III

Lowering Power Rates for Industry Competitiveness and Consumer Welfare

1. OVERVIEW

Largely because of the contribution of natural gas supplies from Malampaya (now accounting for one-third of the total fuel used for electric power generation), the Philippine power sector has already reduced its usage of imported oil for generating electric power to less than 10 percent in 2007 (from 21 percent in 2001). As a consequence, the current rise in oil price level has not yet produced a perceptible increase in electricity rates. Regardless, it was pointed out that the Philippines has today the highest power rates in the region, leading certain sectors (high power users) of industry to clamor loudly for a reduction in electricity rates to improve their ability to be globally competitive. It was also pointed out that it is not the international price of imported oil and coal that is the problem since other countries that import these share those same costs but, rather, it is the peculiar inefficiencies of the Philippines in both purchasing these inputs and transforming these into electric power that lead to higher actual and relative electricity prices for both industry and the consumers.

The Electric Power Industry Reform Act of 2001 (EPIRA) sought, mainly, to introduce competition and reduce the monopolistic control (by government-owned NPC and certain private distribution utilities) that spawns inefficiencies, breeds corruption, and leads to high electricity prices. Over six years after its enactment, some specific objectives have been achieved, like the unbundling of rates (to show separate generation, transmission, distribution, and other charges), the removal of cross subsidies (to reflect the true cost of providing service), the commercial operation of the Wholesale Electricity Spot Market (WESM) in Luzon and soon in the Visayas, the privatization of about 43 percent of NPC-owned power plants, and the recent bidding out to private entities of the huge transmission monopoly TransCo. (It should be mentioned that questions have been publicly raised concerning the TransCo privatization) Notwithstanding, it is conceded that a great deal more still needs to be done before real competition actually exists in the electric power industry and brings about the elimination of the inefficiencies and corruption that contribute significantly to the high level of electricity rates.

To finally eliminate monopoly power, minimize corruption, and spur investments to improve operating efficiencies and increase capacity, among the principal actions recommended are the acceleration of the already long-delayed and overly protracted privatization of the NPC assets and the immediate transferring of the IPP contracts now under PSALM to independent IPP Administrators. The immediate implementation of open access and retail competition is considered essential to put competitive pressure on power companies to increase efficiency and lower electricity rates. Significantly, while many have conceded the need to revisit and amend the EPIRA law to correct perceived defects (particularly the provisions on cross-ownership), the same parties have expressed fears that the proposed amendment process itself may in fact be a political ploy to only delay open access and hold back competition to favor certain entities. Further, some industry representatives warned, for example, that a lowering of the threshold for NPC privatization will only produce severe negative reactions among foreign and local investors (both existing and prospective) in the power sector.

In any event, also recommended are the improvement of systems (like area management) to reduce inefficiencies and losses in the generation and distribution of electric power, the introduction of policies and stronger incentives to promote efficient electricity use and reduced consumption (e.g., to encourage consumers to convert all their incandescent bulbs to compact fluorescent lighting), the promulgation of directives to hasten the widespread adoption of time-of-use pricing, and an information and educational campaign to communicate these initiatives to the public and elicit not only their cooperation but also their assistance in monitoring power company abuses and regulatory lapses.

2. VIEWS EXPRESSED

2.1 During the Plenary Sessions

Mr. Thomas Crouch, Deputy Director General of the **Asian Development Bank (ADB)** noted that, the Philippines has succeeded in raising its electrification level from 55% in 1986 to 94% in 2006 of all barangays nationwide and from less than 50% in 1986 to 75% in 2006 of all households. He then suggested that, actions in the Power Sector include the establishment of an independent energy regulator, a faster pace in privatizing government-owned power generation facilities, and full operation of the Wholesale Electricity Spot Market (WESM) nationwide. Mr. Crouch emphasized that, the main challenges to the Philippines consisted of making electricity rates more affordable and averting power shortages beyond 2012.

Mr. Sohail Hasnie, Senior Energy Specialist of the **Asian Development Bank (ADB)** added that, the demand for electricity for lighting purposes can be reduced by 40% through the use of more energy efficient lighting devices. He said that, changing all incandescent lamps now in use with compact fluorescent lamps (CFL) will enable the deferment of 1,200 MW of new power generation capacity, save 670 million liters of fuel each year, and reduce CO_2 emissions by about five million tons every year.

Mr. Sergio R. Ortiz-Luis, Jr., President of the **Philippine Exporters' Confederation, Inc.** stressed that, the business and industry sector was being weighed down by a triple whammy of high electricity rates, high oil prices, and a strengthening peso. As a result, he said, Philippine exports declined by two per cent in November 2007 as compared to the same month in 2006. He pointed out that, electric power is a large part of manufacturing costs, making up an average of 15 percent of the total production cost of export enterprises. Across industries, this ranged from eight percent to 35 percent. Mr. Ortiz-Luis then suggested that, the most urgent task for government was to expedite the implementation of 'Open Access' to increase competition in the power sector and allow industrial consumers the freedom and option to choose their electricity supplier. He said that, intensifying industry competition is the only way we can succeed in lowering prices and obtaining better service. He also said that, there is need to address the issues of electric power quality and security and of developing and tapping alternative or renewable energy sources.

Dr. René B. Azurin, Professor of **College of Business Administration** of the **University of the Philippines** pointed out that, eliminating value-added-taxes on electricity (and tariffs on oil products) is effectively a disincentive to energy conservation initiatives. He said that, removing or reducing these taxes in effect rewards those who consume more energy by not penalizing them for wasteful consumption. Lower taxes diminish the incentive for consuming less energy. Further, Dr. Azurin said, taxes on electricity (and tariffs on oil) raise the price of electricity produced with fossil fuels and, accordingly, improves the investment attractiveness of the alternative energy sources that are being promoted because they are less polluting. It should also be borne in mind, he said that, lowering taxes on electricity help most those who consume the most electricity (those with the most air conditioners and other appliances) and not the really poor who use very little in the way of electric power. It is far more logical, Dr. Azurin said, to retain taxes on electricity (and tariffs on oil products) because, by encouraging energy conservation, these provide the right incentives for behavior that we want to encourage. On the other hand, he said, eliminating these taxes (and tariffs) or providing subsidies of any kind for electricity derived from oil introduce the wrong incentives and encourage the wrong kind of behavior. In lieu of this —if the object is to help the really poor—he said it is better to maintain the revenue from taxes on oil-derived products and just provide the really needy sectors with direct assistance in the form of food and essential medicines.

Mr. Edgar O. Chua, **Country Chairman** of **Pilipinas Shell Petroleum Corporation** spelled out the need for specific actions that will protect the poor consumer from high power costs, such as improving generation, transmission, and distribution efficiencies of electric power producing and distributing companies.

Mr. Raul T. Concepcion, **Chairman** of **Consumer and Oil Price Watch** stressed that, MERALCO residential customers enjoy a lifeline rate subsidy for those consumers of up to a maximum of 100 kWh per month, which is paid for by residential, commercial, and industrial users consuming more than 100 kWh per month. He proposed to increase the lifeline rate subsidy from 100 kWh to 150 kWh per month, which means that an additional 620,741 residential consumers will benefit from the subsidized rate. Based on his calculations, he said that, this meant an additional subsidized amount equivalent to—computed at P8.19 per kWh—P736,083,072 per month, or P8.832 billion per year.

Mr. Meneleo J. Carlos, Jr., Chairman of the **Federation of Philippine Industries** raised the concern that pricing in the Wholesale Electricity Spot Market (WESM) is very sensitive to the dispatch of fuel oil-based power and that there is a need to implement 'Open Access' as soon as possible so that industry can source from the lowest cost power suppliers and avoid fuel oil-based power. He further went on to say that, power plant operators should consider the retrofitting of their thermal plants to coal. Mr. Carlos also mentioned that, power from fuel oil costs much higher than gas, coal, or geothermal energy and suggested that, island grids and economic zones served by fuel oil-driven power plants can be cost competitive by avoiding/minimizing transmission and distribution costs which account for 20% of the power bill.

Mr. Jose S. Alejandro, Vice President of **Utilities and Energy** recommended that, the government should provide a "comfort level" in the privatization of the power generation plants and develop longer and better Transition Supply Contracts.

