

BAGONG ALYANSANG MAKABAYAN AT MINDANAO - AGAINST PRIVATIZATION OF WATER & ENERGY RESOURCES (MPOWER)

POSITION PAPER

When Republic Act (RA) 9136 or Electric Power Industry Reform Act (EPIRA) was enacted in June 2001, various power assets of the government were sold to private corporations at grossly undercut prices from their appraised values. The TransCo now called NGCP has been sold to Henry Sy at a lower price of \$3.95 billion. Sy paid an installment of \$987.5 million while the remaining \$2.962 billion or P148 billion will be paid within 15 years. But the average annual income of NGCP is P15 billion hence the accumulated income within 15 years would be P225 billion. It means Sy will rake a profit of P77 billion from privatized State assets with a minimal investment. Due again to EPIRA, the government sold the two power barges Nos. 117 and 118, which have a combined generation capacity of 200 megawatts (MW), to Aboitiz-owned Therma Marine, Incorporated (TMI) at a bargain price of \$30 million while the projected capital recovery of TMI is \$84.7 million. So, Aboitiz will usurp a profit of \$54.7 million. Other than this, the Mapalad Power Corporation, a subsidiary of Conal Holdings of Alcantara group, which is constructing coal-fired power plant in Sarangani, has bought the Iligan Diesel Power Plant (IDPP).

EPIRA has a provision that deferred the privatization of Agus-Pulangi Hydropower Plants in 10 years. Last June 2011, the deferment has expired and the government is inviting bidders to take-over the said plants. Three private corporations that are planning to take the APHPs are the groups of Sy, Aboitiz and Alcantara.

Now, NGCP gets its source from APHPs, which has cheaper rates compared to power barges, but has an ancillary power procurement contracts with TMI. Here goes the bad deal and contrived shortage of power from APHPs – the PSALM reduced the contracted capacities to 30% with electric cooperatives and wanted them to sign contracts for additional power supply from ancillary contracts between TMI and NGCP. But, the cooperatives refused to engage because the private-owned power barges have high rates and they don't want to pass the burden to their consumers. Hence, the cooperatives opted to rotating brownouts.

Contrary to the promises of EPIRA in providing affordable and sustainable supply of power, monopoly control of big foreign and local corporations to the industry over 11 years of its implementation has increased private profits at the cost of very expensive electricity for the people. Due to EPIRA, the Philippines have become No. 3 of the most expensive power rates in Asia amounting to \$17.4 cents for residential and \$16.7 cents in industrial (2006 Comparative Power Rates in Asia). EPIRA was signed into a law by former President Gloria Macapagal-Arroyo last June 2001. The law restructured, privatized and deregulated the power industry with a promise of promoting competition to lower the rates and improve efficiency in service delivery. But in reality, EPIRA is a policy dictate of the World Bank, International Monetary Fund (IMF) and Asian Development Bank (ADB) to grant the government with loans of \$1 billion to save the dying domestic economy. The Philippines has a total debt burden of \$70 billion wherein 35% of it comes from NAPOCOR.

Within 11 years of implementation, EPIRA has:

- No decrease of rates in power;
- Facilitated the entry of foreign companies in power industry;
- Promoted the exploitation and plunder of natural resources;

- Not brought efficiency in service delivery

According to the independent think tank IBON Foundation, the NAPOCOR generating plants and contracted capacities with Independent Power Producers (IPPs) have been sold particularly to the San Miguel Corporation (SMC) of Danding Cojuangco, Aboitiz and Lopez groups. For example, SMC took 76% worth of 3,346 MW rated capacity of privatized NAPOCOR-IPP contracts in 2009 and 2010, aside from the 620 MW worth generating plants. The Aboitiz group meanwhile bought 36% of the total 4,103 MW rated capacity of privatized generating/operating plants. The Lopez group in turn took 14% of privatized plants. In effect, the power industry from generation, transmission, distribution, to supply is thus now almost entirely controlled by the oligarchs.

