu II	Diesel/Bunker	54.0
			Sub-Total	***904.0***
	Bataan	No Schedule yet	Bunker	225.0
	T O T A L			**1,459.3**

**Successfully bid out/negotiated as of August 2008*

Source: PSALM

The World Bank (WB)-assisted Power Sector Reform Project-Technical Assistance on IPPA submitted a report to the Department of Energy in August 2007 on the possible structures for the IPPA bidding. In addition to the recommendations of the WB-funded report and the input from the consultations, PSALM is drawing from its more than one year trading experience at the Wholesale Electricity Spot Market (WESM) to determine the structure and plant portfolios that will encourage investor interest in the bidding. The energy output of NPC's

IPP plants is currently being traded in the wholesale electricity spot market (WESM) by PSALM's trading teams.

A series of consultations with the Philippine Independent Power Producers Association (PIPPA), potential investors, plant managers of independent power producers (IPPs), distribution utilities and members of financial institutions was held by PSALM in February, March, and October of 2008 to take into account various perspectives of these stakeholders in the finalization of the terms of reference and bidding rules for the selection of IPPAs.

As a result of these consultations, PSALM recommended to adopt the *Ownership Approach* with the use of back to back contract between PSALM and the appointed IPPA. The back-to-back contract will reflect the applicable provisions of the original Energy Conversion Agreements (ECAs) between the IPP and NPC. The responsibilities, benefits and risks which can be legally and commercially transferred from NPC to the IPPA will be included in an IPPA Agreement between PSALM and the IPPA.

The bid date for the selection of IPPAs was reset to February 2009 in consideration of the request of interested investors for more time to conduct due diligence activities. The ITB for the IPPA selection will be published on the first week of November 2008.

E. Privatization of Transco Assets

This section provides an update on the pending turnover to the Concessionaire of TransCo's transmission assets and the on-going divestment of sub-transmission assets to distribution utilities.

1. 25-Year Transco Concession

In preparation for TransCo's privatization, the National Grid Corporation of the Philippines (NGCP), Concessionaire-nominee for TransCo's O&M business, is seeking for the approval of a national franchise from the Congress. The House version of the TransCo Franchise Bill (House Bill No. 4358) was passed on third and final reading in August 2008 and was subsequently transmitted to the Senate. In September, the Senate started its own deliberations on the said bill, incorporating therein some amendments, taking into consideration Senate Bill No. 2263. Currently, this franchise bill is at its second reading at the Senate. Further, TransCo is preparing for the anticipated transition to ensure the smooth transfer of responsibilities to NGCP. NGCP shall resume its operations once they have secured the national franchise.

2. Sale of Sub-Transmission Assets

The sale of Transco's sub-transmission assets involves some 120 sale packages covering some 107 interested DUs, mostly electric cooperatives. In cases where more than one DU is connected to a transmission line, there is a need for the connected and qualified DUs to form a consortium to buy and thereafter operate the asset.

The sub-transmission assets involved a total of about 7,500 circuit-kilometers comprising mostly of 69kV transmission lines and 1,600 MVA of substation capacity. Estimated cost of these assets is placed at about PhP9.8 Bn.

For the period January 1, 2008 to September 30, 2008, one sale contract was signed with Lima Utilities Corporation (LUC) amounting to PhP22.65 Million. Fourteen (14) contracts amounting to PhP976 Million were negotiated as per ERC directive to adopt the SKM valuation as basis for divestment of sub-transmission assets contracts signed after 13 June 2006 (Final Determination). Meetings and negotiations with some 45 DUs nationwide are underway to further push for the sale of sub-transmission assets. Included in this drive is the negotiation for the sale of about 1,500 Ckm of sub-transmission lines worth PhP 1.36 Billion.

As of 31 October 2008, TransCo was able to divest PhP 2.92 Billion (46 sale packages) worth of sub-transmission assets including 320 MVA transformers to 42 Distribution Utilities. Included in the sale packages are 27 Lease Purchase Agreements with 26 cooperatives under concessional terms amounting to about PhP 1.6 Billion. The balance of over P 1.3 billion represents sales to private distribution utilities. Nineteen sale contracts have been approved by the Energy Regulatory Commission amounting to P 1.192 Billion as of 30 Sept 2008. **Table 4** *and* **Table 5** *show the summary and details of sub-transmission asset disposal.*

Table 4 - Regional Summary of STA Sales as of October 2008

Grid	No. of DUs	No. of Interested DUs	No. of STA Packages Sold	No. of DUs Involved	Sale Amount (in MP)	Total Installed Capacity (in Circuit-kms)
Luzon	52	32	20	18	1,120.37	677.80
Visayas	27	18	16	14	807.40	497.96
Mindanao	28	21	14	14	986.99	929.33
PHILIPPINES	**107**	**71**	**50**	**46**	**2,914.76**	**2,105.09**

Source: Transco

Table 5 - Summary of STA Sales Packages

Region	Sold			Likely to be Sold				Balance		Total (PhP Million)
	No. of Sale Packages	No. of DU's	Amount (PhP Million)	No. of Sale Package	CKM	MVA	Amount (PhP Million)	No. of Sale Packages	Amount* (PhP Million)	
North Luzon	15	14	879.92	8	787.24		400.88	10	1,416.90	2,697.70
South Luzon	5	4	240.45	7	670.41		228.99	5	1,335.04	1,804.48
Visayas	16	14	807.40	6	230.09	190	290.61	5	904.19	2,002.20
Mindanao	14	14	986.99	10	589.06		559.10	6	936.18	2,482.27
TOTAL	50	46	2,914.76	31	2,276.80	190	1,479.58	26	4,592.31	8,986.65

Region	Circuit Kilometer		MVA		Value, (P Million)		No. of Sale Packages Involved				
	Sold	To be Sold	Sold	To be Sold	Sold	To be Sold*	Sold (A)	To be Sold (B)	Likely to be Sold ©	Balance (D)	% E = D/ (A+B)
North Luzon	480.39	1,559.28	110.00	258.50	879.92	1,817.78	15	18	8	10	30.3
South Luzon	197.41	896.78		687.25	240.45	1,564.03	5	12	7	5	29.4
Visayas	497.96	877.10	210.00	297.70	807.40	1,194.80	16	12	6	6	21.4
Mindanao	929.33	1,443.08		52.20	986.99	1,495.28	14	15	10	5	17.2
TOTAL	2,105.09	4,776.24	320.00	1,295.65	2,914.76	6,071.89	50	57	31	26	24.3

** - Based on PhP1.0 Million per Ckm and PhP1.0 Million per MVA*

Source: Transco

F. Privatization of SPUG Areas

In accordance with Section 3(b) of Rule 13 of EPIRA-IRR, power generation business of SPUG will be offered to private sector, known as the New Private Power Providers (NPPs). To facilitate the implementation of this policy, the DOE issued Department Circular No. 2004-01-001 on 26 January 2004 which declared open for private sector participation (PSP) all existing SPUG areas and mandated the conduct of and set the procedures for the competitive selection process as required by the rules on privatization of the Commission on Audit. The selection of an NPP, is guided by the following considerations:

1. ability to achieve the lowest long-term cost of power and services
2. environmental compatibility with the local area
3. most advantageous implementation schedule

Likewise, the NPC, through Resolution No. 2004-66 of the NP Board, declared on 27 July 2004 14 first wave areas as priority areas for privatization because they contribute to about 80% of SPUG's total deficit. Of which four (Bantayan Island, Oriental Mindoro, mainland Palawan and Catanduanes) started its negotiations with an NPP even before the PSP program and another five (Marinduque, Tablas, Romblon, Masbate and Basilan) are being assisted by the International Finance Corporation (IFC), the appointed transaction advisor of the DOE and NPC.

With NPP Take Over (1)
- Bantayan Island
  - BIPCOR

With Partial Take-over (6)
- Oriental Mindoro
  - Power One Corporation
- Marinduque
  - 3i PowerGen
- Palawan (Puerto P. & Narra)
  - Palawan Power Gen. Inc.
- Catanduanes
  - Catanduanes Power Gen. Inc.
- Tablas
  - 3i PowerGen
- Romblon
  - 3i PowerGen

On-Going (3)
- Masbate
  - DMCI Power
- Siquijor
- Basilan
  - Coastal Power

Undecided (2)
- Camotes (CELCO)
- Bongao, Tawi-Tawi (TAWELCO)

Not Doable (2)
- Occidental Mindoro (OMECO)
- Jolo, Sulu (SULECO)

Figure 1 - Status of 14 First Wave SPUG Areas

The NPPs in these nine islands are Bantayan Island Power Corporation (BIPCOR) in Bantayan Island, Cebu; Power One Corporation in Oriental Mindoro, Palawan and Catanduanes; 3i Powergen, Inc. in Marinduque, Tablas and Romblon; DMCI Holdings, Inc. in Masbate; and Coastal Power Development Corporation in Basilan. Such private investments will provide an aggregate dependable capacity of 101.58 MW (Figure 1).

BIPCOR, the pioneer NPP, has started commercial operations as a base load supplier in 2007. It is also the first recipient of the missionary electrification subsidy from the universal charge when it received from SPUG an initial subsidy payment of P28 million for its operation in 2006 to December 2007.

Power One, 3i Powergen and DMCI will start the commercial operations of their plants in 2008-2009.

The islands of Camotes and Siquijor will be assisted by the DOE, NPC-SPUG and NEA, with or without a transaction advisor upon the choice of the electric cooperative, in their selection of an NPP. In contrast, the PSP program in Occidental Mindoro, Sulu and Tawi-Tawi will have to be deferred indefinitely due to certain contractual and management impediments.

Critical to the PSP program is the agreement on the phase-in of an NPP and the phase-out of SPUG in order to ensure the reliability of power supply during the transition period. The agreement originally programmed the full entry of an NPP in an area within one year. However, the lengthy bureaucratic process in securing and complying with certain regulatory requirements and approvals from both the national and local governments is inevitably affecting the financing and implementation of a power project. Thus, an NPP is expected to assume a complete take-over of SPUG generation within two to three years.

In spite of the slow pace and uncertainty in the privatization of some islands in the 14 first wave areas, the stakeholders manifested their continued commitment to pursue the PSP program through the "Covenant on Private Sector Participation in Power Generation in Off-Grid Islands and Isolated Areas" during the SPUG Privatization Summit on 7 December 2007 (www.spug.ph). The covenant, as a gentleman's agreement with the peoples in SIIGs, articulates the following principles:

1. recognition of the value of private investment in electric power generation in off-grid SIIGs in ensuring adequate, reliable and affordable electricity to local communities
2. responsiveness to the development need of rural communities for quality electric power infrastructure and electricity service
3. integration of the electric power industry to the sustainable development of communities in SIIGs
4. recognition of the PSP program as an opportunity for private-public partnership in development

The covenant also points out and clarifies the responsibilities of each of the private and public stakeholders in the implementation of the PSP program.

Moreover, the NPC, through its NP Board Resolution 2007-46, has opened formally to private sector investors the 61 remaining areas serviced by the SPUG. The challenge is how to market these areas considering that only five islands and one isolated area have a relatively small peak demand of at least 1 MW and electricity service of 16-24 hours and 15 islands have a peak demand of less than 100 kW and electricity service of six to 18 hours.

G. Management of Liabilities and Transfer of Assets

The implementation of the final debt and asset transfer was approved by the Joint NP-PSALM Board on 03 September 2008 which has to be completed by October 30, 2008. This includes 1) finalizing the separation of books of NPC, NPC-SPUG and Transco; and, 2) Merging of NPC and NPC-SPUG books with the books of PSALM.

In terms of managing the liabilities of NPC, NPC's debt was reduced by 18% from $7.01 billion at the end of 2007 to $5.7 billion as of end of 3rd quarter of 2008. The reduction is primarily attributed to loan prepayments amounting to US1.3 billion as follows:

- August & September 2008: PSALM prepaid US$403 million of National Power Corporation's debt. The amount represents the loans extended by the Asian Development Bank and the Japan Bank for International Cooperation (JBIC) to NPC for the Masinloc Coal-Fired Thermal Project.
- June 2008: PSALM prepaid Y49.5-billion, or around USD458.5-million, OECF (Overseas Economic Cooperation Fund) relent loans to National Power by the national government and Y27.2 billion, or around USD263 million, representing Tranche B of the Miyazawa yen-denominated loans extended in 1999 by the Japanese government to NPC to finance a number of transmission projects.
- 19 March 2008: Three yen-denominated loans of NPC with the Japan Bank for International Cooperation-OECF (JBIC-OECF) worth Y16.887 billion, or around USD174 million, were prepaid. These loans were extended to NPC in 1995 and 1997 to finance a number of transmission projects. Two of the loans will mature in 2027, while the other loan will mature in 2025.

