

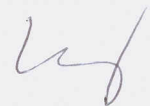
ERC issues the Feed-in Tariff Rules

The Energy Regulatory Commission (ERC) issued on 23 July 2010 the much-awaited Feed-in Tariff Rules, which it hopes will catalyze the development of the country's renewable energy resources and facilitate more investment into the energy sector.

The Feed-in Tariff (FIT) Rules establish the FIT system, which is one of the incentive mechanisms in the Renewable Energy Act of 2008 intended to accelerate the exploration and development of renewable energy resources. It offers guaranteed payments over a definite period of time to Renewable Energy (RE) developers utilizing emerging renewable energy resources such as wind, solar, run-of-river hydro, biomass, and ocean.

To comply with the legal requirement for the Feed-in Tariff system rules to provide for priority connection to the grid and priority purchase and transmission of these emerging renewable energy, the Rules mandate the transmission operator, the National Grid Corporation of the Philippines or NGCP, and the distribution utilities, in the case of Renewable Energy Plants embedded in their distribution systems, to connect and take in the energy generated and delivered by these plants.

Whenever there is renewable energy injected into their systems, NGCP or the utilities, in the case of the embedded plants, allocate the energy among all their customers or electricity end-users. In turn, all electricity end-users are obligated to pay a uniform Peso/kWh charge referred to as Feed-in Tariff Allowance or FIT-All. The FIT-All is collected from the electricity end-users and the proceeds of this charge go to a fund to be administered by NGCP from which the payments to the FIT-eligible RE Developers shall be taken. NGCP shall periodically file with the ERC for the setting of the FIT-All, which shall take into account, among others, the forecasted required revenues for the projected deliveries of the eligible RE plants, the applicable FITs, and NGCP's administration costs.



The payments to the RE Developers shall be based on their actual deliveries into the system and on the applicable FIT, which depends on the technology they are using. The process of establishing the FITs starts with the submission by the National Renewable Energy Board or NREB with the ERC of its proposed tariffs, which should be linked to the installation targets that will be set for each technology and the timeframe set to achieve these.

Aside from being technology-specific, the FITs may further be differentiated by the size of the plant and whether or not they are for peak or off-peak. The FITs shall have duration of 20 years. This means that the RE Developers shall enjoy the prevailing FIT applicable to them from the time they start commercially operating and for 20 years thereafter. The FITs are subject to adjustment to account for inflation of foreign currency exchange fluctuations. The FITs to be set shall also be subjected to degression to encourage the developers to invest at the initial stage and hasten deployment of renewable energy.

The FITs are subject to review and readjustment by the ERC in cases such as when the installation targets are already achieved or when they are not achieved within the period targeted, or when there are significant changes to the costs or when more accurate cost data become available. However, the readjusted tariffs that may be set by the ERC following this review shall apply only to the new RE Developers.

“With the FIT system embodied in the ERC’s FIT Rules, we hope to have a sound regulatory framework that is responsive to renewable energy market development. With this in place, we anticipate that Renewable Energy projects will become more bankable, as these projects’ future cash flows are not only made easily determinable, but also are fixed and assured. With the FITs, we hope to remove another barrier to the entry and development of Renewable Energy in the Philippines, without burdening the electricity consumers with an unreasonable rate imposition,” ERC Executive Director Francis Saturnino C. Juan expressed.

