

## PROPOSALS FOR THE EPIRA LAW (RA 9136) REVIEW

**MARCIAL OCAMPO**

**Power, Energy & Climate Change International Expert/Consultant**

**Formerly with DOE and Executive Director of DOST-PCIERD**

**Now Senior Power Generation Engineer/Consultant at SKM**

PROPONENT/SUMMARY OF PROPOSED AMENDMENTS	RATIONALE/DISCUSSION	SPECIFIC PROVISION(S) AFFECTED	PROPOSED REWORDINGS OF PROVISION
Retain Energy Taxes	1) ENERGY TAXES and the need to strengthen/preserve these predictable sources of government revenues to avoid fiscal meltdown.	EPIRA IRR Rule 27 Royalties, Returns and Tax Rates for Indigenous Energy Resources Part V. Other Provisions	
	2) Energy and power pricing based on market costs of energy resource, regulatory and tax imposts, logistics, reasonable company margin = reasonable cost that is also sustainable and supportive of a strong fiscal position (no budgetary deficits, avoids transferring power and energy problem in this isolated spot to the whole economy when peso to dollar exchange rates deteriorates due to populist measures such as no/reduced taxes - customs duty, specific tax, vat, corporate income tax).		
	3) Encourages energy conservation and investment in energy efficient processes, technologies and operating modes, avoids making future painful structural changes, e.g. Indonesia, Malaysia and Thailand have unsustainable subsidies that removing them from oil, power and energy tariffs results in widespread social unrest and violent demonstrations.	EPIRA IRR Rule 3 Responsibilities of the DOE, ERC, NPC, NEA and PSALM Part I. General Provision Section 1.(I) Responsibilities of DOE	
	4) The EPIRA provisions of privatizing the government NPC power generation assets eliminated the need for government budget support to NPC that constituted 50% then of the country's budget deficit that resulted in the 1996 financial crisis (from 26 to 52 Pesos per Dollar). By transferring liabilities to PSALM and liquidate using universal charge that will repaid in 25 years by all end users of power both citizens and foreigners, unlike budgetary support from citizen taxpayers only before the EPIRA, this financial re-engineering avoided a catastrophic default of the Philippine government, bought some time for the government to straighten its finances, and the Philippines emerged financially stronger		
	5) Now with the stabilization of the budget deficit and the exchange rate to 41-44 Pesos per Dollar, and the \$2 billion per month OFW remittance plus the oil and coal import savings (from the use of domestic energy sources such as Malampaya natural gas, local coal, hydro, geothermal and other RE sources such as biomass,		

	wind and solar PV) that would have been imported to meet future power growth from 2000 to the present, the resulting fiscal strength of the Philippine economy is recognized by the world today. The Philippines is month the 4 economies that did not suffer the 2008 Global Financial Meltdown (Philippines, Indonesia, Brazil and China). Clearly, there is something correct in the economic and fiscal policies of our leadership, economic and energy managers.		
	6) Meralco should have hedged by tapping/contracting in advance cheaper sources of power in anticipation of the Malampaya natural gas to power project maintenance shutdown. The government could have mobilized the 600 mw Malaya oil thermal power plant which is much cheaper than the smaller peaking diesel power plants such as the 100 mw diesel power barges formerly owned by NPC but privatized under EPIRA.	EPIRA IRR Part II. Structure and Operation of the Electric Power Industry Rule 9. WESM	
	7) The government needs to strengthen the short-term and long-term planning capability and expertise of the DOE such as in running multi-period linear programming optimization of the operation of existing power plants, retirement and maintenance of old plants, timing of capacity additions so that the NPV of the cost of capital investments, fuels and O&M costs are minimized, leading to the least cost optimal dispatch and thus cheapest possible energy and power tariffs given the interplay of supply, demand, capital and operating costs, efficiency, fuel costs, regulatory and emissions constraints, and transmission/distribution/grid constraints and efficiencies.	EPIRA IRR Rule 3 Responsibilities of the DOE, ERC, NPC, NEA and PSALM Part I. General Provision Section 1.(b) Responsibilities of DOE	
	8) Running the optimal load dispatch hourly over the planning horizon, given the maintenance & shutdown schedule known in advance, and the power development plans and transmission development plans, the expective capacity factor and annual generation will be determined. And for each power generation technology and power plant, the short run marginal cost [SRMC = annual fuel cost + O&M costs + regulatory costs] and long run marginal cost [LRMC = annualized initial capital costs and overhauls + SRMC] are used in running the optimal load dispatch to determine short term dispatch and long term dispatch capacity factors.	EPIRA IRR Part II. Structure and Operation of the Electric Power Industry Rule 9. WESM	
	9) The optimal dispatch run using the LRMC which recovers both capital costs discounted at the power investor's return requirements of minimum IRR and the fuel costs, O&M costs, regulatory costs) is then compared with the WESM dispatch (from price offers which ranges from negative bids of those who want to be surely dispatched but benefits from the high clearing price of the marginal plant that made the highest price offer of 32-64 Php/kWh per WESM cap). The	EPIRA IRR Part II. Structure and Operation of the Electric Power Industry Rule 9. WESM	

	<p>cheaper tariff arising from optimal dispatch or WESM dispatch is thus selected (this needs revision of EPIRA/WESM rules) so as to protect consumers from price spikes and market abuse due to collusion of the market players.</p>		
--	---	--	--