

Power prices

Where we are and how do we reduce the bill

AUGUST 28, 2014

Key policy questions

- Why are power prices higher in the Philippines than in most other countries in the region (and can this gap be lowered)?
- Where does the customers' money go (and how can we contain or reduce the customers' bill)?

Regional Comparison of Electricity Prices

Findings of the International Energy Consultants

Philippine tariffs are “fully cost-reflective, which is sound economic policy”

- Policy is similar to Singapore, Japan, and Australia

Rates in Thailand, Malaysia, South Korea, Taiwan, & Indonesia are low due to “government subsidies”

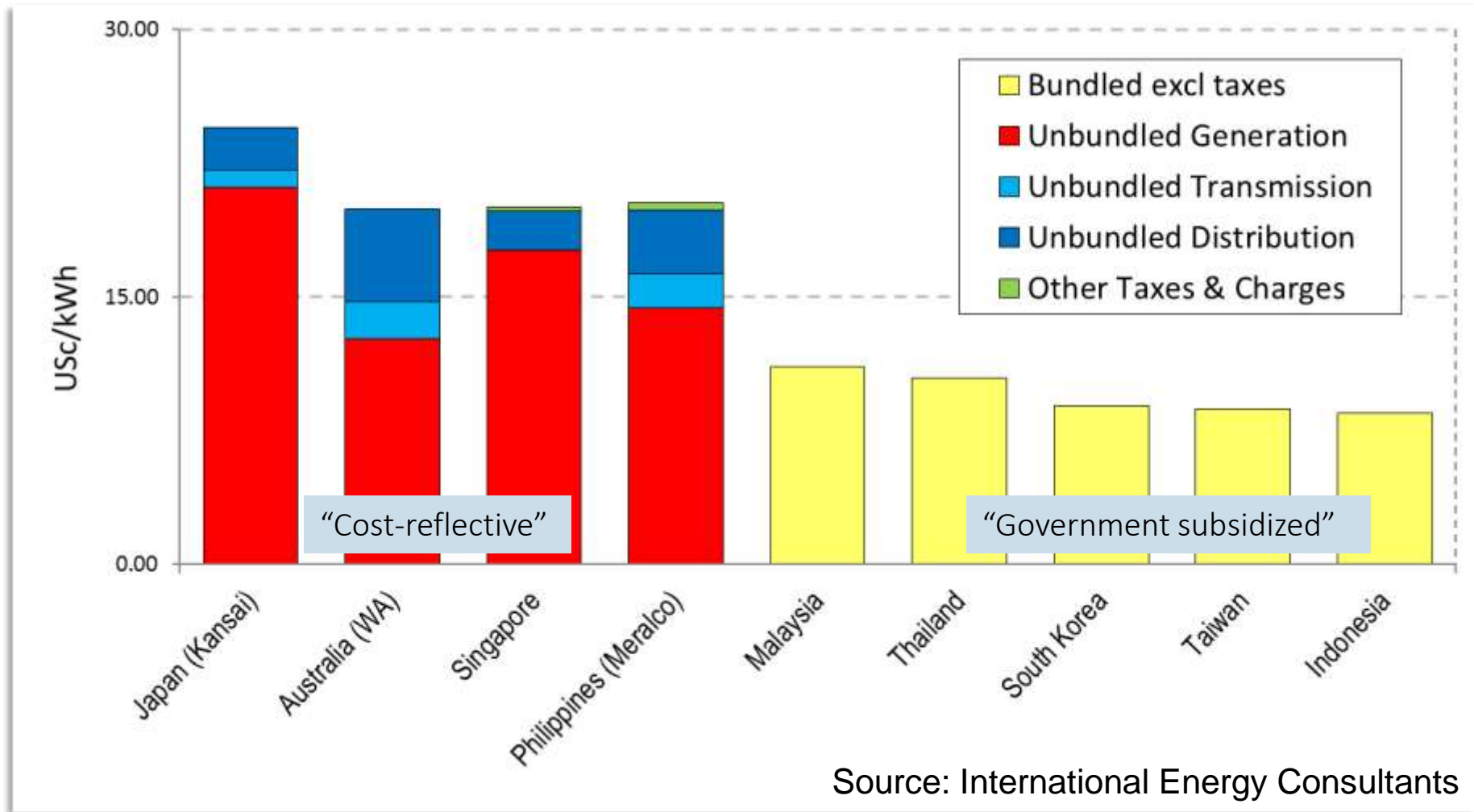
- “Tariffs remain well below the cost”
- “Poor economic policy ... unsustainable”



