

Philippines Development Forum

Working Group on Economic and Fiscal Reform

Power Sector Reforms



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Outline of Presentation

- I. Restructuring the electric power industry**
 - 1. Structure of the Industry**
 - 2. Action Points**
 - A. Debt Absorption**
 - B. Tariff Adjustment**
 - C. Privatization**

- II. Working towards a competitive structure**

I. Restructuring the Electric Power Industry

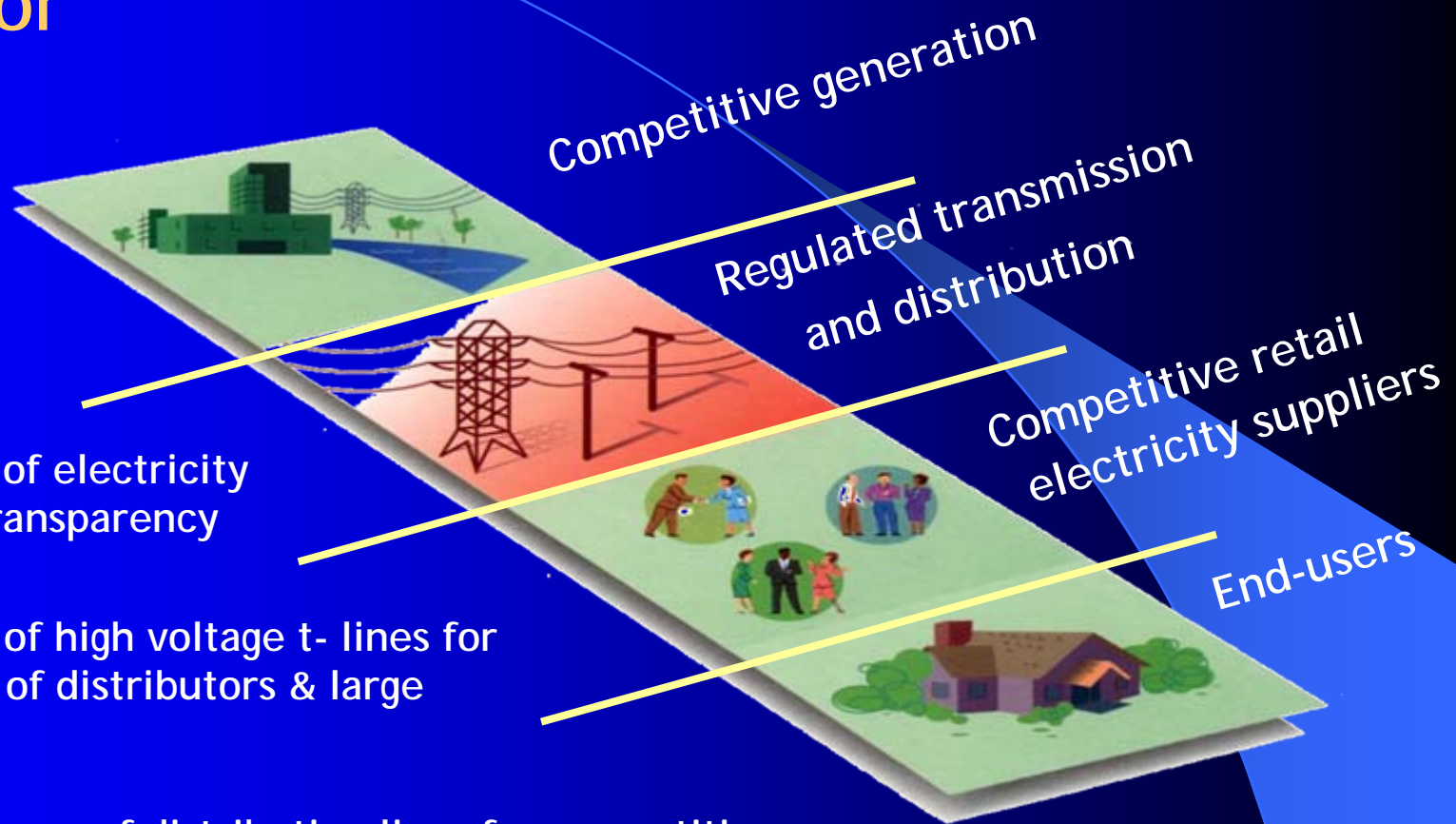
1. New Structure of Electric Power Sector

- Sale of NPC generation assets

- Unbundling of electricity tariffs for transparency

- Opening up of high voltage t- lines for easy access of distributors & large consumers