The loan prepayments helped reduce the country's debt burden, improved PSALM/NPC's liability profile, and diminished its exposure to foreign currency risks. The prepayment likewise enabled NPC/PSALM to save on interest payments and guarantee fees that can be used to prepay the other loans of NPC to further trim its stranded debts. It also renders consents of creditors of prepaid loans no longer a condition precedent to the privatization of the remaining NPC generation assets and the National Transmission Corporation.

As of September 30, 2008, the currency mix or percentage of PSALM/NPC debts to outstanding PSALM/NPC debts broken down into US Dollar, Japanese Yen, Peso and other currencies are as follows:

- Peso debts : 12.28%
- US Dollar : 61.9 %
- Japanese Yen : 21.7%
- Other Currencies: 4.2%

PSALM's total prepayment to date has contributed significantly to reducing NPC's aggregate debts from USD7.01 billion as of end 2007 to USD5.8 billion as of September 2008. The successful prepayments were made possible through the support provided by the Bangko Sentral ng Pilipinas which ensured the smooth processing of the payments.

Aside from savings on interest payments and guarantee fees, the prepayments reduced NPC's foreign currency debt by 4%, and increased the peso component of the debt currency mix by 2% to 13%.

For 2008, PSALM aims to reduce NPC's outstanding debts by 8-14%. Foreign exchange exposure is also targeted to be reduced by working towards achieving a 14% peso component in the debt currency mix, a substantial decrease from last year's figures. This strategy is part

of a broader goal of achieving a Php-US$-JPY-others debt currency Mix Percentage of 14/56/27/3.

Meanwhile, PSALM will ensure timely filing for Universal Charge to cover stranded debts and/or stranded contract costs. For the 2008 filing of the actual (CY 2007) UC-SCC and projected (CY 2008) UC-SD petitions with the ERC, PSALM requested the ERC, in a letter dated 14 January 2008, to move the deadline for the filing of petitions for the recovery of NPC UC-SCC and SD to 30 June 2008, due to limited time in gathering voluminous documents and processing data to support the calculations, and complying with the publication requirements under Rule 3, Sec. 4(e) of the EPIRA-IRR. The request was favorably considered by the ERC on 29 January 2008. In a letter dated 26 June 2008, PSALM informed the ERC that the PSALM Board approved PSALM Management's recommendation not to file the UC-SCC and UC-SD, as calculations showed that no stranded contract cost for the eligible IPPs in the Luzon Grid was incurred by NPC in CY 2007 and no stranded debt is expected for CY 2008, after considering the actual privatization proceeds received by PSALM.

III. ELECTRICITY RATES

This section presents updates on various components which affects electricity rates: to include unbundling, universal charge administration, condonation of ECs' loans, mandated rate reduction, lifeline subsidy and rate adjustments at generation, transmission and distribution levels.

A. Unbundling of Electricity Rates

As of September 2008, the ERC has decided almost 100% of the unbundling applications of 120 Electric Cooperatives, 20 Private Utilities and the National Power Corporation (NPC). The resulting overall average tariff adjustment (OATA) varies for each distribution utility. The biggest adjustment based on the ***proposed/applied rate*** was an increase of P1.7855 per kilowatthour for Ticao Island Electric Cooperative (TISELCO) while the biggest reduction was P2.1067 for Basilan Electric Cooperative (BISELCO). Attached as Annex A is the completed data on tariff adjustment per distribution utility.

To ensure compliance to the state policy of attaining total electrification, ECs were organized not to make profit over and above their actual cost of operation. Ninety-two percent (92%) of the consumers of the 119 ECs are residential and concentrated in rural areas, of which thirty percent (30%) are lifeline consumers. Due to the ECs' nature of being non-stock, non-profit entities, electricity rates were lower compared to other existing distribution utilities in the country. ECs' average systems rate as of June 2008 is P6.37/kWh which is reflective of the cost recovery methodology. In summary, the ECs' average rates for *residential customers* are shown in **Table 6**.

Table 6 – Electric Cooperatives' Average Unbundled Rate for June 2008

Bill Group	LUZON		VISAYAS		MINDANAO		NATIONAL	
	P/kwh	%	P/kwh	%	P/kwh	%	P/kwh	%
Generation	3.7604	44.46	3.0794	42.83	2.7312	43.97	3.1903	43.78
Transmission	1.2392	14.65	1.1797	16.41	1.0084	16.23	1.1424	15.68
System Loss	0.8344	9.87	0.6290	8.75	0.5451	8.78	0.6695	9.19
Distribution *	1.8798	22.22	1.7256	24.00	1.5890	25.58	1.7315	23.76
Subsidies/Others**	0.0480	0.57	0.0290	0.40	(0.0357)	(0.58)	0.0138	0.19
Government Taxes (VAT)								
Universal Charges***	0.6965	8.23	0.5476	7.62	0.3737	6.02	0.5393	7.40
Total	**8.4583**	**100.00**	**7.1903**	**100.00**	**6.2117**	**100.00**	**7.2868**	**100.00**

Total 100 Includes Distribution, Supply and Metering Charges
** Lifeline Discounts & Inter-Class Cross Subsidy
*** Missionary and Environmental

The EPIRA provides that the ERC shall ensure a reduction in the rates of ECs commensurate with the resultant savings due to the removal of the amortization payments of their loans. Their final rate reductions, as approved by ERC, were based on the amount of loans condoned and assumed by PSALM. As of September 18, 2008, the national average on the final rate reduction is P0.4894/kWh.

For PIOUs, ERC decided for Bohol Light Co. Inc. (BLCI) final authority (FA) on unbundled rates on March 27, 2008 with Overall Tariff Adjustment (OATA) of P0.0941/kWh. Moreover, last May 29, 2008, ERC approved the MERALCO Performance Based Rate (PBR) methodology for Regulatory years 2008 to 2011 with every year stages of implementation, together with Dagupan Electric Corporation (DECORP) and Cagayan Electric Power & Light Co. (CEPALCO).

B. Administration of Universal Charge (UC)

The Universal Charge (UC) is a non-bypassable charge, mandated under Section 34 of the EPIRA, to be imposed on all electricity end-users, including self-generation entities, for the following specific purposes:

- Payments for stranded debts and stranded contract costs;
- Missionary electrification;
- Equalization of taxes and royalties applied to indigenous or renewable sources of energy vis-á-vis imported energy fuels;
- An environmental charge for watershed rehabilitation and management; and
- A charge to account for all forms of cross-subsidies.

The UC is collected from all end-users every month by the National Transmission Corporation (TransCo) and distribution utilities based on the approval made by the Energy Regulatory Commission (ERC) and remitted to PSALM every 15th of the following month.

PSALM administers the UC fund collections which are placed in Special Trust Accounts (STF) established separately for each of the intended purposes of the UC, for disbursement in an open and transparent manner. At present, only the Universal Charge for Missionary Electrification (UC-ME) and Universal Charge for Environment and Watershed Rehabilitation (UC-EWR) have been imposed and are being collected. The total UC currently imposed to all customers amounts to Php 0.0398/kWh which is composed of Php 0.0373/kWh for missionary electrification and Php 0.0025/kWh for environment and watershed rehabilitation.

Table 7 - Collections & Disbursements, As of September 2008 (In PhP)

Particulars	Collections/ Remittances	Disbursements	Balances
Missionary Electrification	8,747,718,330.10	8,369,720,590.41	377,997,739.69
Environmental Charge	589,540,444.38	338,928,492.72	250,611,951.66
Main Trust Account- UC	473,085.22	-	473,085.22
Total:	**9,337,731,859.70**	**8,708,649,083.13**	**629,082,776.57**

Source: PSALM

Total UC collections/remittances to PSALM as of 30 September 2008 amounted to PhP9.338 billion. Total disbursement to NPC amounted to PhP8.708 billion which leaves the UC fund with a balance of about PhP629 million as of September 2008.

Table 8 - UC Collections and Remittances as of September 2008 (In PhP)

Month	UC – ME	UC-EWR	Total
March	136,020,460.64	9,144,084.25	145,164,544.89
April	153,473,425.10	10,314,051.50	163,787,476.60
May	150,992,557.95	10,055,967.93	161,048,525.88
June	157,046,697.80	10,464,659.50	167,511,357.30
July	150,691,508.41	10,143,602.33	160,835,110.74
August	159,656,731.43	10,735,218.26	170,391,949.69
September	151,133,527.53	10,085,552.23	161,219,079.76
Total	**1,059,014,908.86**	**70,943,136.00**	**1,129,958,044.86**

Source: PSALM

For the period March to September 2008, PSALM received Php1.130 billion in UC remittances (Table 8) while disbursement to NPC amounted to a total of Php775.6 million (Table 9). A total of Php 688 million was disbursed for missionary electrification.

In terms of UC for Stranded Contract Cost (SCC) and Stranded Debts (SD), the PSALM Management informed the ERC in a letter dated 26 June 2008 that they will not file for recovery of SCC and SD as calculations showed that no SCC for the eligible IPPs in the Luzon Grid was incurred by NPC in CY 2007 and no SD is expected for CY 2008, after considering the actual privatization proceeds received by PSALM. This decision was approved by the PSALM Board.

Table 9 – UC Disbursements as of September 2008 (in PhP)

Month	UC – ME	UC-EWR	Total
March	138,312,874.61	-	138,312,874.61
April	147,354,837.87	87,007,451.40	234,362,289.27
May	152,933,881.86	-	152,933,881.86
August	125,000,000.00	-	125,000,000.00
September	125,000,000.00		125,000,000.00
Total	**688,601,594.34**	**87,007,451.40**	**775,609,045.74**

Source: PSALM

C. Assumption of Loans of Electric Cooperatives

Decisions for the one hundred eighteen ECs final rate reduction due to loan condonation were released by ERC as of end September 2008. Two ECs, namely San Jose Electric Cooperative, Inc. (SAJELCO) and Nueva Ecija III Electric Cooperative, Inc. (NEECO III) do not have any

outstanding loans to be condoned. The reduction in rates across all ECs ranges from PhP0.0578/kWh to PhP1.3507/kWh.

As of the report period, there remain twelve (12) ECs which have not yet implemented the final rate reduction due to loan condonation. These are the following:

Table 10 – Status of Loan Condonation as of September 2008

	Total Assumption	Actual Payments		Balance	
		Amount	%	Amount	%
NEA	17,977,951,553	8,351,326,206	46.45	9,626,625,348	53.55
LGU/OGA	99,614,780	80,291,474	80.60	19,323,306	19.40
TOTAL	**18,077,566,333**	**8,431,617,679**	**46.64**	**9,645,948,654**	**53.36**

Source: PSALM

1) Central Pangasinan Electric Cooperative, Inc. (CENPELCO)
2) Quezon II Electric Cooperative, Inc. (QUEZELCO II)
3) Ticao Island Electric Cooperative, Inc. (TICELCO)
4) Pampanga III Electric Cooperative, Inc. (PELCO III)
5) Oriental Mindoro Electric Cooperative, Inc. (ORMECO)
6) Zambales II Electric Cooperative, Inc. (ZAMECO II)
7) First Catanduanes Electric Cooperative, Inc. (FICELCO)
8) Cagayan de Sulu Electric Cooperative, Inc. (CASELCO)
9) Nueva Ecija III Electric Cooperative, Inc. (NEECO II)
10) Pampanga I Electric Cooperative, Inc. (PELCO I)
11) Lanao del Sur Electric Cooperative, Inc. (LASURECO)
12) Soreco I Electric Cooperative, Inc. (SORECO I)

The ERC issued Show Cause Orders (SCOs) to these ECs to explain why the final rate reduction and refund have not yet been implemented to date. As of September 30, 2008, none has submitted any manifestation to explain the reason for non-compliance. Appropriate sanctions and penalties will be imposed by the ERC to the concerned utilities, if warranted.

PSALM actual payments to NEA for the loan condonation amounted PhP8.35 billion as of September 2008. This comprised total payment made by PSALM for the period March 2008 to September 2008 in the amount of Php 1.062 billion.

Of the PHP8.35 billion total payments to NEA, about 75.0 percent was used to pay the rural electrification loans incurred by the ECs, 15.5 percent was for Mini-hydro loans, and 9.4 percent for Dendro Thermal loans. Payments intended for house wiring services only amounted to PHP6.36 million (Table 11).