Mr. Ferdinand R. Gaite, **President** of the advocacy group, **Confederation for Unity, Recognition and Advancement of Government Employees** (**COURAGE)** proposed a solution in the medium- and long-term, the repeal of the Electric Power Industry Reform Act (EPIRA) and the Oil Deregulation Law and the nationalization of the oil and energy industry with the end in view, he said, of developing a self-sufficient, sustainable, renewable, and indigenous energy sector.

2.2 Summit Day 2

Congressman Juan Miguel M. Arroyo, Chairman of the **Committee on Energy** of the **House of Representatives** noted, the challenges faced by the Philippine energy sector which are driven by the surge in world oil prices. He stressed the need for a common and sustainable program for energy development of indigenous sources and the imperative of creating a competitive environment for the power market. He committed to push for the amendment of a number of provisions in the EPIRA to expedite the implementation of an 'Open Access' policy in the power sector. He asserted that, he is keenly interested in the privatization of Independent Power Producer (IPP) contracts and National Power Corporation (NPC) generation assets.

Ms. Catherine P. Maceda, **Deputy Managing Director** of **EON, Inc**., recommended some measures that will promote renewable energy. These consist of providing both non-fiscal and fiscal incentives in the Renewable Energy Bill. For Non-Fiscal Incentives, she suggested adopting the "Green Energy option" to accelerate 'Open Access' and the "Net Metering arrangement" that allows distribution grid users who produce surplus renewable energy power to contribute the same to the grid and be appropriately credited. For Fiscal Incentives, she suggested the exemption of renewable energy-sourced electricity from the 'Universal Charge' specified in the EPIRA.

Dr. Nandita Mongia, **Regional Coordinator** and **Team Leader for the Regional Energy Program for Poverty Reduction in Asia and the Pacific** of the **UNDP Regional Center** in **Bangkok**, offered strategic recommendations for increasing investment in renewable energy technologies (RETs). These were:

1) expanding access of the poor to off-grid RETs through community-based mini-grid systems, and

2) a "commercialization plus" approach for household technologies like biogas and solar PV as well as feeding in renewable energy-sourced electricity into the grid.

Dr. Mongia also recommended setting up national targets and timetables for renewables and putting in place such measures as Renewable Portfolio Standards, feed-in tariffs, net metering, interconnection agreements, and standardized power purchase agreements. She also emphasized the need to enact laws for sharing royalties from hydropower and wind power generation plants with local residents for benefit of those rural communities and to require green IPPs to distribute a portion of the power generated for rural electrification. As part of the fiscal and financial Incentives, she suggested providing direct investment subsidies, production tax credits, and income tax holidays for green IPPs, and reducing import duties and value-added taxes (VAT) on equipment for green IPPs.

Dr. Mongia also recommended efforts to empower the public through information and public awareness programs and to offer technical support and training to policy makers, utility officials, and prospective investors. She also suggested, piloting benefit sharing arrangements with local suppliers of necessary inputs (e.g., rice husk).

Mr. Marlon M. Centeno, **Vice President** of **Northwind Power Corporation**, described the Bangui Bay Wind Energy Project in Ilocos Norte. He explained the economic benefits as well as the barriers to the project's full development. Among the economic benefits provided by the project, Mr. Centeno mentioned that, the electricity consumers of Ilocos Norte Electric Cooperative, Inc. (INEC) derive savings from their electricity bill based on a five per cent discount from the "effective cost of delivered electricity" as computed with reference to the cost of the electricity generated by NPC and the cost of TransCo in delivering the electricity to the INEC area. Since NorthWind owns the 69kV transmission line from the wind farm in Bangui to the TransCo Laoag Substation, the power derived from the wind farm is not levied TransCo wheeling charges (transmission expenses) thereby reducing the electricity cost of INEC. However, Mr. Centeno cited the power plant's inability to deliver competitive power to WESM as a market and financial barrier.

2.3 Summit Day 3

Senator Miriam Defensor-Santiago, **Chairperson** of the **Senate Committee on Energy** pointed out that, the world is entering a phase of "energy poverty" brought about by the high prices of fossil fuels, increasing concern for energy security, and technological innovations. She hinted at some policies that she would want to work on. For the power sector, she mentioned that, nuclear power can be considered as the best option for carbon-neutral energy. Obviously, however, certain risks such as environmental pollution and safety concerns will have to be addressed. The primary motivation for considering nuclear power would be energy security and the diversification of energy sources. She went on to say that the Senate might be interested in adopting the following policies:

1) subsidizing capital costs for rural grid electrification and developing off-grid solutions for providing energy services;

2) targeting subsidies to access, not consumption; and

3) providing supportive regulatory policies for meeting the need for energy services other than for cooking, particularly in order to make financially sustainable the expansion of access to electricity by poor households.

Dr. Hiroaki Nagayama, **Consultant** on **Energy Science** of **Japan International Cooperation Agency** (**JICA**), repeated what other presenters/ speakers had emphasized, i.e., electricity prices in the Philippines are the highest in Asia. Thus, he strongly suggested that Demand Side Management (DSM) measures, which have been implemented in public utilities in Indonesia, Thailand, and Vietnam, should be instituted.

Dr. Yongping Zhai, **Principal Energy Specialist**, **Southeast Asia Infrastructure Division** of the **Asian Development Bank (ADB)** emphasized that, the Philippines' challenge lies in making electricity rates more affordable and in averting a possible power shortage after 2012.

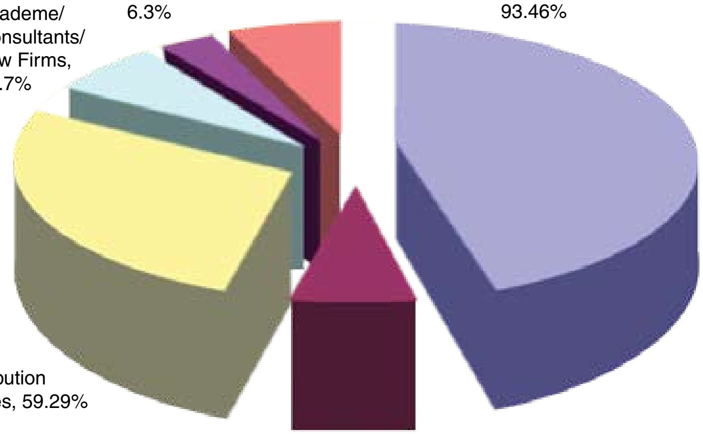
Ms. Tetchi Cruz-Capellan, **Chief of Party** of **AMORE-Winrock International** said that, the passage of the Renewable Energy Bill will accelerate rural electrification in poor communities. She proposed building multiple platforms for public-private cooperation so as to accelerate implementation of rural electrification.

Senator Juan Ponce Enrile of the **Philippine Senate** stressed that, inefficiencies in the system bring about high system losses mostly in the rural areas so that the Philippines has the highest cost of electricity in the whole of Asia. He maintained that, amending the EPIRA Law to accelerate implementation of 'Open Access' and give the customers the freedom to choose electricity suppliers would be the best course of action at this time.

2.4 During the Summit Workshop

The general objective of the Summit Workshop was to generate, share, evaluate, and integrate multi-stakeholder ideas, information, and insights on "**Lowering Power Rates for Industry Competitiveness and Consumer Welfare**" into the Philippine energy program of action. There were some 200 registered participants wherein 46 percent came from government institutions, 8 percent from the power generation companies, 29 percent from the distribution utilities, 7 percent from the academe, 3 percent from financial institutions, and 7 percent from consumers/ consumer groups. The presence of Department of Finance **Undersecretary Jeremias N. Paul, Jr.** was important, because significant issues on taxes, tariffs, and subsidies were raised.

Sector	Number of
Government Institutions	93
Generation Companies/ Resource Developer	15
Distribution Utilities	59
Academe/Consultant/ Law Firms	13
Financial Institutions	6
Consumer/Consumer Groups	14
TOTAL	200



HIGHLIGHTS OF THE WORKSHOP

Presentation of the Resource Speaker
Dr. Fernando Y. Roxas, Professor of **Asian Institute of Management (AIM):**

The topic of Dr. Roxas' presentation was **"Do We Need to Amend the EPIRA Law to Lower Power Rates?"**

Dr. Roxas first asserted that it does not make sense to presume that NPC still has dominance in the market today. NPC, he said, no longer has the majority of the country's power generation capacity and its capacity is currently less than the capacity for the private sector, i.e., 30%.

