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Some Prescriptions for Pro-Poor Power Reform

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Some Prescriptions for Pro-Poor Power Reform

Last June 22, the National Power Corporation (Napocor) filed a petition with the Energy Regulatory Commission (ERC) to hike its generation rates by an average P1.85 per kilowatt-hour (kWh) to P4.09 per kWh nationwide from the current P2.44 per kWh. The new rate petition follows a P0.25 per kWh increase that the ERC granted the state-run power firm in early June.

In its petition, Napocor said the rate hike was "just, fair, and reasonable as it allows the recovery of allowable fuel costs incurred." It would also allow the state-run power firm to meet the minimum eight percent return on rate base (RORB) set by its foreign creditors, the World Bank (WB) and the Asian Development Bank (ADB). Napocor has been suffering from losses since 1998; in 2002 alone, it recorded a loss of P33.7 billion.

But a deeper look at the issues shows that the root cause of Napocor's losses, and the perennial problem of high energy rates, is privatization of the energy sector. By implementing policies such as build-operate-transfer and other similar schemes, government sought to attract independent power producers (IPPs) to build new power plants.

But in order to entice these investors, government gave IPPs generous incentives that guaranteed their profitability over the term of the contract, even if the plants did not deliver the contracted power. These incentives included "take-or-pay" provisions, which obligated Napocor to pay for most of the power produced by the IPPs, whether or not Napocor uses it; government taking over some of the IPP's responsibilities during project implementation, including providing the project site, right-of-way, and even tax refunds; and the fuel-cost guarantee, which requires Napocor to supply and pay for the fuel used in plant operations.

These provisions ensured that IPPs would be able to reap liberal profits even without delivering the electricity for which they were contracted. But Napocor has to shoulder the cost of these contracts, which is passed on to consumers through cost-recovery mechanisms such as the Power Purchased Cost Adjustment (PPCA) and the Fuel Cost Adjustment (FCA) collected by distributors.

Napocor income statements indicate that the state-run power firm has paid the IPPs more than P150 billion for purchased power from 1995 to 2002, and spent more than P30 billion for fuel, most of which went to the IPPs, in 2002 alone. Napocor obligations to the IPPs have resulted in its liabilities bloating from P122 billion in 1994 to almost P1.4 trillion in 2003.

But it should also be noted that under a deregulated regime, privately run distribution utilities such as the Manila Electric Company (Meralco) were also allowed to have their own IPPs. Meralco has three IPPs — Duracom Power, First Gas Power Corp., and Quezon Power Philippines — from which it sources most of its electricity.

Having monopoly control of both distribution and generation allows Meralco to pad its supply costs, making more profits from hapless consumers. Last year, Meralco opted to terminate early its supply contract with Napocor in order to source more of its power from its

IPPs. But according to Senator Juan Ponce Enrile, Meralco's IPPs charge the distribution utility more than P5 per kWh, while Napocor was selling electricity to Meralco at only P2.25 per kWh under its supply contract.

With the implementation of the Energy Power Industry Reform Act (EPIRA), deregulation is set to intensify even more. Virtually all of Napocor's power plants would be sold to private investors. Its transmission lines would also be privatized. But even after Napocor's privatization, the cost of the onerous IPP provisions would continue to be passed on to consumers through the universal charge collected by distribution utilities.

It is clear therefore that privatization of the power sector has failed to ensure that consumers have access to affordable power. Instead, it has intensified corporate control over the power sector, and deepened monopoly control over its various subsectors, allowing IPPs to extract super-profits from hapless consumers.

What is needed is to reverse deregulation and return control of the power sector to government. It is government who must run the power plants and control distribution and transmission facilities in order to ensure people's access to electricity that is priced at the true cost of generation without profiteering.

Reversing Deregulation

There are several policy recommendations that can be implemented immediately in order to reverse deregulation. These would help generate savings in the short-term, resulting in lower power rates, and halt moves towards further corporate control of the power sector.

1. Stop privatization of Napocor.

Government must stop the planned sale of Napocor plants. These plants still account for a substantial percentage of the electricity generated by Napocor. Keeping them would ensure that government would still somehow be able to influence the cost of electricity.