Table 11 - Payments per Type of Loan

Type of Payment	Amount Paid (In PhP)	Percentage to Total
Rural Electrification Loan	6,262,419,882	74.99%
Mini-hydro	1,296,957,183	15.53%
Dendro Thermal	785,588,351	9.4%
House wiring	6,360,790	0.08%
TOTAL	**8,351,326,206**	**100.00%**

Source: PSALM

PSALM initiated the assumption of EC loans owed to other government agencies (OGAs) and local government units (LGUs) other than the NEA. These loans are in addition to the PHP18-billion amount owed by ECs to the NEA. These OGAs and LGUs had estimated EC loans for assumption of PHP246.1 million as of to date.

Out of the estimated loan amount of PhP 246.1 million for assumption, PSALM has approved for assumption the total loan amount of PhP 85.2 million owed by various ECs with OGAs and LGUs, broken down into PhP 49.9 million and PhP 35.3 million, respectively. Out of the approved PHP85.2 million for assumption, PHP80.29 million was already paid by PSALM to the OGAs and LGUs as of to date. The balance of PHP4.9 million approved for assumption is being processed and documented for payment to concerned OGA/LGU.

The balance of PHP160.9 million out of the total PHP246.1 million represents the estimated loan amounts of four (4) ECs with respective creditor OGA/LGU, namely: a) Aklan Electric Cooperative (AKELCO) loan with the Philippine Tourism Authority (PTA), b) Busuanga Island Electric Cooperative (BISELCO) loan with the Province of Palawan, c) Negros Occidental Electric Cooperative (NOCECO) loan with the Province of Negros Occidental and DOE, and d) VMC Rural Electrification Service Cooperative (VRESCO) loan with three creditors: the San Carlos City Government, Province of Negros Occidental, and the Asset Privatization Trust (APT), now named Privatization Management Office (PMO).

At the time the PSALM Board approved the total loan amount of PHP 85.2 million for assumption in 2004-2005, the loan records of AKELCO, BISELCO, NOCECO, and VRESCO were unreconciled with their respective creditor OGA/LGU, not verified by COA, nor confirmed by concerned debtor ECs as due and demandable as required by Section 5(a) of EO 119. The estimated loan obligations of VRESCO with the PMO, on the other hand, was the subject of foreclosure proceedings before the regular court, later settled by a Compromise Agreement, but was eventually the subject again of court proceedings for a declaratory relief which, after dismissal of the case, was elevated on appeal by VRESCO to the Court of Appeals. The status of loan assumption of these ECs are as follows:

i) **AKELCO and BISELCO** - loan records with creditor OGA/LGU remain unreconciled, not audited by COA, nor confirmed by AKELCO and BISELCO as due and demandable as required by Section 5(a) of EO 119;

ii) **NOCECO and VRESCO** (with creditor LGU) – for submission to the PSALM Board for approval; and

iii) **VRESCO** (with PMO) - already settled through a Compromise Agreement between VRESCO and PMO, duly approved by the court but still the subject of another pending court litigation.

The pending legal and financial issues on computed interests and penalties of the estimated loan obligations of NOCECO and VRESCO with the Province of Negros Occidental have already been settled by the parties whereby the Province of Negros Occidental will condone the computed interests and penalties on their respective loans.

As of the report period, the records of the estimated loan obligation of BISELCO with the Province of Palawan as well as that of AKELCO with PTA remain unreconciled by the concerned debtor EC and the creditor OGA/LGU, not audited by COA, nor confirmed by the concerned ECs as due and demandable as required by Section 5(a) of EO 119. If the concerned EC fails to submit the required reconciled books of accounts, audit and confirmation documents,

and the required documents for payments, the benefit of assumption of loan pursuant to Section 60 of RA 9136 and EO 119 shall be forfeited for non-compliance and lack of interest.

D. System Loss Cap

The ERC, after public consultation, issued the Guidelines & Approval of Caps on Recoverable Rate of Distribution Systems Losses in September 2004 for the following:

a. Segregate between technical loss, non-technical loss (pilferage included), and administrative loss (which is actually company use);
b. Envisaged the setting of systems loss caps by type and by utility

However, Dus encountered difficulty in complying with the required segregation. The ERC, therefore, extended the deadline from November 2005 to April 2006, then to October 2006 and finally to January 2007. Finally, the ERC decided to issue Resolution 19, Series of 2007, deferring its implementation to June 2010.

The ERC set the Draft Resolution Adopting a New System Loss Cap for distribution Utilities (DU) for public consultation on August 4, 2008. The Draft resolution provides for the electricity consumption of a DU to be treated as an expense and not as part of systems loss, and lowers the maximum recoverable rate of system loss from 9.5% to 8% for private DUs (or PUs) and from 14% to 11% for rural electric cooperatives (ECs), based on the total kilowatt-hour (kWh) generated, purchased and distributed. The existing system loss caps of 9.5% for Pus and 14% for ECs have not been adjusted since 1999 (9 years for PUs and 2000 (8 years) for ECs.

Public consultation on the draft Resolution was held on August 26, 2008 at the National Transmission Corporation (TransCo) office in Cebu and on September 3, 2008 at the ERC.

The ERC is now in the process of evaluating the various stakeholders' views and will consider them in the finalization of the Draft Resolution.

E. Electricity Rate Adjustments

The applications for the recovery of Deferred Accounting Adjustments (DAA) under the 9th Generation Rate Adjustment Mechanism (GRAM) and the 8th Incremental Currency Exchange Rate Adjustment (ICERA) covering the test period July 2006 to December 2006 were filed with the ERC both on June 3, 2008. The provisional approvals (PAs) on these applications were issued by the ERC on June 11, 2008. Based on the ERC order/decision, the recovery of the DAA (GRAM) spread over the following timetable: a)Luzon – six(6) months, b) Visayas – eighteen (18) months, c) Mindanao – eight over twelve (8/12) months and for DAA (ICERA)- a) Luzon – 6 months, b) Visayas – 10/30 months and c) Mindanao – 6 months, both effective May 2008 billing period.

With the ERC provisional authority, NPC filed an urgent motion for clarification on the following:

a) Requesting to limit *carrying charges* for the period July to December 2006 only.
b) Responsibility for the *recovery / refund of DAAs for TSCs* assigned to Buyers of NPC generating assets including VAT adjustment
c) Requesting *ERC rules* on the filing of applications considering *amendment of Section 4(e), Rule 3 of EPIRA*

On July 29, 2008, while waiting for the final approval (FA) of the DAA 9th GRAM & 8th ICERA, NPC filed its application for the recovery of Deferred Accounting Adjustments (DAAs) under the 10th Generation Rate Adjustment Mechanism (GRAM) and the 9th Incremental Currency Exchange Rate Adjustment (ICERA) covering the test period January 2007 to April 2008 per ERC Case Nos. 2008-042RC & 043RC respectively. The said applications were docketed by ERC on September 22, 2008 and schedule for initial public hearing on October 27, 2008. NPC likewise filed for the recovery of the DAA for the 11th GRAM and 10th ICERA on 25 September 2008 covering the test period May 2008 to June 2008. This was docketed as ERC Case No. 2008-053 RC and 2008-054 RC, respectively.

In anticipation of the new rate-setting methodology for ECs, the ERC, on 17 April 2008, declared a moratorium on the filing of petitions for rate adjustments. However, the ERC has acted upon at least at least **six (6) decisions** for ECs who filed its rate adjustment application within the period under moratorium.

Electric Cooperative	ERC Case No.	Date Filed/Approved	OATA (P/kWh)
Batangas I Electric Coop Inc.	2008-019 RC	04/03/08 / 09/15/08	P0.3240/kWh
Aklan Electric Coop.Inc.	2008-013 RC	03/31/08 / 08/14/08	P0.7542/kWh
Camiguin Electric Coop.	2008-022 RC	04/21/08 / 09/08/08	P1.9521/kWh
Misamis Or. I Electric Coop., Inc.	2008-024 RC	05/17/08 / 09/08/08	P0.6864/kWh
Misamis Or. II Electric Coop., Inc.	2008-012-RC	03/27/08 / 09/08/08	P1.7655/kWh
So. Cotabato I Electric Coop., Inc.	2008-017 RC	04/01/08 / 06/01/08	P0.1555/kWh

F. Transition Supply Contracts

After the previous approvals on TSCs by the ERC, on June 13, 2008 NPC filed for the renewal of eighteen (18) contracts for Luzon Grid and eight (8) contracts for the Visayas Grid. The ERC then approved the term extension of the TSCs on September 22, 2008. No renewal application has been filed yet for the Mindanao Grid.

G. Lifeline Rate Subsidy Program

The provision of lifeline rate subsidy is allowed by Section 73 of the EPIRA. To date, the lifeline subsidy is enjoyed by mostly marginalized residential end-users falling within the lifeline level determined based on consumption while subsidizing class are the non-lifeline residential end-users as well as the industrial and commercial consumers.

In the height of clamor for lowering the electricity rates, the expansion and improvement of lifeline coverage was proposed by various consumer groups that even the Bureau of Trade Regulation and Consumer Protection/Department of Trade & Industry (BTRCP-DTI) has moved a petition with the ERC for the approval of the New Lifeline Rate for Marginalized End-Users in Accordance with the provisions of Sections 43(j) and 73 of the EPIRA.

The DTI-BTRCP filed its petition on May 19, 2008, and in one of the prayers is on Lifeline rate - ERC to issue (a) an Order prescribing a new lifeline rate level for the marginalized end-users specifically for MERALCO, having the largest number of members/consumers; (b) to stop MERALCO from passing the subsidy to non-lifeline end-users and (c) to order MERALCO to refund to non-lifeline consumers the amount previously paid for lifeline subsidy.

Relative to this, the hearings for the said petition have been terminated; BTRCP-DTI and MERALCO have already submitted their respective memorandum. The ERC is in the process of evaluating the petition.

H. Initiatives to Address Issues on Rates

The call for a unified approach to address the increasing electricity prices led to the creation of a Technical Working Group composed of the DOE, Department of Budget and Management (DBM), National Economic Development Authority (NEDA) and DOF. Among others, the TWG looked into the possibility of implementing the following initiatives which could help in lowering electricity rates:

a. Review the VAT on systems loss
b. Review of the systems losses/caps on recoverable systems losses
c. Review and renegotiation of power supply contracts
d. Implementation/rationalization of National Wealth Tax provisions on benefits to Host LGUs/Regions
e. Review and rationalize Lifeline Policies and Subsidies
f. Implementation of Open Access and Retail Competition within Economic Zones
g. Review of Wholesale Electricity Spot Market (WESM) Rules
h. Review of the implementation of the NPC Php4.11/kwh flat rate
i. Implementation of Time of Use Rates and Demand Side Management (DSM) Program at the distribution level

j. Review power purchasing practices of distribution utilities
k. Conduct diagnostics of the status of EPIRA implementation of all relevant stakeholders
l. Audit the operation of National Power Corporation and TransCo in relation to rates
m. Review and validate the operation of Distribution Utilities in coordination with the Energy Regulatory Commission

The TWG was formally convened last 11 July 2007 where four clusters were formed headed by the DOE, the DOF, DILG and PEZA. The DOF led the group that reviewed the possible removal of VAT on systems loss and possible renegotiation of power supply contracts. Consistent with its mandate, the DILG was tasked to validate whether national wealth tax implementation is in accordance with the provisions of the EPIRA. The PEZA, on the other hand, continued to put in place necessary policies to ensure implementation of open access in the economic zones. The DOE led the consultative discussions on the possible implementation of other measures and has likewise extended assistance to the other clusters, being the TWG Chair and Secretariat.

IV. COMPETITION

A. Wholesale Electricity Spot Market (WESM) Implementation

The implementation of the WESM is one of the key features of the EPIRA. Under Section 31, it is a pre-condition for the implementation of open access and retail competition. Starting in June 26, 2006, the WESM commercial operation in Luzon is still under the supervision of the Department of Energy which heads the Autonomous Group Market Operator (AGMO).

Demand-side participation in Luzon remains sluggish though three (3) additional ECs have registered as direct participants during the report period. These are: 1) Sorsogon I Electric Cooperative, Inc. (SORECO I); 2) Benguet Electric Cooperative (BENECO); and, 3) Tarlac I Electric Cooperative, Inc. (TARELCO I). The total eight (8) direct-member customers comprised only around 5 percent of the prospective 163 customer participants. The number of suppliers have increased to five (5) from three (3) as previously reported in the 12th EPIRA Implementation Status Report. (Refer to Annex B for details).