Dr. Roxas proposed that the Administration of NPC contracts with Independent Power Producers (IPPs) must be revisited. Dr. Roxas characterized the Philippine condition as unique with respect to IPPs. Firstly, he said that, the Philippine power sector is composed of fragmented markets, grids, and sub-sectors. Secondly, he pointed out that, large amounts of generating capacity are under take-or-pay provisions. Lastly, he said that, a high level of historical costs (stranded costs and debt payments) are being recovered from end-users.

Dr. Roxas proposed a more transparent administration of these NPC IPPs because this will, in the end, minimize the market power of this government entity. He emphasized, however, that this need not be a precondition for 'Open Access'.

Highlights of the reactions of the discussants:

Mr. Arthur John Young, Jr., Chairman of the **Semiconductor and Electronics Industries in the Philippines (SEIPI),** introduced SEIPI as the largest semiconductor and electronics industry group in the Philippines. He centered his comments on the fact that the Philippines currently has the highest power rates in the ASEAN region. As a consequence of this, he said, as much as 7%-15% of the cost of manufacturing of the firms in their industry group can be attributed to electricity costs. In that connection, Mr. Young presented the stance of SEIPI on a number of the proposed amendments to the EPIRA law. He said that, SEIPI supports the acceleration of Retail Open Access. However, he expressed reservations about a proposed EPIRA amendment that would lower the specified privatization threshold of NPC (currently, 70%) that will trigger Open Access. He said that, lowering this threshold might send a negative signal to the private sector and cause prospective foreign investors to put off their investment plans or hesitate. He said that, SEIPI also proposes that government earnings from natural gas royalties (e.g., Malampaya) be used to subsidize the power rates of industrial customers.

Atty. Francis Saturnino C. Juan, Executive Director of the **Energy Regulatory Commission (ERC)** said that, ERC is open to various tariff structures as long as ERC is convinced that it would lower power rates. As a case in point, he pointed to the time-of-use (TOU) charges of NPC. On the application for special rates, he said that, ERC assures everyone that it will expedite resolution of such petitions or cases. He said that, the discretion by the regulated entities to grant these special rates to its customers shall generally be allowed as long as the same preferential arrangement or rate will be extended to customers/industries. He noted that, the lowering of costs is necessary to lower rates. That being the case, he said that, performance-based regulation has been instituted for distribution utilities and the transmission sector.

As for the matter of Retail Open Access, Atty. Juan said that, the ERC shall welcome this. He also informed everyone that, ERC has already prepared and promulgated guidelines that will ensure the smooth operation of Open Access. On the matter of electricity rates in PEZA zones, he emphasized that changing the regulating entity does not necessarily mean the lowering of power rates. Finally, Atty. Juan commented on the implementation of Section 45 (c) of the EPIRA law saying that, of the three indicators of market power (ownership, operation, and control), the determination of control is often used by them to determine abuse.

Mr. Jesus P. Francisco, President of **MERALCO** pointed to MERALCO's power bill saying that the charges of MERALCO are unbundled. He said that the average rate of MERALCO in 2007 was P7.43 per kWh but that this was an average and the actual rate depended on the customer segment and its usage pattern. For example, average industrial rates are at P6.45/kWh. He also pointed out that, a majority of the components in the bill are "pass-through". MERALCO, he said, keeps only about 13% of the total bill. For large industrial users, he said that the charges of the distribution utility typically accounts for only 3 to 5% of the bill.

Mr. Francisco pointed out that, MERALCO puts together different programs in cooperation with NPC and ERC (e.g., economic zone rate, ODPS rate, TOU rate). The generation charge assessed to a user, he said, is an average of the charges from several suppliers. MERALCO prices are different for different sectors but the generation charge assessed is the same for the different sectors (residential, commercial, industrial). To bring down prices, special programs are initiated (e.g., MERALCO will pass-through the special rates of NPC to PEZA-located industries). He observed that, Malaysian and Indonesian governments subsidize the cost of electricity to industries, while MERALCO provides special rates to a subset of their customers who are poor. He suggested, lowering or eliminating the VAT on electricity.

Ms. Edita S. Bueno, Administrator of the **National Electrification Administration (NEA)** revealed that, there are only 1,496 un-energized barangays out of the more than 41,000 barangays in the Philippines, which translates to a 96% electrification level. She said that, all cities and towns already have electricity, while 69% of all sitios are currently energized.

She said that, the residential customer makes up 92% of the customer base of electric cooperatives (ECs). and that ECs are serving the marginalized, poorest parts of the country. The national average of EC residential power rates is about P7.28 per kWh. Ms. Bueno pointed out that, the generation charges of the ECs—who usually source their power from NPC—are lower than that of MERALCO. She said that, NEA has adopted certain strategies to lower rates, namely:

1) through reductions in system losses, and

2) through more efficient, more reliable, and more competitive operations for ECs.

Mr. Lasse Matti A. Holopainen, President of WESM operator, **Philippine Electricity Market Corporation (PEMC)** stressed that, Open Access, in and by itself, will not lower power rates. He said that, there must be genuine competition first because Open Access operating in a market dominated by a few power suppliers/providers would not really help end-users. Mr. Holopainen cautioned that, Open Access, if it were implemented prematurely, might lead to less, and not more, competition. He suggested, moreover, that there was no need to amend the preconditions in the EPIRA law for declaring the start of Retail Open Access since PSALM's current achievement in terms of privatizing NPC's generation assets already point to a possible realization of the 70% goal by the end of the year.

Mr. Holopainen also commented on other issues taken up in earlier discussions. First, he said that, it may be difficult to divert the royalties from natural gas extraction because of the specific provisions of the undertaking with Shell Philippines. Second, he suggested that the government use profits from profitable government utilities to fund discounts to power rates.

Mr. Arthur N. Aguilar, President of the **National Transmission Corporation(TransCo)** noted that, substantial progress has already been made in the power sector because of the EPIRA law.

He described the national high-voltage backbone of TransCo as composed of more than 20,000 circuit-kilometers of transmission and sub-transmission lines. The Luzon and Visayas grids, he said, are interconnected, while the Mindanao grid is still stand-alone pending the installation of a proposed line from Leyte to Surigao, sometime in the next five years.

Mr. Aguilar then discussed TransCo's efforts to lower rates. First, he pointed out that, TransCo has rates that are competitive for the region. Second, he pointed out that, through the completion of the Batangas Transmission Reinforcement Project (scheduled for August 2009), a further lowering of rates may be expected. He said that, current constraints in the Luzon system entail a cost of P5 billion to consumers. He also said that, TransCo is now in the process of revising its tariff structure to implement programs such as TOU pricing and other customer profile-related approaches.

Finally, Mr. Aguilar stressed three points regarding government policy considerations for lowering power rates. First, he said that, post-EPIRA, government (or NPC) must be conscious of the fact that it cannot build new power plants any more. This, he said, has prompted TransCo to explore transmission solutions to some power shortages, like installing submarine cables in the Visayas. Second, he urged the power sector players to realize that solutions may not necessarily lie in the power sector but outside of it. An example of this is the possibility of eliminating the value-added-tax (VAT) for power-related charges. Third, he said that, we must observe that other governments in the region (e.g., Indonesia and Malaysia) heavily subsidize their power industry and the Philippine government might want to consider this also.

Mr. Cyril C. del Callar, President of the **National Power Corporation (NPC)** stressed that, in all nations in the world, generation rates have always been and always will be the biggest component in the power bills. With respect to subsidies, he emphasized that, the industry players must not be taxed by way of forcing them to give away their profits as discounts. He warned of the detrimental effects of subsidizing power rates via a price cap (as already shown in a past presidential directive in 1988 which tried to cap the generation rate to P2.50 per kWh nationwide.

The NPC's position, he said, is that, if preferential rates are to be given, they must be transparent and fair. More specifically, should these be contemplated, subsidies must given for the production and not for the consumption of electricity. He emphasized that, NPC is not a competitor of other industry players and has always considered itself a partner of other power producers and of consumers as well.

Mr. Froilan A. Tampinco, Vice President of the **Power Sector Assets Liabilities Management Corporation (PSALM)** observed that, privatization is merely a means towards an end. The end-goal of privatization, he said, is to introduce competition. New owners of privatized generation assets must be driven to effect measures that will enable them to become more efficient and competitive in vying for a market share, which should eventually lead to lower power rates. He noted that, the immediate effect of privatization impacts only on the universal charges, which will decrease because the proceeds of the privatization will be used to reduce the debts of NPC.