John Christopher Morris, Ph.D.
Managing Director

International Energy Consultants

Comparison of Average Retail Electricity Tariffs

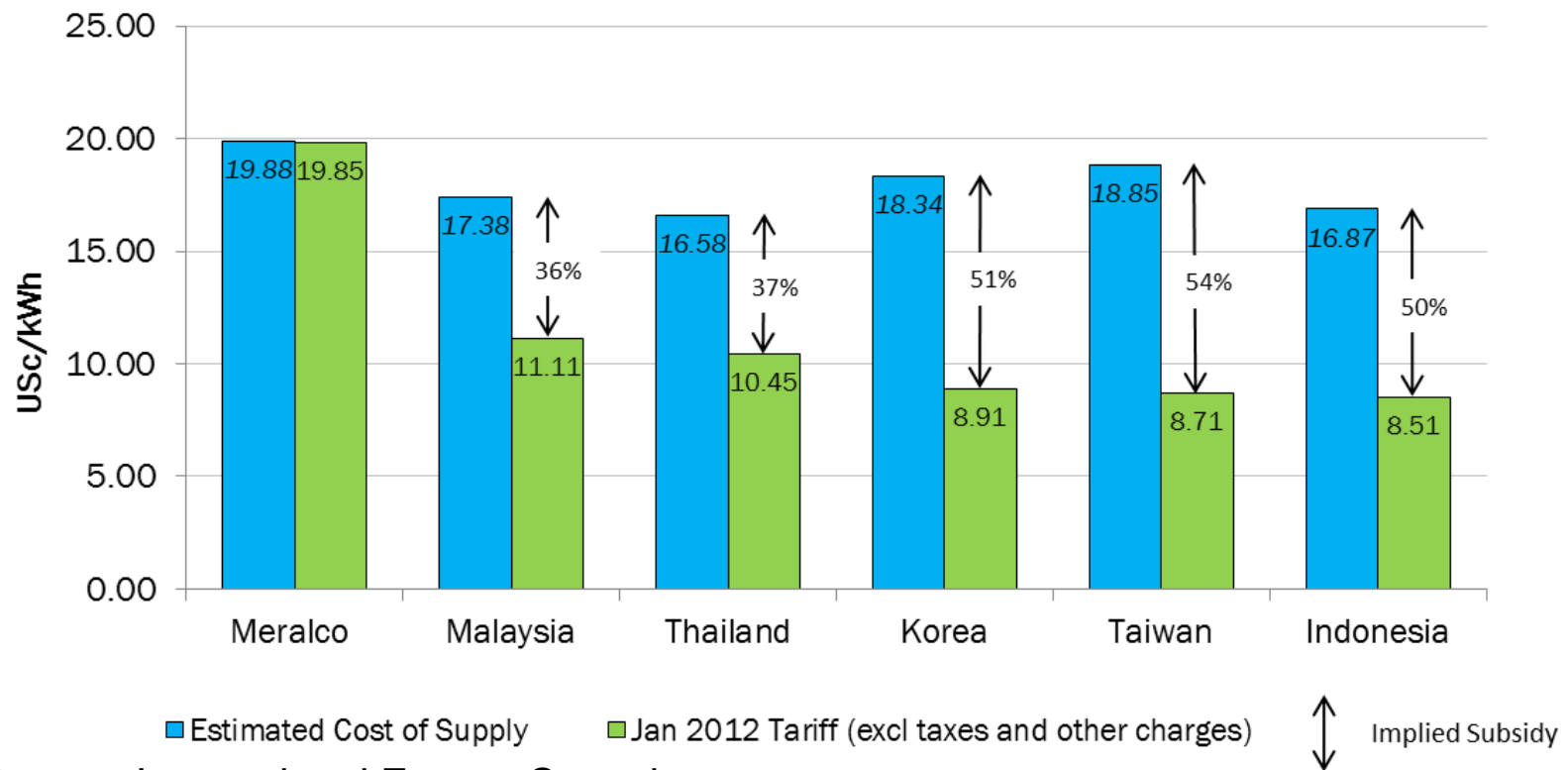


Notes:

