



GEF TF 052188

Progress Report 3rd Quarter, 2010



Department of
Energy



World Bank



Global Environment
Facility



Development Bank of
the Philippines

CONTENTS

1. Overview	2
1.1 Background and Executive Summary	2
1.2 Key Performance Indicators	3
2. Accomplishments	4
2.1. Rural Electrification Subprojects	
2.1.1 Decentralized Electrification	4
2.1.2 Grid-connected Projects and DBP's Lending Program	9
2.1.3 CO ₂ Emission Avoidance	11
2.2 Winding up the Partial Credit Guarantee Facility	12
2.3 Technical Assistance and Capacity Building	
2.3.1 Market Development Support Facility	12
2.3.2 Incubator Projects	14
3. Project Management – DOE-PMO	14
3.1 GEF Grant and Government Subsidy Administration	14
3.2 Financial Report	14
3.3 World Bank Implementation Review Mission	15
3.4 Current Issues and Risks	15
Annexes	
Annex 1: Summary of PV Installations Analyzed by Quarter	
Annex 2: HH Sales Analyzed by Location and Capacity	
Annex 3: HH Sales Analyzed by Company and Completed Verifications	
Annex 4: Public Facility Installations	
Annex 5: GEF Grant Disbursements by DOE	
Annex 6: Acronyms	

This Progress Report is submitted in compliance with the reporting obligations of the Republic of the Philippines through the Department of Energy (DOE) under Article IV, Section 4.02 of the GEF Grant Agreement and Section 3.02 of the Guarantee Agreement. The Report discusses the major accomplishments as well as issues and concerns of the Rural Power Project (RPP) during the third quarter (July to September) of 2010. Unless otherwise stated key performance indicators and statistics are cumulative positions as of 30 September 2010.

1. OVERVIEW

1.1 Background and Executive Summary

The Rural Power Project (RPP) with funding support from the World Bank, Global Environment Facility (GEF), and Philippines Department of Energy (DOE) aims to support the implementation of reforms and improve the quality of life in rural areas of the country through adequate, affordable and reliable energy services, in partnership with the private sector. The RPP promotes the use of sustainable and least-cost decentralized electrification solutions through public-private partnerships and investments.

RPP is implemented by two agencies, DOE through its Project Management Office (DOE-PMO) and the Project Management Office at the Development Bank of the Philippines (DBP-PMO). The Project became effective on 6 May 2004. Following an amendment to the GEF Grant Agreement in October 2009, the Closing Date of the Grant was extended from 31 December 2009 to 31 December 2011. This will allow more time for ongoing activities to be completed and for piloting new service delivery mechanisms that look promising and sustainable.

The third quarter under review (July – September 2010) continued to show steady growth in PV systems marketed by Participating Companies (PCs). The cumulative number of households (HH) electrified through solar PV increased from 9,600 to 10,995 HH, while the QTP project in Rio Tuba had provided about 1,318 new HH connections, thus bringing the total to 12,313 new HH connections. The cumulative number of PV systems installed in public facilities increased from 2,083 to 2,095 during the quarter, thus bringing the total number of new connections to 14,408 against an RPP target of 10,000.

As noted previously, the two remaining Mirant 1 and 2 – SOLARCO contracts under the first Sustainable Solar Market Packages (SSMP 1) project were terminated and a call on the securities was made on 27 April 2010. DOE-PMO continues to follow up with the surety company regarding the payment claimed. Meanwhile, following a discussion with World Bank, another procurement will be executed utilizing a part of the GEF grant to rehabilitate all non-functional SSMP 1 public facility PV installations and train end users before turning over these systems. Implementation of the SSMP 2 – KEPCO 136 and SSMP 3 – KEPCO 72 contracts, having a total of 14 market packages shared between two contractors, has shown better progress. All public facility installations in the 208 barangays were completed in 2Q 2010, and HH sales had reached 1,467 SHS by 30 September 2010.

Five Electric Cooperatives (ECs) targeting a total of 97 barangays under the initiative for solar PV electrification in Mindanao using RAES funding completed all public facility installations. HH sales through a ‘lease to own’ business model had reached 1,842 SHS by end of quarter, with the balance either under installation or awaiting submission of grant claims to DOE-PMO. Another two ECs had commenced installations under the same initiative, and results will be reported in the next quarter.

The outstanding guarantees of two MFIs availing of the LGF – Partial Credit Guarantee Facility were closed and the Revolving Fund maintained by the LGF Program Manager was liquidated during the quarter under review. The Escrow Accounts at BDO will next have to be closed during 1Q 2011. A response is awaited from UNDP Manila Office on the request for a transfer to DOE of the approximately US\$ 1.0 m being held in escrow.

Cumulative disbursements of the GEF grant by DOE-PMO and DBP-PMO increased to US\$ 5.11 m (utilization of 65% of DOE’s revised allocation) and US\$ 0.58 m (utilization of 53% of DBP’s revised allocation) respectively.

By 30 September 2010 DBP’s cumulative loan approvals remained at PhP 736 m under the US\$ 10 m RPP Adaptable Program Loan (APL 1), which was fully committed in 2009, plus another PhP 1,337 m under the US\$ 40 m RPP Additional Financing (AF). One large previously approved loan under AF was cancelled, while three more were awaiting approval. Cumulative loan disbursements by DBP reached PhP 781 m (100% and 14.5% under APL 1 and AF respectively).

1.2 Key Performance Indicators

The primary focus of DOE-PMO at present is to provide electricity to rural households through stand alone solar PV systems. These systems are sold by Participating Companies (PCs) and their products meet Project requirements, which include quality assurance through technical standards, warranty arrangements and after sales service. DBP-PMO continues to finance ECs and new renewable energy generation projects under the APL 1 - Additional Financing (AF) facility.

