APPENDIX F – Collaborative Meeting Minutes June 18, 2001

MINUTES OF THE PRE-HEARING CONFERENCE ON THE PROPOSAL TO AMEND CERTAIN PROVISIONS OF THE 1996 REGULATORY FRAMEWORK FOR DEMAND-SIDE MANAGEMENT (DSM) IN THE PHILIPPINES

DATE	:	JUNE 18, 2001
TIME	:	9:00 AM
VENUE	:	ERB Hearing Room 15th Floor, Pacific Center Building, San Miguel Ave., Ortigas Center, Pasig City

I. ATTENDANCE

ERB

Hon. Marietta U. Larracas
Hon. Oscar E. Ala
Hon. Nicomedes B. Deynata
Florentina M. Robles
Elsa G. Gonzaga
Ellen C. Aguila
Ma. Cristina L. Vicencio
Carminda C. Evangelista
Nilda T. Lumapak
Leila O. Cirio
Evangeline A. Dulay
Ma. Teresa C. Ocampo
Sherman T. Buenviaje
Teodora M. paguio
Alfredo A. Mendoza
Carmelita L. Cacdac
Crispin Carlos
Rubiminda Trapela
Tomas C. Macatangay

ELI

Alexander Ablaza
Ruben Lambuson
Randee Gabriel

RAP

David Moskovitz

Private Utilities

Serafin D. Marcia	DECORP
Jovencio Tolentino	CELCOR
Rommel R. Hernal	CELCOR
Annie Reodica	MERALCO
Aris Lumague	MERALCO
Ruben A. Arizabal	DECORP
Albert V. Monsubre	ILPI
Avelino L. Quiamco	ILPI
Crisanto Laset	CEPALCO
Edwin Bernal	CEPALCO
Oscar Rodriguez	VECO
Lyndon Jaime	VECO
Manolito T. Saludo	IEEC
Froilan S. Carreon	IEEC
Roy Yutuc	TEI

Rural Electric Cooperatives

Christine M. Tabajonda	BENECO
Gilbert C. Guiamoy	BENECO
Clemencia B. Cariaga	INEC
Emirex M. Domingo	INEC
Nolie C. Namocatcat	ANECO
Isidro B. Arenas, Jr.	CENPELCO
Angel G. Laureano	ZAMECO II
Alvin Farrales	ZAMECO II
Dionefred K. Macahig	NORECO II
Jocelyn J. Dasco	PALECO
Jose Tan Paredes	PALECO
Cesar T. Melad	ZAMCELCO
Norman C. Eballe	MORESCO I
Moises C. Joaban	DORECO
Arturo N. Ravelo, Jr.	DORECO
Arlinda C. Yparraguirre	SURSECO II
Lourna B. Padro	SURSECO II
Marilyn C. Casin	ALECO
Samson M. Madridel	ALECO
Simeon P. Revilla	CENPELCO
Ferdinand M. Cerezo	PANELCO III

Government Agencies

Virna V. Federizon	HOR
Efren T. Cortez	HOR
Guillermo Paz	NEA
Arnel Galarpe	NEA
Tomas Vivero	NEA
Dennis A. Lim	NEDA
Violeta Conde	NEDA
Nelia Villeza	COA

NGOs

Zenon Suarez	PHILRECA
Ramon Abaya	PEPOA

II. MINUTES OF THE PRE-HEARING CONFERENCE OF ERB CASE NO. 2001-55 ENTITLED "IN THE MATTER OF THE PROPOSAL TO AMEND CERTAIN PROVISIONS OF THE FRAMEWORK FOR DEMAND- SIDE MANAGEMENT (DSM) IN THE PHILIPPINES

The Clerk of Court, Atty. Crispin Carlos, announced that the Board was in session for the hearing of ERB Case No. 2001-55. He, then, asked for appearances by the parties.

Board Member Oscar E. Ala asked for appearances and the following parties entered their appearances: (a) Engr. Edwin Bernal for CEPALCO; (b) Engrs. Oscar T. Rodriguez and Lyndon Jayme for VECO; and Violeta Conde for NEDA.

