

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC34937

Project Name	Access to Sustainable Energy Project (P153268)
Region	EAST ASIA AND PACIFIC
Country	Philippines
Sector(s)	Other Renewable Energy (80%), Transmission and Distribution of Electricity (20%)
Theme(s)	Rural services and infrastructure (50%), Infrastructure services for private sector development (50%)
Lending Instrument	Investment Project Financing
Project ID	P153268
Borrower(s)	Department of Energy
Implementing Agency	LGU Guarantee Corporation (LGUGC)
Environmental Category	F-Financial Intermediary Assessment
Date PID Prepared/ Updated	23-Dec-2015
Date PID Approved/ Disclosed	23-Dec-2015
Estimated Date of Appraisal Completion	23-Feb-2016
Estimated Date of Board Approval	31-Mar-2016
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

1. The Philippines is a middle income, archipelago nation in Southeast Asia with an aspirational population of 100-million and, of late, strong economic growth of over 6%. In recent years, growth has been driven by a recovery in net exports and government spending, and robust private consumption. Inflation and interest rates have trended lower and liquidity in the financial sector is robust. Political commitment and strong macroeconomic fundamentals provide a window of opportunity for investing in inclusive growth by accelerating the implementation of reforms that improve the business environment for firms of all sizes, and by boosting public investment in key infrastructure. Faster human capital accumulation will enhance productivity and drive growth in the medium term by enabling the country to shift gears towards higher value-added activities and more innovation. This must be complemented by adequate investment in infrastructure. The power sector,

where private capital dominates, is a particular focus as reliable and affordable electricity supply is a top concern of both businesses and households.

Sectoral and Institutional Context

2. In the energy sector, Government has prioritized policy goals of meeting electricity demand in a sustainable manner, achieving full electrification, and maintaining the large share of renewable energy generation in the power supply mix. There are big challenges in meeting all three objectives. The economy is growing rapidly and key growth drivers, such as business process outsourcing, are electricity-intensive. Investments are being made but generation reserves are tight. Only 83% of households are electrified, and most remaining unelectrified households are very poor, and/or very isolated. And while the Philippines currently has an enviable generation mix powered by hydro, gas, geothermal, and coal, most new power supply under development is to be fired by coal – which is least-cost for baseload generation and the least constrained in terms of available supply (though most coal-fired plants are being designed to burn imported coal).

3. The country is notable within the region for the high level of private participation in the sector and the sophistication of the market and regulatory apparatus. Since the landmark Electric Power Industry Restructuring Act (EPIRA) 2001, most state assets have been sold or concessioned, and the Wholesale Electricity Spot Market (WESM) has been established. There is a diversified group of local and foreign generation companies, 20 investor-owned distribution companies, and 120 rural electricity cooperatives (ECs). The transmission network covering Luzon, the Visayas, and Mindanao is operated as a long-term concession by a private consortium.

4. The Department of Energy (DOE) is the lead policy agency and provides overall coordination, but there are many specialist agencies playing critical roles. The Energy Regulatory Commission (ERC) is the economic regulator and has a huge task of regulating not only the 140 distribution companies, but also the hundreds of power purchase agreements that they collectively have with generators. It also regulates the National Grid Company of the Philippines (NGCP) which is the transmission concessionaire. The National Electrification Administration (NEA) is the government-owned apex agency responsible for oversight of the country's 120 ECs; NEA plays a significant role in managing key electrification programs. The Philippines Electricity Market Corporation (PEMC) operates the WESM and will also be the responsible agency for the Renewable Energy Market (REM) and the associated registry for renewable energy certificates (RECs). The Power Sector Assets and Liabilities Management (PSALM) Corporation is the holding company for the remaining government assets in the power sector, which include important hydro facilities in Mindanao and the National Power Corporation Small Power Utilities Group (NPC-SPUG) which is responsible for providing generation solutions in parts of the archipelago that are not connected to the national grid.

5. This institutional array is an important part of the context in which the proposed new trust fund is being prepared. Policy, regulatory, and operational responsibilities are highly disaggregated in the Philippines, with specialist agencies like ERC, NEA, and PEMC assigned very specific, and highly technical, tasks. The Philippines electricity market is very sophisticated, and management and regulation of it requires focused agencies that must continually upgrade their skills to keep pace with the private sector entities that they oversee and with trends in similarly advanced markets elsewhere.