Table 1. Summary of Key Performance Indicators (cumulative)

Indicator	APL1 and AF targets	Status as of 30 September 2010
1. Loan disbursements by DBP	APL1: US\$ 10.0 m AF: US\$ 40.0 m Total: US\$ 50.0 m	APL1: US\$ 10.0 m (100%) AF: US\$ 5.80 m (14.5%) Total: US\$ 15.80 m (31.6%)
2. GEF grant disbursements	DOE: US\$ 7.9 m DBP: US\$ 1.1 m Total : US\$ 9.0 m	DOE: US\$ 5.11 m (65%) DBP: US\$ 0.58 m (53%) Total: US\$ 5.69 m (63%)
3. New customers in rural areas provided with mini-grid electrical connection or individual PV services	10,000	Mini-grid: 1,318 HH (approx.) Solar PV: SHS: 8,281 HH; 194.7 kWp Lanterns: 2,714 HH; 32.6 kWp Sub total: 10,995 HH; 227.2 kWp Public facility installations: 2,095 systems; 317.7 kWp Total new HH: 1,318 + 10,995 = 12,313 HH Total new connections: 12,313 + 2,095 = 14,408
4. New RET suppliers accredited by DOE and operating	4	Six active Participating Companies (150%)
5. New electrical mini-grid system established and operating	2	One¹ (50%)
6. Participating ECs achieve satisfactory financial performance, as indicated by an actual debt service coverage ratio of at least one (1.0 x)	85% of participating ECs	Ten out of the eleven ECs (91%) with loans from DBP have achieved satisfactory financial performance.
7. CO ₂ tons avoided per year	APL1: 20,000 tons AF: 20,000 tons Total: 40,000 tons	Mini hydros (DBP): 11,861 tons Solar PV (DOE): 3,786 tons Total: 15,647 tons
8. Policy commitments	(i) Issue QTP regulatory framework (ii) Issue DOE circular to rationalize PV subsidy	Both completed.

Statistics on PV installations reported herein are based on installations accepted by DOE-PMO in accordance with RPP requirements. The cumulative number of solar home systems (SHS) sold by PCs increased from 6,886 to 8,281 units during the quarter, bringing the total number of households

¹ PowerSource Philippines Inc, which is implementing the Rio Tuba diesel-biomass hybrid system, is the first QTP applicant. It was reported that the total connected customers on the system is 1,318 (although the exact number varies somewhat month to month depending on disconnections and reconnections). The installation of the biomass gasifier is awaited.

(HH) electrified through solar PV (comprising SHS and solar lanterns) to 10,995. RPP stopped supporting solar lanterns during 4Q 2009 and hence, none were processed by DOE-PMO during the quarter under review. In addition, the number of HH connected to the QTP mini grid project at Rio Tuba remained at around 1,318 HH, bringing the total number of HH connections to 12,313. The number of public facilities electrified by solar PV increased marginally from 2,083 to 2,095 during the quarter, with street lights accounting for about 53% followed by schools (17%), barangay halls (17%) and health centers (13%), as detailed in Annex 4. Taken together with HH, the total number of new connections reached 14,408 against a Project target of 10,000.

As reported earlier, the US\$ 10 m APL 1 line of credit extended to DBP has been fully utilized. DBP has an active pipeline of more projects that are being financed through the US\$ 40 m AF facility that became effective on 25 September 2009.

2. ACCOMPLISHMENTS

2.1 Rural Electrification Subprojects

2.1.1 Decentralized Electrification

(i) Solar PV: Contracts under Sustainable Solar Market Packages 1

All four contracts under Project ACCESS 1 using the Sustainable Solar Market Packages (SSMP) concept were won by Solar Electric Company (SOLARCO), a Participating Company accredited by RPP. The status of SSMP 1, a pilot project, is given in Table 2 below.

Table 2. Summary of SSMP 1 Contracts as of 30 September 2010

SSMP 1 contracts	No. of bgys.	No. of packages	No. of public facility installations				HH sales	
			Target	Total kWp	Reported installed	Accepted by DOE-PMO	Target	Accepted by DOE-PMO
Contract 1 (AMORE)	21	1	113	21.56	113	113	Closed	10
Contract 2 (ILPI)	2	1	12	2.46	12	12	Closed	0
Contract 3 (Mirant 1) *: Aklan 7 + Palawan 32 (22 + 10)	(40-1) 39	4	225	33.36	173	173	(Revised) 1,142	203
Contract 4 (Mirant 2) *: Palawan 13	13	2	86	13.44	86	86	(Revised) 330	29
Total	75	8	436	70.82	384	384	1,472	242

* Terminated on 27 April 2010 along with a notice of call on the performance and warranty securities. Details in Annex 6.

As reported previously, security provisions under Contract 1 (managed by AMORE/Winrock International) had lapsed, and the SSMP contractor, having completed the public facility installations, opted to renege on the HH sales requirements. AMORE/Winrock International brought the contract to a close and imposed liquidated damages.

As reported previously, under Contract 2 (managed by Illigan Light & Power, Inc.), the contractor sought exemption for HH sales under the *force majeure* provision of the contract citing peace and order concerns in the area. Illigan Light & Power, Inc. brought the contract to a close and released payment for the public facility installations while imposing liquidated damages due to the delay by the contractor in completing public facility installations.

Contracts 3 and 4 are managed by DOE through DOE-PMO after Mirant Philippines Foundation, Inc. (presently Team Energy Foundation, Inc.) turned over the contracts to DOE. Contract 3 (dated 18 December 2006) initially covered Masbate, Aklan and Northern Samar, but was later amended to cover 7 barangays in Aklan and 32 barangays in Palawan. Contract 3 had undergone four amendments, and the contractor failed to complete the final lot of public facility installations in ten barangays (Balabac, Palawan) by the 22 March 2010 deadline despite previous extensions and concessions. Contract 4 (dated 12 January 2007) had been amended twice.

As reported previously, it was clear that contractor did not have the capacity, competence or commitment to fulfill outstanding contractual obligations including basic maintenance, and on 27 April 2010 both contracts were terminated and a Notice of Call on the performance and warranty securities was served on the on the surety company. Details of the termination and Notice of Call were discussed at length in the 2Q 2010 Progress Report.

During the quarter under review DOE-PMO followed up with the surety company on the Call and provided whatever additional information requested by the surety company to validate the amount claimed. DOE-PMO also coordinated with DOE-Legal Services on the matter.

