



Republic of the Philippines
Senate

SUBJECT : REPORT ON THE PUBLIC HEARING CONDUCTED BY THE COMMITTEE ON ENERGY REGARDING UPDATES ON THE IMPLEMENTATION OF THE EPIRA HELD LAST 15 SEPTEMBER 2004, WEDNESDAY, 10:00 AM AT THE SEN. G.T. PECSON ROOM, SENATE OF THE PHILIPPINES, GSIS BUILDING, PASAY CITY.

PRELIMINARY

The Senate Committee on Energy held a public hearing last 15 September 2004, 10:00 a.m. at the Sen. G.T. Pecson Rm., Senate of the Philippines, GSIS Building, Pasay City to discuss Updates on the Implementation of the Epira Law regarding Power Rate Increases, Privatization of Generation and Transmission Assets and the TRANSCO Franchise issue.

At 10:42 a.m., the Chairperson of the Senate Committee on Energy called the hearing to order and had the following resource persons in attendance, to wit: Secretary Vince S. Perez of the Department of Energy (DOE), Undersecretary Cyril del Callar of the DOE, Atty. Raphael Lotilla, President of the Power Sector Assets and Liabilities Management Corporation (PSALM), Mr. Froilan Tampinco, Vice President for Asset Valuation and Disposal, Dr. Alan Ortiz, President and CEO of the National Transmission Corporation (TRANSCO), Mr. Rogelio M. Murga, President of the National Power Corporation (Napocor), Atty. Rodolfo B. Albano, Jr. Chairman of the Energy Regulatory Commission and Mr. Paul Aquino, President of the Philippine National Oil Company.

HIGHLIGHTS

Senator Miriam Defensor Santiago, Committee Chair, asked the resource persons present to divulge their monthly or annual incomes and allowances since the issue of fat paychecks of government officials have been in the headlines lately. Mr. Froilan Tampinco, Vice President of the Asset, Valuation and Disposal disclosed to the Committee that he has an annual income of P936,000. Mr. Raphael Lotilla, President of PSALM, has a salary of P107,427 per month with an monthly extraordinary and miscellaneous expense of P19,167 plus representation allowance of P7,350. Mr. Del Callar told the Chair that his' gross monthly income as Undersecretary of the DOE is P30,338, plus 10,000 for representation and transportation allowance and P1000 for rice allowance for a total of P41,338 gross monthly income. Sec. Vince Perez of the DOE said that he has a monthly gross income of P51,400. Mr. Rogelio Murga, President of Napocor said he has a monthly salary of P107,000 plus P19,000 in representation allowance. Mr. Alan Ortiz, President and CEO of TRANSCO said that his salary is P107,000 a month plus P19,000 in representation allowance. Mr. Rodolfo B. Albano has a monthly salary of P105,000 and a car allowance of P7,000 and miscellaneous expenses of P29,000 as Chairman of ERC. As Commissioner of ERC Mr. Jesus Alcorido said that he has a total gross monthly income of P94,000.

Senator Santiago asked the Napocor President on the reason why NPC is heavily in debt to which Mr. Murga responded by saying that basically the selling price of Napocor per kilowatt hour is lower than its operating costs. He went on to say that in

2002 there was a reduction on the selling rate by P0.85 which resulted in further losses. He said that the aggregate loss of Napocor from the time they applied a rate increase of P0.97 two years ago was P16 billion. Mr. Murga told the Committee that Napocor started losing money in 1998 when the rate per kilowatt hour then was higher than its production costs. He said this loss was brought about by revenue decreases and reduced power demand due to the financial crisis in 1997. These factors, when combined with the rise in the costs of petroleum and materials for operation contributed to the now staggering loss of Napocor, Murga said.

Senator Juan Ponce Enrile questioned Mr. Murga on why Napocor made a deferment of P0.85 per kilowatt hour of PPA and how this would translate to a P16 billion peso loss in two years. He also asked why ERC authorized an increase of P0.97 rate per kilowatt hour despite Napocor having lost P16 billion. Mr. Murga replied that Napocor obtained a P0.85 per kilowatt reduction thru an annual sale of P34 billion per kilowatt hours. Senator Sergio Osmena III interjected that Mr. Murga divulge to the Committee a correct computation of the losses of Napocor. Sen. Osmena expressed his disbelief that Napocor had a declared loss of only P16 billion since 1992, to which Sen. Enrile seconded by stating that he does not believe in the actual figures stated. The senators recommended that a computation be done to calculate Napocor's total sales per month multiplied by P0.85 per kilowatt hour. The computation revealed a loss of P28 billion instead of the declared loss of P16 billion by Napocor officials, prompting Sec. Perez to clarify the disparity in the calculations. Sec. Perez stated that Napocor had a deficit of P523 billion in 2003 assuming in addition to lease and payment obligations. He said these are not debts but obligations to IPPs. He said that when Napocor started losing money in 1998 as a result of the Asian financial crisis, it actually gained profits from its operating income basis. He stated that the P100 billion in actual loss in 2003 includes P66 billion coming from all GOCCs. He said the new accounting method used to arrive at this conclusion was the S+8A standard in all foreign exchange. The explanation however drew the ire of Sen. Enrile who asked if the new accounting system was made to hide the losses incurred by Napocor? Sen. Osmena also noted that the Committee does not have the rates used by Napocor for the years 2001 and 2002 in order to justify Napocor's 85 cent reduction per kilowatt hour. He gave instructions to officials of the NPC to submit to the committee their basis for a reduction in rates for the years 2001 and 2003 and the corresponding cases made by ERC during said period.

Mr. Murga was also asked by the Chairperson as to which President signed the most number of IPP's despite warning coming from the World Bank that too much of it could lead to an oversupply of electricity thus leading to higher electricity rates. Sen. Santiago read into the record that former President Fidel Ramos signed the most number of IPP contracts during his term. She said Mr. Ramos signed 28 IPP contracts which cost the government US\$7.3 billion. Sen. Santiago also asked why despite warnings from the World Bank that an oversupply of electricity could lead to higher electricity rates, did Napocor allow the signing of these contracts with Mr. Ramos and these IPPs.

Senator Santiago asked whether the country is in a state of an energy crisis, to which Sec. Perez of the DOE responded by saying that in certain parts such as Cebu and Panay, power shortages are being experienced. Sec. Perez however divulged that late next year a power crisis in Mindanao is imminent.

Senator Joker Arroyo inquired into the separation pay of Napocor employees. Sec. Perez said that Napocor employees received their separation pay through the borrowed money and internally generated incomes by Napocor. Sen. Arroyo also asked what was the advise given by Secretary Perez with regard to the President when the administration considered a reduction of 85 cents per kilowatt hour? Sec Perez said that it was appropriate to get a universal charge approved be ERC that will cover reductions of PPAs.

In her summation of the hearing, Sen. Santiago said that the NPC and other agencies in the hearing failed to convince the committee of the veracity of the figures presented. She noted that Napocor started to lose money in 1998 due to the over supply of IPPs contracted by government. She observed that NPC's operating income loss was due to non-recovery of operating expenses from ineligible IPP's. The Chair declared that the Committee will investigate the 28 IPPs contracted during the Ramos administration.

The hearing was adjourned at 12:26.

*Prepared by: **ROBERTO R. SERRANO, JR., Committee Secretary***