



National Association of Electricity Consumers for Reforms
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THE BOARD OF DIRECTORS

Power Sector Assets & Liabilities Management Corp.
2nd Floor SGV II Building
Ayala Avenue, Makati City

ATTN: MS. NIEVES L. OSORIO
President & CEO

Dear Gentlemen:

Warm Greetings!

This pertains to the ongoing privatization of the assets of the National Power Corporation in Luzon and Visayas which is a mandate under *Section 47. NPC Privatization*, of the Electric Power Industry Reform Act (EPIRA).

Of the Private Sector Assets and Liabilities Management's (PSALM) privatization efforts, the most recent was the awarding of the 360 MW Magat Hydroelectric Plant to the SN Power and Aboitiz Power Corporation. This is the 7th and the biggest hydro plant of National Power (NPC) that had been sold. Surprisingly, these privatized plants are all Hydroelectric Plants.

We find this very alarming for two (2) major reasons:

1. It is common knowledge that hydro plants provide cheap sources of electricity since plants of this kind have no fuel costs. With almost 73% out of the total 656.3MW or 480.5MW hydro plants disposed of ahead of all other NPC power plants, what are left now are plants that utilized fossil fuels that incur high generating cost. This results in captive consumers paying more expensive electricity rates contrary to the EPIRA's avowed objective of bringing in reasonable and affordable power rates.
2. The present privatization trend of NPC assets runs counter to the criteria and safeguards under item (c), Section 47 of the EPIRA which reads: *"The NPC plants and/ or its IPP contacts assigned to IPP Administrators, its related assets and assigned liabilities, if any, shall be grouped in a manner which shall promote that viability of the resulting generation companies (gencos) ensure economic efficiency, encourage competition, foster reasonable electricity rates and create market appeal*

*optimize returns to the government from the sale and disposition of such assets in a manner consistent with the objective of this Act . In the grouping of the generation assets and IPP contracts of NPC, the following criteria shall be considered:" and sub-item (2) of item (c) "**Broad geographical groupings** to ensure efficiency of operations but without the formation of regional companies or consolidation of market prices;"*

The purpose of the above provisions requiring the sale in clusters of different generation mixes is to ensure that all the generating plants are eventually sold. In an instance, where the hydro plants are sold individually, and not in cluster, as what is happening now, what will be left are the generating plants which are expensive to operate. It is quite clear under the scenario that such remaining generating plants cannot attract serious buyers, or if such generating plants can be sold at all, the price will be at bargain or fire-sale prices.

The EPIRA provisions cited above are clear guidelines on the proper disposal of the NPC assets to optimize its returns. Any deviation therefrom constrains us to wonder whether PSALM has violated EPIRA section 47 with the current way it handles the disposal of NPC generation assets.

Unless we are wrong and we hope we are, we urge PSALM to immediately cancel the individual sale of all the Hydro Electric Plants that it had sold in order that consumers may be protected from the impending high cost of power brought upon by this disorderly sale of generation plants.

In closing, may we request copy of PSALM's plan on the total privatization of NPC generation assets, real estate, other disposable assets as well as existing IPP contracts of NPC as mandated by EPIRA?

We hope PSALM will favor us with a reply soonest. Thank you so much.

Very truly yours,



PETE L. ILAGAN
President