On the matter of Open Access, Mr. Tampinco stressed that retail competition and Open Access shall allow for competition in the generation sector. Through Open Access, consumers will have the power to choose the most efficient and most competitively priced supplier. He then said that, the challenges currently faced by PSALM are:

1) the need to attract more interested bidders for assets scheduled to be privatized; and

2) the need to sustain the financial viability of the power sector through liability management plans.

Atty. Lilia B. de Lima, Director-General of the **Philippine Export Zone Authority (PEZA)** first outlined the concerns of investors inside the PEZA economic zones. These, she said, are the need for clean and uninterrupted power and the acceptability of its true cost to investors. The Philippine cost disadvantage (as determined by a cited study) lies, she said, in high utilities cost, which tends to overcome any competitive advantage gained in labor and logistics.

Atty. De Lima said, currently has 1,736 export manufacturing companies inside its economic zones. PEZA contributes to lowering the power rates by promoting IPPs within economic zones since these mean no transmission cost and lower distribution/system loss charges. Furthermore, PEZA has reduced distribution rates in certain economic zones, e.g., Mactan, Bataan, and Cavite. Atty. De Lima clarified that NPC's special generation rates apply only to 13 economic zones served by MERALCO in Luzon. There are some 47 other manufacturing economic zones in other parts of the country which have yet to be considered for such special rates.

Atty. De Lima also expressed PEZA's support for the retail Open Access as PEZA believes that this will reduce power rates.

Ms. Melinda L. Ocampo, former **Undersecretary** of the **Department of Energy** began by saying that, the main objective of the Summit was to look for short-, medium-, and long-term solutions in addressing the increasing power rates in the Philippines. There is a need, she said, to unite efforts to effectively implement power sector initiatives and reap the benefits for electricity end-users.

She noted that, even before the Summit, consultative meetings were already held with power sector key players which produced and agreement between NPC and MERALCO to provide discounted rates to economic zones.

She then noted that, in the medium term, it has been suggested that:

1) NPC and MERALCO renegotiate their power supply agreement to pave the way for cheaper generation costs;

2) TransCo review current customer classifications to pave the way for possible reductions in transmission rates;

3) TransCo assist customers in achieving efficiency in operations;

4) DOE, DOF, and DILG consider the lifting of various taxes on generation, transmission, and distribution as possible policy remedies;

5) PSALM continue to pursue the privatization of remaining NPC power plants and accelerate the appointment of IPP Administrators;

6) Demand-side management measures (like the replacement of incandescent lamps with CFLs) introduced; and

7) The revision of the current regulatory framework studied.

Ms. Ocampo then expressed her views on the statements of Dr. Roxas. She said that, the DOE should be amenable to the reduction of the Open Access threshold from 70% and the removal of the condition on IPPAs in order to accelerate implementation of Open Access and achieve competition in the industry. Furthermore, she asserted that private investors can compete with NPC. NPC is regulated by the government and its decisions shall always be under the government's scrutiny. Right now, she pointed out, some private generating companies actually even offer lower rates than NPC. This is because NPC's effective rate is a weighted average from a generation mix and, hence, a blend of both expensive and cheap fuel sources. Furthermore, she said, safeguards for customers are provided in the EPIRA law, specifically, in Sections 45 (b) and (c) which mandate for the least cost manner provision by generators to captive customers.

The next question, she said, is, will and should distribution utilities be threatened? Ms. Ocampo's answer was no. She pointed out that, DUs merely collect (and then forward to the generators), the generation charges and, hence, the DUs' financial bottom line should not be affected. In an Open Access environment, the DUs still charge its connected customers (generators and end-users) for the electricity that was "wheeled" through the distribution system.

2.5. During the ADB Workshop

During the ADB workshop, the Summit inputs were analyzed and integrated. The ideas and proposals were then grouped into five (5) major areas, which focused on:

1) Electricity Rates;
2) Implementation of Open Access and Retail Competition;
3) Information and Education Campaign;
4) Legislative Agenda; and
5) Demand-Side Management.

In these contexts, five (5) objectives were drawn from the Summit results, to wit:

1) Better targeting of subsidies for the poorest of the poor;
2) Lowering of power costs for industries to be globally competitive;
3) Attaining true competition with the implementation of Open Access and Retail Competition;
4) Improving efficiencies in electricity system management and consumption;
5) Involving the public in power sector reforms and in the efficient management of their electricity consumption.

3. ANALYSIS AND COMMENTS

3.1. Issues/Views/Suggestions Raised During the Plenary Sessions

SPEAKER	STATEMENTS/ RECOMMENDATIONS	PROBLEM ANALYSIS/ COMMENTS
Mr. Sohail Hasnie, Senior Energy Specialist of the Asian Development Bank (ADB)	Enhancing energy efficiencies by mandating use of compact fluorescent lamps (CFL) instead of incandescent lamps.	This can be immediately implemented with DOE and ERC cooperation. However, global trends indicate that use of Light Emitting Diodes (LED) is likewise a viable alternative option.
Dr. Yongping Zhai, Principal Energy Specialist, Southeast Asia Infrastructure Division of the Asian Development Bank (ADB)	Uniform nationwide application of lifeline rates for poorest consumers.	Reassess the existing lifeline level of all DUs and recommend a reasonable level of subsidy to lessen somewhat the burden to the subsidizing customers.
	Strengthen the EC's technical and financial capacities by allowing recovery of capital and operational expenses.	To employ the right rate methodology for ECs that will introduce and encourage efficiency in the operations of all ECs. The current policy of NEA does not offer incentives to encourage Ecs to be financially viable. ERC should likewise study and test alternative rate-setting methodologies that will balance investors' interests with desired services and rates to consumers.

SPEAKER	STATEMENTS/ RECOMMENDATIONS	PROBLEM ANALYSIS/ COMMENTS
Sen. Juan Ponce Enrile of the Philippine Senate Amend EPIRA	Accelerate Open Access by lowering the threshold from 70% to 50%.	This cannot be done without legislative action. Pending enactment of an amendatory law on EPIRA, Open Access can be implemented in PEZA selected territories even with an injunction resulting from the case filed by MERALCO and PEPOA. For purposes of fairness to MERALCO/ PEPOA customers, court case should be withdrawn to lift the injunction. In any event, PSALM's apparent ability to realize the 70% threshold in 2008 may make this proposal unnecessary.
	Immediate implementation of Open Access in PEZA.	The only barrier is the injunction released by the Pasig RTC. However, Open Access can be implemented on areas outside of MERALCO's and PEPOA members' franchise areas.
	The recovery of stranded costs through Universal Charge.	ERC should adopt a strong policy to ensure that recovery of stranded costs should not be abused and the burden should not be so readily passed on to consumers. ERC should make sure that recovery proponents have indeed exerted maximum efforts to mitigate the "losses."
	Cross ownership and market power abuse (DU's stranded contract cost recovery, restriction of bilateral contracts between affiliates not to exceed 20%).	What is happening now is based on the existing provisions of EPIRA. In fact, cross-ownership should not have been allowed and bilateral contracting between affiliates defeat the purpose of enhancing competition in the industry. The increase electricity charges that are passed on to consumers as a result of such bilateral contracting among affiliates are consequences of this flaw in the EPIRA law.

SPEAKER	STATEMENTS/ RECOMMENDATIONS	PROBLEM ANALYSIS/ COMMENTS
Sen. Juan Ponce Enrile of the Philippine Senate	Power of ERC to grant provisional authority for rate increases.	This is intended to allow power companies to remain viable in times of rapidly rising costs.
	Magna Carta for residential electricity consumers.	This is being provided under the law to enhance consumer protection.
Mr. Thomas Crouch, Deputy Director General of the Asian Development Bank (ADB)	Making electricity rates more affordable and averting power shortages beyond 2012.	The best way of realizing this is through the introduction of real competition in various industry sub-sectors. This should result in more efficient electricity service providers, more investments in the power sector, and lower electricity costs.
	Efficient use of energy by consumers, cleaner production by energy intensive industries, promotion of high efficiency equipment and appliances.	This can be immediately implemented through revival/ updating of DOE Circular mandating Demand Side Management in collaboration with ERC.
Mr. Sergio R. Ortiz-Luis, Jr., President of the Philippine Exporters Confederation, Inc.	Electricity makes up an average of 15% of the production cost of export enterprises. Across industries, it ranged from 8%-35%.	It is not disputed that high power costs have a significant negative impact on the ability of our export industries to compete globally.
	Immediate Open Access.	This is consistent with government policy and there is now an intensified effort to accelerate realization of the target conditions in the EPIRA law that will trigger Open Access. It is now expected that these will be achieved by the end of 2008. Meanwhile, private industries can already avail of Open Access in PEZA zones.