Following a discussion with the World Bank during the last September Implementation Review Mission, it was decided to initiate a new procurement to rehabilitate all non-functional SSMP 1 public facility PV installations and simultaneously conduct user training programs utilizing a part of the GEF grant. Action was initiated by the end of quarter to revise the Procurement Plan comprehensively and seek a reallocation of the GEF grant for this purpose.

(ii) Solar PV: SSMP 2 – KEPCO 136

Contracts for ten SSMP market packages comprising 136 barangays that were concluded during 2Q 2009 under Korea Electric Power Company/KEPCO Philippines Corporation-funding continued to be under implementation during the quarter under review. All public facility installations were completed and accepted by 2Q 2010 resulting in a total of 734 installations (106 kWp). HH sales accepted by DOE-PMO increased from 679 to 1,412 SHS. Details of public facility installations are given in Annex 4 and overall results are summarized below.

Table 3. SSMP 2 - KEPCO 136 Packages as of 30 September 2010

Lot	Province	No. of Bgys	Public Facilities			HH Sales	
			Status	No.	kWp	Target	Accepted by DOE-PMO
SSMP Contractor: Dumalag							
1	Cagayan	12	Completed	57	7.8	312	687
2	Eastern Samar	07	Completed	38	5.5	149	0
3	Guimaras-Iloilo	10	Completed	55	8.0	288	0
5	Isabela-Palanan	11	Completed	60	8.7	321	0
10	Western Samar	10	Completed	49	6.8	129	0
<i>Sub Total, Dumalag</i>		<i>50</i>		<i>259</i>	<i>36.8</i>	<i>1,199</i>	<i>687</i>
SSMP Contractor: Propmech							
4	Isabela	15	Completed	80	11.5	270	109
6	Kalinga-Apayao	21	Completed	120	17.7	485	151
7	Apayao 2	15	Completed	80	11.5	489	7
8	Nueva Vizcaya	20	Completed	112	16.4	420	406
9	Masbate	15	Completed	83	12.1	302	52
<i>Sub Total, Propmech</i>		<i>86</i>		<i>475</i>	<i>69.2</i>	<i>1,966</i>	<i>725</i>
Total		136		734	106.0	3,165	1,412

(iii) Solar PV: SSMP 3 – KEPCO 72

Contracting for four SSMP packages covering 72 barangays were concluded during 3Q 2009, and installations in all public facilities are now completed and accepted, resulting in a total of 384

installations (56.1 kWp). HH sales accepted by DOE-PMO amounted to 55 SHS with no changes in the quarter under review. Details of public facility installations are given in Annex 4 and overall results are summarized below.

Table 4. SSMP 3 - KEPCO 72 Packages as of 30 September 2010

Lot	Province	No. of Bgys	Public Facilities			HH Sales	
			Status	No.	kWp	Target	Accepted by DOE-PMO
SSMP Contractor: Dumalag							
1	Western Samar	24	Completed	132	19.2	720	0
2	Eastern Samar	22	Completed	124	18.2	660	0
<i>Sub Total, Dumalag</i>		46		256	37.4	1,380	0
SSMP Contractor: Propmech							
3	Northern Luzon	19	Completed (with 3 substitutions)	87	12.6	570	50
4	Masbate etc *	7	Completed	41	6.1	210	5
<i>Sub Total, Propmech</i>		26		128	18.7	780	55
Total		72		384	56.1	2,160	55

* Masbate, Pampanga, Quezon and Aklan

(iv) Solar PV: EC-RAES 1 Program in Mindanao

The Remote Area Electrification Subsidy (RAES) Program aims to support the country's goal of achieving 100% barangay electrification by 2009 and 90% HH electrification by 2017. This will be achieved through (i) decentralized energy systems such as stand alone solar PV systems, (ii) encouraging DOE – EC partnerships as a viable alternative to the business-as-usual approach of many distribution utilities, thereby ensuring greater outreach to un-electrified HH in a sustainable manner, and (iii) creating awareness on the potential of renewable energy technologies for electrification.

Installations of PV systems under the DOE-RAES initiative are handled and managed by ECs, with assistance from DOE and DOE-PMO. Five ECs from Mindanao are already participating in this program, with two more in the process of joining. In addition to public facility installations, a minimum of 20 HH per barangay are being electrified through SHS. HH sales are through a 'lease to own' business model, with repayments to ECs used to cover transaction costs and to set up a revolving fund to cover more HH later. Table 5 below shows the status of implementation.

Table 5. ECs Participating in the RAES Program as of 30 September 2010

Electric Cooperative	Acronym	No. of Bgys.	Public Facilities**			HH Sales
			Status	No.	kWp	
Agusan del Sur Electric Cooperative	ASELCO	13	Completed	77	11.5	260
Cotabato Electric Cooperative	COTELCO	2	Completed	12	1.8	0
Lanao del Norte Electric Cooperative	LANECO	60	Completed	360	54.0	1,201
Sultan Kudarat Electric Cooperative	SUKELCO	3	Completed	18	2.7	80
Zamboanga Sur II Electric Cooperative	ZAMSURECO II	19	Completed	114	17.1	301
Total		97		581	87.1	1,842

** Standard package comprising 1 barangay hall, 1 health center, 1 school and 3 street lights

(v) Solar PV: Pilot Testing the Fee-for-Service Model

Following the limited success of the 'dealer model', and with the SSMP approach yet to be fully implemented and proven, alternative approaches for HH electrification are being explored.

One such option is the fee-for-service business model, under which provision of solar PV electricity services using stand alone SHS becomes part of the normal business of the distribution utility (DU). A pilot project is being implemented targeting about 2,000 HH wherein the DU procures, installs and rents SHS to householders for a monthly fee, with the utility being responsible for repairs, maintenance and replacement of identified components. The consumer has lifetime use of the system, but never owns it. The PV system sizing (Wp) and monthly rental (fee-for-service) are structured to be equivalent to the level of service of grid supply based on the requirements of a particular consumer.