1. Highlights of Luzon Commercial Operations

For the report period, the WESM experienced an unusual market condition with significant pricing errors and price separations in the trading months of July, August and September 2008. This was due to the damage of one of the 600 MVA EHV transformers at the San Jose Sub-station of the National Transmission Corporation when on July 11, 2008, which caused a reduction of power transfer capacity at said sub-station. This, in turn, resulted in network congestion at the area that affected the dispatch of generation units using the EHV backbone (particularly those located in the northern part of Luzon).

For the 5-month period, average demand levels were lowest in August 2008, posting only 4,948MW, as monsoon rains and typhoons were continuously experienced in the Luzon region. Maximum demand for the duration of covered period was registered at 6,681 MW on 04 June 2008 at 2pm.

Average energy offers which were offered by the WESM-registered generators were also highest in June 2008. Higher levels of energy supply may be attributed to lower generation outages and higher offers from hydro-electric generators.

Table 12 - Summary of Electricity Supply and Demand in WESM (in MW)

Billing Month	May 2008	Jun 2008	Jul 2008	Aug 2008	Sep 2008
Peak Demand	6590	6681	6512	6373	6448
Coincident Energy Offers	7141	6733	6401	6795	6516
Ave. Demand	5035	5159	5164	4948	5120
Ave. Energy Offers	6344	6639	5909	6189	6534
Ave. Capacity on Outage	967	860	1168	1459	1300

Source: PEMC

Effective Settlement Prices (ESP) in the WESM from May to August 2008 billing months ranged from a low of PhP2,315.63/MWh in May 2008 (also the lowest in the entire WESM operation history) to an all-time high of PhP16,600.93/MWh in during the July 2008 billing month. The high July 2008 prices may be attributed to the impact of the network congestion arising from the outage of one of the transformers at the San Jose sub-station. For the August and September 2008 WESM billing months, the Energy Regulatory Commission directed the provisional application of the time of use rates approved for the National Power Corporation for WESM settlements.

Table 13 - Effective Settlement Prices (PhP/MWh)

Billing Month	Effective Settlement Price (with Surplus)	Effective Settlement Price (w/o Surplus)
May 08	2,315.63	1,734.50
Jun 08	3,370.16	2,100.68
Jul 08	16,600.93	7,872.34
Aug 08	4,124.77	4,124.77
Sep 08	3,921.47	3,921.47

Notes: ESPs for August and September are based on NPC TOU rates

Source: PEMC

Table 14 - Metered Quantity: Energy Consumption

Billing Month	Metered Quantity (MQ) MWh	Spot Quantity (SQ), MWh	Share of SQ to MQ	Bilateral Quantity (BQ) MWh	Share of BQ to MQ
May 08	3,323,367	356,234	11%	2,967,133	89%
Jun 08	3,538,106	400,132	11%	3,137,974	89%
Jul 08	3,435,105	408,863	12%	3,026,241	88%
Aug 08	3,399,912	372,803	11%	3,027,109	89%

Source: PEMC

Luzon energy supply covered by bilateral contract quantities (the "BCQ") posted an average of 88.78% of the total monthly energy consumption for the billing months of May to August 2008.

Average spot transaction for the same period is 384,508 MWh, while average bilateral transaction is 3,039,614 MWh.

2. Visayas Trial Operations

The Live Dispatch Operation (LDO) program of WESM is currently being implemented in the Visayas. The LDO program is the final phase of the Trial Operations Program and serves as the final phase of preparation for commercial operation. It is the actual implementation of the Security-Constrained Dispatch Schedule (SCED) produced by the Market Dispatch Optimization Model (MDOM) in the Market Management System (MMS) without any financial settlement.

The LDO is intended to enable the Trading Participants, the System Operator and the Market Operator to perform their respective roles and responsibilities in preparation for the WESM Commercial Operation through scripted bidding among market traders. It is intended to finalize testing of all interfaces to the MMS, including WESM procedures and protocols, as well as to address operational issues that have arisen that may impact on the commercial operations of the WESM.

The LDO is still on-going and will finally be concluded based on the result of the 1-week unscripted "free-for-all" LDO that will be conducted by the MO. The conduct of this unscripted LDO entails an open and free bidding among Visayas traders as if they are trading without any scripted bidding prohibitions both from the Market Operator and System Operator. The end result of this unscripted bidding will establish actual market performance and scenarios once Visayas is integrated with Luzon WESM. This will serve as one of the basis for the DOE to decide in launching Visayas WESM. This was supposed to be undertaken in July 2008 but was deferred owing to the San Jose transmission congestion problem encountered between mid of July until 1st week of October. The DOE is about to issue a Department Circular enjoining Visayas WESM stakeholder to prepare and participate. Final commencement date of the said "free-for-all" will be set and determined by the Market Operator.

3. WESM-Related ERC Regulatory Filings

Following are the status of WESM-related petitions to ERC.

a. Level of Market Fees for the WESM

The ERC approved the market transaction fees for the WESM for a 12-month period starting October 2007. The market transaction fees are assessed on generators trading in the WESM to defray the costs of operating and administering the WESM.

PEMC has already filed with the ERC an application for approval of the WESM market fees for the three-year period from 2009 to 2010.

b. Pricing and Cost Recovery Mechanism for Reserves in the Philippine Wholesale Electricity Spot Market

PEMC filed its application for the approval of the reserve Pricing and Cost recovery Mechanism (PCRM) in the Philippine WESM on January 8, 2007. The PEMC proposed to amend the manner in which reserves are purchased and used in the WESM. Reserves are used to ensure that supply and demand are balanced at all times, which is an essential requirement in a power system in order to maintain power system frequency at a safe level. The PEMC application seeks to improve on the existing commercial and operational arrangements and to create incentives for more effective and efficient reserves to be provided to the system operators.

Accordingly, the ERC has, approved the policies for the adoption of a market for reserves in its Order dated July 7, 2008 which include, among others, the approval of the following:

i. *Gross Pool Concept for reserves which is a similar concept being implemented for the energy market;*
ii. *Zonal Reserve Pricing for Luzon in accordance with the WESM Rules;*
iii. *Ex-ante price settlement where generators with scheduled reserves shall be assured of payment ex-ante or as scheduled;*
iv. *Co-optimization of energy and reserves which is deemed to provide the least cost solution, minimizing the total cost with the optimum energy schedules and reserve allocations and the associated prices; and*
v. *Administered pricing mechanism where the approved charges for ancillary services under ERB Case No. 2001-901 issued on June 26, 2002 shall be used as the interim administered price for reserves.*

The ERC further directed that the following deficiencies should be remedied before it gives assent to the functioning of the market-based arrangements for reserves:

i. *Availability of a sufficient amount of Ancillary Services (AS) capability in appropriate locations and associated control systems to allow a reasonable degree of competition;*
ii. *Availability of suitable contracts in place to control any concerns about market power;*
iii. *An appropriate means to determine dispatch of AS in conjunction with dispatch for energy;*
iv. *Arrangements for the dispatch of energy taking in account how AS is being dispatched to ensure a compatible dispatch;*
v. *A means to determine the economically efficient price for AS to be paid to suppliers distinguishing, as appropriate, between different services at different times in different locations;*
vi. *A means to economically and efficiently allocate costs for each service;*
vii. *Clear definitions with respect to the definition of AS delivery, and how it is to be measured;*
viii. *Clear arrangements with which to govern the verification of AS capability and delivery and to establish the sanctions to be applied in cases of non-availability or delivery by participants;*

ix. *Clear statements on the level of performance that the SO is required to achieve using AS that the SO can determine precisely how much AS to acquire at any time; and*
x. *Market-oriented arrangements about what the SO may do if insufficient AS is offered to the market or an event occurs that is beyond the ability of the AS arrangements to manage – this will include to disconnect customer load or generation if required.*

Further, the ERC issued the following directives for PEMC's compliance:

i. *Implement ex-ante partial effectiveness factors to allow broader competition in Reserve Market categories;*
ii. *Realign the specification of reserve services to create a fast contingency service;*
iii. *Introduce and implement new lower reserve service;*
iv. *Introduce Interruptible Load Dropping (ILD) as a fully functioning reserve service;*
v. *Implement an interim arrangement for ILD;*
vi. *Ensure that appropriate charges are introduced to the Grid Code;*
vii. *Document procedures of the System Operator;*
viii. *Develop measures to mitigate market power;*
ix. *Plan for future enhancements; and*
x. *Develop interim plans.*

The ERC likewise recommended the development of contract-based AS arrangements in the course of privatization in order to ensure continuity of ancillary service provision and to allow any potential investor to assess the associated costs, benefits and risks.

c. Price Determination Methodology (PDM) Compliances and other Directives

In relation to the approved Price Determination Methodology, the ERC has directed the PEMC and other WESM participants to submit their proposed methodology for compensation and settlement of generators whose plants are dispatched by the System Operator as must-run units (MRUs). MRUs are dispatched by the System Operator to address various system security and reliability considerations.

In its ERC Order dated February 6 and June 9, 2008, the proposed methodology submitted by PEMC was provisionally approved by the ERC.

d. Price Substitution Methodology

An application was filed with the ERC for approval of a price substitution methodology that will be applied for pricing and settlement of WESM transactions

during trading intervals where the pricing results are affected by network congestion. The application is pending with the ERC.

4. Encouraging Electric Cooperatives' Participation in the WESM

The enhanced efforts to encourage the electric cooperatives (EC) to trade in the WESM, through the EC-WESM Support Office, resulted in the application for direct participation of Sorsogon I Electric Cooperative, Inc. (SORECO I), Benguet Electric Cooperative (BENECO) and Tarlac I Electric Cooperative, Inc. (TARELCO I). As of September of 2008, SORECO I, BENECO and TARLAC I are already registered in the current rank of EC direct WESM participants, namely, the Ilocos Norte Electric Cooperative, Inc. (INEC), Camarines Sur II Electric Cooperative, Inc. (CASURECO II) and the Albay Electric Cooperative, Inc. (ALECO).

The Support Office is likewise conducting the EC Traders Training Program (ECTTP) for ECs which have indicated interest to join the WESM this year. ECs like the Cebu I, II, and III Electric Cooperatives, Inc. (CEBECO) Bohol I and II Electric Cooperatives, Inc. (BOHECO I and II), Iloilo I Electric Cooperative, Inc. (ILECO I) and V-M-C Rural Electric Service (VRESCO) have likewise formally indicated their intent to directly participate in the Visayas market once it starts commercial operation. The CEBECO I, II, and III have already attended the ECTTP.

5. Governance of the WESM

Following are the reports on governance activities by the five committees composed of the Market Surveillance Committee, Rules Changes Committee, Dispute Resolution Administrator/Group, Technical Committee and PEM Audit Committee governing the WESM:

i. Market Surveillance Committee

The Market Surveillance Committee (MSC), an independent body tasked to monitor the performance of the market, has made several recommendations to the PEM Board on matters pertaining to the: i) Review on the Investigation Report of the Enforcement and Compliance Office (ECO); ii) Analysis on the Competitiveness of the Visayas Electricity Market; and iii) Request for investigation on the possible breaches of the WESM Rules (i.e., non-compliance with the must offer rule and the real time dispatch schedules).

Currently, the MSC is awaiting the PEM Board Resolution on the following Request for Investigations:

No.	Request for Investigation	Action Taken
1.	MSC Report on its Review of ECO's Investigation Report on the Non-compliance by Bakun HEPP to Dispatch Schedules and Instructions	Submitted to the Board on 14 November 2007 for the Board's resolution
2.	Non-Compliance with the Submission of Offers (26 December 2006 to 25 May 2007)	Submitted to the Board on 14 January 2008 for the Board's appropriate action
3.	Non-Compliance with the Real Time Dispatch (RTD) Schedule/Instruction (August 2007 – November 2007)	Submitted to the Board on 07 March 2008 for the Board's appropriate action
4.	Non-Compliance with the Real Time Dispatch (RTD) Schedule/Instruction (January 2008)	Submitted to the Board on 20 June 2008 for the Board's appropriate action.

