

ARROYO ADMINISTRATION'S INITIATIVES TO LOWER POWER COSTS



29 July 2002



Outline of Presentation

- **P/GMA's 10-Point Plan to Reduce Electricity Cost**
- **Action Plan to implement #2 of 10-Pt. Plan**
- **Program Pre-Launch: **SPEED****
- **Steps Forward**



PRESIDENT GLORIA MACAPAGAL-ARROYO'S



10-POINT PLAN TO REDUCE ELECTRICITY RATES



10 Ways to Reduce Electricity Rates

1. Reflect the true cost of service in the rates
2. Introduce price incentive to increase electricity demand
3. Optimize the utilization of generation capacity to minimize cost
4. Establish competitive wholesale generation market
5. Accelerate open access to give end-users the power of choice



10 Ways to Reduce Electricity Rates

6. **Require efficient performance of DUs**
7. **Strengthen the electric cooperatives**
8. **Seek to reduce IPP contract costs**
9. **Explore financial engineering to reduce stranded costs**
10. **Enhance ERC's capability to promote consumer welfare**



ACTION PLAN TO IMPLEMENT #2 OF P/GMA'S 10-POINT PLAN



Introduce Price Incentive Rate Structure



- For large end-users, price per kWh declines as consumption increases
 - To stimulate economic activity & electricity demand
 - To increase utilization of excess generation capacity, hence reducing stranded contract cost
 - To help distressed industries
 - To assist export industries in being globally competitive
- NPC to implement in partnership with utilities to jointly serve end-users



Special Program to Enhance



Electricity Demand



What Is SPEED?

SPEED is a special program of DoE and DTI for Meralco and NPC to provide large end-users a pricing incentive on incremental electricity consumption



Special Program to Enhance Electricity Demand (SPEED)



- **Joint Initiative of the DoE and DTI with MERALCO & NPC**
- **Price incentive to increase consumption by large end-users**
- **Guaranteed discount up to 24 months**



SPEED aims to

- **Introduce price incentive to stimulate incremental demand**
- **Increase utilization of the existing power plants in the grid**
- **Lower average power cost for large end users**



Proposed Coverage of SPEED

Phase 1 – Industrial customers with 1000 kW demand and above (by Sept. '02)

Phase 2 – Industrial customers with 500 kW demand & up (around October 2002)

Phase 3 – Commercials with 1000 kW demand and above (for assessment)



Universe of Customers of SPEED

Industrial customers with ? 1000 kW demand **219**

Industrial customers with 500-1000 kW demand **437**

Commercial customers with ?1000 kW demand **259**

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TOTAL 915



General Mechanics of SPEED

- Large end-users can avail of the guaranteed discount for a minimum of 1 month up to 24 months, while awaiting the introduction of WESM or while excess capacity exists, whichever is earlier
- Discount applies to energy consumption above the customer's baseline load (CBL), referenced to the calendar quarterly average for the 12-month period of Sept '01 to Aug '02
- **SPEED** short-run marginal cost formulae to include Power Delivery Service of TRANSCO
- This is a “pay what you take” arrangement



Indicative Luzon Grid Rates

	P/kWh	US/kWh
• MERALCO Industrial Customers		
Before NPC's PPCA rollback	5.00	10.0¢
Demand and energy charge	4.16	8.1¢
Energy charge only	3.72	
Energy charge SPEED	2.80	5.6¢
• NPC Industrial Customers	3.10	
Energy charge SPEED	2.30	4.6¢

We offer special fixed discount of P0.92 for Meralco and P0.80 for NPC or about 25% discount for their respective customers.



Impact of Reforms

- By July, the Philippines will drop to 6th place in electricity cost in Asia (US cents/kWh)

	Resd'l.	Comm'l.	Indus'l.
Japan	13.05	13.05	13.05
Singapore	11.70	7.82	7.42
Cambodia	10.86	16.24	16.24
Hongkong	10.48	12.48	14.07
Brunei	10.30	7.66	7.66
Philippines	9.12	9.33	8.09
Korea	8.29	8.29	8.29
Myanmar	7.73	7.73	7.73
Malaysia	6.42	5.90	4.41
Vietnam	4.57	6.19	2.44
China	4.50	7.40	6.30
Thailand	3.55	2.40	2.38
Indonesia	3.92	4.07	2.36
Laos	0.71	1.17	0.79



Next Steps

- NPC to file its proposed amendments to ODPS with ERC
- A special Task Force shall be created to implement and intensify marketing
- DoE and DTI to replicate **SPEED** with other private distribution utilities



Further Steps Forward

- **Continuous implementation of the 10-Point Plan**
- **Operation of the WESM**
 - **Target operation of Interim WESM before end 2002**
 - **Target operation of final WESM before end 2003**
- **Establishment of Open Access**
 - **As mandated, within 3 years from the implementation of the EPIRA (June 2004)**



Summary

- **Arroyo Administration inherited this power problem**
- **We know the solutions, we just need to implement them over the next few years**
- **This Administration is committed to**
 - **Reducing the cost of doing business**
 - **Helping our industries become globally competitive**
 - **Building a Strong Republic through accessible and problem solving bureaucracy**



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Th You

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