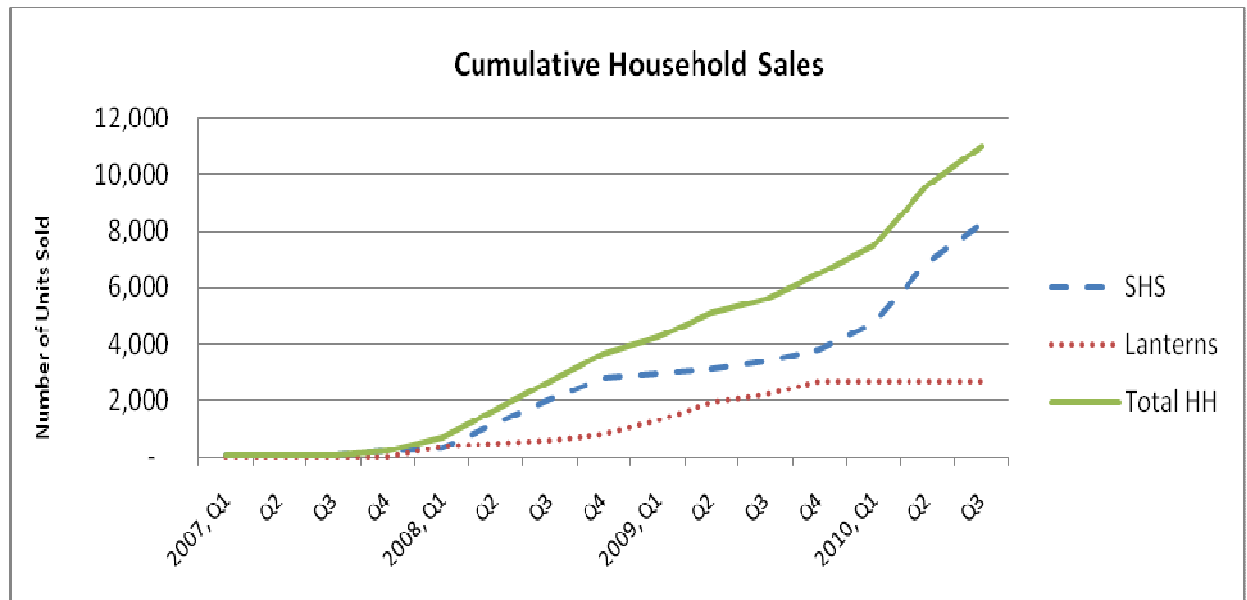
A part-time consultant has been engaged to assist in implementing the pilot project. By end of the quarter under review key documents/templates such as the MOA between the DU and DOE, information kit, model business plan and model operations manual had been completed, a shortlist of target DUs prepared and presentations made to five ECs with one passing a Board resolution to participate in the pilot project.

(vi) Solar PV Market Take-off

As summarized in Annex 1, cumulative HH sales of PV systems processed by DOE-PMO increased from 9,600 to 10,955 during the quarter. Annex 2 gives the cumulative number of SHS and lantern sales analyzed by Province, Municipality and Wp range. With RPP ceasing to support solar lanterns during 4Q 2009, the share of solar home systems increased to 75% of total sales by 30 September 2010, and solar lanterns accounted for the balance 25%. About 97% of HH systems (SHS and lanterns) accepted by DOE-PMO to date are small in capacity, in the 10-30 Wp range.

On a cumulative basis, regular sales (dealer model) have made the largest contribution, accounting for 2,535 SHS or 31% of total SHS sales. If lanterns are included, regular sales account for 5,214 units or 48% of total PV system sales to HH.

The sales trend, analyzed by quarter is shown below, and as predicted in the previous Progress Report, PV system sales to HH comfortably exceeded the 10,000 milestone during 3Q 2010.



Verification of HH installations continued as usual during the quarter. As shown in Annex 3, a cumulative total of 378 solar lanterns (13.9% of lantern sales) and 1,110 SHS (13.4% of SHS sales) have been subject to verifications. Effort is made to ensure that samples surveyed are representative, including adequacy of coverage in terms of geographic spread and vendor (PC) based on the volume of sales.

The cumulative number of installations in public facilities accepted by DOE-PMO increased marginally from 2,083 to 2,095. As summarized in Annex 1 and detailed in Annex 4, the number of public facility PV installations under SSMP 1, 2 and 3 amounted to 384, 734 and 384 respectively (no change from previous quarter as these are now complete), with another 581 installations under the EC-RAES program, and a further 12 installations done as regular business some years ago. A cumulative total of 352 barangay halls, 270 barangay health centers, 357 elementary schools, 5 high schools and 1,111 street lights had been accepted as complete by the end of the quarter, with street lights accounting for 53% of the total number of public facility PV installations.

(vii) Implementation of the Qualified Third Party (QTP) Program

PowerSource Philippines, Incorporated - Rio Tuba QTP Project in Bataraza, Palawan

After a year of thorough review and evaluation by the Energy Regulatory Commission (ERC), the ERC had finally issued a decision last 19 April 2010 granting PowerSource Philippines, Incorporated (PPI) Permanent Authority to Operate as Qualified Third Party (QTP) in Rio Tuba, Bataraza, Palawan subject to Full Cost Retail Rate (FCRR) of Php 24.49/kWh and the Subsidized and Approved Retail Rate (SARR) of Php 8.50/kWh, and has authorized PPI to collect from the Universal Charge – Missionary Electrification (UC-ME) the difference between the FCRR and the SARR. Moreover, it has directed PPI to refund any over-recoveries, and authorized PPI to collect any under-recoveries as case may be, incurred during the implementation of the QTP Service Contract and submit its project cost for biomass plant within three (3) months from commercial operations of the said plant.

PPI is now preparing their submission of subsidy claims to National Power Corporation (NPC), commencing the month of June 2010, for the release of their UC-ME subsidy following the above ERC decision. PPI has also worked closely with NPC-SPUG for the installation of the billing meter and accommodated a delegation from NPC Billing and Finance Group to conduct a project site inspection. As part of PPI obligation under the QTP Service Contract, it has started preparing the load growth projections and system growth for the next two years. DOE, for its part, has requested NPC to provide the necessary assistance to PPI to facilitate the payment of their UC-ME subsidy fee as duly approved by the ERC.

