

# Generation Pricing in the Philippines and the Impact of Fuel Price Volatility

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## *Section 6, Chapter 2 of the Republic Act No. 9136 or the Electric Power Industry Reform Act of 2001 (EPIRA)*

**GENERATION SECTOR.** Generation of electric power, a business affected with public interest, shall be competitive and open.

Upon implementation of retail competition and open access, the prices charged by a generation company for the supply of electricity shall not be subject to regulation by the ERC except as otherwise provided in this Act.

## *Section 25, Chapter 2 of the Republic Act No. 9136 or the Electric Power Industry Reform Act of 2001 (EPIRA)*

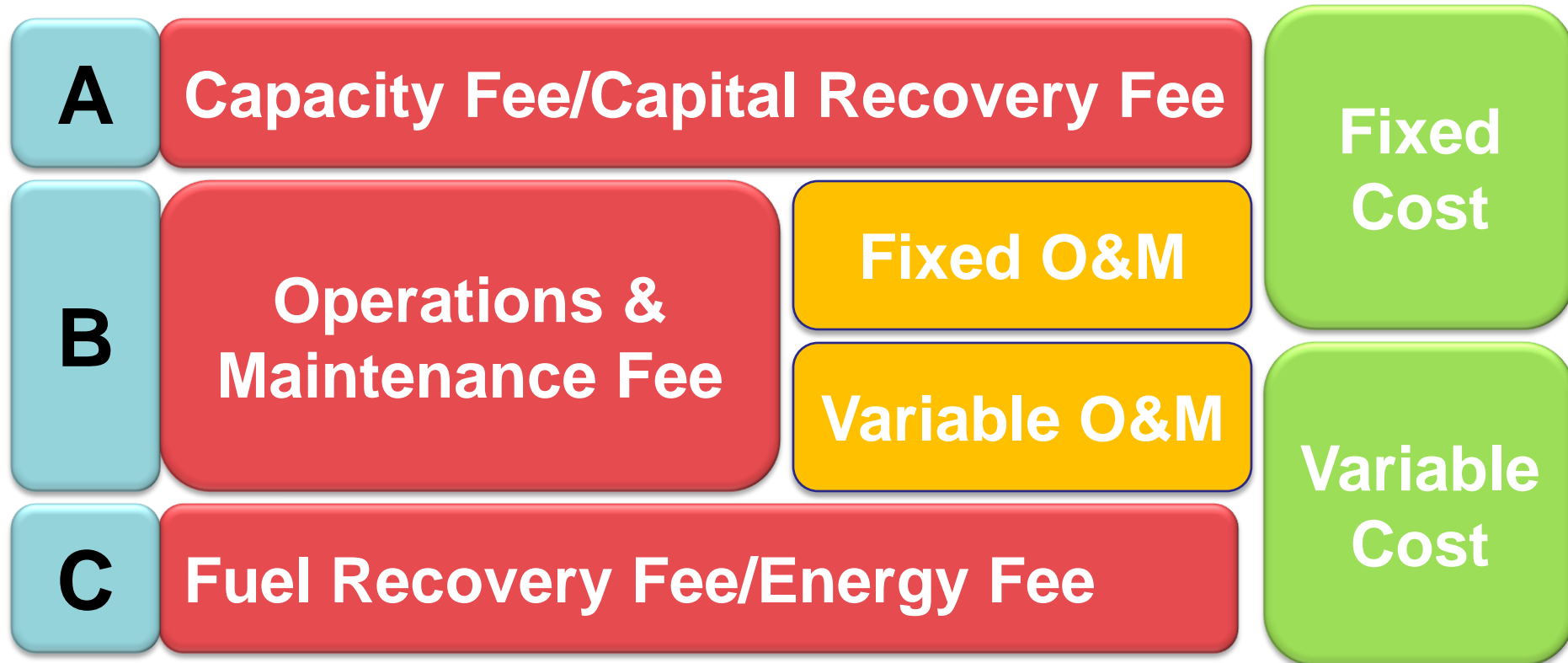
**RETAIL RATE.** The retail rates charged by distribution utilities for the supply of electricity in their captive market shall be subject to regulation by the ERC based on the principle of full recovery of prudent and reasonable economic costs incurred, or such other principles that will promote efficiency as may be determined by the ERC.

# GENERATION CHARGE

- Biggest component of the retail rate
- Through the generation charge, the DUs recover their generation costs associated with their energy purchases from either:

<b>A</b>	<b>PSALM/NPC</b> (State-owned; for privatization)	NPC TOU Rate
<b>B</b>	<b>IPPs</b> (under duly approved PPAs)	ERC-approved Contract Rate
<b>C</b>	<b>WESM</b>	Spot Market Rate

# GENERATION RATE STRUCTURE IN THE PPAs



## ➤ Capital Recovery Fee (CRF)

- Fixed for the duration of the project life/plant economic life
- Computed using annuity method (Time Value of Money)

### Formula:

$$\text{CRF} = \text{Annuity} \div \text{Billing Determinant}$$
$$\text{PhP/kWh} = \text{PhP} \div \text{kWh}$$

# COMPUTATION OF GENERATION COST

## ➤ Operations & Maintenance (O&M) Fee

### Formula:

$$\begin{aligned} \text{O\&M Fee} &= \text{Total Annual Expenses} \div \text{Billing Determinant} \\ \text{PhP/kWh} &= \text{PhP} \div \text{kWh} \end{aligned}$$

### Indexation of O&M Fee

A. PhP-Based O&M <ul style="list-style-type: none"> <li>▪ Fixed</li> <li>▪ Variable</li> </ul>		Philippine Consumer Price Index (PH CPI)
B. USD-Based O&M <ul style="list-style-type: none"> <li>▪ Variable</li> </ul>		United States Consumer Price Index (US CPI)

## ➤ Fuel Recovery/Energy Fee

- Pass-through cost

### Formula:

$$\text{Fuel Fee} = \text{Fuel Cost} \times \text{Fuel Consumption Rate} \times \text{kWh Delivered}$$

- Subject to indexation and forex if applicable
- Affected significantly by fuel price volatility, which in turn affects electricity prices, given its pass-through treatment



**Thank you**