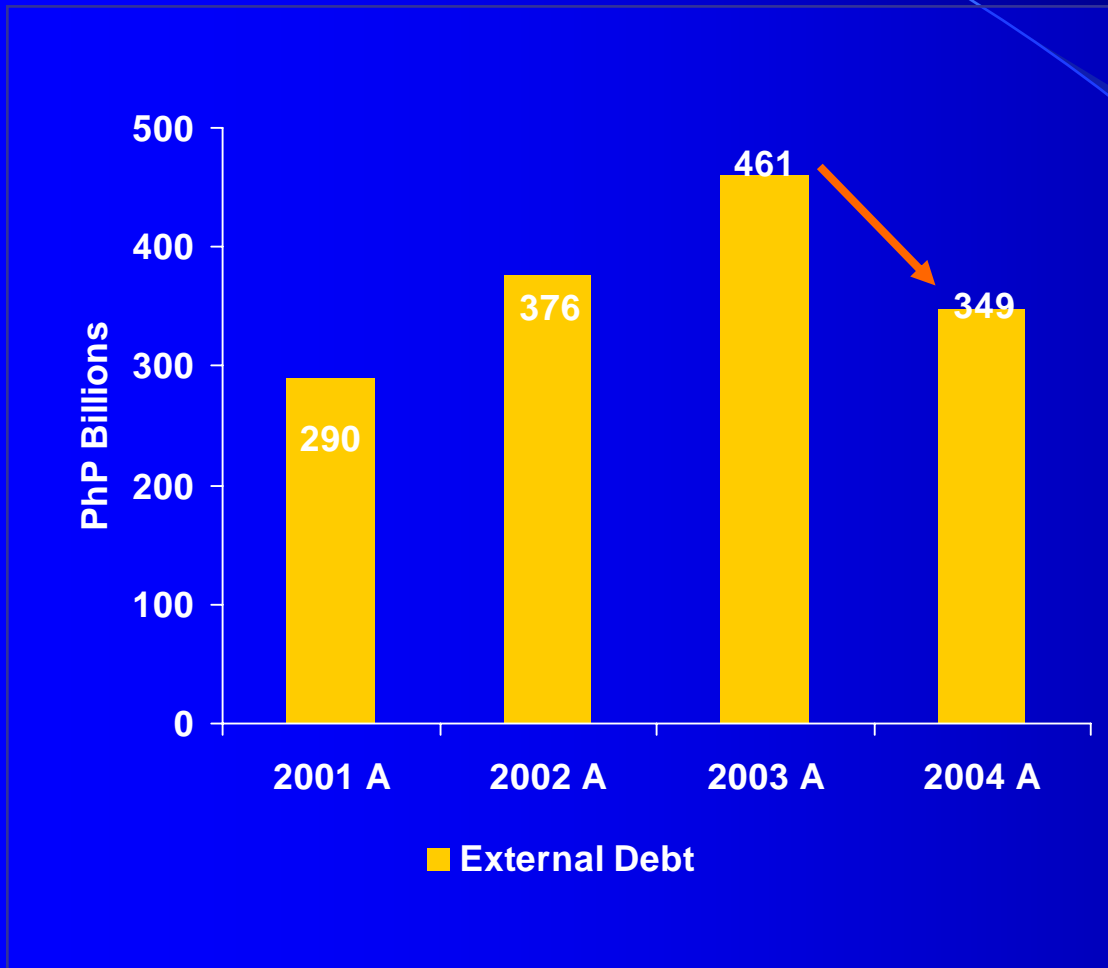
- Opening up of distribution lines for competitive consumers



2. Three-pronged Action Plan to address National Power's financial losses

- A. Absorption of NPC Debt by the National Government
- B. Tariff adjustment of NPC generation rate to reflect true cost
 - ❖ ERC has formulated a pricing policy and a regulatory environment that makes return and risks manageable for investors

A.1 Impact of Debt Absorption



Source: National Power

- ❖ Total external debt dropped by 24% in 2004
- ❖ EO 370 signed on October 12, 2004 to effect debt assumption
- ❖ Will reduce interest expenses significantly

B.1 Adjustment in Power Rates



- ❖ Unbundling of Power Rates for NPC
- ❖ Provisional approval to implement RORB-TOU effective Oct 2004 billing period : avg rate increase of Php0.9798 per kWh.
- ❖ Final authority to implement RORB-TOU effective April 26, 2005: avg rate increase of Php0.0555 per kWh.
total average increase = PHP1.0353 per kWh
- ❖ Issuance of Order to allow recovery of Deferred Accounting Adjustments (DAA) on the 4th GRAM and 3rd ICERA effective April 26 to May 25, 2005 billing period.