SPEAKER	STATEMENTS/ RECOMMENDATIONS	PROBLEM ANALYSIS/ COMMENTS
Mr. Edgar O. Chua, Country Chairman of Pilipinas Shell Petroleum Corporation	Improve generation, transmission, and distribution efficiencies of power plants and distributors.	ERC should institute appropriate standards for the performance of power companies and distribution utilities and relate these to rate setting.
	Systemic/structural analysis and review of industry practices like delivery schedules, collection practices, thermostat settings, building designs, and the like.	Yes. These are intended to be integral parts of Demand Side Management.
Mr. Raul T. Concepcion, Chairman of Consumer and Oil Price Watch	Extend the lifeline rate subsidy, now restricted to consumers of up to 100 kWh of power, also to consumers of from 100 kWh to 150 kWh.	Increasing the level of lifeline subsidy will increase the rates of the subsidizing consumers. This may not be appropriate and its impact needs to be studied carefully.
Mr. Raymond A. Marquez, Acting President of the Energy Practitioners Association of the Philippines	Immediate passage of the energy conservation bill to law.	The DOE can already mandate the implementation of certain conservation measures through the issuance of a Department Circular, even without a new law.
	Mandate that consumers of 1 MW and above of power must hire or designate a special energy manager and set up an Energy Management Center.	It is not necessary to mandate this. Large consumers of power—given proper information and guidance—can be expected to take the steps necessary for reducing their power consumption.
	Energy conservation should be taught in primary and secondary school subjects; Products and activities should be "energy labeled"; Guidelines on energy-conserving designs for buildings should be developed.	These are good suggestions.
Mr. Tadayuki Ogawa, Consultant on Energy Science of Japan International Cooperation Agency (JICA)	Institute energy conservation measures.	Conservation measures determined to be effective should be widely disseminated.

SPEAKER	STATEMENTS/ RECOMMENDATIONS	PROBLEM ANALYSIS/ COMMENTS
Dr. Fernando Y. Roxas, Professor of Asian Institute of Management (AIM) "Do we need to amend the EPIRA law to lower power rates?	IPP's are still monopolies and there is a need for transparent administration of these; However, privatization of 70'% of these IPPS's, as specified in the EPIRA law, need not be set as a precondition for the implementation of Open Access.	Open Access provides the environment for the interaction of more industry players. With Open Access, IPPs can now directly to consumers contract their capacity or energy directly to consumers, unlike now when they can only sell to distribution utilities, or DUs. With current conditions, where DUs still monopolize the market in their franchise areas, potential investors have no option but to settle for whatever contracts and terms NPC / PSALM can give them.
	Open Access in PEZA should already be implemented.	Sen. Enrile affirmed the power of PEZA to regulate power rates within an economic zone, but without MERALCO / PEPOA withdrawing their case against PEZA, the prevailing RTC injunction prevents them from exercising this right to regulate. This is of course to the detriment of industries within zones.
	NPC no longer has market dominance since it has less than 30% of the generating capacity available in the market.	30% is still a considerable, and possibly dominating, share. In any event, competition in the power sector does not occur unless consumers are free to choose from different suppliers and distributors of power. Until Open Access is fully implemented, distribution utilities (like Meralco) will continue to exercise monopolistic power over consumers in their franchise areas and monopsonistic power over their suppliers of electricity.
	Revisit the assignment of market power in relation to ERC Resolution No. 20.	Section 45 (a) provides that no company or related group can own, operate, or control more than 30% of the installed generating capacity or a grid and/or twenty five percent of the national installed generating capacity. Actually, cross-ownership should not be allowed at all as it diminishes competitive intensity. With that in mind, ERC Resolution No. 20 should be revisited.

SPEAKER	STATEMENTS/ RECOMMENDATIONS	PROBLEM ANALYSIS/ COMMENTS
Dr. Fernando Y. Roxas, Professor of Asian Institute of Management (AIM)	Parties interested in bidding for and owning NPC assets should not have any outstanding obligation to the government.	MERALCO is indebted to NPC to the tune of over P50B, including interest. This case is still pending resolution by ERC. It is agreed that parties or their affiliates bidding for government-owned assets should settle their liabilities with the government first.
Mr. Arthur John Young, Jr., Chairman of Semiconductor and Electronics Industries in the Philiipines (SEIPI) "No to EPIRA amendment as it may give wrong signal to investors"	7 to 15% of total manufacturing cost is accounted for by power costs.	For validation only, DOE should request PEZA to determine the actual % of energy cost in the total production or manufacturing cost.
	Implementation of Open Access should be accelerated.	This can be done by PEZA even without amendment of the EPIRA law, but it will require withdrawal of the case filed against PEZA by MERALCO and PEPOA.
	Government should provide power rate subsidies to industrial customers, funded by the royalties it now gets from the Malampaya gas field.	A program that focuses on the application of subsidies for a selected group of users is shortsighted and bound to fail. Such initiatives will ultimately do customers as a whole more harm than good. It also violates the provision mandating the "removal of cross-subsidies" in the EPIRA law. If subsidy is to be introduced at all, then this should be transparent and extended based on performance efficiencies.
Atty. Francis Saturnino C. Juan, Executive Director of the Energy Regulatory Commission (ERC)	ERC is open to various tariff structures, such as TOU, PBR, etc.	Time-of-Use pricing should be mandated for all DUs and for all customer classifications. ERC should revisit the terms of its approval of MERALCO's "voluntary TOU", including the MERALCO policy of requiring the customer to pay for the cost of a TOU meter.
	Expedite resolution of cases filed before ERC.	It would be unquestionably of great benefit to industry participants if ERC is able to expedite its resolutions/ decisions on various cases/petitions filed.
	ERC is fully supportive of Open Access.	This can be done in PEZA zones now even without amending the EPIRA law. MERALCO and PEPOA should be prevailed upon to withdraw the case they filed against PEZA.

SPEAKER	STATEMENTS/ RECOMMENDATIONS	PROBLEM ANALYSIS/ COMMENTS
Atty. Francis Saturnino C. Juan, Executive Director of the Energy Regulatory Commission (ERC)	Among the 3 indicators cited under section 45 (a) (ownership, operation, control), ERC believes that "control" is the best indicator of the potential for abuse of market power.	Following ERC's position and policy, Quezon Power and Duracom should be counted as part of the MERALCO/FirstGen group. There should be consistency in the application of government policy.
Mr. Jesus P. Francisco, President of MERALCO No to EPIRA amendment	Generation and all other charges are only "pass through" or "pass on" components of the MERALCO electric bill.	Distribution Utilities, as they are currently structured, and as confirmed by MERALCO, merely collect from end-users the generation charges that power generation companies bill them. In fact, the burden of collecting the generation charge is now assumed by the Distribution Utility, so that, if an end-user fails to pay, it is the DU which bears the cost. In an Open Access environment, the DU is freed of the burden and responsibility of collecting for the power generation companies. The DUs will need only be concerned about getting paid by the power generation companies for the use of their wires at regulated rates, called "wheeling charges", approved by the ERC.
	Distribution charges account for only 13% of the total electric bill on the average, but these constitute only 3% to 5% in the case of industrial customers.	Based on the MERALCO presentation, the 13% distribution charge did not incorporate the 8% system loss. Since system loss is properly attributed to distribution, it is therefore appropriate to include said charge as part of the distribution cost. This means that MERALCO's distribution cost actually averages 21% of a customer's total electric bill.

