

# PRESIDENT GLORIA MACAPAGAL-ARROYO



## 10-POINT PLAN TO REDUCE ELECTRICITY RATES

# Electricity Sector Reform

*Electric Power Industry Reform Act (June 2001)*

## Provides for the:

- **Creation of National Transmission Company (“TRANSCO”)**
- **Creation of Power Sector Asset and Liabilities Management Corporation (“PSALM”)**
- **Creation of new Energy Regulatory Commission (“ERC”)**
- **Creation of Wholesale Electricity Spot Market (“WESM”)**
- **Privatization of the National Power Corporation (“NPC”)**
- **Open Access subject to Pre-Conditions**

# What We Have Done So Far

## *Electric Power Industry Reform Act (June 2001)*

- **Implementing Rules and Regulations (“IRR”) approved by the Joint Congressional Power Commission (“JCPC”) on 27 February 2002**
- **Promulgation of Distribution Code in Dec. 2001**
- **Promulgation of Grid Code in Dec. 2001**
- **Promulgation of WESM Rules by today**
- **Unbundling of Rates on 26 June 2002**

# 10 Ways to Reduce Electricity Rates

1. **Reflect the true cost of service in the rates**
2. **Introduce price incentives to stimulate demand**
3. **Optimize the utilization of generation capacity to minimize cost**
4. **Establish competitive wholesale generation market**
5. **Accelerate open access to give end-users the power of choice**

# 10 Ways to Reduce Electricity Rates

6. **Require efficient performance of DUs**
7. **Strengthen the electric cooperatives**
8. **Seek to reduce IPP contract costs**
9. **Explore financial engineering to reduce stranded costs**
10. **Enhance ERC's capability to promote consumer welfare**

# Reflect the true cost of service

**Billing statements should be transparent**



- Tariffs should be unbundled

# Introduce “Declining Block” Rate Structure



- **For large end-users, price per kWh declines as consumption increases**
  - To stimulate economic activity & electricity demand
  - To increase utilization of excess generation capacity, hence reducing stranded contract cost
  - To help distressed industries
- **NPC to implement in partnership with DUs to jointly serve end-users**
- **NPC to pursue direct power connection**

# Optimize Utilization Mix of NPC Power Plants



- **Utilization mix to seek least blended costs**
- **Independent systems review of Luzon Grid by the Operations Research Society of the Phils.**
- **Redeploy power barges & relocate land-based generation plants from Luzon**
- **Maintain sensible reserve capacity**
- **Alleviate transmission constraints**



# Accelerate Operation of WESM



- **Transparent economical dispatch of generating facilities**
- **Horizontal unbundling of NPC generation assets into individual Gencos to decentralize dispatch & pricing discretion**
- **Immediately appoint an independent “IPP Administrator” for each IPP Genco Plant**
- **Expedite procurement of required WESM software & hardware**
- **Target Interim WESM launch before end-2002**

# Accelerate Implementation of Open Access

- End-users with at least 1MW ave. monthly consumption may choose their electricity source
- Target introduction by December 2003
- Preserve direct power connection
- Preconditions:
  - Unbundle distribution rates
  - Operate Interim WESM
  - Remove cross-subsidies



# Promote Efficient Performance of Distribution Utilities

- Encourage shift from “cost plus” mentality to a “cost efficient” regime
- Encourage transparent & competitive procurement
- Accelerate transition from RORB to a performance-based methodology by Dec. 2003
- Undertake comparative efficiency ratings of DUs
- Promote competitive bidding for long-term power supply contracts
- Ensure compliance with Distribution Code

# Strengthen & Consolidate ECs

- **Promote the Consolidation of smaller sub-performing ECs (e.g., Bicol Region)**
- **Adopt a Big Brother-Small Brother Arrangement among ECs (e.g., Lanao)**
- **Encourage Investment Management Contracts (IMCs) for suitable ECs by private operators & well-run ECs (e.g., Aklan)**

# Review IPP Contracts & Seek to Reduce Contract Costs

- **Use appropriate benchmarks based on legal, financial, operating & technical standards**
- **Seek to reduce stranded contract costs through:**
  - **Realignment of fixed and variable costs**
  - **Reduction of minimum energy off-take**
  - **Non-renewal of soon-to-expire contracts**