1. Weighted average tariff (all customer categories), excluding VAT
2. Tariffs are for January 2012

Government subsidies in other Countries

- Subsidy is up to 54% of the power cost
- Through **subsidized fuel, cash grants, additional debt, deferred expenditures**



Source: International Energy Consultants

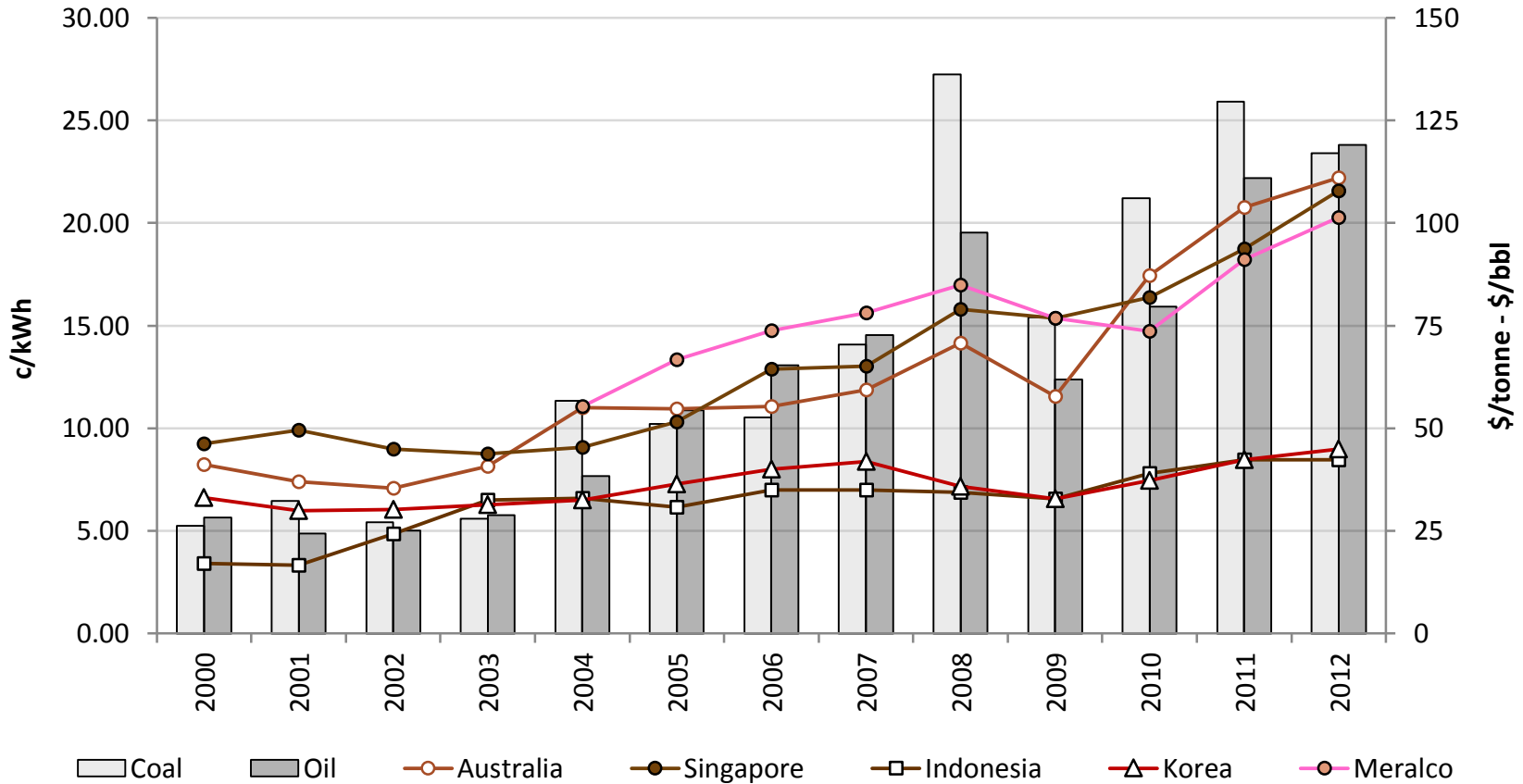
Other Findings of the International Energy Consultants

