



The National Power Corporation
Sustaining Profitability in a Period of Transition

Presented by:

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PHILIPPINE ECONOMIC SOCIETY

44th Annual Meeting

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Presentation Outline

- I. Overview
- II. From **Red** to Black: The 2005 Performance
- III. Sustaining Profitability
 - Basic Considerations
 - Plans & Programs
 - To Sustain Financial Recovery
 - To Ensure Reliable Power Supply
 - To Expand Existing Markets
 - To Create New Markets
 - To Promote Professionalism and Continued Education in Power Plant Operations

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Overview

National Power at 70

- Still the Philippine's NUMBER 1 CORPORATION in terms of assets and sales
 - *A pioneer of the power industry with almost a century of experience in power generation, transmission, and power plant management and technical operations*
- A 100 percent government owned and controlled corporation
- Main business is power generation in both main and off-island grids
 - Power plants owned and operated, by fuel type:
 - *For Main Grid: Hydro, Natural Gas, Coal, Geothermal, and Fuel Oil*
 - *For Small Island Grid/SPUG: Diesel Oil, Solar, Wind, Mini- and Micro-Hydro*

Overview

Present Mandate based on EPIRA

- Continue to generate and sell electricity from undisposed generating assets and IPP contracts
- Perform missionary electrification for the 7,107 islands through the Small Power Utilities Group (SPUG);
- Management of more than 600,000 hectares watershed areas

Overview

Privatization

- Power Sector Assets and Liabilities Management Corporation (PSALM) mandated to privatize the generation and transmission assets of the government, and assign 70 percent of contracted capacity to IPP Administrator
- National Power privatizing 82 MW of off-grid missionary areas under the Small Power Utilities Group (SPUG)
- National Power 100-percent compliant in signing with customers transition supply contracts (TSCs)

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Turning Red to Black:

National Power's 2005 Financial Upturn

- ❑ Total energy sales of 35,291 GWh
 - 61.23% share in the Philippine total energy sales in 2005
- ❑ Posted a positive net income of almost P86 billion (US\$2 billion) in 2005, after almost a decade in the red
- ❑ Key Factors in achieving positive income in 2005
 - Recovery of true cost of generation
 - Substantial gain on FOREX fluctuation on the revaluation of foreign loans
 - Increased collection efficiency
 - Stringent cost-cutting measures resulting in significant savings
 - Successfully reduced dependence on oil importation for power generation

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Sustaining Profitability: Basic Considerations

- ❑ **Sustain the gains achieved in 2005 through continuous implementation of successful programs**
- ❑ **Formulation of new programs to further improve operational and financial performance**
 - Optimize operating efficiency of existing power plants
 - Implement capacity enhancements in existing generating resources
 - Adoption of retail time-of-use rates by DUs/ECs
 - Introduction of interruptible power tariff in tight power situation grids
 - Enjoin TransCo to ensure completion of its transmission projects to relieve network congestions and accommodate the entry of new generating capacities
 - Expand existing markets to enhance generation assets
 - Create new markets to utilize National Power's expertise in the field of power plant operations
- ❑ **Encourage private sector participation in putting-up much needed additional capacities to meet power demand plus reserve**
 - Luzon by 2011 onwards
 - Visayas by 2008 onwards
 - Mindanao by 2006 onwards

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o Basic Considerations

● Plans & Programs

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- To Ensure Reliable Power Supply
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To Sustain Financial Recovery

- Further improvement in currency rate
- Recovery of costs through tariff
- Continuing optimum generation dispatch
- Continue cost cutting measures
- Decrease in financing charges from lower borrowings

To Ensure Reliable Power Supply

- ❑ Optimize operating efficiency of existing power plants
- ❑ Encourage private sector participation
- ❑ Capacity enhancements in existing generating resources
- ❑ Adoption of retail Time-of-Use rates by DUs/ECs
- ❑ Introduction of interruptible power tariff in tight power situation grids
- ❑ Enjoin Transco to ensure completion of its transmission projects

To Expand Existing Markets

- ❑ Encourage existing customers to enter into bilateral contracts with National Power
 - Transition Supply Contracts (TSCs)
 - Default Wholesale Supply Arrangements
- ❑ Avail of Expanded One-Day Power Sales Program (EODPS)
- ❑ Special Rates for Economic Zones
- ❑ Customer Choice Program for 1-MW Customers within the Meralco Franchise Area

To Expand Existing Markets

Under Sec. 67 of EPIRA

- NPC offered TSC to all DUs
 - 126 signed to date including Meralco TSC

To Expand Existing Markets

TSC with Meralco

- Signed last Thursday (November 16, 2006)
- Five-year term
- Average of 6,600 GWh annually
- The price: Latest ERC-approved rate for the Luzon Grid