Upon inquiry by Board Member Ala, Atty. Carlos announced that the Board had complied with the publication requirements of the notice of public hearing as evidenced by the issues of Manila Times and Today on June 12 and 13, 2001.

Upon inquiry by Board Member Ala, Atty. Carlos announced that there were no comments or position papers filed yet in regard to the proposed amendments to the 1996 DSM Regulatory Framework. Board Member Ala then asked whether those present have any written comment to be filed on the proposed amendments, and expounded further that there is an intention to conduct a collaborative process in regard to the proposed amendments to the 1996 DSM Regulatory Framework.

However, comments are needed as issues stated therein will be taken-up in the collaborative process.

Ms. Nelia Villeza of the Commission on Audit (COA) manifested her intention to file a written comment and was given ten (10) days upon which to file the said comments.

Engr. Edwin Bernal of Cagayan Electric Light & Power Company (CEPALCO) requested for point by point discussion of the proposed amendments, to which Board Member Ala expressed that it is the intention of the Board to take advantage of the presence of Mr. David Moskovitz.

Ms. Violeta Conde of National Economic Development Authority (NEDA) inquired about the intention of the group, whether to come up with a decision or it is just a process of discussion and present it to another body for consensus or whatever.

Board Member Ala explained that if issues have been determined already on the basis of the comments, the body will convene for the collaborative process. Discussion of the issues raised in the comments or position papers will follow and based on the results of the discussions, the body will reach for a consensus and come up with the amended DSM Framework.

He likewise cited the collaborative process for the original DSM Framework, which was conducted for six (6) months, and expressed that the same procedure will be followed. He added that since there are no comments and issues have not been raised yet, the collaborative process cannot be started, and therefore for the meantime, Mr. David Moskovitz will make a presentation on the proposed amendments.

The participants were given ten (10) days from the date of the pre-hearing conference within which to submit written comments on the proposed amendments.

III. PRESENTATION OF MR. DAVID MOSKOVITZ

A. Section 3(g) – DSM Policies

In addition, existing disincentives shall be removed through the use of revenue-based regulation or adjustments that allow recovery of net revenue losses due to DSM programs. Also, DSM targets and incentives shall be established to encourage and reward aggressive utility pursuit of DSM programs.

Makes cost and lost revenue more certain and provides an additional option.

The following issues were raised:

1. Will planning and implementation cost for DSM program be recovered whether the project is successful or not and whether the recovery will come from the rates?

2. Is there any other way for the utilities to recover cost incurred aside from the basic rates or from the consumers? Do utilities have gains from implementing the program to where they can recover cost incurred?

3. How will recovery of cost be done, passed on to customers or there's another scheme?

- **Mr. Moskovitz' reply:**

Utilities will be given the opportunity to recover planning and implementation cost for DSM program whether the project is successful or not and recovery will come from the rates. There will be a lost revenue recovery mechanism.

1. Inclusion of the definition of net margin

- **Mr. Moskovitz's replied that it could be included.**

2. As established earlier, one of the barriers for doing DSM is showing it as a separate item on the bill. Allowing utilities to recover through adjustment will make it a separate line item in the bill; public acceptance of DSM cost as separate line item.

- **Mr. Moskovitz' reply:**

Mr. Moskovitz suggested that DSM cost will not be shown as a separate item in the bill, and instead, DSM cost and all the other costs of the distribution utility will be included in the basic distribution prices. However, Board Member Marietta U. Larracas pointed out that with the unbundling, things should be transparent. She further stated that utilities will still have to show how they computed its lost revenue mechanism. Mr. Moskovitz suggested that it is better that it will not be shown as a separate line item.

3. In case the utility selected a group of consumer and the utility was not able to recover all DSM costs, will other consumers

not benefited/selected from the program also share in the loss or costs incurred by the utility?

- **Mr. Moskovitz' reply:**

Costs should be spread over the customer class that was selected and make the programs available. All customers should be eligible for the service.