In line with this, government must also retain the transmission facilities of Napocor. These moves must be taken in the long-term context of nationalization of the power sector.

2. Cancel the most onerous IPP contracts.

Although government may want to uphold the sanctity of IPP contracts in order to not scare away foreign investors, the five most onerous contracts as identified by the government's own review panel clearly represent a serious and continuing drain on limited government resources. These contracts are the Binga Hydroelectric Plant, the Casecnan Hydroelectric Plant, the Cavite EPZA Diesel Plant, San Roque Multipurpose Hydroelectric Project, and the Sual Pangasinan Coal-fired Power Plant.

These contracts have helped to push Napocor deep into indebtedness and made it unprofitable. Thus, government must immediately cancel at least these five most onerous contracts and take over operation of their plants. The savings from these could be redirected towards building new power plants and help ensure that the country has sufficient power for its needs.

This would also alleviate, at least in the short term, the issue of excessive power rates, since government could control the output of these plants and would no longer have to pay for unused electricity or answer for onerous charges of these IPPs.

3. Cancel fuel-cost guarantees for IPP plants.

Fuel is supposed to be a basic operating expense for the IPPs, and yet it is government who spends for this. Not having to pay for the fuel they consume for their plant operations means that IPPs generate further profits at the expense of Napocor, and eventually, the Filipino people. Thus, Napocor should cancel all fuel-cost guarantees given to IPPs.

4. Write off debts due to onerous IPP contracts.

It is obvious that Napocor's huge debt burden is due to its obligations under onerous IPP contracts. Since widespread public outcry had resulted in the power firm not being able to pass these costs on to consumers, Napocor was forced to absorb them, and as a result, faced losses which resulted in the power firm becoming debt-ridden.

Thus, there should be a review of existing Napocor debt to determine how much of these resulted from obligations with IPPs. These are undoubtedly substantial. One recent study conducted by Credit Suisse First Boston-Arthur Andersen that was submitted to the Senate energy committee in August 2000 estimated that $9 billion of Napocor's more than $15 billion total liabilities as of that period were due to obligations with the IPPs.

These debts should be written off the Napocor books since they represent charges unfairly passed on to consumers. The resulting savings could then be used to develop the local power sector.

5. Rescind the EPIRA law.

Experience, not only in the Philippines, but in other countries as well, has shown that privatization and other neo-liberal reforms of the power sector result in excessive power rates and a bigger burden for consumers. EPIRA further institutionalizes privatization and effectively removes government control over the power sector. This makes it vulnerable to abuses by corporate interests such as monopoly control and foreign domination of the sector. Thus, EPIRA should be scrapped as part of an overall government strategy to recontrol the power sector.

Nationalizing the Power Sector

Although these measures would help alleviate the problem of high power rates in the short-term, as a long-term solution, government must undertake moves to nationalize the entire power sector - generation, transmission and distribution.

1. Take over the remaining IPPs.

Profit-driven corporate interests should not control a sector as essential as the power generation sector. The government must have essential control of it, to be run for the benefit of the country. Thus, government must take over operation of the remaining IPP power plants, and cancel their contracts.

2. Take over Meralco and other private distribution utilities.

In line with the long-term strategy of nationalizing the power sector, government must also control distribution. Government must take over Meralco and other private distribution utilities. The numerous cases of profiteering against Meralco are already a clear signal to government that it must not allow power distribution to stay in profit-hungry private hands.

3. Develop alternative sources of energy using appropriate technology.

Government takeover of the energy sector would be useless if the country remains essentially dependent on imported sources of energy such as coal and oil. Thus, government must fund research programs on alternative sources of energy that use indigenous resources. These could include micro-hydro plants, solar panels, wind power and bio-mass (using plant and animal wastes), which would be low-cost and environmentally friendly.

Electricity is a basic service that should be accessible to everybody. It should not be treated as an economic good to be traded according to the dictates of so-called market forces. It is the government's responsibility that this service be available to all at affordable rates.

If the Arroyo administration really wants to bring down the cost of electricity, as it has promised in the past, it must muster the political will to go against powerful corporate interests and reverse privatization of the power sector. But beyond reversing privatization, government must harness its resources towards building an affordable, accessible, and self-reliant energy sector that serves the needs of the country rather than generating profit for the corporations.

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