PPI Malapascua QTP Project in Bantayan, Cebu

PPI completed the installation of its Malapascua Community Energizer Platform Project during the second quarter of 2010, and is coordinating with NPC-SPUG for their QTP Service Contract and with CEBECO for their Waiver Agreement as well as other documentations needed for submission to DOE and eventual endorsement to ERC.

Given PPI experience with its Rio Tuba QTP project, PPI sees no problem with its Malapascua QTP application as well as its other prospective QTP sites like in Liminangcong and Port Barton, Northern Palawan. Meanwhile, PPI is inviting DOE, NPC, NEA and ERC for project validation and ocular inspection of the Malapascua QTP Project, tentatively scheduled for 4Q 2010.

Semirara QTP Project in Caluya, Antique

Semirara Mining Corporation (SMC) has already identified the consultants that will prepare the technical and financial proposal for its QTP project. It is expected that SMC can submit its QTP application to DOE by the end of this year.

PRES Project in Masbate

DOE has been closely monitoring the performance of PRES Project as this shall serve as another test case for private sector initiative to undertake Qualified Third Party (QTP) operation. NPC-SPUG has already installed 5,200 solar PV systems in 108 barangays and has completed the commercial operations of 154 mini-grid systems in 102 barangays with 12,183 household beneficiaries. NPC-SPUG is serving as the interim QTP operator for PRES Project at present.

DOE held several meetings with NPC, PAMATEC, NEDA and the Economic Attache from the French Embassy to discuss the concern of identifying a permanent QTP operator for the PRES Project consistent with Article 6 under the RP-France Financial Protocol that a private party shall be designated to operate the equipment of the above project. DOE also followed up through the

Department of Finance the proposed technical assistance of the French Government to assist in the identification of private operator for said project.

DOE, in close coordination with NPC, is presently working out the development of necessary contractual and/or commercial arrangements suitable for the PRES Project as well as timelines and action plan to ensure the target barangays under the PRES Project may be assured of least-cost electricity services that are sustainable.

2.1.2 Grid-connected Projects and DBP's Lending Program

(i) Adaptable Program Loan 1 (APL 1)

As noted in previous Reports, DBP had approved a total of PhP 736 million in subloans, which is well in excess of the US\$ 10 m World Bank loan available under APL 1, and had also achieved 100% disbursements by April 2009. The unreleased balance, as well as newly approved subloans, will be disbursed using funds available under the US\$ 40 m APL 1 Additional Financing (AF) facility that is now effective. Tables 6 and 7 below show the disbursements under the respective lines of credit.

Table 6. Status of Disbursements under APL 1 (US\$ 10.0 m)

Name of Account	Subproject	Subloans Approved (PhP m)	Amount Disbursed (PhP m)	Status
<i>Fully Disbursed</i>				
1. Bohol I Electric Cooperative (BOHECO I)	2.5 MW Sevilla mini hydro project	74.57	74.57	Operational.
BOHECO I – additional loan		125.00	125.00	
2. LGU Claveria, Masbate	Diesel generating set	13.84	13.84	Operational with 60 new HH connections.
3. Batanes Electric Cooperative (BATANELCO)	Rehab. of distribution facilities	10.00	9.82	Availment up to PhP9.82 m only; operational.
4. Samar Electric Cooperative (SAMELCO)	Upgrading of substation	18.50	16.53	Availment up to PhP16.53 m only; operational.
5. Rural Bank of Mabitac	Home improvement (solar)	1.00	0.52	Availment up to PhP0.52 m only; operational.
6. Peninsula Electric Cooperative (PENELCO)	Rehab./upgrading of distribution facilities	100.00	100.00	Fully disbursed and operational.
7. Palawan Power Corp. Inc. (PPCI)	Rehab. to Bunker C fuel power plant	39.28	39.28	Fully disbursed and operational.
<i>Disbursements On-going</i>				
8. Romblon Electric Cooperative (ROMELCO)	0.9 MW Cantingas mini hydro project	73.50	71.44	Unreleased balance to be disbursed under Additional Financing
9. Cebu I Electric Cooperative (CEBECO I)	Rehab./upgrading of distribution facilities	220.00	21.02	Unreleased balance to be disbursed under Additional Financing
10. Agusan del Sur Electric Coop. (ASELCO)	Construction of 69kV transmission lines	60.00	44.31	Unreleased balance to be disbursed under Additional Financing
Total		735.69	516.33	

(ii) Additional Financing

By 30 September 2010 a total of PhP 264.72 m (US\$ 5.803 m) had been disbursed from the US\$ 40 m RPP AF facility (14.5% of the total loan facility). The total approved loans decreased to PhP 1,337 m during the quarter under review as the PhP 710m loan for a hydropower project of Zamboanga del Sur Electric Cooperative Inc. was dropped as this project will be pursued by the local government. Table 7 below indicates the active subloans for financing.

Table 7. Pipeline of Subloans for financing under the US\$ 40 m Additional Financing

Name of Account	Type of Project	Amount Approved (PhP m)	Amount Disbursed (PhP m)	Remarks
<i>Fully Disbursed</i>				
1. Romblon Electric Coop. *	0.9 MW Cantingas mini hydro project	2.06	2.06	Project is operational
2. Negros Occidental Electric Coop.	Rehab./upgrading of distribution facilities	63.50	42.00	Availed of PhP 42 m only
3. Capiz Electric Coop., Inc.	Rehab./upgrading of distribution facilities	130.00	110.00	Availed of PhP 110 m only
<i>Disbursements On-going</i>				
4. Agusan del Sur Electric Coop. *	Construction of 69 kV transmission lines	15.69	14.40	Disbursement ongoing
5. Cebu I Electric Coop.*	Rehab./upgrading of distribution facilities	198.98	0	Under releasing stage
6. Oriental Mindoro Electric Coop.	4.2 MW mini hydro project	490.00	96.26	Under releasing stage
7. San Jose I Power Corp.	9.5 MW biomass project	400.00	0	Approved
8. Province of Kalinga	0.4 MW Bulanao mini hydro project	36.90	0	Approved
Total		1,337.13	264.72	
<i>For Loan Approval</i>				
9. ORMIN Power Inc.	6.4 MW Diesel power plant	308.00	0	Under evaluation
10. LGU Malita	1.5 MW Hydropower project	110.00	0	Under evaluation
11. Occidental Mindoro Electric Inc.	Rehab./upgrading of distribution facilities	80.00	0	Under evaluation
Total		498.00	0	