4. Number of DSM plans submitted to the ERB; result of annual evaluation.

Ms. Ellen C. Aguila of the ERB explained that approximately 32 utilities have submitted DSM plans. She added that majority of these were already approved by the ERB. And the utilities should have been implementing their programs on a pilot stage and one year after implementation of their programs, they are required to submit an annual evaluation to the ERB. Utilities should also annually monitor their programs and evaluate the status of their implementation. Ms. Aguila further informed the body that three annual evaluations have already been conducted by the ERB on three utilities, namely, CEPALCO, VECO and BATELEC I. CEPALCO is the most aggressive in pursuing DSM programs as proposed and approved by the ERB. There are reported savings on a number of CEPALCO's programs, both on the part of the consumers and utility.

5. Include as an issue the definition of small and large utilities.

6. In the existing framework, utilities should submit the same plan. What happens if a utility will just submit a simple DSM program for customers without the intention of recovering the cost, can it submit a not very detailed study? Should the utility present proof of recovery or just implement a simple DSM program.

- **Mr. Moskovitz' reply:**

Mr. Moskovitz explained that there should be some simple option even for large utilities to pursue some DSM plans/programs without the necessity for some other detail required in the plan.

B. Section 5(b) (IV) – Standard Plans

Utilities with less than (customers, revenues, or load) may submit a standard DSM Plan that will be developed collaboratively by the ERC and the small utilities and their representatives.

Small utilities may choose standard plans

The following issues were raised:

1. Mr. Alexander Ablaza at this juncture said that suggestions, ideas and impact from utilities and other government agencies should be gathered in making the standard plan and a default plan.

2. Ms. Annie Reodica of Manila Electric Company (MERALCO) asked if the default plan may limit other utilities to create their own plan.

- **Mr. Moskovitz' reply:**

The utility must design their own plan and that there are three levels, namely: (1) the utility should design their own plan; (2) small utilities could implement a standard plan; and (3) if the utility does not file its plan, a default plan will be imposed.

C. Section 7 – DSM Cost Recovery

The following issues were raised:

1. Board Member Ala pointed out the criteria for an expense to be considered part of operating expenses: (1) must be actually incurred; (2) must be reasonable; and (3) recurring. He added that the consideration of projected DSM costs violate this principle.

- Mr. Moskovitz shared that the Commissions in the US operate on future or projected test year.

2. In case a DSM program is not successful, will there be a refund of full costs?

- Mr. Moskovitz replied that all programs are based on projections of how customers will respond. He further stressed that since all utilities does not perform equally, it is always a very useful tool for regulators to distinguish between a better and worst utilities through incentives and the level of profits so that the best performing utilities are the most profitable.

3. Board Member Larracas suggested to the participants to make the 1% an issue because 1% for very small utilities might be

very small and 1% for large utilities might also be very large, to which Board Member Ala said comments will be gathered on this matter.

D. Section 8 - Pilot Demand-Side Management Programs

- Mr. Moskovitz then proceeded to the next recommended amendment which is on Section 8 Pilot Demand-Side Management Programs. He mentioned that the amendment being proposed is very minor and that is replacing the word "shall" to the word "may".

Therefore, Section 8 should read as follows:

SEC.8. ***Pilot Demand-Side Management Programs***. – DSM programs ***may*** be pilot-tested to:

Ascertain whether a given program……

- Mr. Moskovitz further explained that the minor amendment is intended to avoid excessive use of pilots. He stressed that every program doesn't have to be preceded with the pilot program. Every full scale program doesn't need to be preceded by a pilot program. He also stated that pilot programs should not be seen as a way to delay or avoid implementation of DSM programs on a full scale.

- Mr. Moskovitz then proceeded to the discussion on Policy Reforms not Reflected in the Amendments, and these are the following:

Line item on bills
Minimum bills
Fuel Revenue Accounting

The afternoon session resumed at 1:30pm and Mr. Moskovitz continued with the presentation.

