On May 12 this year, the Freedom from Debt Coalition (FDC) submitted to and presented before the Joint Congressional Power Commission (JCPC) its position paper titled "10 Reasons Why Electricity Bills Are High." In the said paper, the Coalition explained the confluence of factors causing high electricity rates—from bad governance to corruption to mismanagement to rent-seeking to framework concerns. Recognizing the complexity of the issue, FDC attempted to identify these factors as the Coalition's contribution to gaining a fuller understanding of the problem of unabated expensive electricity.

A Dozen Ways to Reduce Electricity Rates

Towards Sustainable and Pro-Consumer Electric Power Industry

17 June 2008

Freedom from Debt Coalition

Recently, Finance Secretary Margarito Teves, together with the newly-formed Economic Team Study Group created by the Arroyo administration, boasted of six government measures that would bring down rates by as much as 64 centavos per kilowatt hour (kWh). From asking the Distribution Utilities (DUs) to absorb the Value Added Tax (VAT) on systems loss starting July, to mandating Local Government Units (LGUs) to utilize 30 percent of their share of the National Wealth Tax to reduce electricity rates, these measures only serve to highlight the government's strategy of resolving the staggering hike of consumer electricity prices in the country by passing the buck to the next guy without sacrificing anything.

The Coalition believes that while these proposals may soften the blow of electricity rate hikes, the fundamental cause of the whole price surge is the underlying government paradigm of private sector control of supply and deregulation of a highly concentrated market. Thus, the administration's palliatives which pander to such a paradigm will not keep electricity rates down. FDC consequently rejects the Arroyo administration's unsustainable, and at times unfounded, populist rhetoric, serving only to raise false hopes of future security for ever-struggling and increasingly insecure consumers.

Strategically, we are calling for a complete and substantial overhaul of the Electric Power Industry Reform Act (EPIRA) which is one of the major reasons why electricity rates remain high. After seven years of implementation, EPIRA has brought about a transition from government monopoly to an enhanced private monopoly—worse, a hundred percent increase in power rates. The promised competition embodied in Wholesale Electricity Spot Market (WESM) is one of form with little substance. Hence, instead of rate reduction, we now have one of the highest rates today.

What we are actually witnessing appears to be a new kind of competition among leading and dominant players in the power sector with Malacañang seemingly in the leading role supported by Ricky Razon in TRANSCO, the Aboitizes in the generation sector and Winston Garcia's presence in MERALCO.

In this paper, FDC aims to offer, vis-à-vis the plethora of proposals by Secretary Teves and other interest groups, what it believes to be more sustainable, democratic, and pro-consumer solutions to the Philippine electric power quagmire.

The following measures are proposed:

1. **Remove oil and power from VAT coverage**. This will effectively reduce electricity rates by at least P0.80/kWh. In addition, a reduction of at least P4/liter of VAT on oil will cut down the generation cost of oil-based power plants. In 2007, oil-based power plants contributed 18 percent to total generation. When the capacity of natural gas plants, hydropower plants and coal-fired plants is not available for whatever reason, the oil-based power plants are put into operation to provide the electricity the other plants cannot supply.

2. **Refund to consumers the overcharging by DUs and NPC**. In the April billing of Meralco, the biggest distribution utility charged its customers P0.89/kWh more than it should have, if the 'least cost' provision of section 23 of EPIRA were to be followed. Meralco billed its customers P4.90/kWh in generation charge in April when the 'least cost' power during that time was National Power Corporation's P4.01/kWh. Meralco and other DUs still have to fully comply in the decision made by ERC to refund around P13 billion for meter and bill deposits provided under the Magna Carta for Residential Consumers.

   Aside from Meralco, another Lopez-owned DU, the Panay Electric Company (PECO), still owes the Ilonggos a P2.89-billion refund from the amount it illegally collected from its customers.

3. **Stop the operation of WESM**. Contrary to its mission of providing good choice and cheap supply of electricity, the Wholesale Electricity Spot Market has become a trading center of the most expensive electricity in the country. In March, its peak trading was P10.68/kWh. In April, it reached almost P12/kWh. WESM in the Philippines is running a small market whose supply is controlled by a few—the government through PSALM and NPC, and whose demand is largely that of only one utility—Meralco, which has sister independent power producers whom it favors in its purchase of electricity. According to WESM's own data, the Philippine electricity market is highly concentrated. Furthermore, studies of electricity restructuring have shown that even in less concentrated markets, a deregulated market can be effective only when it is heavily administered. This is costly, something that adds to the already high cost of electricity we are paying. The same studies also conclude that the functions of an independent market operator can be undertaken by an independent and competent regulator.

