Republic of the Philippines
House of Representatives
CONGRESSIONAL PLANNING AND BUDGET DEPARTMENT
Quezon City, Metro Manila

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FOR : **THE HONORABLE HOUSE MEMBERS**

SUBJECT : **Proposed Review of Oil Deregulation Law**

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May we apprise your Honor of the power supply and demand forecast for the country over the period 2009-2017 based on information provided by the Department of Energy (DOE), to wit:

1. The power situation in the country for 2009 is expected to be heading to a critical condition as the variance between the *dependable capacity* (supply) and the *required capacity* (demand) is alarmingly low particularly in Mindanao and the Visayas (Table 1). The DOE defines *dependable capacity* as the maximum capacity a power plant can produce over a specified period adjusted for seasonal limitations less the capacity required for maintenance. The *required capacity* is forecasted peak demand plus the ERC-approved reserve margin (23.4% for Luzon and Visayas and 21% for Mindanao). The system will be in a critical and unstable condition when the variance between supply and demand is below the reserve capacity (minimum reserve level).

- *Mindanao*. The 2009 forecast for Mindanao is critical as a huge deficit of 140 MW is expected between supply and demand, which is reckoned to worsen yearly if not averted (*Table 1 and 2*). Thus increasing power supply in Mindanao is crucial as sporadic power interruptions have been experienced, confirming the seriousness of the problem.

- *Visayas*. The power situation in the Visayas is already worrisome as the difference between supply and demand is estimated at only 71 MW or 80% below the minimum reserve level (*Table 1 and 3*). This explains the intermittent brownout in the region, according to DOE. If no additional capacity is installed by then, the supply scenario would again deteriorate with the planned retirement in 2011 of the LBGT Power Plant which has a rated capacity of 50 MW. However, the variance will improve to 224 MW and another 103 MW by 2010 and 2011, respectively, if the three committed projects will push through (DMCI Concepcion Power Corporation-100 MW, PNOC Nauslo-20 MW and KEPCO SPC Power-200 MW).

- *Luzon.* By 2010 the power situation in Luzon will likewise be in a serious condition as the difference between supply and demand would already be at a critical level of 572 MW or 75% below the minimum reserve level (*Table 4*). From 1602 MW in 2009, the excess supply will decline by 66% annually for the next 2 years to only 190 MW (81% below the

minimum reserve level) in 2011. If no additional generating capacity is installed, the situation would continue to worsen until 2017, with deficits estimated at 246 MW in 2012, ballooning to 2751 MW by 2017, and averaging -1439 MW per annum over the period 2012-2017. The supply-demand imbalance would start to accrue in part from the planned retirement of Hopewell GT in 2009 with a rated capacity of 100 MW, and Malaya Thermal in 2010, with a rated capacity of 650 MW.

2. It remains to be seen how much the economic slowdown would lessen the demand for power. Nonetheless, it is important to be prepared for any eventuality, including coping with higher electricity demand under a subsequent economic recovery.

3. Several power projects are already in the pipeline for the period 2009 to 2017 (*Table 5-7*). On the whole, the government is expecting an additional 7311 MW (4918 MW for Luzon, 1207.5 MW for Visayas, and 1185.5 MW for Mindanao) in additional power projects. These projects will come from various power producers for the years 2009-2017. However, the government has only mustered committed power projects with a total rated capacity of 1020 MW (600 MW for Luzon, 320 for the Visayas, and 100 for Mindanao) for the period 2009 and 2011.

4. While the given tight power supply and demand situation is already an incentive to the investors to put up more power generating facilities, the investment climate should be further enhanced to encourage private sector participation in new additional generation projects. Measures to encourage private sector participation in the generation of power should include the following: a) upholding competition policy; b) fulfilling the requirements to totally implement the Retail Open Access provisions in the EPIRA Law; c) resolving outstanding issues in BOT agreements such as obligations of parties, financial terms, and risk allocation; d) promoting contracts between power providers and end-users through the retail open access mechanism to secure financing; and e) implementing a performance-based transmission and distribution rates system.

For your information.