SPEAKER	STATEMENTS/ RECOMMENDATIONS	PROBLEM ANALYSIS/ COMMENTS
Mr. Jesus P. Francisco, President of MERALCO	Meralco has incorporated in its operations all programs offering discounted rates for supplied power in order to reduce the billed rates to its customers.	MERALCO's presentation revealed four discounted programs extended by NPC that it avails of just to be able to offer reduced rates to MERALCO's industrial customers. It should be noted that, in NEA's own presentation, it was shown that ECs' who source 100% of their power requirements from NPC without any special program obtained a rate only P0.04 higher than MERALCO's. It can be concluded, therefore, that the revenue losses absorbed by NPC due to the special programs it offers MERALCO are not justifiable by the alleged benefits that it provides to consumers.
	Meralco's average rate for all customers is P7.43 per kWh and P6.45 per kWh for industrial customers.	MERALCO's customers apparently find this level still too high.
	Malaysia and Indonesia provide subsidies to industrial customers.	It is better to provide other forms of incentives that are related to the industries' performance and efficiency.
	Meralco supports the lowering or elimination of VAT on electricity because direct subsidies are better than cross subsidies.	As Dr. René Azurin pointed out rather emphatically during the Summit opening session, eliminating value-added-taxes on electricity (and tariffs on oil products) is effectively a disincentive to energy conservation initiatives. In effect, this rewards those who consume more energy by not penalizing them for such consumption. It also reduces the incentive for consuming less energy. Further, by lowering the price of electricity produced with fossil fuels, it also depresses the investment viability of alternative fuels.

SPEAKER	STATEMENTS/ RECOMMENDATIONS	PROBLEM ANALYSIS/ COMMENTS
Ms. Edita S. Bueno, Administrator of the National Electrification Administration (NEA)	EC's are serving mostly marginal customers, 92% of which are residential.	This contrasts greatly with MERALCO's coverage where the consumers' profile show mostly industrial consumers with larger individual requirements.
	The average residential rate in EC areas is P7.28 per kWh	This is actually the national average. Lower rates in the Visayas and Mindanao balance higher rates in Luzon.
	Power sourced from NPC have lower rates than those from MERALCO.	This is based on the national average. The comparison is not entirely fair because MERALCO's sources are from the Luzon grid only.
	Challenges to reduce rates should be directed at customers rather at the government	The success of an EC's operation of course depends on its customers' cooperation. With cooperation, the EC's will be able to raise its efficiency and this should lead to rate reductions.
Mr. Lasse Matti A. Holopainen, President of the Philippine Electricity Market Corporation (PEMC) No to EPIRA amendment and Open Access	With still only a few suppliers of electric power, Open Access will not lead to genuine competition. There is a need to increase the number of suppliers first.	What Open Access will do is allow more industry players to buy and sell from each other directly, thereby improving the competitive environment. Power generating plants and IPPs—even if there are just a few of them—can now directly contract their capacity or energy directly to consumers, unlike now when they can only sell to distribution utilities (DUs). The DUs exert monopoly power over the customers in their franchise areas.
	Explore more options for the IPPs.	This is already being done by the current committee created by DOE that is made up of NPC, PSALM, and PEMC as members.
	Malampaya royalties should not be used for subsidizing power rates because of the restrictions inherent in the government guarantee given to Shell Consortium operating it.	Agreed. This also violates the provision mandating the "removal of cross-subsidies" in the EPIRA law.

SPEAKER	STATEMENTS/ RECOMMENDATIONS	PROBLEM ANALYSIS/ COMMENTS
Mr. Arthur N. Aguilar, President of the National Transmission Corporation (TransCo)	The completion of several TransCo projects will remove transmission line constraints and thus lead to some rate reductions.	Yes.
	TransCo is currently reviewing its rate structure and customer profiling in an effort to accommodate measures that will lead to rate reduction. As an example, TransCo is thinking of complementing the NPC- TOU rates.	Good.
	The solution to high power rates may lie outside of the power sector, e.g., the removal of VAT on power.	Again, Dr. Rene Azurin has emphasized that eliminating value-added-taxes on electricity (and tariffs on oil products) is effectively a disincentive to energy conservation initiatives. In effect, this rewards those who consume more energy by not penalizing them for such consumption. It also reduces the incentive for consuming less energy. By lowering the price of electricity produced with fossil fuels, it also depresses the investment viability of alternative fuels. Thus, this suggestion is counter-productive.
	Government may consider providing subsidies to consumers as they do in other Asian countries.	Again, it is considered better to provide other forms of incentives that are related to industries' and consumers' performance and efficiency.
Mr. Cyril C. del Callar, President of the National Power Corporation (NPC)	Emphasized the need for a short, medium, and long term solution to lowering power rates.	No argument there.
	Generation rates will always be the biggest component of a customer's electric power bill.	Yes, this would be the normal expectation because cost of product is usually the biggest element of cost.

SPEAKER	STATEMENTS/ RECOMMENDATIONS	PROBLEM ANALYSIS/ COMMENTS
Mr. Cyril C. del Callar, President of the National Power Corporation (NPC)	Players must not be taxed by forcing them to give away their profits as discounts.	Clearly, the regulation of industry players must allow for their continuing viability.
	Subsidies should be transparent and should be extended on production rather than on consumption.	As a general principle, subsidies are not considered the way to go.
	NPC is not a competitor but a partner of consumers and players in the industry.	This is just a slogan and has no real meaning.
Mr. Froilan A. Tampinco, Vice President of the Power Sector Assets and Liabilities Management Corporation (PSALM)	Privatization's end goal is competition.	Agreed.
	PSALM's continued financial viability will allow it to reduce if not eliminate Universal Charges.	Reducing Universal Charges will of course mitigate the effects of possible rate increases.
Atty. Lilia B. De Lima, Director-General of the Philippine Export Zone Authority (PEZA)	Clean and uninterrupted power, and low electricity rates are the primary concern of the PEZA investors.	Of course.
	PEZA has already reduced its distribution charge in certain economic zones.	The primary objective of PEZA in exercising its regulatory power is to reflect the true cost of providing service to economic zone locators.
	NPC discounted rates are applied to 13 economic zones served by MERALCO.	PEZA is supposed to apply a uniform policy to all locators.
	PEZA is determined to exercise its regulatory powers within its zones and this includes already implementing Open Access within the zones.	This can be done in PEZA zones now even without amending the EPIRA law. MERALCO and PEPOA should be prevailed upon to withdraw the case they filed against PEZA.

Better Targeting of Subsidies for the Poorest of the Poor

It was mentioned that, in other jurisdictions, the electricity consumption level at which "lifeline" rates being imposed are lower than in the Philippines. Given this, the proposals to raise the consumption level, from the current 100 kWh to say, 150 kWh, to qualify for lifeline rates do not appear to have serious merit.

In any event, it was proposed that the current threshold for applying lifeline rates in the country be reviewed. This "lifeline threshold" should, however, always be set so that it would apply, by definition, to the "poorest of the poor." This will adhere to the intent of the law, while still being fair to the customers who subsidize the "lifeline" customers by having to pay higher electric power rates.

As a first step in such a review, there is a need for all Distribution Utilities to submit data on their present lifeline rate threshold and the numbers of customers now enjoying the subsidized rates. The DUs should also be required to study and propose what they believe should be the new consumption level cut-off for lifeline rates to apply to ERC for its review and approval. Such proposal should incorporate an analysis of the impact of any proposed change on the rates of the subsidizing customers.

In the case of consumers in the small island grids and missionary areas, there may be a need to study possible exemption from the imposition of the Universal Charge as most of the consumers there are within the lifeline cut-off level.

Lower Power Costs for Globally Competitive Industries

To help industries become more globally competitive through lower electricity rates, four (4) sets of actions, described below, were identified.

1) Creation of a performance-based industry competitiveness fund—to be administered jointly by the DOE and the DOF—to help industries get better power rates and allow them to compete globally (e.g., PEZA locators).

2) Elimination or reduction of various local taxes now being imposed on generation, transmission, and distribution facilities, and a moratorium on various local taxes imposed on power generation, transmission, and distribution businesses.

3) Implementation of some rate restructuring in the industrial sector, in particular for example, getting MERALCO to agree (as it has already agreed) to restore the high load factor discount and implement the actual system loss charge for large industrial customers.

4) Promotion of competition in the power supply sector, beginning in the economic zones where the implementation of an interim Open Access arrangement may be possible through a Tripartite Agreement between the willing Distribution Utilities, NPC, and PEZA. To implement Open Access in economic zones is well within the legal framework. Further, PEZA and ERC are ready to rescind their previously inked agreement on the regulation of power projects located within economic zones.

Ensure True Competition

Consistent with the priorities mentioned by the President in her latest State of the Nation Address (SONA), the DOE has been supportive of suggested amendments the EPIRA law. The targeted objective of such amendments is the acceleration of the implementation of 'Open Access' in order to achieve the ultimate goal of achieving competition in the power sector.

