

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

FIFTEENTH CONGRESS
First Regular Session

House Bill No. 1585

Introduced by Representatives
DIOSDADO MACAPAGAL ARROYO and GLORIA MACAPAGAL ARROYO

AN ACT
DIRECTING THE REDUCTION OF ELECTRICITY RATES
THROUGH THE UTILIZATION OF THE GOVERNMENT SHARE
IN THE DISCOVERY, EXPLORATION, DEVELOPMENT AND/OR
PRODUCTION OF INDIGENOUS SOURCES OF ENERGY FOR
THE PURPOSE OF LOWERING THE COST OF ELECTRICITY

EXPLANATORY NOTE

Our Constitution echoes the vision that the development of our country's energy resources should redound to the benefit of the Filipino people. To achieve this, Congress recently enacted Republic Act No. 9513 otherwise known as the Renewable Energy Act of 2008 to introduce substantial and meaningful reforms in the energy sector.

Though Congress has taken the right direction on renewable sources of energy, much is still left to be desired with respect to other indigenous sources of energy. Presently, government impositions associated with making available such resources for electricity generation are even more burdensome than those applied on imported fuels resulting to higher prices of electricity generated from indigenous energy resources.

For instance, as of May 2007, government royalties (or government share) on indigenous natural gas was around P1.46/kWh, which was 5 to 8 times more than the taxes imposed on imported fuels such as coal (P0.17/kWh), oil (P0.20/kWh) and liquefied natural gas (P0.29/kWh). If taxes and royalties were

to be removed on both indigenous and imported fuels, the rates of electricity generated using indigenous energy resources would be substantially lower. Moreover, between indigenous petroleum which is intensively used for generating electricity and other local extractive industries such as mining, the former is being subjected to royalties of about 60% while the latter enjoys a much lower tax rate of 3%.

Comparing the Philippine situation to our Asian neighbors with similar endowments in terms of natural resources, Thailand, Indonesia, Malaysia and Vietnam have put a premium on the domestic use of their indigenous natural resources. As a result, they have lower electricity rates than the Philippines. Thus, rather than enjoying the benefits of cheaper electricity, Filipinos are effectively being penalized for developing and utilizing their own domestic energy resources.

It is about time that the country should fully benefit from using its energy resources. This can be achieved in part by removing the disparities in the tax/royalty treatment of indigenous resources not covered by the Renewable Energy Act of 2008. This will directly result in reducing the commodity prices of these energy resources as they are utilized for electricity generation, and hopefully translate into lower electricity rates to the Filipino consumers. In the Meralco franchise area alone, a reduction of government royalties will mean a reduction of electricity rates to as much as P0.50/kWh for all customers.

A 2008 study by UP Professor Dante B. Canlas, former Director General at the National Economic Development Authority, has shown that a reduction of the natural gas royalties to lower the cost of electricity to industrial loads would induce economic output growth on account of greater competitiveness and productivity of Philippine industries. Incidentally, the study also concludes that the reduction of these royalties will provide government additional tax and non-tax revenues that would be more than sufficient to offset the foregone royalties collection in less than 2 years from implementation.

Philippine industries, where millions of Filipinos rely on for livelihood, need to be more competitive and productive especially now when they are being threatened by the effects of the global financial crisis and recessions in the advanced economies of the world. Our country's leading export earners, the semiconductor and electronics industries are all making calls for lower royalties and lower electricity rates to help the Philippine export industry brace for the effects of the global crisis. Needless to say, the ordinary Filipino, especially the marginal end-user of electricity, has long been in need of respite from high electricity rates.

In consideration of the foregoing, this bill seeks to: (1) lower the government share in the exploration, development and production of indigenous energy resources other than those already covered by the Renewable Energy

Act of 2008; (2) set such government share at the level that maintains the relative preference to indigenous renewable energy resources and still provide for a substantial revenue for the government; and (3) remove the disparities in tax/royalty treatment between indigenous energy resources and imported fuels. It is expected, therefore, that this proposal will ultimately lower electricity rates to the Filipino consumers in a significant and sustainable manner making the immediate passage of this bill of utmost importance.

For these reasons, we urge our colleagues to work with us for the passage of this Bill.


DIOSDADO MACAPAGAL ARROYO
Second District, Camarines Sur


GLORIA MACAPAGAL ARROYO
Second District, Pampanga

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Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

SECTION 1. *Short Title.* - This Act shall be known as the "Electricity Rate Reduction Act of 2010."