Improvement in NPC's financial performance

Year	2003	2004	2005
Net Losses (in PhP B)	117.02	29.90	Significantly less

- Reduction in interest expenses
- Reduction in operating expenses

Sustaining the impact on NPC financial position

* For 2005, NPC Expects to Continue to Trim Down its Net Loss

Programs undertaken and other mitigating factors:	
Revenue from approved generation charges	Php30.7B
Economic dispatch of NPC power plants	
Priority utilization of less expensive plants (hydro, geothermal, natural gas)	5.36B
Cost-cutting measures/expense prioritization	2.00B
'Other Income' due to estimated gain on forex fluctuations	19.50B
Discounts from fuel suppliers on fuel costs from March to July	42.15M

* As we move towards having a spot market, we pursue imposition of universal charge for stranded debt and stranded contract costs

2. Three-pronged Action Plan to address National Power's financial losses (cont'd)

C. Privatization

- ❖ Privatization of 70% of total capacity of generation assets
- ❖ Privatization of TransCo
- ❖ Bidding out of 70% of IPP contracts to IPP Administrators
- ❖ Disposal of the non-generating assets of NPC

C.1 Status of Privatization

- ❖ Six power plants so far privatized
- ❖ Total combined proceeds of US\$567M, or US\$0.932M per MW of capacity
- ❖ Representing 11%* of the 5,667.2 total MW capacity of NPC plants in Luzon and Visayas

Power Plant	Rated Capacity (MW)	Winning Bid (in US\$ Mn)	US\$ / MW (in Millions)
Talomo HEP	3.5	1.37	0.39
Agusan HEP	1.6	1.50	0.96
Barit HEP	1.8	0.48	0.27
Cawayan HEP	0.4	0.41	1.03
Loboc HEP	1.2	1.42	1.18
Masinloc Coal	600	561.74	0.94
Total	608.5	566.92	

C.2 Projected Privatization Schedule

Last Quarter, 2005	MW	First Semester, 2006	MW
Bataan Thermal*	225	Palinpinon	192.5
Calaca	600	Sucat*	850
Manila*	200	Ambuklao/Binga	75/100
Tiwi/Makban	274/410	Tongonan	112.5
Pantabangan	100	Gen. Santos*	22.3
Masiway	12	Iligan I&II	114
Cebu II*	54	Amlan	0.8
Magat	360	Bohol	22
Aplaya*	108	Navotas I & II	210
Bacman	150	Angat	246
		Limay/Bataan	
		Thermal Site	620
		Dingle (110 MW Pinamucan/ 36.5 MW Panay I)	146.5

C.3 Privatization Challenges

❖ Transition Supply Contracts (TSCs)

- **MERALCO and other Distribution Utilities (DUs) have yet to sign TSCs**
- **ERC has still to approve the TSCs executed by NPC with some DUs**

❖ Various Plant Specific Issues

- **Land Titling**
- **Water Rights/Water Charges**
- **O&M of the Non-Power Component of Hydro Plants**

❖ Creditors' Consent

Major Creditors:	ADB	World Bank	JBIC
Specific Consent			
Five Hydro Plants	✓	✓	✓
Masinloc	✓	✓	
Universal consent for debt and asset transfer	subject to the consent of all creditors, and execution & implementation of amendment agreements		

C.4 Privatization of Transmission Assets



- ❖ A 25 year concession, renewable for another 25 years
 - ❖ Award of concession to be undertaken through competitive bidding targeted for first quarter of 2006
-
- ❖ Concessionaire to serve as O&M contractor prior to obtaining a franchise
 - ❖ Structure of concession allows Transco to retain responsibilities for performance of all franchise-related functions in pre-franchise phase

Other Areas Open for Privatization

SPUG Privatization - There are 14 first wave SPUG areas for Private Sector Participation. As of 30 September 2005, 7 out of these 14 first wave areas already have New Power Providers.

TransCo's Divestment of Ownership and Operation of Sub-transmission Assets to Qualified Distribution Utilities - As of 31 August 2005, 16 sale packages have been completed by TransCo and additional 21 sale packages are for completion by the end of year 2005.

Qualified Third Parties (QTPs) - Technically and economically unviable areas which are waived by the DUs will be offered to QTPs. These QTPs will provide electricity to these waived areas. The Guidelines for the QTP Participation is currently being prepared by the ERC.

In summary...