Beyond supporting such proposed amendments, however, the DOE is doing what it can to push for a faster pace in the privatization of NPC generating plants and IPP contracts. As it now stands, some 49% of NPC's generating capacity has already been privatized. Based on bidding schedules announced by PSALM, it now appears that the 70% privatization level as specified in the EPIRA law may be reached for NPC generating plants by June 2008 and for IPP contracts by the end of the year. Reaching these privatization levels will make any amendments in the EPIRA law to lower these thresholds unnecessary.

Notwithstanding any proposed EPIRA amendments, the DOE continues to provide assistance to PEZA to help make its locators more globally and regionally competitive. Through implementation of its mandates under the PEZA Charter, PEZA can already implement its Open Access policy within the economic zones.

If amendments to the EPIRA are to be tackled at all by Congress, the DOE is most keen on modifications to current provisions—like Section 45—on cross-ownership, market power abuse, and anti-competitive behavior.

Lower Rates Based on Efficient Electricity System Management and Consumption

In the immediate and short-term, the implementation of Time-of-Use (TOU) pricing must be fully mandated especially in the MERALCO area and in the franchise areas of other Private Utilities (PUs). This is in compliance to an ERC order issued in 2005. It should be noted that NPC is already implementing its ERC-approved TOU rates and it is therefore imperative that TOU rates availed of by Distribution Utilities be also enjoyed by its customers.

In the case of ECs, it is believed necessary for ERC to adopt alternative and more appropriate rate methodologies in order to encourage efficiencies and greater investments in the operations of ECs. Effort must be made to adapt their regulatory philosophy and operating processes to conform to the competitive environment that is being created by the full implementation of the EPIRA law. The area engineering management (town metering and small area load forecasting) approach, for example, must be fully implemented.

Programs must also be immediately introduced to integrate the use of energy-efficient lighting products, such as energy-efficient CFLs and LED, in lieu of incandescent bulbs in serving new connections. In the medium term, TOU pricing must be instituted with the commencement of Open Access and Retail Competition.

Proactive Involvement of Public

To get the public fully committed to the energy agenda developed at this Summit, a comprehensive information-education-communication (IEC) plan will be developed and rolled out by the middle of the year. Necessary partnerships to ensure the sustainability of the IEC efforts will be forged with the Department of Education (DepEd), the Commission on Higher Education (CHED), and civil society/NGOs.

Enhance Competency of Regulators in Tariff Setting Methodologies (Capacity Development)

In the short- to medium-term, the ERC should develop and implement a continuing program for enhancing competency in its staff in the conduct of technical and financial evaluations of proposed power generation and other infrastructure projects, for the purposes of Tariff Rate approvals and Authority to Operate issuances. Appropriate hardware, software, and other training tools must be continuously updated to ensure state-of-the-art competence at all times.

4. CONCLUSIONS AND RECOMMENDED ACTIONS

4.1. Conclusions

The power sector has an opportunity to help mitigate the impact of high oil prices by making power rates more affordable so that industry and the business sector can become more competitive globally, and heretofore captive consumers can be provided the choice of lower-priced electricity providers.

Facilitating the implementation of true competition in the electric power generation and distribution businesses will result in greater efficiencies and therefore reduced power rates. Government regulators should, however, be able to properly monitor the overall performance of the electricity market and the industry players to ensure that electricity end-users derive benefit from the reforms through enhanced services and lower power rates.

4.2. Recommended Actions

From the Summit and workshop results, the following are the recommended priority actions:

Acceleration of the implementation of Open Access and Retail Competition in two ways:

1) By using the PEZA Charter

Under Republic Act 7916, the PEZA is authorized undertake the establishment, operation, and maintenance of utilities, other services, and infrastructure in its economic zones, to include the provision of light and power. Hence, it is possible for PEZA to allow open access within the economic zone. In a related development, ERC and PEZA have agreed to rescind their earlier agreement on the regulation of power plants within the economic zones.

2) By "fast-tracking" compliance with the EPIRA Law

With still unmet preconditions, the only legal way to immediately implement open access is to lower or remove the preconditions through amendments to the EPIRA. Such an amendment, however, as this requires legislative action, will probably take quite a bit of time.

Possibly the quicker option is to accelerate compliance with the specified preconditions, specifically the privatization of at least 70% of NPC generating capacity and at least 70% of NPC's IPP contracts. Based on announced bidding schedules, it is conceivable that these conditions may be met by the end of this year.

Open access and retail competition will allow end-users to choose their own electricity supplier. Under the EPIRA law, the declaration of Open Access will give end-users with a monthly average peak demand of at least one megawatt (1 MW) for the preceding twelve months the choice of an electricity supplier. (This is what has been termed the contestable market). Two years thereafter, the ERC may lower this threshold level for the contestable market to 750 kW. The ERC is thereafter mandated to evaluate the performance of the market and gradually reduce the threshold level for the contestable market until such time that it reaches the household demand level.

Enabling end-users to choose their own electricity supplier will help increase the efficiency of wholesale electricity generation because generators will now compete to provide better services at lower prices in order to entice more customers.

Generators, in trying to provide better services, will now be more prudent in making investment decisions and will try to keep overall costs down because they will no longer be allowed to pass on the costs of their inefficiencies to the customers.

Provision of Transparent Subsidy/Reduced Charges to certain Industries

The provision of a transparent subsidy is one option to lower the rates for certain electricity consumers. One scheme proposed to help our export industries to become globally competitive is to create a performance-based industry competitiveness fund, to be administered jointly by the DOE and DOF. The object of the fund will be to reduce the power rates of selected export industries.

The government can also review the various national and local taxes now imposed on power facilities for purposes of rationalizing these. Current levels of distribution and transmission charges can also be reviewed with the end in view of identifying cost components that can be removed or rationalized e.g., high load factor discounts, system loss charges, etc.

Rationalization of Lifeline Rates Implementation

The current threshold for applying "lifeline" rates in the country can be reviewed. A rational lifeline threshold should, however, apply, by definition, only to the "poorest of the poor." This will adhere to the intent of the law, while still being fair to the customers who subsidize the "lifeline" customers by having to pay higher electric power rates.

To implement this review, Distribution Utilities should submit data on their present lifeline rate threshold and the number of customers now enjoying the subsidized rates. The DUs should also be required to study and propose to the ERC what they believe should be the new consumption level cut-off for lifeline rates to apply. Such proposal should incorporate an analysis of the impact of any proposed change on the rates of the subsidizing customers.

Implementation of Demand-Side Management and Other Energy Efficiency Programs

The mandatory adoption of demand-side management can be revived and strengthened by the DOE to help the consumers efficiently manage their electricity bill through energy conservation practices and efficiency. As an example, there may be a need to provide incentives for the acquisition of required equipment or instruments to ECs to implement TOU pricing. For new connections, the DOE can formulate a policy to integrate the use of energy efficient lighting products even before service is provided.

Public Involvement/Understanding in Power Sector Reforms

To ensure active participation and cooperation of the consumers in power sector reform initiatives, a comprehensive information, education and communication (IEC) Campaign will be embarked on by the DOE in cooperation with the DepEd, CHED, and civil society/NGOs. The objective will be to educate and involve the public in the efficient management of their electricity consumption and on plans and projects for reforming the sector. Part of the IEC plan would be to incorporate in the current elementary and high school curriculum lessons in the efficient management of electric consumption and the proper economical use of electricity in all aspects of daily life.

5. THE WAY FORWARD

The Energy Summit 2008 has already resulted in certain major pronouncements by Her Excellency **President Gloria Macapagal-Arroyo** during her speech in the 05 February 2008 plenary session at the SMX Convention Center. These are mentioned below.

Instructed the DTI to file a petition before the ERC specifically on the following:

1) Grant bigger electricity discounts for low- income consumers;

2) Enjoin MERALCO from buying electricity from WESM at peak hours;

3) Ensure preferential treatment for poor households and power-intensive industries in the distribution of TransCo charges by MERALCO;

4) Prohibit MERALCO from charging system loss as a separate item; and

5) Require MERALCO to charge the same distribution costs as Visayan Electric Company (VECO), Cebu Electric Cooperative, Inc. (CEBECO), and Davao Light Power Company;

Accelerate the implementation of open access and retail competition through:

1) Proposed amendment to the EPIRA removing the 70% privatization level as a requirement for open access; and

2) Early voluntary implementation of open access

5.1. Immediate Actions Undertaken to Comply with PGMA's Directives

In response to PGMA's directives/instructions during the Energy Summit, the DOE institutionalized the Power Stakeholders Meeting among government agencies and the private sector to ensure consistent and coordinated implementation of initiatives that emanated from the President's instructions during the Energy Summit, particularly on the lowering of electricity rates. This meeting would serve as the venue for discussing and determining the feasibility of various proposed initiatives.