* The subloan amount represents the remaining balance for release under Additional Financing

(iii) GEF Grant Component of DBP-PMO

Both DOE and DBP access the US\$ 9.0 m WB-GEF Grant available under RPP. The amendment to the GEF Grant Agreement that became effective during 4Q 2009 inter alia increased amount allocated for DBP from US\$ 0.9 m to US\$ 1.1 m to enhance DBP's Project Preparation Fund (PPF). As of 30 September 2010 DBP had utilized US\$ 580,001 of the GEF grant, which is equivalent to a utilization of 53% on the enhanced allocation. Details are given in Table 8 below.

Table 8. GEF Grant Utilization by DBP (in US\$)

	Consultant's Service	Training, Workshops & Study Tours	Goods	Incremental Operating Cost	Project Preparation Fund	Total
Category	2 (a)	3 (a)	4 (a)	5 (a)	(6)	
Allocation	250,000	170,000	30,000	50,000	600,000	1,100,000
Utilized	201,840	150,018	25,786	36,168	166,189	580,001
Balance	48,160	19,982	4,214	13,832	433,811	519,999
Utilization	81%	88%	86%	72%	28%	53%

(iv) New and Renewable Energy (NRE) – Project Preparation Fund

To assist small-scale NRE developers address barriers in the development of subprojects, DBP increased the allocation for the Project Preparation Fund from US\$ 400,000 to US\$ 600,000 following an amendment to the GEF Grant Agreement during 4Q 2009.

The Project Preparation Fund provides financial assistance to NRE developers in the project preparation requisites to accelerate project development, and thus build up projects for RPP. The Fund finances activities such as preparation of subproject feasibility studies, detailed engineering studies, and the documentation and processing of permits, licenses and similar approvals from government authorities.

Table 9. Status of Disbursements from DBP's Project Preparation Fund

Name of Account	Project	Amount of Loan (PhP m)	Amount Disbursed (PhP m)	Status
<i>Approved Accounts</i>				
Oriental Mindoro Electric Coop.	4.2 MW mini hydro	2.0	2.0	Fully disbursed
LGU Malita, Davao del Sur	1.1 MW mini hydro	2.7	2.7	Fully disbursed
Zamboanga del Sur Electric Coop.	6.0 MW mini hydro	6.0	2.9	Disbursements ongoing
<i>Sub Total</i>		<i>10.7</i>	<i>7.6</i>	
<i>Under Negotiation</i>				
Turbine Resources Development Corp.	Mini hydro	3.0	0	Awaiting submission of documents
Tri-Conti Elements Inc.	Wind power	3.0	0	
<i>Sub total</i>		<i>6.0</i>	<i>0</i>	
Total		16.7	7.6	

2.1.3 CO₂ Emission Avoidance**(i) On-grid Mini Hydropower**

The 2.5 MW Sevilla mini hydropower plant of Bohol I Electric Cooperative, Inc. that became operational in November 2008 is in the process of registering for Clean Development Mechanism under a bundled projects scheme. Based on the Project Design Document the estimated emission reduction is 8,090 tons of CO₂ per annum. The computation is based on an emission factor of 0.56 tons of CO₂/MWh for the Luzon-Visayas grid and an average annual generation of 14,447 MWh.

However, actual energy generated during the 12-month period ending December 2009 amounted to only 8,991 MWh, which translates into an estimated CO₂ reduction of 5,035 tons/annum.

(ii) Off-grid Mini Hydropower

The 900 kW Cantingas River mini hydropower project became operational during 4Q 2009, but needs repairs in the weir structure. It is also in the process of registering for Clean Development Mechanism under a bundled projects scheme. Based on the Project Design Document, the estimated emission reduction is 3,771 tons of CO₂ per annum. The computation is based on an emission factor of 0.80 tons of CO₂/MWh and an average annual generation of 4,714 MWh. The high emission factor is because the project is in an off-grid area and the source of electricity is diesel power plants.

(iii) Off-grid Solar PV Systems

Assuming that the number of kerosene lamps displaced by solar lanterns, solar home systems and PV installations in public facilities are one, two and four lamps respectively, it is estimated that a total of 27,656 lamps would have been displaced by 30 September 2010. Further, assuming a kerosene consumption rate of 0.05 liters/h per lamp with 3 h/day usage, and a CO₂ emission factor of 2.5 kg/liter, it is estimated that 3,786 tons CO₂ per annum will be avoided by the off-grid PV systems.

(iv) Total

Accordingly, the total green house gas emissions avoided is estimated to be 15,647 tons CO₂ per annum based on commissioned projects and installations as of 30 September 2010.

2.2 Winding up the Partial Credit Guarantee Facility

The DOE-PMO presently manages the outstanding guarantees that were endorsed and turned over to DOE by LGU Guarantee Corporation (the then RPP LGF Program Manager) during 3Q 2009.

Only two MFIs had loans under guarantee. The outstanding loan balance of Paglaum MPC became zero during 2Q 2010, and as there were no further guarantee obligations, it was closed during 3Q 2010. On the other hand, the outstanding loan balance of Progressive Bank did not show significant decreases over the period managed by DOE-PMO, with no credit recovery reported during 1Q and 2Q 2010. Performance was far below the planned amortization submitted by LGU Guarantee Corporation (duly endorsed by Progressive Bank) to DOE when the outstanding guarantees were turned over. Further, Progressive Bank had failed to respond to DOE-PMO's query on the low collection performance and continued to remain silent on measures that should be adopted as required in the RPP-LGF Operations Manual. It had also failed to update the payment of its guarantee fee, though small in value. Given the said violations, DOE-PMO issued a notice dated 12 August 2010 informing Progressive Bank of the cancellation of the guarantee program. There has been no response from Progressive Bank to date, and hence all guarantee obligations of DOE under the Partial Credit Guarantee Facility may now be deemed to have ceased.

