

2008 Philippine Energy Summit

Fostering Competition in the Electric Power Industry

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ADB and Philippines' energy sector



Over the last 30 years, ADB has provided about **\$3.6 billion** in loans, guarantees and around **\$15 million** in technical assistances to the sector

ADB Assistance to the Power Sector

- 20 loans (US\$1.6 billion) and a partial credit guarantee of JPY12 billion to National Power Corporation for power generation and transmission projects.
- 2 program loans to the Government for power sector restructuring and debt liabilities management (US\$300 +\$450 million).
- Partial Credit Guarantee to PSALM (US\$500 million)
- 35 technical assistance grants to the power sector for institutional strengthening and various studies (about US\$15.5 million)

ADB Financed Power Sector Projects (completed)

- Agus and Pulangi Hydro Power Plants in Mindanao (1970s)
- Meralco Distribution System Strengthening (1992)
- Pagbilao Thermal Power Station (private sector, 1993)
- Masinloc Thermal Power Plant in Central Luzon and related Transmission Lines (1995)
- Batangas Transmission Reinforcement Project (1998)
- Wholesale Electricity Spot Market (2004)

ADB Technical Assistance (completed)

- Electricity pricing and regulatory practice (\$600,000), 1998
- Consumer impact assessment (\$720,000), 2000
- Competition Policy for the Electricity Sector (\$990,000), 2001
- Transition to Competitive Electricity Markets (\$800,000), 2002
- Rehabilitation of Renewable Energy Projects for Rural Electrification and Livelihood Development (\$800,000), 2003
- Institutional Strengthening for the Development of Natural Gas Industry (\$800,000), 2003
- Promoting Good Governance in the Restructured Power Sector (\$800,000), 2003

On-going ADB Operations in the Power Sector

- Acquisition and Privatization of Masinloc Power Plant
- Renewable Energy Development in Negros Occidental, Visayas
- Northern Luzon Transmission Lines Reinforcement Project
- Institutional Strengthening of ERC and Advisory Services to PSALM for Privatization of NPC
- Technical Assistance to NEA for Preparing Rural Electric Cooperatives Development Project

Proposed ADB Operations in the Pipeline

- Rural Electric Cooperatives Development Project
- Standby Guarantee Facility to Support TRANSCO's Concession
- Financing Acquisition of Calaca Power Plant
- Energy Efficiency Project

Impact Assessment of ADB Support

➤ Sector Reform

- Independent energy regulator established
- Substantial progress in privatization (43% of NPC plants and TRANSCO concession)
- Wholesale electricity spot market operational

➤ Challenges

- Making electricity rate more affordable
- Averting power shortages beyond 2012

How much we pay? (Meralco, as at September 2007)

| | P/KWh (US cent/KWh) | % |
|--------------|-----------------------|------|
| Generation | 4.68 (11.4) | 58.5 |
| Transmission | 0.92 (2.2) | 11.5 |
| Distribution | 0.97 (2.4) | 12.1 |
| Losses | 0.62 (1.5) | 7.8 |
| Taxes/UC | 0.80 (1.9) | 10.0 |
| Total | 8.00 (19.5*) | 100 |

* The average wholesale price is about US cent 6/KWh, and retail price is US cent 9/KWh. i.e., the cost of generation alone in the Philippines is more than the final retail rate in the US.

Generation – What determined its cost?

- Generation (in Luzon) rates determined by (i) WESM (about 20% in Luzon); (ii) ERC approved NPC rates (about 55%) and (iii) Meralco IPPs (35%).
- Will there be potential for lowering generation cost?

Action needed: IPPA and UC

- WESM is largely dominated by PSALM owned and operated IPPs (about 70%)
- PSALM need to decide and proceed to select IPP Administrators to ensure competitiveness of WESM
- PSALM need to file universal charges for stranded costs to separate the financial liabilities and operations of IPP capacity

Transmission and Distribution

- Transmission and distribution rates are determined by performance based regulation
- TRANSCO will be operated more efficiently by its concessionnaire – ADB/WB offered stand-by facility
- Meralco and other DUs to avail performance based distribution rates – ERC decision needed
- ERC to issue streamlined regulation approach for ECs to allow recovery of capital and operational expenses (+ADB loan to ECs)

Open Access and Retail Competition

- Supply business is competitive for eligible consumers once retail competition and open access starts
- While proposed EPIRA amendment will help early implementation of open access, PSALM should continue to implement its privatization program to sell as early as possible at least 70% of NPC generation assets and transfer of **at least 70% of its IPPs to IPPAs (don't forget!)**.

Lifeline Rates

- Existing lifeline rates are not well targeted, varies based on utilities consumer base – a nation-wide uniform lifeline will be preferable
- For example, a maximum residential lifeline rate that would apply to all consumers, irrespective of utility based on the national average per-capita poverty threshold,
- For the funding of the lifeline rates, a universal charge may be considered.

Recap: What need to be done to lower electricity rates?

- Selection of IPPA to ensure competitiveness of WESM
- Introducing UC for stranded cost to separate the financial liabilities and plant operations
- Application of PBR for transmission and distribution
- Strengthen ECs' technical and financial capacity
- Review of lifeline rate mechanism to better target the vulnerable consumers

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