Based on World Bank's public-private partnership (PPP) database, the Aboitiz group is the foremost beneficiary of privatization, followed by the Lopez group, DMCI, Sumitomo, and J-Power. In the EPIRA period alone, there were 42 PPP (Public-Private Partnership) power projects in the Philippines that include the more than 10 coal-fired power plants since the government has signed more than 30 coal mining contracts with big foreign and local mining companies. 21 of these coal mining contracts are located in Mindanao. Further, private corporations are fast-tracking the construction of coal-fired power plants in 2014 to cater the increasing needs of foreign and large-scale mining companies. According to the Mindanao Business Council (MBC), the mining companies need at least 1,000 MW by 2014.

The core of EPIRA is deregulation through privatization of generation plants. It promised that with a 'free market' in place, electricity rate will go down based on the assumption that retail competition will drive prices down. The Wholesale Electricity Spot Market (WESM), a power trading center established by the DOE as per mandated by EPIRA, has resulted to rising costs of electricity in Luzon and Visayas due to the more expensive power sources bought through it. With the deferment of privatization in APHPs, the Mindanao grid is not connected to the national grid and its power rates are low compared to Luzon and Visayas. Now, the NGCP, in connivance with the government and Independent Power Producers (IPPs), wants to connect the Mindanao grid to the national grid and the privatization of APHPs to pave the way for the implementation of WESM in Mindanao.

There is big possibility that when the private corporation owns the APHPs, it would profitably drive up prices since it controls the plants. Since EPIRA allows "cross-ownership", it may also happen that the private owner of APHPs, who has controlling interests in distribution utilities and electric cooperatives, will manipulate a "sweetheart" supply contracts between power generation and distribution. So instead of competitive pricing, the private corporations monopolizing the generation, transmission and distribution of power would likely dictate the prices just like the oil cartels are doing under a deregulation regime.

Our conclusion

The biggest factors to the power woes in Mindanao are one, the failure of the government to rehabilitate and maintain the Agus-Pulangi hydropower plants, which supply 55% of power requirements in Mindanao. APHPs have an installed capacity of 320 MW but due to siltation and degraded watersheds, its capacity to generate electricity has reduced to 100-150 MW. The NAPOCOR failed to maintain and rehabilitate APHPs because the PSALM did not provide the

Since the power sector is now under the control of the oligarchs, they are not transparent in the real status of power supply. The private corporations, in connivance with the DOE, are creating an "artificial" shortage of energy to justify the privatization of Agus-Pulangi Hydropower Plants (APHPs) and other State power assets, imposition of new power rate increase, utilization of privatized power barges imposing high power rates, and pushing for the construction of private-owned coal-fired power plants. In effect, the government is allowing the formation of a power cartel. Instead of correcting the failures and exploitative nature of EPIRA, the Aquino government is hell bent on implementing it fully at the detriment of the consumers who are already suffering from the brunt of incessant oil price hikes. Instead of rehabilitating the APHPs and pursuing renewable energy alternatives, the Aquino government is actively promoting the construction of private owned coal-fired power plants and utilization of privatized and expensive power barges. These actions of the Aquino government are no different from the previous Arroyo government which failed to provide real reforms in the power industry and the society in general as well.

Our calls and viable recommendations In order to protect and uphold the interests of the public, the Bagong Alyansang Makabayan (BAYAN) Southern Mindanao Region along with MPOWER (Mindanao against Privatization of Water and Energy Resources) is recommending viable solutions to the power woes in Mindanao, namely:

1. Immediately junk the RA 9136 or Electric Power Industry Reform Act (EPIRA) and replace it with a pro-people and pro-environment energy policy!
2. Reverse the privatization and deregulation policies of the government and pursue the regulation status and nationalization of power resources and industry;
3. Conduct an independent and in-depth investigation on the alleged connivance among NGCP, DOE and private power corporations that resulted to the alleged "artificial power shortage" in Mindanao;
4. Government takeover of power barges to ensure regulated and low power rates, to protect the consumers from price manipulation and overpricing and to attain a stable supply of power;
5. Pursue the construction and utilization of nationalized and/or community-managed renewable energy that are proven to be clean, affordable and sustainable.

References:

IBON Foundation

Department of Energy (DOE)

World Bank PPP Database

Panalipdan Southern Mindanao Region