E. Mr. Moskovitz began discussing the additional recommendation of adding a Default DSM Plan in addition to the Standard Plan. He said that the content of a Default Plan would be very basic and simple.

The following issues were raised:

1. A suggestion was made by one of the participants that a utility, whether large or small, may ought to submit a default plan for purposes of compliance only. However, the said utility will not be entitled to any recovery nor incentive. If the utility wishes to be granted incentive or cost recovery, then it should develop a very good DSM Plan.

2. An extensive, lengthy and lively discussion on the granting of incentives to utilities who have spent 1% of their gross revenues on DSM expenditures, followed:

- Mr. Moskovitz clarified that the 1% is based on gross revenues.

3. Ms. Annie Reodica (MERALCO) believed that from the point of view of the large utilities like MERALCO, the 1% of gross revenues is a huge investment in DSM considering that approximately 75-80% of MERALCO's revenues goes to purchase power and the remaining 30% goes to distribution and other expenses. That only means that DSM will have to compete a sizeable slice of the budget against expenditures intended for MERALCO's core business.

   Ms. Reodica further stated that the percentage level is quite difficult for both small and large utilities so she suggested to use another criteria for determining incentives.

- **Mr. Moskovitz' reply:**

Mr. Moskovitz responded to this by saying that the DSM Office of MERALCO can convince their management that there is no spending of 1% of gross revenues that will save customers as much money as they can save in DSM.

4. Mr. Oscar Rodriguez of VECO pointed out that the purpose for granting incentives is to encourage utilities to implement good DSM programs. He suggested that the percentage level be based on the effects of the DSM program rather than on the spending level.

   Mr. Rodriguez further explained that utilities set their DSM objectives, so if the utilities meet or surpass these objectives then they should be entitled to incentives.

- Mr. Moskovitz recognized that it is a good idea of granting incentives based on performance. However, he stated that the percentage on revenues was initially suggested because revenues are easier to measure.

5. In addition to the comment made by Mr. Rodriguez (VECO), Mr. Ablaza stated that a utility can spend very cost-effectively and efficiently but may be spending less than 1%. He further stated that in the case of ELI, it may be spending less than 1%

of the gross revenues of the Philippine Power Industry but they were able to reach and touch as many markets as they can.

He also emphasized that the 1% of gross revenues is the quickest way to measure and that it is being proposed as an initial benchmark. He added that there might be some other performance based indicators when the ESCO industry, the DSM practice and the power sector industry would have matured, then we can come up with another indicator/measurement, like: kilowatt hour sales on a per capita basis or per residential customer whichever is attained first. But for now, he said, we still do not have that kind of track record in the Philippines yet.

In order to give DSM and the ESCO industry a chance to grow, Mr. Ablaza suggested to initially agree on an indicator. According to him, once we have many DSM and ESCO players in the Philippines, we can agree on other indicator/s. But for now, he said, the 1% on gross revenues is the most transparent and therefore, we would wish to start of with that model.

Further, Mr. Ablaza (ELI) stressed that it would be improper or premature to base the incentives on the spending habits of Philippine utilities at this point because DSM practice is not that popular, but in the U.S., they spend an average of 2%. In his own personal opinion, Mr. Ablaza believed that the 1% (of gross revenues) incentive cut-off is reasonable and there are actually cases where a good utility spends as much as 5% of its gross revenues for DSM expenditures.

Mr. Ablaza clarified that setting aside 1% for DSM implementation is not actually money out of the window because a significant portion of it is still recoverable. He further added that it’s a win-win situation because its not money down the drain but an investment that the utility can be able to recover.

He further suggested ERC to consider including DSM requirements as part of the requirements in rate cases filing.

6. Mr. Namocatcat of ANECO also raised the concern that even large electric cooperatives will be experiencing difficulty in allocating 1% of their gross revenues in DSM expenditures because they are basically cash based (cash flow method).