As part of its continuous monitoring and surveillance function, the MSC held a series of special and consultation meetings to clinch market issues, which include, among others, the: i) possible breaches of the WESM Rules (i.e., non-compliance with the must offer rule and the real time dispatch schedules/instructions); ii) market intervention and suspension; iii) market monitoring triggers; and iv) shutdown of San Jose transformer 2 last July 11, 2008, which caused congestion in the system and triggered unruly price spikes at the WESM. The MSC likewise initiated discussions with the Market Operator and the System Operator to assess the problem at hand and endeavor to propose possible long-term solutions.

ii. Rules Change Committee

The Rules Change Committee (RCC), mandated to provide assistance to the PEM Board and the Department of Energy in the formulation and amendment of the WESM Rules and the Market Manuals came up with a calendar of activities which identifies priority areas for WESM Rules changes and review for 2008. These priority areas were divided into the following categories: Governance, Market Operations, Market Design, Market Administration and General Concerns.

The RCC has approved the following proposals during the period May- September 2008:

- **Amendments to the WESM Rules and Manual on Pricing Error and Price Substitution due to Network Congestion.** During its 13th special meeting on 27 August, the RCC approved the proposed urgent amendments to the WESM Rules on pricing error and price substitution and the proposed Manual on the Methodology for Determining Pricing Errors and Price Substitution Due to Congestion for Energy Transactions in the WESM. The proposed rules changes

and Manual intend to allow the Market Operator to immediately respond to undesirable trading situations resulting from network congestion, as experienced in July 2008 wherein there was high congestion cost due to the San Jose transformer outage.

As part of the RCC activities, continuing discussions on the following proposals are being undertaken:

- **Proposed Changes to the PEM Audit Manual.** The proposed amendments to the PEM Audit Market Manual have been submitted by the PEM Audit Committee (PAC) in order to improve the processes involved in governance and the conduct of market audits.

- **Proposed Changes to the PEM Board Structure.** During the 7th RCC meeting on 09 April, the Committee approved the principle of delineating some functions (i.e. investigation and enforcement) of the PEM Board to an Independent Board Committee (IBC). In relation to this proposal, the RCC is currently hosting an online forum at the WESM website in order to facilitate the exchange of views and opinions of all interested parties. The RCC is expecting submission of comments from the industry.

- **Proposed Changes to the Metering Manual.** The proposed amendments to the Metering Manual have been submitted by the Metering Subcommittee in order to improve the recording of metered quantities and to make the process more equitable. The RCC has approved the proposed amendments, in principle, subject to the editorial review by the Legal and Regulatory Subcommittee.

- **Proposed Changes to the Dispute Resolution Manual.** The proposed amendment to the Dispute Resolution Manual was submitted by the Dispute Resolution Group (DRG) in order to institutionalize the WESM alternative dispute resolution process, such as negotiation, mediation and arbitration. The RCC has approved the proposed amendments, in principle, subject to the review by the Legal and Regulatory Subcommittee.

- **Proposed Changes to the WESM Rules Addressing the DOE Issues and Concerns.** Proposed amendments to the WESM Rules have been submitted by the Special WESM Review Committee, which is composed of the NPC, PSALM, TRANSCO, NEA and DOE. The proposed amendments intend to resolve the WESM issues before the PSALM conducts its IPPA Bidding and the DOE approves the opening of the Visayas Market operations. The RCC is currently reviewing the proposed changes.

- **Proposed Changes on the Management of Net Settlement Surplus Manual.** The proposed amendments on the Management of Net Settlement Surplus Manual were submitted to the RCC, duly endorsed by the Market Operations and System Operations Subcommittees. The proposed amendments intend to modify

the methodology of allocating the net settlement surplus from a monthly to an hourly allocation based on the amount paid for losses and congestion by generators and loads. The proposed methodology also separates the net settlement surplus into loss and congestion components according to spot and bilateral quantities. The RCC is currently reviewing this proposal.

iii. Dispute Resolution Administrator/Group

The Dispute Resolution Administrator/Group (DRA/DRG) is tasked to resolve disputes lodge before the Committee. The alternative dispute resolution follows the three-step process of Negotiation, Mediation and Arbitration. Negotiation, wherein parties involved resolve issues on their own, is being encouraged by the DRG. The DRG would only act on a dispute once negotiation failed and a request for mediation is formally filed with DRG. The arbitration of a dispute will follow once the mediation process likewise failed.

The DRG Forms and Step-by-Step Procedures to facilitate the filing and the resolution of disputes under the mediation and arbitration are already put in place. To date, no dispute has been formally lodged to the DRG for mediation or arbitration.

As part of their education campaign and to provide awareness to the market participants of the procedures of the WESM alternate dispute resolution process, the DRG will conduct a conduct of the Mediation and Arbitration Seminar in November 2008.

iv. Technical Committee

The Technical Committee (TC) is tasked to monitor and review technical matters under the WESM Rules, the Grid Code, and Distribution Code, in relation to the operation of the spot market.

The TC has developed its own Business Procedure to guide the Committee in conducting is responsibilities and coordination with other WESM Governance Committees and market participants. The TC process and focus of responsibilities will continue to evolve as experience is gained.

In line with its function, the TC has evaluated the PSALM's requests for the reclassification of Bakun and Casecnan Hydroelectric Power Plants (HEPs) from Scheduled Generating Units to New and Renewable Generating Units with Intermittent Resource. The TC recommendation with regard to the aforementioned requests was submitted to the PEM Board in April 2008. The TC is awaiting the PEM Board's action on this matter.

On April 02, 2008, the MO referred to the TC the request for the reclassification of Benguet Ampohaw and NMHC generation facilities (registered as 1HEDCOR_GO1) as non-scheduled generation facilities. The TC in its memorandum to the MO dated

June 26, 2008, recommended that 1HEDCOR_GO1, composed of eight (8) generation facilities with aggregated capacity of 31.15 MW, should disaggregate their portfolio to meet the requirement under the WESM Rules clause 2.3.1.4 and be reclassified as non-scheduled generating facility.

Currently, the TC is drafting its recommendation on the appropriate criteria in the determination of the technical minimum stable load (Pmin) for the WESM registered generation facilities.

v. PEM Audit Committee

The PEM Audit Committee (PAC) is tasked to conduct annual audits of the Market Operator, settlement system and any other procedures and systems relevant to the spot market.

In preparation for the first PAC operational audit on the billing and settlement systems and procedures, the Committee submitted to the PEM Board, for approval, the Request for Proposal (RFP) which covers the Terms of Reference, Instruction to Bidders and Evaluation Criteria, Audit Service Contract and Standard Form for Bid Proposals. Part of the submission is the Report on the Shortlist of Auditing Firms for the Selection of the External Auditor. The said RFP and Shortlist of Auditing Firms were approved by the PEM Board, subject to the review of the TOR by the DOE.

B. Open Access and Retail Competition

The Philippine power industry is optimistic that open access and retail competition will be implemented once the fifth and final pre-condition is completed. Pending turn-over to the winning bidder of the privatized plants, the fourth pre-condition is almost complied.

In addition to the five pre-conditions, the ERC has provided as an additional requirement the establishment of the necessary infrastructures, such as the transmission networks, the generation supply and the customer switching system. The ERC shall conduct a public hearing to determine completion of the pre-conditions under the EPIRA, the establishment of all necessary infrastructures, and the promulgation by ERC of all pertinent rules and regulations before it declares commencement date for OARC which shall be six (6) months from date of declaration.

1. Preparation for Open Access and Retail Competition

The ERC have been preparing the guidelines in preparation for open access. The drafting of the Dispute Resolution Procedures for Retail Competition is ongoing. The set of rules provides the prompt resolution of disputes concerning transaction in the competitive retail market and ensures an opportunity for unprejudiced dispute resolution. The ERC is likewise in the process of drafting the Rules on Retail Aggregation in preparation for retail aggregation, which will take place two (2) years after the initial implementation of

retail competition. The necessary infrastructures, including the customer switching system, remain unresolved due to some financing issues.

The following are the rules that the ERC have issued/drafted in preparation for open access.

a. **Dispute Resolution Procedures for Retail Competition – (On-going)**. These set of rules provides for the prompt resolution of disputes concerning transaction in the competitive retail market and ensures an opportunity for unprejudiced dispute resolution.
b. **Rules on Retail Aggregation – (On-going)**. To be used in preparation for retail aggregation, which will take place two (2) years after the initial implementation of retail competition.
c. **Rules for Contestability** - approved 23 January 2008. These rules prescribes the conditions and eligibility requirements for end-users to be part of the Contestable Market.
d. **Guidelines for Issuance of License to Retail Electricity Suppliers (RES)** – prescribes the criteria, qualification, procedures for securing license, as well as the general obligations of a RES
e. **Code of conduct for competitive retail electricity market participants** – establishes standards of behavior for marketing electricity to contestable customers and for ensuring fair competition.
f. **Rules for Customer Switching** - approved 26 September 2007. These rules established the standards and procedures governing the commercial transfer of customers from one competitive electricity supplier to another, and at the same time, ensure the efficient and timely exchange of information between and among competitive retail market participants.
g. **Rules for the Supplier of Last Resort (SOLR)** – approved on 10 October 2007, this provides for a uniform filing system for applications on approval of SOLR rate/charges to the affected Contestable Market to ensure recovery of the allowable premium and reasonable return and other costs associated with the SOLR service.
h. **Business Separation Guidelines** – clear separation of accounts between a DU's regulated and non-regulated business activities. On 21 June 2006 the ERC Amended the BSG to incorporate additional business segments and activities, and to make it consistent with the Code of Conduct for Competitive Retail Market.
i. **Distribution Services and Open Access Rules** – approved in 18 June 2006, these rules aims to set forth the terms and conditions related to the provision of Connection Assets and Services, service to the Captive Market, Supplier of Last Resort (SoLR) service to the Contestable Market, and unbundled Distribution Wheeling Service (DWS) provided to the Contestable Market. Furthermore, these rules set forth the procedures for establishing regulated service rates for Distribution Utilities regulated pursuant to the Distribution Wheeling Rates Guidelines and DUs not regulated pursuant to the DWRG.

2. Open Access in the Economic Zones

Recognizing PEZA's authority under Section 12c of PEZA Charter, open access will initially be implemented in the economic zones. Currently, however, PEZA is barred from implementing the law in the economic zones because of the injunction granted by the Pasig Regional Trial Court in favor of MERALCO and PEPOA.

The basis used by MERALCO and PEPOA in their petition for injunction was the Memorandum of Agreement signed by ERC and PEZA on 11 March 2004 which provides for the terms and conditions in the registration and operation of power generation utilities in PEZA-owned and administered economic zones.

Significant progress has been made in PEZA's effort to exercise its mandate in the ecozones when MERALCO and the Private Electric Plant Owners Association in the Philippines (PEPOA) finally acceded to withdraw the injunction case. This was a result of various government agencies' effort to persuade MERALCO and PEPOA to withdraw through the conduct of Multi-Stakeholder's Dialogue. On 21 July 2008 however, the Philippine Independent Power Producers Association (PIPPA) filed its intervention in the MERALCO/PEPOA withdrawal of the case against PEZA which likewise resulted to impeding PEZA from implementing its Guidelines for the Supply of Electric Power in the Ecozones. The PIPPA intervention was based on the following:

a. PEZA no longer has legal authority to promulgate "Guidelines for the Supply of Electric Power in the Ecozones"
b. Allowing PEZA to regulate the power industry will subject the industry to two regulatory authorities exercising the same regulatory powers
c. The PEZA Guidelines violates the State's policy of fair and non-discriminatory treatment since having two regimes of regulations gives rise to different treatment of the same class of participants in the electric power industry
d. Rule 5 of the EPIRA IRR provides ERC the power to regulate generation companies within and outside the ecozones

3. Petition for Interim Open Access

On 23 May 2008, the signatories to the "Terms of Reference (TOR) of the Interim Implementation of Open Access" namely PIPPA, MERALCO, Visayan Electric Company (VECO), Davao Light & Power Co. (DLPC), Inc., Clark Electric Distribution Corp. (CEDC), Cagayan Electric Power and Light Company (CEPALCO), San Fernando Electric Light & Power Co. (SFELAPCO) and Panay Electric Company, Inc. (PECO) filed a joint petition to the Energy Regulatory Commission praying for the approval of the interim open access in the Luzon and Visayas grid and its implementation in accordance with the said TOR. Accordingly, the ERC has called for public consultations on the matter. Further, the ERC has opened up for discussion necessary Rules for Interim Open Access in Luzon (attached) which will be put in place by the ERC should they favorably acts on the abovementioned petition. Said rules will be subjected

for public consultation on 4 September 2008. The petitioners and stakeholders were directed to address the technical issues raised and submit their proposal/position paper to the ERC.