4. **Remove royalty taxes on the use of renewable energy**. Royalty taxes on natural gas from Malampaya in the last quarter of 2007, according to Meralco, amounted to P1.61/kWh. The policy change will not only bring down generation cost but also encourage investments in REs, which should be the way of the future, starting today.

5. **Amend RA 7832 or the "Anti-electricity and Electric Transmission Lines/Materials Pilferage Act of 1994**" by rationalizing further the allowable limits provided to PDUs, electric cooperatives and Transco to recover their systems losses from the consumers. Pass-on charges, particularly those from administrative and other non-technical losses should not be allowed.

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6. **Review tariff rates of NPC given its decreasing liabilities**, i.e. from P900 billion to P300 billion, with National Government writing-off P200-billion NPC debts. This is on top of fifteen (15) rate adjustments for cost-recovery since the unbundling of rates (Generation Rate Adjustment Mechanism and the Incremental Currency Exchange Rate Adjustment).

7. **Adjust tariff rates of electric cooperatives.** Some P18-billion debts of electric cooperatives were passed on to and absorbed by Power Sector Assets and Liabilities Management Corporation (PSALM) after the passage of EPIRA. But up to now, tariff rates of electric cooperatives are not yet fully adjusted to reflect the consequence of this debt condonation.

8. **Reform the Energy Regulatory Commission**. In the past six years, the Commission has been remiss in its duty of protecting the interest of consumers. Worse, ERC's presence only serves as false semblance of consumer protection, preventing more adequate, substantial, and effective measures to be taken. Thus, reforms must be undertaken to improve ERC:

    a. ***Depoliticize the ERC***. *Competence and integrity must be the main criteria for the selection of ERC commissioners, most especially its Chairperson.*

    b. ***Democratize the ERC***. *ERC as an institution, while retaining its quasi-judicial nature, should proactively re-focus itself from merely answering legal questions of rate increases towards meeting more substantive public concerns, such as the question of consumers' capacity-to-pay. Moreover, ERC must* ***accord full representation for consumers*** *by giving them at least one seat.*

    c. ***Prohibit the ERC in granting a provisional authority*** *for all kinds of cost recovery application. ERC should be empowered to decide directly on electricity price adjustments.*

    d. ***Stop the implementation of ERCs new rate methodology.*** *The use of performance based rate methodology allowed DUs and Transco to enjoy returns that are higher than the previously mandated return on rate base (RORB) of 8 to 12 percent.*

9. **Renegotiate IPP contracts**. Consumers should not be made to pay for electricity they did not consume. Onerous provisions such as the 'take-or-pay' guarantees provided by the government to both the NPC and Meralco IPPs must be removed. These guarantees assured the IPPs that they were to be paid fully for their generation capacities regardless of whether these contracted capacities are actually delivered or consumed. In preparation for the renegotiation, a performance and technical audit must be conducted among the IPPs to ensure if contracted capacities are optimized and actually delivered.

10. **Public investment for potential RE sources**. If the government is concerned about the country's sustainable energy future, it must invest in renewable energy now rather than wait for the private sector to come in later. Strategically, REs would provide not only the cleanest but also the most cost-effective energy in the country, particularly in the context of current skyrocketing prices of oil and coal. The Philippines is the second largest producer of geothermal power in the world, next to the United States, with installed capacity of more than 1,900 MW. Production in this area can be further optimized. Also, initial production of natural gas showed promising prospects of increased production. These vast resources,

including those from other renewable energy sources such as hydro, wind and solar, must be made top priority in future energy plans.

Aside from these, a new study revealed that the country has a vast potential in renewable energy—some 204,000 MW of capacities from geothermal, hydro, ocean, wind, natural gas and solar sources.

11. **Promote community-based power systems**. The country's archipelagic set up is a disincentive to a centralized power system. Our national grid made the cost of transmission excessively high because of its low utilization, a mere 22 percent according to the Asian Development Bank. Advance technologies in power generation, **decentralization** of power and democratization of ownership of the industry, and adequate government support can make this framework extremely possible.

12. **Eliminate corruption and mismanagement in NPC, National Transmission Corporation (Transco) and DUs** which tend to artificially inflate prices. Open the books of these utilities for comprehensive audit, and set the policy of procurement in a long-term contract manner in order to avoid or minimize the effect in the fluctuation of prices in the international market.

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