7. A clarification was raised that spending 1% on gross revenues is not automatic, the utility has to apply for it. In that case, if utilities apply for an incentive plan, then they must justify or prove to the regulatory body that they are entitled to incentives. Further, he said that supposing a utility conducted a massive information campaign and promotion of efficient lighting thru radio and TV, but all cost involved did not reach 1% , however, the initiative was proven cost-effective because people responded and they are really educated. The people attempted to change their bulbs but the program cost did not reached 1%. In summary, why limit the percentage level to 1%, for as long as the utility can justify that it has done a cost-effective DSM program then incentives should be granted.

- **Mr. Moskovitz' reply:**

Upon hearing their views, Mr. Moskovitz concluded that the 1% level may be too much for both the large and small utilities except CEPLACO. He stressed that the 1% is intended to be a typical threshold not a simple threshold in order to earn incentives.

8. Other issues raised/discussed by interested parties were as follows:

   a. Electric cooperatives will be having difficulty in generating funds for DSM because they are financially distressed, they can not even pay for their loans to NEA and that they are even incurring penalties and surcharges for their payment of purchased power to NPC. He asked the question on where to get the funding or whether they can borrow from the banks to finance DSM projects.

- Mr. Ablaza reacted to this by saying that utilities can be very creative when it comes to securing its funds. He also stated that he can convince IFC or World Bank (IBRD) though a local banking sector, to directly lend certain utilities to finance project on energy saving basis rather than the standard collateral balance sheet type of loans.

   b. Mr. Ferdinand Cerezo (PANELCO III) narrated that it has been a long time that their cooperative have heard of DSM but failed to implement it. He said that he attended the collaborative meeting, so their cooperative can understand more of DSM so they can implement it and help their end-users (customers). He also added that they are experiencing high system losses.

c. In response to this, a suggestion was raised to address the concern on system loss. He said reduce expenses for cost of purchase power so it is not as if you are doing DSM wherein there is a drop in revenues and at the same time there is a drop in cost of purchased power. In that case, loss margin can still be recovered. Doing system loss reduction is a lot better if a utility have a very high systems losses.

- Mr. Ablaza made mentioned of ELI's efforts in Peru, Argentina and South Africa. What they did was to spread the CFLs in the depressed areas where pilferage was highest so they can even reduce the losses because these are the sectors that are not paying their electricity. By doing so, you cut your system losses, and a significant portion of the systems loss problem was partially solved by DSM.

d. There was a concern raised on how to determine the classification of utilities whether small or large

e. There was a suggestion to categorize the utilities on the basis of their sizes.

f. Mr. Efren Cortez of the House of Representatives pointed out that in the light of the enactment of RA 9136, there is a provision on the condonation of loans/obligations of electric cooperatives so he suggested that ERC should revise its regulatory framework considering the said condonation. He added that the present rate making methodology being used by the electric cooperatives which is the Cash Based Methodology, should also be looked-into or revised in the light of the said condonation.

- Board Member Ala answered affirmatively adding that there is a corresponding reduction in rates. He also explained that the ERC is allowed to adopt any rate methodology that would promote efficiency.

IV. CONCLUSION

Before the meeting was adjourned, Commissioner Ala announced that the next collaborative meeting will be scheduled on July 12 & 13, 2001 at the same venue. He also enjoined the parties to submit their written comments on the proposed amendments within ten (10) days.

He further added that the agenda for the next meeting is the discussion of the following issues:

1. Classification of utilities into small and large
2. Large utilities may also be allowed to develop and submit simple DSM plan
3. Allowing other interested parties to be involved in the development of standard DSM plan
4. Default DSM plan
5. Showing DSM charge as a separate item in the bill
6. Granting of incentives to utilities who have spent 1% of their gross revenues as DSM expenditures
7. Other matters

Board Member Ala also thanked Mr. David Moskovitz for providing his technical expertise during the workshop in Shangri-la on June 15, 2001 and during the 1st collaborative meeting on June 18, 2001.

There being no matters to be discussed the meeting was adjourned at around 4:00pm.

Prepared by:

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