While the intent of the petition is to allow competition and eventually provide lower prices to consumers, on the policy side, the DOE has ventilated some concerns on some aspects of the TOR as follows:

a. Completion of the EPIRA pre-conditions to open access

An ERC issuance of a resolution to implement open access sans fulfillment of the conditions set forth under Section 31 is a violation of the EPIRA because the ERC was not given the discretion to implement the law other than the EPIRA prescribed functions of ERC. The EPIRA is specific on the time when ERC can only declare the initial implementation of open access. In fact, even the determination of the contestable market is specifically prescribed by the law. The determination of ERC of the contestable market, together with the implementation of open access and retail competition can only be done when the conditions prescribed by the EPIRA have been complied.

Aside from the pending fulfillment of the privatization threshold, the commercial operation of the spot market in the Visayas has not yet been declared by the DOE due to technical and economic reasons that has to be addressed to minimize potential impact to customers. The DOE is now in the process of reviewing and improving the market rules currently implemented in the Luzon spot market to ensure that the declaration of commercial operation in the Visayas will result to real competition and eventually lower electricity prices.

Section 43 and 45 should not be implemented independently of the other provisions of the EPIRA where competition and customer choice is explicitly stipulated to commence on a particular prescribed time and conditions.

b. The TOR is anti-competitive and discriminatory

Under the TOR, the conditions of eligibility will prohibit NPC and its IPPs from selling voluntarily and contracting directly with eligible contestable customers. This is contrary to the intent of the EPIRA in implementing open access.

Under the EPIRA, open access allows qualified persons to use the necessary transmission/distribution systems. In this context the qualified person being referred to is a generation company that has been issued the ERC Certificate of Compliance or a supplier that has been duly licensed by ERC. Aside from removing from NPC/PSALM the right to offer, it will also gradually eliminate its existing consumers. Discriminating NPC will imply deprivation of consumers' protection which is the primary objective of the Government. The proposal will discriminate DUs as well.

The applications of DUs to acquire TransCo sub-transmission lines are still pending with ERC. For as long as TransCo retains its ownership to sub-transmission assets, DUs have no right to charge wheeling rates and therefore will only justify direct connection.

Further, if NPC, including those IPPs with which it has contracts should be prohibited from participating in open access, few major players will dominate the pool of suppliers available for contestable customers, with First Gas Power Corp having 43 percent. In such case, the customers will be more vulnerable to potential abuse of market power because they are left with no choice but these IPPs or DUs who dominates the market.

Non-participation of NPC will likewise result to limited available supply for the contestable market. The remaining plants that may be eligible to participate in the open access in Luzon may not be enough to provide for the demand of the potential contestable customers which is about 2100 MW since the bulk of the potential eligible suppliers owned by First Gas and affiliates are fully contracted. Worst in Visayas where there is tight power supply, the potential eligible contestable customers have a load of about 350 MW while the capacity of private plants which are mostly oil-based peaking plants is about 331 MW.

Based on the DOE data and the current PIPPA membership, PIPPA has a total installed capacity of 9,727.7 MW in Luzon and 1,193 MW in the Visayas. This translates to a respective share of 80 percent and 68 percent in the total installed capacity of Luzon and Visayas.

In Luzon, 56 percent of PIPPA's installed capacities are already contracted with NPC while in the Visayas, 68 percent are likewise contracted with NPC. The remaining installed capacity not contracted with NPC is 4,860 MW (3,914 MW in Luzon and 471 MW in Visayas)

Of the PIPPA's uncontracted capacity with NPC/PSALM in Luzon, 2,183 MW are plants owned by MERALCO affiliates. Most of these capacities are contracted to MERALCO.The remaining uncontracted amounts to 1,731 MW which comprised the NPC privatized plants like Masinloc, Calaca, Magat and Ambuklao-Binga which most of these plants have existing TSCs.

In the Visayas, PIPPAs total installed capacity stands at 1,246 of which 774 MW are contracted with NPC and PSALM. Of the remaining 471 MW, the 49 MW Northern Negros is affiliated to MERALCO.

From the foregoing, most of the PIPPA and the proponent of the TOR have no capacity to offer to potential contestable customers in Luzon. Unless otherwise that these proponents are looking at other potential sources to cover for its contracted quantity like the WESM for example, which will only increase the exposure of the consuming public to the volatility of prices in the market.

c. The TOR may not result to lower prices

Further, prohibiting NPC from open access will not likely to result to lower prices because of the potential increase in stranded costs that will have to be recovered by the company through the Universal Charge which is collected from all end-users of electricity. There is also a tendency for the eligible suppliers to overprice because the lowest rate would then be the ERC regulated NPC rate which would then be the benchmark for the participating generation companies.

Table 15 - Installed Capacity and Share per Grid

	LUZON	VISAYAS	MINDANAO	Philippines
NPC*	282.32	438.32	940.80	1,661.44
NPC-IPP**	6,217.57	785.46	668.48	7,671.51
Total NPC/NPC-IPP	**6,499.89**	**1,223.78**	**1,609.28**	**9,332.94**
First Gen/First Gas	**1,608.50**	**69.00**	**1.60**	**1,679.10**
Aboitiz	**908.59**	**119.60**	**57.77**	**1,085.96**
Other IPPs	**1,043.92**	**224.89**	**34.70**	**1,303.51**
Sub-total IPPs	**3,561.02**	**413.49**	**94.07**	**4,068.58**
TOTAL	**10,060.90**	**1,637.27**	**1,703.35**	**13,401.52**

Share in Percentage (%) per Grid

	LUZON	VISAYAS	MINDANAO	Philippines
NPC	2.81%	26.77%	55.23%	12.40%
NPC-IPP	61.80%	47.97%	39.25%	57.24%
Total NPC/NPC-IPP	**64.61%**	**74.75%**	**94.48%**	**69.64%**
First Gen/First Gas	**15.99%**	**4.21%**	**0.09%**	**12.53%**
Aboitiz	**9.03%**	**7.30%**	**3.39%**	**8.10%**
Other IPPs	**10.38%**	**13.74%**	**2.04%**	**9.73%**
Sub-total IPPs	**35.39%**	**25.25%**	**5.52%**	**30.36%**
TOTAL	**100.00%**	**100.00%**	**100.00%**	**100.00%**

C. Market Power Monitoring

Following ERC Resolution No. 4 Series of 2008, and considering the sale of Tiwi-Makban, NPC's market share of its remaining generating assets was reduced to 2.8 percent in the Luzon Grid while for the national grid its share is 12.4 percent. Aboitiz Power Corporation market share in the Luzon grid increased to 9.0 percent with its acquisition of privatized power plants to include Magat hydro, Ambuklao-Binga hydro and Tiwi-Makban geothermal complex. NPC-IPPs maintain the bulk of the share with 69.6 percent in the national grid.

V. ENERGY SUPPLY SECURITY AND RELIABILITY

A. Supply and Demand Situation

Gross generation in the first semester of 2008 was 2.04 percent or 601 GWh higher than it was in the same period of 2007 (Table 1: 2008 and 2007 Generation per Plant Type). Natural gas-fired generation which supplies power solely to the Luzon grid increased slightly by 0.7 percent or 71 GWh. Natural gas-fired power plants remain the top producer of electricity at 33.61 percent or 10,095 GWh share to total generation mix.

Coal-fired power plants were the second largest contributor in the power generation mix at 26.36 percent or 7,919 GWh. Their combined generation was however lower by 6.92 percent or 589 GWh , Such decrease was caused by the unavailability of coal-fired power plants due to maintenance. Also, several coal-fired power plants went on shutdown due to fuel constraints.

Due to early rains, gross generation from hydroelectric sources was significantly higher by 24.27 percent or 878 GWh. High dispatch of hydroelectric power plants offset the utilization of oil-based power plants, resulting in the reduced generation from oil-based power plants by 13.72 percent or 335 GWh.

Geothermal-based generation was 11.97 percent or 878 GWh higher due primarily to increased generation of Tiwi geothermal plant in the Luzon grid and Leyte A & B geothermal plant in the Visayas grid.

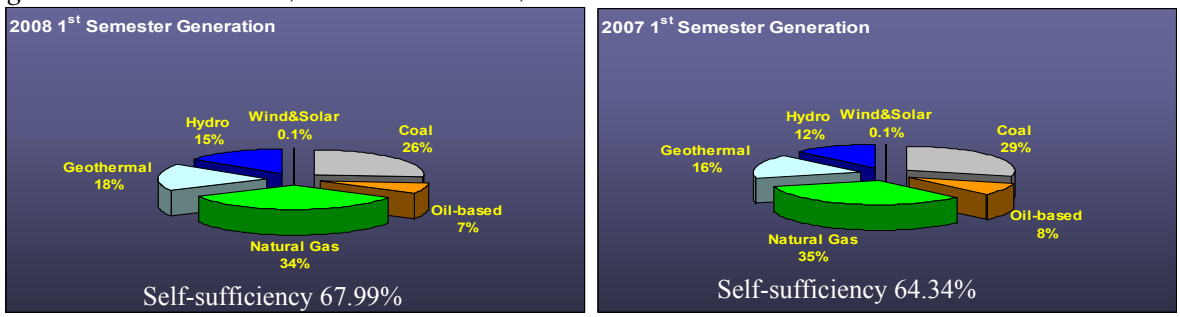
Table 16 - 2008 and 2007 Generation per Plant Type

Philippines	2008 1st Semester		2007 1st Semester		Difference	
	Total GWh	% Share	Total GWh	% Share	GWh	%
Coal	7,919	26.36	8,508	28.90	(589)	(6.92)
Oil-based	2,104	7.00	2,439	8.28	(335)	(13.72)
Natural Gas	10,095	33.61	10,025	34.05	71	0.70
Geothermal	5,381	17.91	4,806	16.33	575	11.97
Hydro	4,512	15.02	3,634	12.34	878	24.17
New RE (Wind&Solar)	27	0.09	27	0.09	(0)	(0.09)
Total Generation	32,144	0	29,439	0.1	601	2.04

Other renewable energy sources such as wind and solar contributed a meager 0.09 percent or 27 GWh of total generation mix.

Gross generation from power plants using imported fuels like coal and oil reduced to 6.77 percent and 13.72 percent respectively. With the high utilization of indigenous resources for power, self-sufficiency in first semester of 2008 increased to 67.99 percent compared to 64.34 percent than it was in first semester of 2007. (Figure 1 and Figure 2)

Figure 2- Generation Mix, 1st Semester 2007, 2008

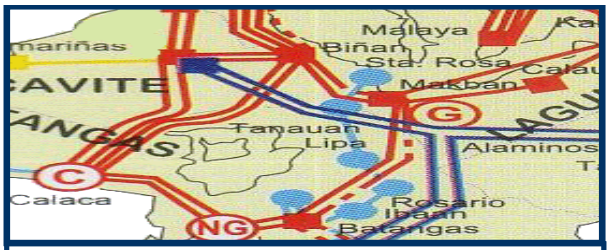


Early rains and typhoons dampened the hot summer temperatures in 2008 and the demand for electric power for air cooling. Historically, peak demand in Luzon occurs in May. For this year this trend did not occur. The highest demand was experienced in June at 6,674 MW, an increase of only 0.5 percent or 31 MW compared to 2007 summer demand (Table 2. 1st Semester Peak Demand). Peak demand in the first semester of 2008 in the Visayas grid was 1,112 MW, an increase of 3.1 percent or 33 MW. Likewise, peak demand in Mindanao grid grew to 1,190 MW, only 1.1 percent or 13 MW higher. Historically, the trends of peak demand in the Visayas and Mindanao grids occur in December.

Table 17 – 2008& 2007 ***1st Semester Peak Demand (MW)***

Grid	2008	2007	MW Change	% Change
Luzon	6,674	6,643	31	0.5
Visayas	1,112	1,078	33	3.1
Mindanao	1,190	1,177	13	1.1

B. Transmission Development

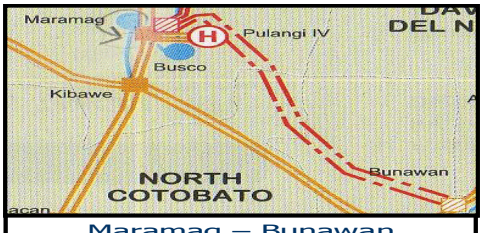


BTRP, Sched II
Batangas S/S – New Makban S/Y

In the transmission sector in Luzon, Sched II (Batangas S/S – New Makban S/Y) of the Batangas Transmission Reinforcement Projects (BTRP) was completed last June 2008. The BTRP is intended to strengthen the existing transmission network's southern corridor for the efficient and reliable transmission of power generation from various Independent Power Producers in Southern Luzon. This reinforcement project in needed to allow the full dispatch of natural gas plants from the Malampaya gas field (1,000 MW Sta. Rita and 500 MW San Lorenzo)

In Mindanao, the San Francisco 138 kV Substation Project was completed last June 2008. this project will serve as a new power interchange in Agusan del Sur and likewise provide operational flexibility in eastern Mindanao. This project will also relieve the loading of the existing 69 kV transmission line at Agusan del Sur, improve the reliability of power supply at Surigao del Sur and unload the 30 MVA Bislig Substation.