Philippine dependence on the price of imported fuel

- “Fuel is the largest component of the tariff. Approx. 80% of generation on Luzon is fuelled with imported coal & oil (at full international market prices) & domestic gas (pegged to international prices)”
- “Several (but not all) other countries with lower tariffs provide fuel to their utilities at below-market rates”
- Their government-owned power generation, transmission, and/or distribution companies are subsidized, absorb costs, and/or incur losses

Historical Fuel Costs vs. Tariffs

Over the past decade, some markets have passed rising fuel costs on to customers (eg. Singapore, Australia, Philippines) but others have not (eg. Indonesia, Korea)



NB. Meralco, Indonesia & Korea are averages of all tariff classes; Singapore, Australia are residential tariffs only

Source: IEC

Key Policy Responses/ Actions

- Philippine electricity prices are higher due to no government subsidies, fully-priced and “heavily”-taxed across the supply chain.
- Inadequate and unreliable capacity vs. demand forces the use of expensive oil-fired power plants and creates market price spikes, ergo, new cost-competitive capacity, such as high efficiency coal-fired plants, must be built quickly.
- Other countries are starting to reduce their own subsidies.

Key policy questions

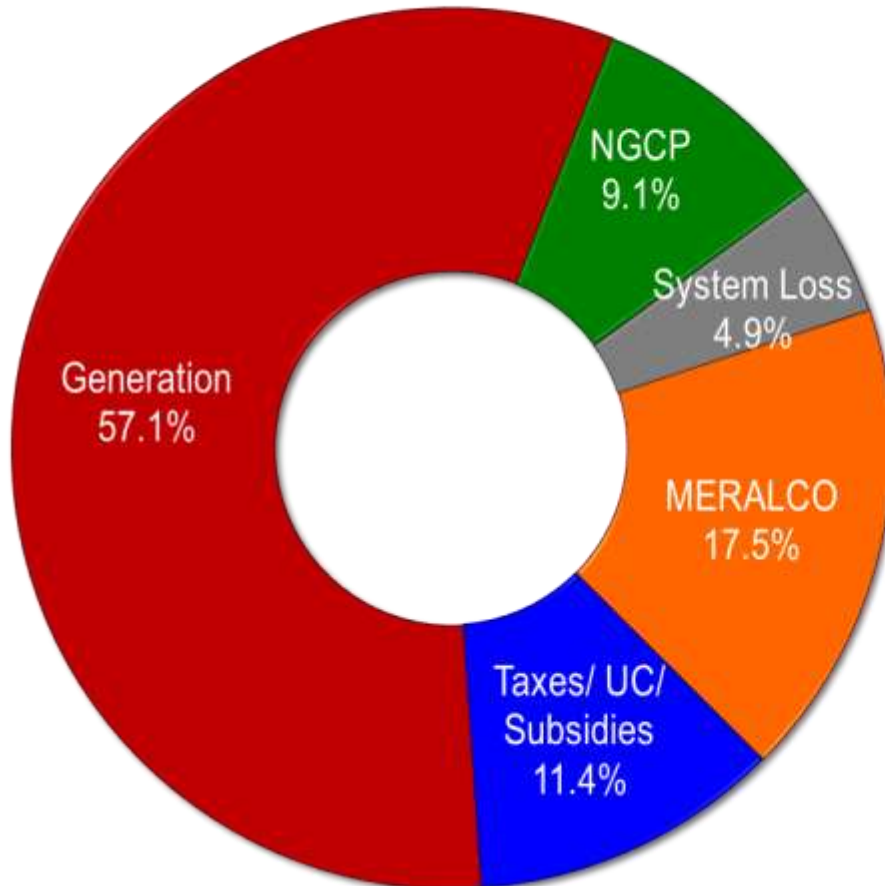
➤ Why are power prices higher in the Philippines than in most other countries in the region (and can this gap be lowered)?