Likewise, an independent reconciliation of the Revolving Fund maintained by LGU Guarantee Corporation was carried out by DOE-PMO. Following some minor inter-account adjustments the Revolving Fund was closed and funds transferred to the Escrow Revenue Account which is under the control of DOE. The final payment of program management fees to LGU Guarantee Corporation was being processed when the quarter ended, and once paid there will be no further outstanding matters between DOE and LGU Guarantee Corporation in respect of the RPP – LGF Partial Credit Guarantee Facility.

The final steps would be to follow up with UNDP and obtain a decision on DOE's request for a transfer of the proceeds of the Escrow Accounts to DOE, and then closing the Escrow Accounts when the underlying ROP bonds mature during 1Q 2011.

2.3 Technical Assistance and Capacity Building

2.3.1 Market Development Support Facility (MDSF)

In keeping with the policy of winding up, no new MDSF MOAs were approved this quarter. The focus was on completing on going contracts and partial liquidations. Disbursements of the first tranche under the final two MOAs were withheld pending complete compliance by the beneficiaries

in respect of all other documentary requirements of RPP. Table 11 below shows the cumulative position of all MDSF contracts approved to date.

Table 11. Cumulative Position of MDSF Projects as of 30 September 2010

<i>Grantee</i>	<i>Period</i>	<i>Activity</i>	<i>Grant Approved (PhP)</i>	<i>Grant Disbursed (PhP)</i>	<i>Status</i>
1. SOLARCO #1	11 Feb 2005 to 30 Jun 2005	Market and field research	250,000.00	125,000.00	Contract closed; liquidation complete.
2. Shell Solar Phils.	6 Apr 2006 to 30 Jun 2006	Sales training and product launch support	500,000.00	500,000.00	Contract closed; liquidation complete.
3. GenDiesel Phils.	29 May 2006 to 28 May 2007	Training, promotion, market survey, business development	393,150.00	260,109.37	Contract closed; liquidation complete.
4. World Water Phils.	4 Jan 2006 to 31 Dec 2006	Market assessment; Marketing plan; Training of network personnel	500,000.00	244,271.87	Contract closed; liquidation complete.
5. People's Credit and Finance Corporation (PCFC)	3 Jul 2006 to 29 Dec 2006	Training for PCFC-accredited MFI partners on micro energy credit facility	500,000.00	285,570.00	Contract closed; liquidation complete.
6. SURE #1	03 Jan 2008 to 02 Jan 2009	Marketing and sales of solar lanterns	500,000.00	250,000.00	Contract closed; liquidation complete.
7. Del Genta #1	8 Jan 2009 to 7 Jan 2010	Marketing and sales in Central Mindanao	500,000.00	250,000.00	Contract closed; under liquidation.
8. SOLARCO #2	1 Apr 2009 to 31 Mar 2010	Marketing and sales in Palawan	500,000.00	250,000.00	Contract closed; failed to respond; demand letter sent.
9. SURE #2	6 Nov 2009 to 5 Nov 2010	Marketing and sales of SHS in previous lantern markets	500,000.00	250,000.00	Activities in progress; submitted partial liquidation.
10. Paglaum Multi Purpose Cooperative	6 Nov 2009 to 5 Nov 2010	Marketing and sales in North Western Mindanao	500,000.00	250,000.00	Activities in progress; submitted partial liquidation.
11. Propmech	14 Dec 2009 to 15 Dec 2010	Marketing and sales in SSMP 2 and 3 areas	500,000.00	250,000.00	Activities in progress.
12. Del Genta #2	04 Jun 2010 to 31 Mar 2011	Marketing activities in Panay Island (Visayas), North Western and Eastern Mindanao	500,000.00	Pending	Activities just commenced. Payment on hold pending liquidation of MDSF #1
13. Dumalag	09 Jun 2010 to 31 Mar 2011	Development of sales and service in Iloilo, Eastern Samar, Western Samar and Leyte.	500,000.00	250,000.00	Activities just commenced.

2.3.2 Incubator Projects

During the quarter under review one Incubator MOA was executed, which will be the last one under RPP. Like in the case of ongoing MDSF projects, no Incubator project will extend beyond 31 March 2011. DOE-PMO will closely follow up ongoing projects to ensure timely completion. Table 12 below shows the cumulative position of Incubator projects approved to date.

Table12. Cumulative Position of Incubator Projects as of 30 September 2010

<i>Grantee</i>	<i>Period</i>	<i>Activity</i>	<i>Grant Approved (PhP)</i>	<i>Grant Disbursed (PhP)</i>	<i>Status</i>
1. Del Genta and Solidarity for Community Devt. Coop.	25 Mar 2009 to 24 Mar 2010	Commercial sale of PV systems in Mindanao through Solidarity Coop.	500,000.00 each	Nil	Cancelled.
2. Del Genta and Central Mindanao BRECDA Federation	25 Mar 2009 to 24 Mar 2010	Commercial sale of PV systems in Mindanao through BRECDAs	500,000.00 each	500,000.00 each	Installations and verifications completed; final payment released.
3. SURE – Rural Bank of Mabitac Inc.	5 Nov 2009 to 4 Nov 2010	Sale of SHS in Polilio Islands	500,000.00 each	Nil	Cancelled.
4. GenDiesel Phils. and Paglaum MPC	24 Mar 2010 to 23 Mar 2011	Sale of SHS in North Western Mindanao	500,000.00 each	PhP 100,000 each	In progress.
5. Propmech and Central Mindanao BRECDA Federation	24 Mar 2010 to 23 Mar 2011	Sale of SHS in Sultan Kudarat, South Cotabato and Maguindanao	500,000.00 each	PhP 100,000 each	In progress. 125 units already sold, with claims pending processing.
6. SURE – CSDO-SC	06 Jul 2010 to 31 Mar 2011	Sale of 20 Wp SHS to CSDO-SC members in South Cotabato	500,000.00 each	PhP 100,000 each	In progress

3. PROJECT MANAGEMENT – DOE-PMO

3.1 GEF Grant and Government Subsidy Administration

DOE-PMO continued to monitor and resolve problems faced by PCs in submitting complete, error free claims for grant and subsidy payments. This included explaining/assisting PCs on: (i) technical standards for component accreditation; (ii) documentation requirements for grant and subsidy claims; (iii) principles regarding ‘double dipping’ and ‘dole outs’.