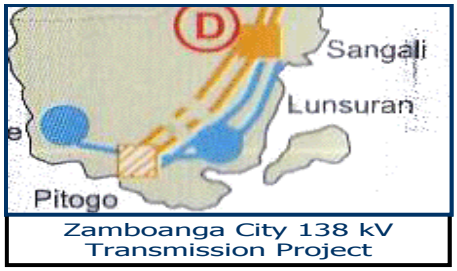
San Francisco 138 kV
Substation Project



Maramag – Bunawan
Transmission Project

An additional 50 MVA transformer was installed last June 2008 at th e Bunawan Substation. The transformer capacity addition is a component of the Maramag-Bunawan 230 kV Transmission Line Project which is part of the Mindanao 230 kV Transmission Backbone aimed to strengthen the existing transmission system, thereby ensuring the stability, reliability, and efficiency of transmission of power in the entire Mindanao Grid.

A new 100 MVA substation in Pitogo, Zamboanga was constructed last June 2008. the 100 MVA Pitogo Substation in a component of the Zamboanga City 138 kV Transmission Line Project which is intended to augment existing transmission line from Sangali Substation to Zambonaga City resulting to a reliable bulk power services to western Mindanao.



VI. TOTAL ELECTRIFICATION

In support of the Government's efforts to alleviate poverty, the DOE launched a massive and focused action to increase and accelerate access to electricity services by the country's unenergized communities.

Table 18 - Barangay Electrification Level (as of 31 December 2008)

Region	Potential Barangays	Electrified Barangays	Unelectrified Barangays	Electrification Level (%)
CAR	1,176	1,129	47	96.00
I	3,265	3,264	1	99.97
II	2,311	2,240	71	96.93
III	3,102	3,097	5	99.84
IV-A	4,011	3,947	64	98.40
IV-B	1,458	1,411	47	96.78
V	3,471	3,388	83	97.61
NCR	1,695	1,695	-	100.00
SUB-TOTAL (LUZON)	20,489	20,171	318	98.45
VI	4,051	4,030	21	99.48
VII	3,003	3,003	-	100.00
VIII	4,390	4,223	167	96.20
SUB-TOTAL (VISAYAS)	11,444	11,256	188	98.36
IX	1,904	1,852	52	97.27
X	2,020	1,935	85	95.79
XI	1,160	1,157	3	99.74
XII	1,194	1,139	55	95.39
ARMM	2,459	2,132	327	86.70
CARAGA	1,310	1,291	19	98.55
SUB-TOTAL (MINDANAO)	10,047	9,506	541	94.62
TOTAL (PHILIPPINES)	41,980	40,933	1,047	97.51

Source: DOE

Prior to the launching of ABEP, barangay electrification level stood only at 76.9% having a recorded electrified barangays of 32,281 out of 41,980 total barangay coverage. By the end of 30 September 2008, the ER Program had already energized 40,775 barangays or 97.13% electrification level with only 1,205 unenergized barangays nationwide remain. Beginning CY 2009, the ER Program had accomplished electrification level of 97.51% (see Table 1). The accomplishment of 40,933 barangays was spearheaded by the DOE and its attached agencies together with the private sector notably the Independent Power Producers, as part of

their Corporate Social Responsibility Program, reducing the number of unenergized barangays to 1,047 nationwide.

A. Implementation Strategies

Electrification Program today faces various and bigger challenges than years before. A large portion of the remaining unenergized barangays are mostly remote and disperse and more difficult to electrify, requiring extensive resources, time and efforts. As such, the ER Program integrates the rural and missionary electrification efforts of the government in collaboration with the private sector, non-government organizations, and several donor-funded projects with the view to attaining the goals of the ER Program.

1. Public Sector Contribution

As part of its mandate, the Government continues to be the major contributor in delivering access to electricity services.

a. DOE Programs and Projects

Currently, the DOE has several programs to extend access to electricity services. Two of these are through Locally-Funded Projects, namely: the Barangay Electrification Program (BEP), which provides cost-of-capital subsidies of renewable energy systems like Solar Photovoltaic (PV) Battery Charging Stations (BCS), individual Solar Home System, micro-hydro systems and wind turbine energy systems; and the Remote Area Electrification Subsidy (RAES) Program, which focuses on implementing reforms in the rural power sector as embodied under the Electric Power Industry Reform Act of 2001 or EPIRA. The RAES Program involves the implementation of missionary electrification using innovative service delivery mechanism that ensures sustainability of the projects and greater ownership from the beneficiaries. The RAES adopts the Sustainable Solar Market Packages (SSMP) concept, which aims to facilitate the market development of solar PV systems through the provisions of technical assistance, market development support, and subsidies to qualified PV companies and consumers.

Another electrification program that DOE is currently pursuing is the 211 Priority Barangays of President Gloria Macapagal-Arroyo using the Malampaya Proceeds (SC 38). This program applies various technologies and implementation strategies such as grid connection and off-grid electrification solar.

Meanwhile, through Financial Benefits to Host Communities, a.k.a the Energy Regulations 1-94, as amended. Under ER 1-94, power generators and/or energy resource developers are mandated to set aside one centavo per kilowatt-hour (P0.01 per kWh) of the total electricity sales as financial benefits to host communities for

electrification, development and livelihood, reforestation, watershed management, health and/or environment enhancement. ER 1-94 Electrification Fund (EF) supports any electrification solution including sitio electrification e.g., grid-extension and off-grid electrification of host communities, following the radiating order i.e., based on proximity of the un-electrified areas to the contributing power plant/s. To date, ER 1-94 EF provided funding for 1,896 electrification projects amounting to approximately Php 1.628 Billion.

b. NEA Programs and Projects

The NEA provides technical, financial and institutional assistance to electric cooperatives (ECs) to ensure the provision of the reliable and adequate electric services in their respective franchise areas. There are 119 ECs operating in the country today, which are mostly serving remote and unviable barangays. NEA's subsidy program covers barangays and sitio electrification, implemented through its own set of criteria in prioritizing beneficiaries.

c. NPC-SPUG Programs and Projects

The NPC-SPUG, on the other hand is responsible for providing small-scale power generation and its associated power delivery systems in areas that are not connected to the main transmission grid. It is currently serving 75 small islands nationwide. It is noted, however, that NPC-SPUG's implementation is dependent on the availability of its internal cash generation or the share of Missionary Electrification from the Universal Charge (UC-ME).

d. PNOC-Energy Development Corporation's Programs and Projects

The PNOC-EDC, on the other hand, provides assistance in areas where its geothermal fields are located namely in Albay and Sorsogon, Leyte Provinces and Samar Provinces, Negros Oriental and Occidental, and North Cotabato. However, this would be the last year of PNOC-EDC's participation in the ER Program since it is already privatized.

2. Private Sector Participation

The success of the ER Program is being accomplished with support from the private sector.

a. Independent Power Producers

While DOE provides policy direction and over-all program management, the private sector particularly the IPPs extend participation in the ER Program through provision of advanced financial assistance where the cost incurred can be recovered through the available electrification fund under ER 1-94, as amended or "benefits to host

communities." The other option available for the IPPs is the "Adopt-a-Barangay" scheme where IPPs provide entire funding for rural electrification of chosen barangays. Under this scheme, the IPP can either implement the project by itself or through the relevant franchise holder.

To date, Mirant Philippines Foundation has provided support to some 1,500 barangays. The Korea Electric Power Corporation (KEPCO), on the other hand, has supported more than 200 barangays and is currently collaborating with the DOE for the electrification of the 200 barangays. It is expected that KEPCO will continue to complete its 500 committed barangays by next year.

b. Qualified Third Parties

The EPIRA opened opportunities for private sector participation and investment in the rural electrification activities of Government. Specifically, Section 59 of the EPIRA and Rule 14 of the EPIRA-IRR stated that "the provision of electric service in remote and unviable villages that the franchised utility is unable to service for any reason shall be opened to other qualified third parties." This means that once the concerned franchised holder deems the barangay/s unviable for it to serve (having negative impact on its financial and economic viability, then an electric service provider other than the adjacent distribution utility may be authorized to provide the electricity services, subject to approval or authorization by the ERC.

In compliance with its mandate, the DOE facilitated the following issuances:

- Department Circular DC 2004-06-006 on 18 June 2004 "Prescribing the Qualification Criteria for the QTPs." This issuance is used as the basis for determining whether or not a certain interested non-governmental organization, a local government unit or a private firm, is qualified to participate in the missionary electrification program of the Government.

- Department Circular 2005-012-011 on 12 December 2005, the "Prescribing the Guidelines for the Participation of QTPs in the Provision of Electric Services in Remote and Unviable Areas" (QTP Participation Guidelines). This issuance complemented the earlier DOE Circular and set the guidelines to encourage investment by QTPs in remote and unviable areas consistent with the Missionary Electrification Program of the Government as prescribed in the Missionary Electrification Development Plan (MEDP).

- ERC Resolution No. 22 prescribed the rules and regulations to govern the operation of the QTPs and availment of the UC-ME.

The DOE and ERC, along with other concerned Government agencies, are collaborating on the full development of the QTP Program.

c. Power Source's Community Energizer Platform

A hybrid QTP project was initiated in 2005 in Rio-Tuba, Bataraza, Palawan. Power Source is a private firm engages in small-scale energy generation with various attendant services to be offered to community entrepreneurs such as restaurant, movie showing, entertainment and educational training. The project is a showcase of a public-private partnership consisting of DOE, KEPCO, PALECO and Power Source. The project uses innovative design of stand alone electrification system by integrating basic elements of a sustainable electrification solution: (i) provision of a viable, cost effective generation platform; (ii) provision of a local distribution system; (iii) provision of a customer service facilities; and (iv) provision of a community development platform ensuring, at a minimum, integrated skills training, technology transfer and livelihood training leading to community-based enterprise creation.

The DOE is assisting Power Source in securing from the ERC its QTP status.

3. Foreign-Assisted Projects

Various donor-funded projects through grants/loans also contributed in the achievement of the total electrification target of the country. These grants are aimed at increasing access to electricity, better delivery of electricity services, capacity building for the energy sector, and, increase participation of private sector in the rural electrification efforts.

a. Rural Power Project

The DOE implements the Rural Power Project funded by the World Bank-Global Environment Facility (WB-GEF). It is aimed at carrying out the key reforms and priority investments in the rural power sector. The project expects to contribute a minimum of 10,000 households connections by the end 2009.

b. Solar Home System (SHS) Distribution Project

The PNOC implements the Solar Home System (SHS) Distribution Project with fund support from the Dutch Government. The Project seeks to install 15,000 SHS in selected regions in the country to induce countryside development. The Dutch Government provides 60% grant to the total system cost and the remaining 40% is being shouldered by the end-users.

c. Solar Power Technology Supports Project (SPOTS)

The Department of Agrarian Reform (DAR) undertakes the Solar Power Technology Supports Project (SPOTS) aimed to address poverty in the unenergized and off-grid agrarian reform communities (ARCs) through the introduction of appropriate solar PV

applications for agricultural and rural enterprise. One of the project components was the solar electrification which involves provision of variety of solar packages (ie., home lighting, alternating current power supply systems for various agribusiness uses, level II potable water pumping and lighting of public facilities such as barangay halls, school buildings, health centers, and, streets).

d. Alliance for Mindanao Off-grid Rural Electrification (AMORE) Project

The Alliance for Mindanao Off-grid Rural Electrification (AMORE) Project is a joint undertaking of USAID, Mirant Philippines, Autonomous Region of Muslim Mindanao (ARMM), Winrock International and DOE. It envisions establishing sustainable renewable energy systems in remote and conflict-affected off-grid communities in Mindanao Regions.

e. Philippine Rural Electrification Service (PRES) Project

The Philippine Rural Electrification Service (PRES) Project is being proposed through the French Filipino Loan Protocol financing amounting to some Euro17.5 Million. The project aims to improve the living conditions of the Masbate residents by providing them adequate and reliable energy services. About 18,000 households located in 128 barangays shall benefit from the project. Aside from this, basic services such as lighting for barangay halls and school building, provision of vaccine refrigerators and lighting for rural health units as well as provision of streetlights to major thoroughfares will also be the project's main concern. The Project will eventually be operated by a private operator.