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Ave. Retail Rate, 2013

➤ Generation Charge, largest component in customer's bill, 57.1%; Meralco 17.5%; NGCP 9.1%

Share of All customers

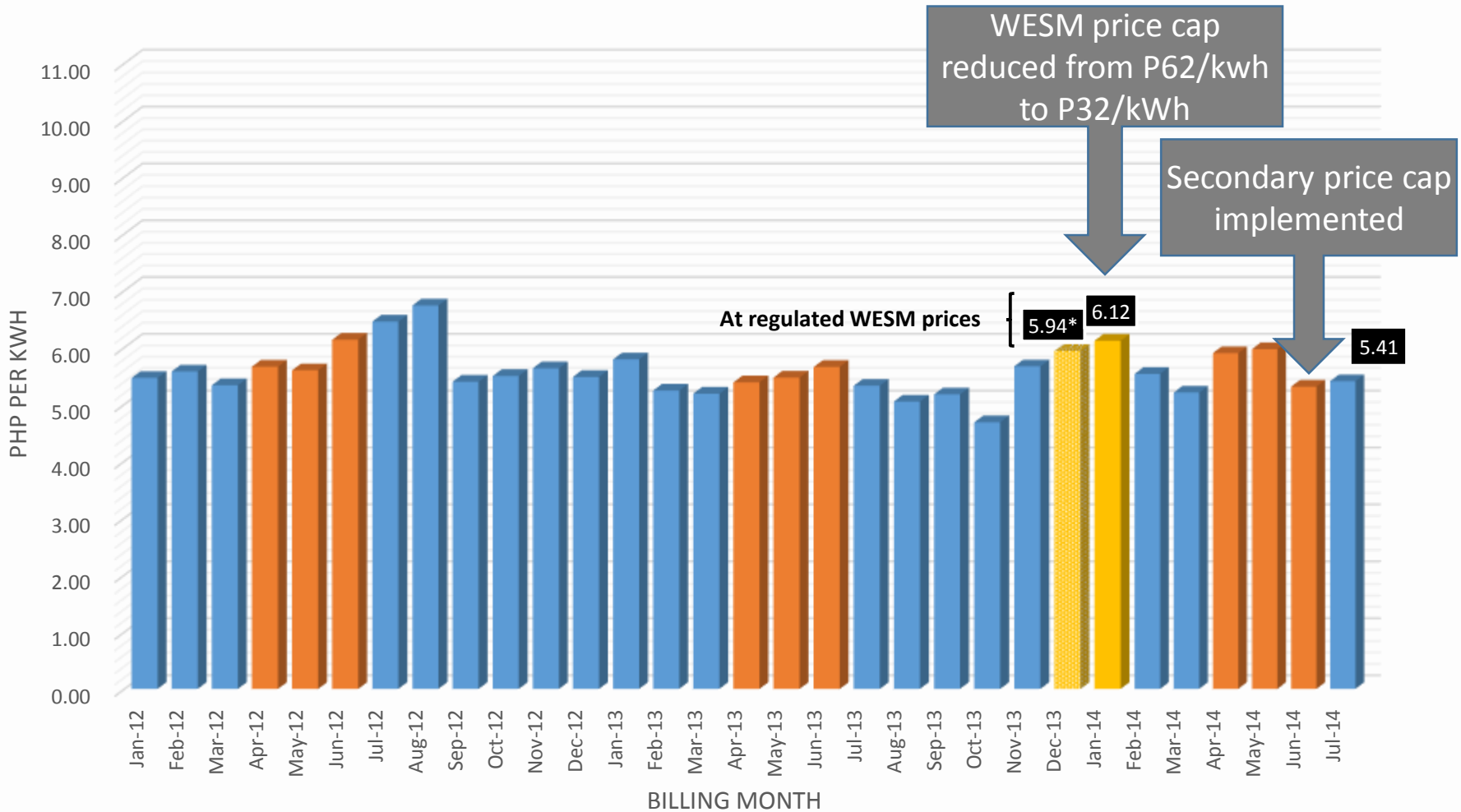


BILL COMPONENT	2013 Overall Ave, P/kWh
Generation Charge*	5.39
Distribution Charge** (MERALCO)	1.66
Transmission Charge** (NGCP)	0.86
System Loss Charge**	0.46
Taxes, Univ Charge**	1.08
TOTAL	9.45