With the change of Government the procedures at the Department of Budget and Management (DBM) improved, and the persistent delays in disbursements experienced earlier were largely resolved. DOE-PMO welcomes this change, but continues to follow up pending payments.

3.2 Financial Report

As of 30 September 2010 the GEF grant disbursements amounted to US\$ 5.12 m (65% utilization) from the DOE-PMO’s revised allocation of US\$ 7.90 m. Details are given in Annex 5 and summarized in Table 13 below.

Table 13. Disbursement of GEF Grant by DOE as of 30 September 2010

Category No.	Category	Allocation US\$ '000	Disbursed US\$ '000	Utilization %
1	Sub Grant	1,650	847	51
2 (b)	Consultant Services	4,650	3,312	71
3 (b)	Training, Workshops & Study Tours	725	436	60
4 (b), 4 (c)	Goods	150	96	64
5 (b)	Incremental Operating Costs	675	415	62
7	Unallocated	50	0	0
<i>Total</i>		<i>7,900</i>	<i>5,106</i>	<i>65</i>

3.3 World Bank Implementation Review Mission

The World Bank met with DOE-PMO during their September 2010 Mission to discuss current operations and next steps as RPP begins to wind up. The key points discussed are summarized below.

- DOE-PMO will keep the World Bank informed regarding the resolution of the SSMP Mirant 1 & 2 contracts with SOLARCO that were terminated. A comprehensive review of the events leading to the termination that culminated in a Call on the securities is provided in the 2Q 2010 RPP Progress Report. In parallel, DOE will seek the Bank's "no objection" to utilize a part of the GEF grant to rehabilitate all SSMP 1 public facility PV installations that are non-functional and train end user beneficiaries prior to the turnover of the systems.
- DOE will utilize available technical assistance under RPP to update the Missionary Electrification Development Plan (MEDP). Given the 31 December 2011 closing date of the GEF grant, the procurement process will be structured to be fast and efficient.
- DOE-PMO will update the Procurement Plan and submit it for review by the World Bank. In tandem, the World Bank will conduct a procurement post review in October 2010.
- With the GEF grant closing 31 December 2011, a "winding-up plan" has been developed by DOE-PMO. Key milestones and timing were discussed and agreed upon. All business transactions with external stakeholders are targeted for completion by 30 June 2011. It was clarified that disbursements in respect of expenses incurred prior to closing date – typically the cost of operating the DOE-PMO – could continue up to four (4) months after the closing date provided prior approval was obtained.
- DOE has requested World Bank's assistance in undertaking a study on possible output-based approaches to expand solar home system installations in the country. The DOE and the Bank have identified the Global Partnership for Output-Based Aid (GPOBA) as a promising source of support for the proposed work, and GPOBA has signaled its interest in funding the study. A draft application and terms of reference was developed, and DOE submitted an official request letter for submission to GPOBA. If accepted, the contract will be administered by the World Bank, with the consultants working for DOE.

3.4 Current Issues and Risks

(i) Termination of SSMP Mirant 1 and 2 Contracts with SOLARCO

As discussed in section 2.1.1 (i) of this Progress Report, the SSMP Mirant 1 and 2 contracts with SOLARCO were terminated and a call on the securities was made in April 2010. Details are given in the RPP 2Q 2010 Progress Report. DOE-PMO is presently following up the matter with the surety company, including the provision of additional information as requested. As this may turn out to be a protracted negotiation, DOE-PMO will in parallel undertake a procurement to rehabilitate all non-functional public facility PV installations of SSMP 1 and ensure proper end user training before the systems are turned over.

(ii) Sustainability of PV Installations in Public Facilities

As noted in the previous Quarterly Progress Report, an equally important issue is the sustainability of the installations in public facilities once they are turned over to the beneficiary/LGU. A comprehensive plan has been prepared for implementation in 1Q 2011, which will culminate in conducting a series of workshops and training programs for clusters of end users before the PV systems are turned over.

(iii) DOE-EC Partnerships under the RAES Program

The issue of continued operation and maintenance of the public facility installations in a sustainable manner will be addressed as noted in paragraph 3.4 (ii) above. However, the robustness of the credit recovery mechanism (lease rental payments) for HH sales and the management of the revolving fund for subsequent roll outs remain to be tested.

(iv) Winding up the Partial Credit Guarantee Facility

DOE-PMO will work towards a complete wrap up of the guarantee program by 30 June 2011, which coincides with the Completion Date of the Grant Agreement (and six months ahead of the Closing Date). All outstanding guarantees have been closed and the Revolving Fund maintained by the LGF Program Manager has been liquidated. DOE-PMO will now work closely with UNDP for the requested transfer of the approx. US\$ 1.0 m Loan Guarantee Fund held in escrow.

(v) Continuity of grant and TA support after RPP

PV companies participating in RPP need a clear signal on the way forward once the subgrant and technical assistance currently available cease by June 2011. They need adequate lead time to plan their businesses activities, make investments and adjust accordingly. A concept note on the post-RPP sustainability of Participating Companies was prepared, and a Consultation Meeting/Workshop with Participating Companies was scheduled for 13 October 2010. An action plan will then be developed by DOE for implementation.

(vi) DOE Bureaucracy

As noted in previous Progress Reports, the centralized approval procedures and layers of bureaucracy at DOE continue to hinder day to day operations of RPP. While DOE-PMO does its best in following up, the set up does not meet stakeholder expectations, especially for a Project that is required to attract the private sector and foster public private partnerships. However, with recent changes in the DOE Administration, there has been greater delegation of authority, leading to a significant improvement in document turnaround times.

29 October 2010