# Explore Financial Engineering Methods

- **Refinancing of stranded costs over longer periods**
- **Prepaid stored fuel/energy bankable for a certain period pending future use**
- **“Regulatory asset” treatment of excess purchased fuel/energy to be included into the rate base**



# Enhance Institutional Capability of ERC

- **Promote greater market competition through transparency of rules & strict enforcement of law on anti-competition policies**
- **Penalize abuse of market power**
- **Set rules to protect end-users from undue electricity charges**
- **Protect consumers from excessive PPA charges from privately-negotiated bilateral contracts**

# Summary

- **New rules & policies for stakeholders**
- **Optimized utilization of resources**
- **Promotion of competitive market**
- **Open Access to give users power of choice**
- **Efficient & cost-effective DUs & ECs**
- **Strong, decisive, independent regulator to protect consumers**



# Conclusion

- By July, the Philippines will drop to 6<sup>th</sup> place in electricity cost in Asia (US cents/kWh)

	Resd'l.	Comm'l.	Indus'l.
Japan	13.05	13.05	13.05
Singapore	11.70	7.82	7.42
Cambodia	10.86	16.24	16.24
Hongkong	10.48	12.48	14.07
Brunei	10.30	7.66	7.66
<b>Philippines</b>	<b>9.12</b>	<b>9.33</b>	<b>8.09</b>
Korea	8.29	8.29	8.29
Myanmar	7.73	7.73	7.73
Malaysia	6.42	5.90	4.41
Vietnam	4.57	6.19	2.44
China	4.50	7.40	6.30
Thailand	3.55	2.40	2.38
Indonesia	3.92	4.07	2.36
Laos	0.71	1.17	0.79

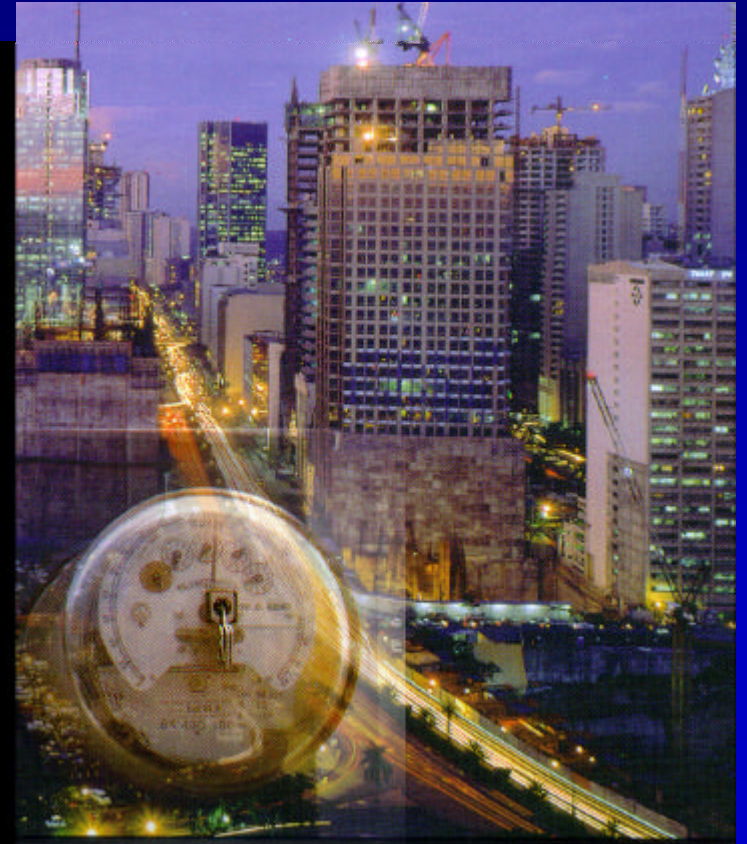
# Conclusion

- **Arroyo Administration inherited this PPA**
- **Finger pointing not productive**
- **Mandated reduction of NPC's PPCA meant to give immediate relief to consumers by July**



**FINALLY . . .**

**We have the solutions,  
and you have the  
resources, let us work  
together to lessen the  
burden to our  
consumers**



***THANK YOU!***