* Generation Retail Rate (applies to captive customers only)

** Other Charges are based on total captive and contestable customers in Meralco Franchise Area

Meralco Generation Charge relatively stable



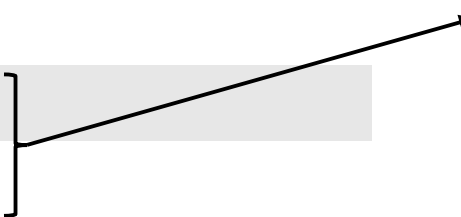
*based on estimate

Meralco WESM Purchases

% Share to Total Volume reduced

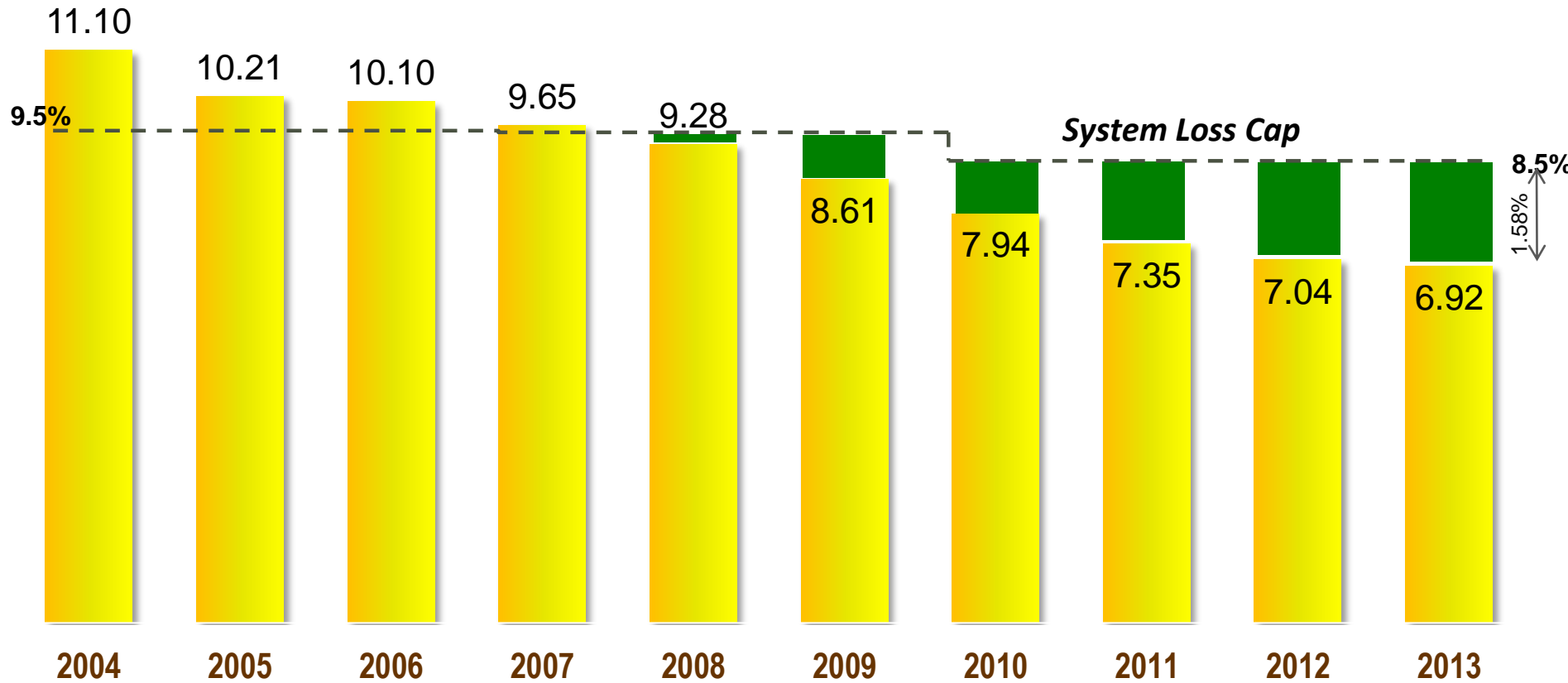
	2012	2013	2014
January	5.6%	(0.1%)	2.2%
February	5.9%	1.3%	3.5%
March	8.4%	3.0%	3.9%
April	5.0%	4.8%	3.4%
May	6.3%	5.5%	4.3%
June	7.2%	6.0%	5.6%
July	14.8%	7.1%	7.0%
August	4.0%	2.5%	
September	8.0%	8.3%	
October	7.9%	9.2%	
November	6.7%	11.5%	
December	9.4%	14.1%	
AVERAGE	7.5%	5.9%	3.9%