Privatization strategy involves the following:

- execution of supply contracts
- Pursuing operationalization of a spot market
- Ensuring that non-market participants are adequately supplied

Time table is not cast in stone

- other factors such as VAT implementation may affect the privatization process

US 850 M TransCo Capex (2005-2010)

Major Transmission Line Projects Under the 2005-2010 TransCo Capex	Target Completion Date
<u>Luzon</u>	
(i) Binga-San Manuel 230 kV Transmission Project	2010
(ii) Biñan-Sucacat 230 kV Transmission Project	2007
<u>Visayas</u>	
(i) Cebu-Negros Interconnection Upgrading Project;	2007
(ii) Negros-Panay Interconnection Upgrading Project;	2007
(iii) Northern Panay Backbone Transmission Project;	2008
(iv) Wright-Calbayog 138 kV Transmission Project; and	2007
(v) Panay-Boracay Interconnection Project.	2006
<u>Mindanao</u>	
(i) Abaga-Kirahon 230 kV Backbone Transmission Project; and	2007
(ii) Kirahon-Maramag-Bunawan 230 kV Backbone Transmission Project	2007

System Peak Demand Forecast (2005-2014)

Grid	Ave. Annual Growth Rate	Critical Period
Luzon	4.26%	2010 –2011
Visayas	6.19%	2008-2009
Mindanao	6.53%	2006-2007
Philippines	4.85%	

II. Working towards a competitive structure

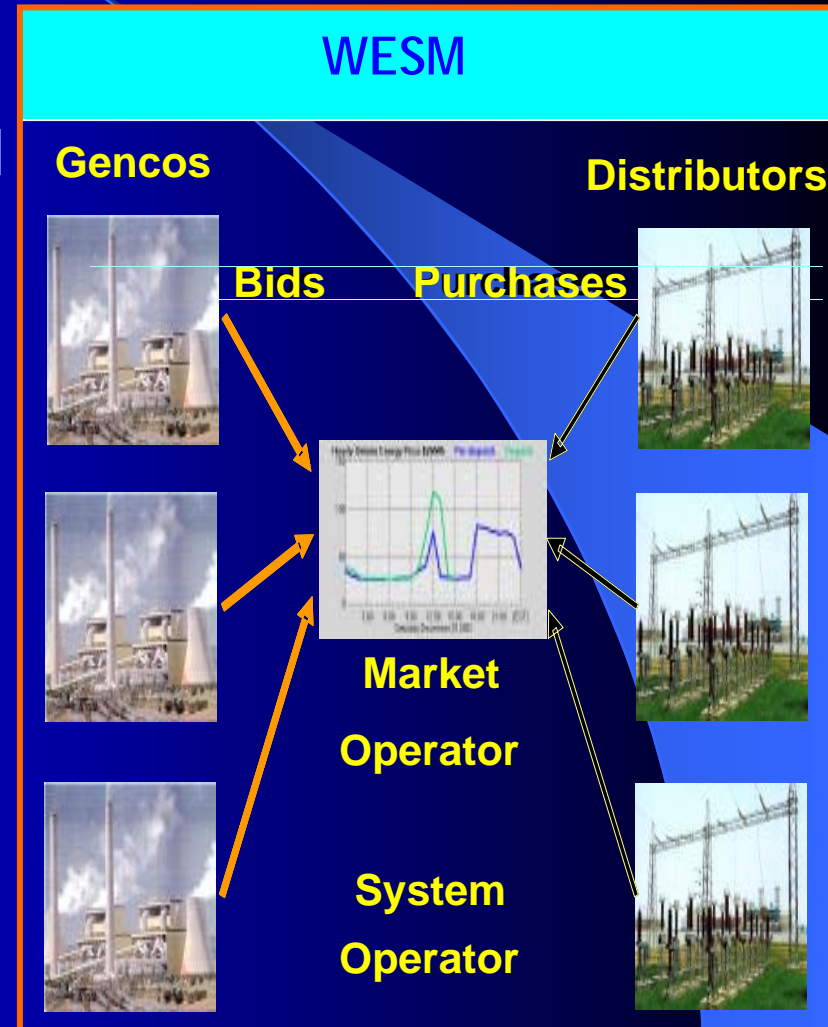
Wholesale Electricity Spot Market (WESM)

- ❖ A centralized venue for sellers and buyers to trade electricity as a commodity
 - a venue for true competition in generation
- ❖ **Wholesale** - open to generators, distribution utilities, directly connected customers, large customers and eventually supply aggregators with at least one (1) megawatt (MW) of electricity demand
- ❖ **Spot** market - electricity is traded in real time since it cannot be stored for future use

Wholesale Electricity Spot Market (WESM)

The operation of the WESM will lead to transparency and competition in the power sector

- ❖ ensures generation is balanced with the ever-changing demand for electricity
- ❖ Short and long term efficiency gains
- ❖ provides economic price signals
- ❖ operations in Luzon targeted by 1st Quarter of 2006



**Thank You and
Mabuhay!**