The following priority actions have already been agreed to be taken:

1) Close monitoring of the progress of the Omnibus Petition filed by the DTI's Bureau of Trade Regulation and Consumer Protection. (In response, the ERC requested the BTRCP to substantiate its petition.)

2) Reviewing the current "lifeline" rate threshold with the object of rationalizing its implementation.

3) Accelerating implementation of open access by "fast-tracking" compliance with EPIRA pre-conditions and by taking advantage of the provisions of the PEZA Charter.

4) Reviewing the Terms of Reference on the Early Voluntary Implementation of Open Access as proposed by **former DOE Secretary Vince S. Perez.**

5) Rescinding the ERC/PEZA Memorandum of Agreement which will expedite the President's directive on the early implementation of Open Access.

6) Identifying mitigating measures or events that may possibly affect electricity prices (such as the impending coal scarcity which is expected in the coming months of March to May).

5.2. Development of Other Relevant Policies and Strategies

- **Rural Electrification** – This entails expanding access to electricity services through provision of "smart subsidies" to reduce the capital costs for rural grid electrification. It will also entail the development of off-grid solutions by adopting innovative service delivery mechanisms like community-based mini-grid systems and a "commercialization plus" approach for household technologies like biogas and solar PV. Multiple platforms for public-private cooperation to accelerate implementation of rural electrification nationwide can be developed.

- **Integration of Renewable Energy into the Grid** – The passage of the Renewable Energy Bill that is envisioned to introduce new instruments such as (among other things) Renewable Portfolio Standards, Feed-in Tariffs, Net Metering, and Interconnection Agreements, should be developed and harmonized with the EPIRA law provisions.

Lowering Power Rates for Industry Competitiveness and Consumer Welfare Program of Action

Objective 1		Strategy	
To ensure better targeting of subsidies for the poorest of the poor		Rationalization of lifeline rates implementation	
Priority Action	Success Indicator	Type of Measure	Lead Agency/Sector
Immediate (within 6 months)			
Revise the level of lifeline rate coverage - DOE to recommend revision of the lifeline rate coverage - Issuance of the Executive Order - ERC to issue resolution on the structure of revised lifeline rates	- DOE Circular - Executive Order - Resolution on the lifeline coverage	Policy and Legislation	DOE Office of the President ERC
Exempt small island grids and missionary areas from the imposition of UC	Resolution	Policy and Legislation	ERC
Short-Term (within 1 year)			
Implement revised rates structure	New lifeline rate structure implemented	Enforcement	ERC DUs
Monitor compliance to the new rates structure	Annual Compliance Report	Monitoring	DOE, ERC and NGOs

Types of Measure:
- *Policy and Legislation*
- *Regulation, Enforcement and Compliance*
- *Information-Education-Communication (IEC)*
- *Capability-building*
- *Market Development*
- *Investment (Financing, Infrastructure, Technology, Incentives)*

Objective 2		**Strategy**	
Lower the cost of power for industries to be globally competitive		Rationalization of lifeline rates implementation	
Priority Action	Success Indicator	Type of Measure	Lead Agency/Sector
Immediate (within 6 months)			
Develop a concept paper on to Performance-Based Industry Competitiveness Fund Impose moratorium on imposition of various local taxes on generation, transmission, and distribution facilities	Concept paper developed jointly by DOF and DOE Circular	Policy and Legislation Regulation, Enforcement and Compliance	DOE (lead) DOF DTI DILG (lead) DOF, BIR Bureau of Local Government Finance (BLGF) MERALCO
Implement rate restructuring in the industry - Maintain MERALCO high load factor rider and implement reduction in system loss charge for industrial ecozones	Competitive rates for qualified industries	Enforcement	MERALCO PEPOA
MERALCO AND PEPOA to withdraw court case filed against PEZA in implementing open access within the ecozones *(for further verification by MERALCO representative)*	TRO lifted	Enforcement	
Implement interim open access - Issue policy on voluntary open access - DUs, PEZA and NPC to agree on implementing open access within PEZA through a tripartite agreement *(for further verification by MERALCO)* - ERC and PEZA to rescind the MOA on regulation of utilities in the ecozones	Guidelines Tripartite Agreement	Policy and Legislation	DUs, PEZA and NPC ERC and PEZA

Objective 3		**Strategy**	
To ensure true competition upon implementation of Open Access and Retail Competition		Assess/revisit EPIRA	
Priority Action	Success Indicator	Type of Measure	Lead Agency/Sector
Immediate (within 6 months)			
Conduct review of the EPIRA implementation on the following areas but not limited to: - Threshold level of privatization of NPC generating assets and NPC-IPP contracts - Exemption of Self-generating facilities in the Universal Charge and Certificate of Compliance requirements of ERC - Eligibility for ERC officials - Competition Rules	Assessment Report	Policy and Legislation	DOE (lead) ERC DOE Attached Agencies Industry Players Consumer Groups NGOs
Medium-Term (5 years)			
DOE to endorse, if needed, appropriate measures both Committees of Energy of Congress	Policy Endorsement	Policy and Legislation	DOE
Long-Term (beyond 5 years)			
Implement and monitor compliance to approved measures to assure true competition in the generation sector by concerned organizations		Enforcement	ERC (lead) DOE DOE Attached Agencies Industry Players Consumer Groups NGOs

Types of Measure:
- *Policy and Legislation*
- *Regulation, Enforcement and Compliance*
- *Information-Education-Communication (IEC)*
- *Capability-building*
- *Market Development*
- *Investment (Financing, Infrastructure, Technology, Incentives)*

Objective 4	Strategy
To lower rates based on efficient electricity system management and consumption	• Accelerate TOU pricing • Minimize system loss in electric cooperatives franchise area through implementation of area engineering management concept • Develop a program and mechanism (e.g. discount, subsidy, deferred payment) to encourage energy efficient lighting products

Priority Action	Success Indicator	Type of Measure	Lead Agency/Sector
Immediate (within 6 months)			
Accelerate implementation TOU pricing on voluntary basis to consumers	Start of realization of TOU pricing benefits among and consumers Reduction in rates and average peak consumption	Policy and Legislation; Enforcement and Compliance; IEC; Capability-building	ERC
Provision of incentives for the acquisition of required equipment or instruments to electric cooperatives for implementation of TOU pricing	Executive grants or privileges	Policy and Legislation	NEA DOE DOF DTI ERC
Full implementation of area engineering management (town metering)	Reduction of system loss to acceptable levels: 2008 – 13% 2009 – 11% 2010 – 9%	Enforcement	NEA
Development of a program to integrate use of energy efficient lighting products in serving new connections	Adoption of energy efficient lighting in newly electrified households	Policy and Legislation; Market Development; Investment	DOE NEA
Medium-Term (5 years)			
Review TOU pricing once OARC commences	Development of implementation guidelines and regulatory prescriptions	Policy Legislation; Enforcement and Compliance; Capability-building	DOE ERC NPC NEA

Objective 5	Strategy
To proactively involve the public on power sector reforms and in the efficient management of their electricity consumption	• Conduct of information, education and communication campaigns • Include in school curriculum/subject topics on proper economical use of electricity in all levels

Priority Action	Success Indicator	Type of Measure	Lead Agency/Sector
Immediate (within 6 months)			
Develop a standardized IEC plan	IEC Plan	IEC	DOE (lead) DOE Attached Agencies ERC Civil Society/NGOs Academe
Forge partnerships with DepEd, CHED and Civil Society/NGOs	Agreement on IEC implementation	Regulation, Enforcement and Compliance	DOE DepEd CHED
Short-Term (within 1 year)			
Conduct regional IEC	Practicing institutionalization of IETCs efficient management	Seminars	DOE and Attached Agencies LGUs Civil Society/NGOs Academe
Conduct IEC with DepEd & CHED	Incorporation in the curriculum efficient management of electric consumption e.g. proper economical use of electricity in all levels	Seminars	DOE and Attached Agencies DepEd CHED

Types of Measure:
- *Policy and Legislation*
- *Regulation, Enforcement and Compliance*
- *Information-Education-Communication (IEC)*
- *Capability-building*
- *Market Development*
- *Investment (Financing, Infrastructure, Technology, Incentives)*