Increase in Nov and Dec 2013 due to 21 forced outages and 7 scheduled/extended maintenance shutdowns



Meralco system loss

Consistent reduction = Savings to customers*



*Since 2008, a total of P12.6Bn or equivalent to 7.02¢/kWh

The power sector is heavily taxed

Phl Power Market is a fully-priced market. No Subsidies and heavily "taxed"

GENERATION

DELIVERY

Transmission

Distribution



- VAT
- Royalty/Tax on indigenous fuels or Duty/Tax on imported fuels
- Real Property Tax
- Other taxes & fees



- 3% franchise tax, in lieu of all other taxes



- VAT
- Local Franchise Tax on pass through gen/ trans/ system loss charges *
- Local Franchise Tax on distribution charges
- Real Property Tax
- Energy Tax on residentials
- Universal Charges incl FIT
- Other taxes & fees

* not applicable to electric coops

Impact of government proceeds from Malampaya Natural Gas (2001-2012)

	In PhP billions	Estimated add-on to the Luzon power rate (PhP/kWh)
Gross Proceeds, Net of Cost Recovery & Contractor Revenue	300.072	0.70
National Govt Share, Net of Taxes & LGU Assistance	106.955	0.25

Value-Added Tax (VAT) on electricity

Beginning November 2005

As VAT is a percentage tax (unlike excise taxes), the VAT burden increases with any increase in the other electric rate components

In 2013, VAT accounted for **P0.74/kWh** in the average customer bill

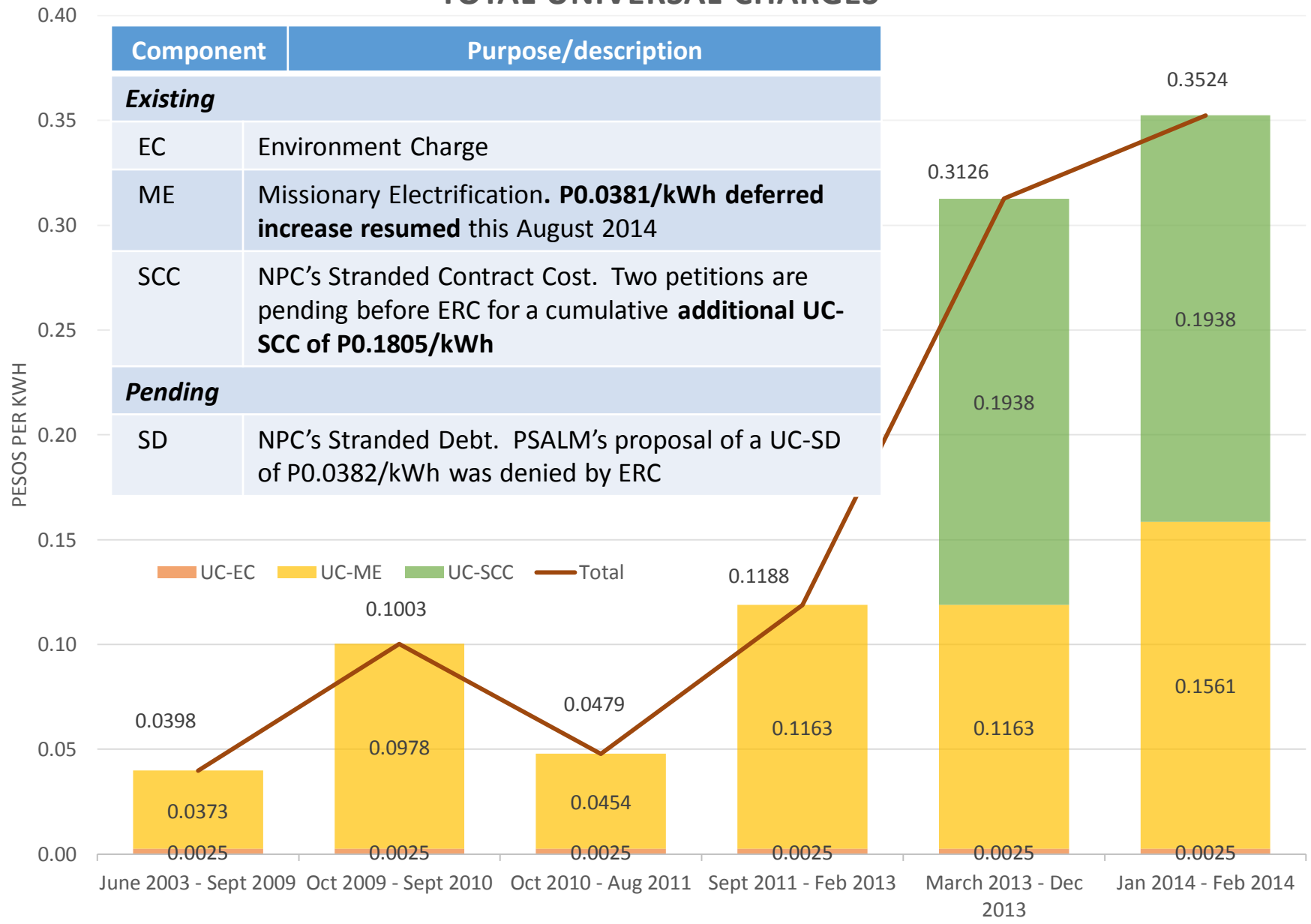
BILL COMPONENT	2013 Overall Ave, P/kWh
Generation Charge*	5.39
Distribution Charge** (MERALCO)	1.66
Transmission Charge** (NGCP)	0.86
System Loss Charge**	0.46
VAT	0.74
Other Taxes, Univ Charge**	0.34
TOTAL	9.45