SECTION 2. *Declaration of Policy.* - It is hereby declared the policy of the State to reduce the cost of energy and electricity as a catalyst for economic growth. Towards this end, the State shall endeavor the following:

- a. Ensure that government impositions relating to indigenous sources of energy shall be effectively at par with or more favorable than analogous impositions on imported fuels in keeping with the Constitutional precept of preserving the benefits of the national patrimony to the Filipino people;

b. Maintain and uphold the competitiveness of indigenous sources of energy vis-à-vis imported fuels thereby increasing the country's energy self-sufficiency; and

c. Guarantee that the true and lower cost of electricity generated from indigenous sources of energy shall be reflected in view of the economic goal under the Constitution of increasing the amount of goods and services produced by the nation for the benefit of the people.

SECTION 3. *Definition of Terms.* – As used in this Act, the following terms shall be construed to mean as follows:

a. "Department of Energy" or "DOE" refers to the government agency created pursuant to Republic Act No. 7638.

b. "Energy Regulatory Commission" or "Commission" refers to the independent quasi-judicial regulatory agency created pursuant to Republic Act No. 9136.

c. "Government Share" refers to the amount due the national government and local government units from the discovery, exploration, development and/or production of indigenous energy resources under new and existing service contracts pursuant to relevant laws.

d. "Indigenous sources of energy" refers to energy sources that are native to the Philippines except those that are subject of or covered by Republic Act No. 9513 or the Renewable Energy Act of 2008;

e. "Net proceeds from the sale of the energy resource" refers to the difference between the gross proceeds from the sale of such energy resource and the sum of expenses allowed to be recovered under the relevant service contract.

SECTION 4. *Government Share.* – Notwithstanding any law to the contrary, the Government Share shall henceforth be utilized and applied to reduce the commodity price of the indigenous energy resources sold by a service contractor for generation of electricity. The Government Share is thus reduced to three percent (3%) of the net proceeds from the sale of the energy resource over the life of the relevant service contract.

The commodity price reduction under the preceding section shall be fully reflected as a reduction in the price of electricity produced by generation companies utilizing the indigenous energy resource. The commodity price

reduction shall be subject to annual adjustment or reconciliation to ensure that such reduction shall be revenue-neutral to the service contractor.

SECTION 5. *Utilization of the Reduction in the Electricity Price.* – In order that end-users will fully benefit from the reduction in the electricity price of any generation company utilizing the indigenous energy resource:

a. Any distribution utility obtaining supply from said generation company shall pass on the full reduction in electricity price to its end-user customers, thereby lowering the retail rates of electricity; and

b. Any end-user which said generation company may serve during the implementation of retail competition and open access as provided for under Section 31 of Republic Act No. 9136 shall also be included among those to which the reduction in electricity price shall be passed on.

The Commission shall determine the reduction in electricity rates to end-users across end-user classifications, giving priority to efficient end-users such as industrial loads for maximum multiplier effect on the national economy and marginalized end-users for more meaningful benefits.

SECTION 6. *Implementing Rules and Regulations.* – Within three (3) months from the effectivity of this Act, the DOE, in consultation with the Commission, shall issue the pertinent rules and regulations implementing the same: *Provided that*, the provisions on the utilization of the Government Share for the reduction of the commodity price of the indigenous energy shall take effect once this Act has been approved.

For ease of implementation, the DOE shall pursue amendments to the relevant existing service contracts to provide for the reduced Government Share under Section 4 above: *Provided that* the rights of the concerned service contractors shall not be impaired thereby; and *Provided, further*, That the DOE shall ensure that reduction of Government Share shall be fully reflected in the reduction of electricity rates to end-users in accordance with Sections 4, 5 and 6 herein. In any event, the implementation of this Act shall not be dependent upon such amendments being adopted by the parties.

SECTION 7. *Separability Clause.* – If for any reason, any provision of this Act or any part thereof shall be held unconstitutional or invalid, the other parts or provisions of this Act, which are not affected thereby, shall remain in force and effect.

SECTION 8. *Repealing Clause.* – All laws, decrees, orders, rules and regulations including Presidential Decree No. 87, or parts thereof, which are

inconsistent with any of the provisions of this Act are hereby repealed, amended or modified accordingly.

SECTION 9. *Effectivity Clause.* – This Act shall take effect fifteen (15) days after its complete publication in at least two (2) newspapers of general circulation.

Approved,