



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

Dear Gentlemen:

Greetings!

This refers to our letter dated 27 February 2007 on the ongoing privatization of the National Power Corporation (NPC) power generation assets.

In our letter, we conveyed our concern over PSALM's current privatization practice of selling separately per plant the sold seven (7) hydroelectric plants. This runs counter to the criteria prescribed under Section 47 (c) of the EPIRA which requires the sale in clusters of different generation mixes to ensure economic efficiency, encourage competition and foster reasonable electricity rates.

It has caused us more concern that the winning bidders of the last two (2) hydro plants sold are First Generation Hydro Power Corporation (FGHP) and SN Aboitiz Power Corporation. The former is a Lopez-controlled company which has substantial interest in Meralco, the largest distributor in the country controlling about 64% of the national market while the latter is an Aboitiz-controlled company which has substantial interest in the Aboitiz-controlled distribution utilities in Luzon, Visayas and Mindanao.

Distribution utilities, as they are widely-known in the power sector, enjoy undue advantage in the privatization mandate of PSALM as they are the only ones that can sell electricity to its captive market while open access and retail competition are not implemented yet. So, for FGHP and SN Aboitiz, who were the successful bidders of the 112 MW Pantabangan Masiway Hydro electric power and the

360MW Magat Hydro electric plant respectively, they will not have difficulty selling the capacity of their newly-acquired plants because they have a distributor with a captive market to guarantee them supply contracts.

But this is not the case with potential bidders who do not have substantial interest in any distribution utility that can guarantee them supply contracts. Thus, they will be discouraged to participate in the bidding of NPC generation assets unless given or guaranteed a supply contract with a distribution utility. This situation will not allow the NPC privatization to bring the best result for the government, but only tends to unduly favor the first and second biggest distribution utilities in the country to dominate the generation sector as they now dominate the distribution sector.

As we have mentioned in our previous letter, this creates undesirable situation because privatizing hydroelectric plants per plant, instead of privatizing in clusters, only forces to leave behind power plants that operate on more expensive fossil fuels. Eventually, this will translate to more expensive electricity rates for the consumers, particularly in the franchise areas outside of Meralco and the Aboitiz-controlled distribution utilities like the franchise areas of the 119 electric cooperatives serving more than six (6) million consumers spread in the different provinces of the country.

Before the dreaded scenario of exorbitant electricity rates become real, we vigorously urge PSALM to immediately cancel the sale process of privatizing per plant the power generation assets and instead sell them in clusters as mandated in the EPIRA. In so doing, PSALM complies with its mission under the law taking into consideration the welfare of millions of electricity consumers. With the call of our advocacy, we are most willing to extend our humble support regarding the matter.

In this regard, may we once again request for a 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? These documents will allow us further study and understanding of the issues which will help us advance our mandate of protecting and advancing consumer interests.

We trust that this letter will be favored with a response within 15 days from receipt hereof pursuant to Section 5 of Republic Act 6713.

Your continued inaction on the matter may force us to seek other legal remedies available to consumer groups such as Nasescore with the end in view of protecting the legitimate interests of the electricity consumers.

Thank you very much and God bless.

Very truly yours,

PETE L. ILAGAN

President

cc: Hon. Miriam Santiago - Senator
Secretary, DOE
Secretary, DENR
Secretary, DBM
Secretary, DTI
Co-Chair, JCPC
Phil. Chamber of Commerce & Industry
American Chamber of Commerce & Industry
European Chamber of Commerce & Industry
Secretary, DOF
Secretary, DA
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