To Expand Existing Markets

Bilateral Contracts with National Power

- ❑ Protection from the volatilities and uncertainties of a deregulated generation market
 - Assures customers of continuous supply of reliable and quality electricity, 24 hours a day, 7 days a week
 - Minimizes risk of inadequate power supply for bulk electricity buyers as well as their customers
- ❑ Pricing based on ERC-approved Time-of-Use Rates
- ❑ Protection from price volatilities in the WESM
 - Provides a fairly stable pricing mechanism

To Expand Existing Markets

Default Wholesale Supply Arrangements

- ❑ National Power and PSALM designated as Default Wholesale Suppliers (DWS), per ERC Resolution No. 44, dated August 25, 2006
 - Address supply imbalances in the WESM
 - Ensure transparent and reasonable prices of electricity and enhance the competitive operation of the WESM
 - Ensure continuous supply of electricity to DUs and end-users

- ❑ Rules, Guidelines and Mechanics available through the ERC Website

To Expand Existing Markets

Expanded One Day Power Sales Program

- Dynamic and attuned to the goals and objectives of the EPIRA, including the power requirements of the Wholesale Electricity Spot Market (WESM)
 - Will utilize the latest information technology available in the market
 - Internet-based bidding for the 24-hour intervals
 - Online remote retrieval and access of metered data
 - Secure and hassle-free settlement and payment through the electronic banking system
- Customers' option to avail of the program at various tenors
 - From one day to one year or more, through the Day- , Month- o Year- Ahead Markets

To Expand Existing Markets

Expanded One Day Power Sales Program

- Aims to further promote and enhance the benefits of National Power's ODPS Program
 - Reduced the cost of electricity for bulk power consumers
 - Provided a choice, particularly to those that are undertaking self-generation, an alternative source of power priced below National Power's prevailing regulator-approved selling rate, given certain conditions
- Savings are translated to more efficient operations, and better service, to their own customers and consumers

To Expand Existing Markets

Special Rates for Economic Zones and Export-Oriented Industries

- Special discounts given to export-oriented enterprises within industrial estates and ecozones, in support of the Philippine Export Development Plan, and assist industries in reducing their operational expenses
 - Subject to negotiations of their minimum contracted energy
 - Now enjoyed by Subic Bay Freeport, the Clark Special Economic Zone; and under negotiation with the Cavite, Bataan and Baguio City and the Mactan I and II Export Processing Zones

To Expand Existing Markets

Customer Choice Program

- **Background:**

- Meralco offered to allow large industrial and commercial customers with demand of at least 1 MW to choose their own power supplier
- MOA to implement program signed last August 11, 2006
- Currently pending with the ERC for approval

- **Basic Feature**

- 1 MW and above consumer of Meralco has the option to choose their electricity supplier
- Meralco will continue to bill and collect from its consumers and remit full payment to NPC corresponding to the KWh purchased by its consumers

To Create New Markets

- Open for partnership as a provider of choice in allied services in the power generation sector
 - Offer services and expertise in the fields of power engineering, watershed management, and diesel power plant engineering
 - *With more than 3,000 professional, technical and competent men and women that can be mobilized to service your needs*

Our Services

● Power Engineering

- Energy Engineering Studies
- Plant Management, Operation and Maintenance
- Plant Engineering, Parts Fabrication and Remanufacturing
- Plant System Testing and Quality Assurance
- Procurement Services with Electronic Bidding
- Power System Planning and Implementation
- Technical Training Services

● Dams and Watersheds Management

- Flood Forecasting and Mitigation
- Forest Conservation
- Water Resources Management

● Off-Grid Diesel Power Plant Engineering

- Project identification and survey
- Design and procurement
- Construction
- Power market analysis and tariff development

Current Developments

- **Memorandum of Agreement (MOA) with the Electricite Du Laos and Electricite De Vietnam for Technical Cooperation**
 - Covers Plant Engineering, Operations and Maintenance Services and Rural Electrification
 - Other countries have expressed interest
- **MOA with the Laguna Lake Development Authority and CBK Power Co.**
 - First in the Philippines
 - Enrolled 190 hectares of Caliraya Watershed in Laguna for the World Bank's Carbon Shed Project under the Clean Development Mechanism (CDM)
 - National Power can trade verified emission reductions under the Land Use, Land Use Change and Forestry Window of the CDM, as provided under the Carbon Sequestration provision of the Kyoto Protocol

Promoting Professionalism and Continued Education in Power Plant Operations

- **Revival and enhancement of National Power's Cadetship Program for Power Plant Operations**
 - Mentoring by National Power Engineers for student trainees
 - Program focuses on the practice of engineering and power plant operations
 - Focus on professionalism and promotion of other core values in the practice of engineering, such as service, dedication, sincerity and honesty
 - Approach is from basics to the most advanced and recent practice, both in technology, management and human resource development

National Power, your partner. We empower you.

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THANK YOU & MABUHAY!