ANNEXES

ANNEXES

Annex A – Regional Summary of Distribution Utilities' Overall Tariff Adjustment

Distribution Utility (DU)	Decision		O A T A (P/kWh)	
	Case #	Date Approved	Proposed	Approved
REGION I				
INEC	2001-916/2002-020	06-25-2003	0.9591	0.0522
LUELCO	2001-930	12-29-2003	0.1825	0.1579
ISECO	2001-923	07-25-2003	0.5274	0.2151
PANELCO I	2008-020RC	6/19/2008	0.0000	0.0711
CENPELCO	2001-995	01-28-2004	0.6143	0.0964
PANELCO III	2001-931	12-29-2003	0.5078	0.0631
CAR				
ABRECO	2001-945	01-14-2004	0.4414	0.0935
BENECO	2002-214	12-03-2003	1.1980	0.0527
KAELCO	2001-975	07-20-2005	0.8069	0.6132
MOPRECO	2001-987	06-25-2003	0.8161	0.0501
IFELCO	2001-997	08-25-2003	0.4879	0.1120
REGION II				
BATANELCO	2001-1014	07-29-2003	0.5692	0.5694
CAGELCO I	2001-985	06-25-2003	0.4461	0.0589
CAGELCO II	2001-1010	07-30-2003	0.5054	0.0418
ISELCO I	2001-943	12-22-2003	0.3182	0.1619
ISELCO II	2001-963	03-04-2004	0.4901	0.1830
NUVELCO	2001-976	08-04-2003	0.0503	0.0431
QUIRELCO	2001-1012	04-08-2003	0.3285	0.1433
REGION III				
NEECO I	2002-25	01-10-2005	1.2973	0.0111
NEECO II-AREA I	2002-22	01-20-2004	0.6410	0.4725
NEECO III-AREA II	2001-993	09-15-2004	0.6339	0.3040
PELCO I	2001-908	11-15-2002	1.4442	0.2719
PELCO II	2002-030/2001-912	02-18-2004	1.8521	0.0095
PELCO III	2001-962	01-28-2004	1.1102	0.1613
PRESCO	2001-991	12-29-2003	0.5530	0.0670
SAJELCO	2001-848	05-21-2004	0.3100	0.1771
TARELCO I	2001-984	12-29-2003	0.6148	0.0392
TARELCO II	2001-972	02-04-2004	0.2453	0.0185
PENELCO	2002-19	06-25-2003	0.2010	0.1325
ZAMECO I	2001-915	08-06-2003	0.8693	0.1822
ZAMECO II	2001-990	03-07-2005	***0.2355***	***0.2815***
REGION IV-A				
AURELCO	2001-961	12-29-2003	0.3743	0.3743
BATELEC I	2008-019-RC	09-15-2008	0.3240	0.3240
BATELEC II	2001-902	02-04-2004	1.0866	0.0342
FLECO	2001-349/2002-014	07-25-2003	0.9051	0.1358
QUEZELCO I	2001-924	01-12-2004	0.2079	0.2079
QUEZELCO II	2001-998	09-25-2003	0.5231	0.1066

Annex A – Regional Summary of Distribution Utilities' Overall Tariff Adjustment

Distribution Utility (DU)	Decision		O A T A (P/kWh)	
	Case #	Date Approved	Proposed	Approved
REGION IV-B				
OMECO	2001-965	07-10-2003	***0.0951***	***0.3458***
LUBELCO	2001-947	03-29-2004	1.5600	1.5600
MARELCO	2001-954	12-29-2003	0.2082	0.0444
TIELCO	2001-919	09-25-2003	0.4599	0.1056
BISELCO	2001-922	07-14-2003	2.4605	0.3538
PALECO	2001-911	01-28-2004	0.2077	0.0281
ROMELCO	2001-953	12-29-2003	0.3942	0.1384
ORMECO	2001-979	01-13-2004	0.1167	0.1167
REGION V				
ALECO	20001-1013	02-11-2004	0.3624	0.0690
CANORECO	2001-914	06-25-2003	1.4465	0.3431
CASURECO I	2001-1015	06-25-2003	2.3704	0.2922
CASURECO II	2001-904	07-07-2003	0.2985	0.0270
CASURECO III	2001-1006	12-29-2003	1.5864	0.4559
CASURECO IV	2001-1000	08-05-2004	0.9949	0.6412
MASELCO	2001-974	03-03-2004	1.3195	0.3394
FICELCO	2001-1008	08-15-2003	0.8067	0.6333
SORECO I	2001-619/35/942	11-15-2002	0.8303	0.2831
SORECO II	2001-999	12-29-2003	1.5848	0.6193
TISELCO	2001-1003	08-14-2003	1.7855	1.7855
REGION VI				
AKELCO	2008-013-RC	08-14-2008	0.7542	0.7542
ANTECO	2001-917	12-22-2003	0.5129	0.1094
CAPELCO	2003-493	06-24-2004	0.3406	0.1906
ILECO I	2001-989	06-25-2003	0.02354	0.0544
ILECO II	2001-960	12-03-2003	0.2292	0.1655
ILECO III	2001-927	01-26-2004	0.4266	0.1645
GUIMELCO	2001-983	02-27-2004	0.3156	0.2928
VRESCO	2001-925	07-25-2003	0.4572	0.0007
CENECO	2001-786/926	02-04-2004	0.5703	0.1096
NOCECO	2001-966	12-22-2003	0.5354	0.3094
REGION VII				
BANELCO	2001-1005	08-15-2003	0.4410	0.1599
BOHECO I	2001-907	02-18-2004	0.0227	0.0227
BOHECO II	2001-992	12-29-2003	0.7171	0.3365
CEBECO I	2001-959	03-28-2002	0.2744	0.2744
CEBECO II	2002-973	03-28-2003	0.3339	0.3339
CEBECO III	2001-980	01-21-2004	0.1761	0.0924
CELCO	2001-948	09-30-2004	0.5085	0.3370
NORECO I	2001-950&486/98-79	02-04-2004	1.1200	0.1562
NORECO II	2001-949	12-29-2003	0.3109	0.0492
PROSIELCO	2001-937	08-14-2003	0.0584	0.3512

Annex A – Regional Summary of Distribution Utilities' Overall Tariff Adjustment

Distribution Utility (DU)	Decision		O A T A (P/kWh)	
	Case #	Date Approved	Proposed	Approved
REGION VIII				
BILECO	2001-956	12-29-2003	0.5885	0.2542
LEYECO I	2001-957	03-12-2004	0.9109	0.3980
LEYECO II	2001-932	02-04-2004	0.2048	0.0615
LEYECO III	2001-955	01-21-2004	0.6012	0.4923
LEYECO IV	2001-938	06-27-2003	0.1997	0.1434
LEYECO V	2000-171&01-981/760	02-27-2004	0.7763	0.5056
SOLECO	2001-1011	12-29-2003	0.5144	0.5089
SAMELCO I	2001-982	08-05-2004	0.1961	0.1800
SAMELCO II	2001-934	12-29-2003	0.1778	0.1778
ESAMELCO	2001-964	02-11-2004	0.2384	0.2384
NORSAMELCO	2001-297&920/95-130	05-14-2004	0.4041	0.1120
REGION IX				
ZAMCELCO	2001-890/2002-196	06-25-2003	0.6067	0.0267
ZAMSURECO I	2001-970	02-04-2004	0.0625	0.0625
ZAMSURECO II	2001-1007	11-15-2002	0.0248	0.0189
ZANECO	2001-988	03-28-2003	0.2520	0.0453
ARMM				
BASELCO	99-58/2001-935	05-20-2004	2.3605	1.1527
CASELCO	2002-140	06-07-2004	0.8506	0.1651
SULECO	2002-029	07-21-2005	0.5759	0.2711
SIASELCO	2001-986	07-20-2005	0.5860	0.3211
TAWELCO	2002-21	01-10-2005	1.11837	0.3893
LASURECO	2003-458	05-23-2005	(0.2457)	(0.2457)
MAGELCO	2001-910	12-12-2003	0.3445	0.1838
REGION X				
FIBECO	2001-936	09-12-2003	0.4736	0.2131
BUSECO	2001-929	12-29-2003	0.0230	0.0069
MOELCI I	2001-941	12-29-2003	0.5441	0.5441
MOELCI II	2001-523/971	02-27-2004	0.3679	0.1017
MORESCO I	2008-024-RC	09-08-2008	0.6864	0.6864
MORESCO II	2008-012-RC	09-08-2008	1.7655	1.7655
CAMELCO	2008-022-RC	09-08-2008	1.9521	1.9521
LANECO	2001-913	06-23-2004	0.5458	0.3808
CARAGA				
ANECO	2001-918	01-26-2004	0.2912	0.2307
ASELCO	2001-967	01-21-2004	0.1640	0.0831
DIELCO	2001-928	02-15-2006	0.1853	0.1853
SURNECO	2001-978	12-29-2003	0.9303	0.1088
SIARELCO	2001-939	04-08-2003	0.2605	0.0327
SURSECO I	2001-688/921	12-03-2003	0.2534	0.0733
SURSECO II	2001-1004	09-05-2003	0.8198	0.0504

Annex A – Regional Summary of Distribution Utilities' Overall Tariff Adjustment

Distribution Utility (DU)	Decision		O A T A (P/kWh)	
	Case #	Date Approved	Proposed	Approved
REGION XI				
DANECO	2001-994	02-06-2004	0.2866	0.0668
DASURECO	2001-977	06-24-2004	0.2780	0.0675
DORECO	2001-958	01-23-2004	0.8576	0.4062
REGION XII				
SOCOTECO I	2008-017-RC	06-01-2008	0.1555	0.1555
SOCOTECO II	2001-1009	02-04-2004	0.2681	0.1767
COTELCO	2001-969	12-03-2003	0.3740	0.0356
SUKELCO	2001-1002	08-05-2004	0.2223	0.2118
PRIVATELY INVESTED-OWNED UTILITIES (PIOUs)				
MERALCO	2001-646&900	03-20-2003	1.1228	0.0540
AEC	2001-894/2002-15	06-23-2004	0.5300	(0.0598)
VECO	2001-891/2002-06	01-29-2003	0.3600	0.0682
SFELAPCO	2002-10	12-08-2003	0.2219	0.0000
DECORP	2002-13/2001-901		0.4972	0.0641
CLPI	2001-894	03-20-2003	0.2762	0.1469
CEPALCO	2001-892		0.3900	0.0921
VECO	2002-06/2001-891	08-30-2004		

Annex B – WESM Registration Status in Luzon

Generators	Number of Generators	Registered*	Registered MW
All Generators	27	21	11,470
1. NPC -Owned (Trading Teams)	5	5	1,786
2. PSALM (NPC-IPPs) (Trading Teams)	3	3	6,216
3.First Gas Power Corporation	1	1	1,040
4. FGP Corp	1	1	533
5. Quezon Power Philippines (Limited) Company	1	1	459
6.First Gen Hydro Power Corporation	2	2	112
7. SN Aboitiz Power Corp. Inc	1	1	380
8. Trans Asia Power Generation	1	1	50
9. Northwind Power Dev't Corporation	1	1	27
10. SN Aboitiz Power - Benguet, Inc.	1	1	100
11. Masinloc Power Partners Co. Ltd.	1	1	600
12.Other IPPs	9	3**	167
Customers	**Number of Customers**	**Registered***	**Registered MW**
All Customers	163	8	4,826
1. Private Distribution Utilities	11	1	4,588
2. Rural Electric Cooperatives - direct members	44	6	224
3. Other Utilities/Customers	108***	1**	14
Suppliers	**Number of Suppliers**	**Registered***	
All Suppliers	5	5	
1. Team (Philippines) Energy Corp.	1	1	
2. Aboitiz Energy Solution, Inc.	1	1	
3. Trans Asia Oil and Development Corp.	1	1	
4. Angeles Power inc.	1	1	
5. AES Philippines Inc.	1	1	

Notes:

** Registered as Direct Members, unless otherwise specified*
*** Registered as Indirect Members*
**** Estimated # of directly connected customers (other than private DUs and ECs)*
The customers that have not yet registered in the WESM are supplied either through bilateral power supply contracts with generators, or through the default wholesale supply arrangement with the NPC and the PSALM Corporation.

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