* Generation Retail Rate (applies to captive customers only)

** Other Charges are based on total captive and contestable customers in Meralco Franchise Area

Universal Charges increasing

TOTAL UNIVERSAL CHARGES



How can we contain or reduce the customers' bill?

POWER SUPPLY COST & RELIABILITY

(57% of Ave. Customer Bill)

- Build highly fuel-efficient and reliable new capacity
- Seek more cost competitive fuel sources (coal, indigenous nat gas and LNG), local and offshore
- Better scheduling of maintenance turnaround of power plants
- Enhanced reliability of existing power plants
- Resolve transmission congestions

How can we contain or reduce the customers' bill?

TRANSMISSION & DISTRIBUTION RELIABILITY AND COST

(27 % of Ave. Customer Bill)

- Flat Distribution charge/kWh for 2012-2015
- About 60-65% of Transmission Charge/kWh will be relatively flat until 2015, the balance of 35-40% constituting ancillary service charges which may fluctuate.
- Undertake required Capex investments to further strengthen T & D system, to resolve transmission congestions and to modernize the T & D infrastructure
- Drive for more effective T & D coordination / synchronization to minimize supply interruptions

How can we contain or reduce the customers' bill?

SYSTEM LOSS

(5 % of Ave. Customer Bill)

- Incentivize further reduction through fair saving sharing program for DUs and Electric Coops

How can we contain or reduce the customers' bill?

TAXES & UNIVERSAL CHARGES

(10% of Ave Customer Bill)

- Carefully consider reducing government take.
 - Reduced VAT rate and RPT rate during interim period of tight supply
 - “Correct” tax base for VAT and LFT, to eliminate ‘tax on tax’ and royalty
 - Apply part of Natural Gas royalty take to reduce power rates
- Extend BOI fiscal incentives for required new plants, targeted to reduce power prices
- Judicious action on any new Universal Charges, e.g., Stranded Debt recovery, Feed-In Tariff Allowance (FIT-All)

How can we contain or reduce the customers' bill?

CONTAIN CONSUMER SPEND ON POWER

- Actively drive energy efficiency and consumption for Industrial, Commercial and Residential customers
 - Energy saving campaigns / conservation-tips for households
 - Energy advise and services for commercial and industrial customers

THANK YOU