Relationship to CAS

6. The proposed Project is linked to the Bank's Country Partnership Strategy (CPS) for the period FY15-18, supporting two pillars: (i) "Climate Change, Environment, Disaster Risk Management"; and (ii) "Rapid, Inclusive & Sustained Economic Growth". The project subsidy schemes and technical assistance will support the two pillars through: (i) increasing the country's renewable energy capacity through embedded generation, which will contribute to bringing on-line additional capacity and greening the overall energy mix; (ii) diversifying the generation portfolio, which will enhance energy security and strengthen the resilience of Philippines' power infrastructure; (iii) expanding rural electrification, which will ensure support to the less affluent segments of the population; and (iv) building the capacity of the entities within the DOE family, which contributes to building ownership of the sustainable development of the country's power infrastructure system.

7. The proposed Project is in line with the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity. Expanding rural electrification will benefit the poorer areas of the country. Moreover, the development of the energy sector has been key to enabling Philippines' economic growth, creating employment opportunities and increasing shared prosperity. Investments in energy, in particular sustainable power infrastructure, are critical to preventing interruptions in the provision of energy service and in the country economic development.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The overarching objective of the proposed trust fund (TF) is to assist the Philippines in increasing access to electricity in a sustainable manner. The TF will do this by 1) enhancing governance and regulatory effectiveness of key sector institutions through technical assistance (TA); and 2) facilitating the flow of additional private investment into rural electrification and renewable energy through technical assistance and output-based subsidies.

Key Results (From PCN)

The results framework is constructed upon the achievement of two main outcomes, namely: (i) enhanced governance in the electric cooperative sector; and (ii) increased access to reliable and sustainable electricity services. With respect to the former, monitoring indicators will include: (i) the number of ECs in the ECPCG program; (ii) ERC regulatory efficiency in terms of power sales agreement approvals, the backlog for which is expected to come down to zero while maintaining a 3-month approval processing time; and (iii) the implementation of NEA's Key Performance and Governance Standards (KPGS), with 75 ECs participating in the system.

Increased access to reliable and sustainable electricity services will be monitored through: (i) the number of solar home systems installed, which is expected to reach 30,000 units; and (ii) the grid-connected solar capacity installed, which is expected to reach 14MW. The result framework is indicative and for monitoring and evaluation purposes only. A USD 3 million grant from the Global Partnership on Output-Based Aid will help to fund a further 7,000 solar home systems and will be fully integrated with the photovoltaic (PV) Mainstreaming program supported by the EU funds.

III. Preliminary Description

Concept Description

The TF technical assistance (€-million) and targeted subsidy program (€20-million) complements the Government's ECPCG program, the expansion of which is supported by the Clean Technology

Fund-financed Philippines Renewable Energy Development (PHRED) project.

The TA package focuses primarily on NEA and ERC. Both have critical roles to play in the sector and are intimately involved in the DOE's ECPCG program, which provides guarantees to commercial banks to cover some of their risks of lending to ECs. It is designed to contribute to long-term capacity strengthening and to help the agencies make contributions to the short and medium term goals of DOE's access and renewable energy programs. The TA activities include: (i) Capacity Building of NEA's Office of Renewable Energy Development (ORED); (ii) EC Project Development and Management; (iii) Enhancing EC Service Delivery; (iv) Bangsamoro EC Capacity Building; (v) Implementing the Key Performance and Governance Standards (KPGS) System; (vi) Developing the Inter-Agency GIS RE4RE Planning Systems; (vii) ERC Technical Assistance; and (viii) a Pre-Paid Metering Study.

The proposed grant would also fund output-based subsidy components. First, the DOE's PV Mainstreaming program targets rural electricity service providers - Electric Cooperatives (ECs) and Qualified Third Parties (QTPs) - providing performance-based grants to accelerate electrification via solar home systems. Under this component, a partial subsidization of up to 35,000 systems is being targeted. GPOBA will partially fund an additional 7,000 systems with a grant of USD 3-million that will be executed through the same implementation mechanisms as ASEP. Second, support to small network solar power with output-based subsidies designed to bring their costs to the purchasing utility to equivalency with the least-cost alternative generation option. Under this component, a partial subsidization of 14 megawatts of installed capacity is being targeted.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10	x		
Involuntary Resettlement OP/BP 4.12	x		
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	35.39	Total Bank Financing:	0.00
Financing Gap:	0.00		
Financing Source		Amount	
Borrower		0.00	
Global Partnership on Output-based Aid		3.00	
Philippines - Free-standing Trust Fund Program		32.39	

Total	35.39
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