

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Batasang Pambansa, Quezon City



FIFTEENTH CONGRESS
Third Regular Session

HOUSE BILL NO. 6464

INTRODUCED BY REP. JOSEPH VICTOR G. EJERCITO

EXPLANATORY NOTE

The Philippines is endowed with energy resources that are relatively abundant. Moreover, the 1987 Philippine Constitution promises that the development of these energy resources shall inure to the benefit of the Filipino people. Sadly, the promise remained as such – a promise – until substantial reforms began recently when this Congress enacted Republic Act 9513, otherwise known as the Renewable Energy Act of 2008.

However, much is left to be desired with respect to other indigenous sources of energy. Government impositions associated with making available such resources for electricity generation are more burdensome than those applied on imported fuels such that rates of electricity generated using indigenous energy resources are rendered artificially high.

Take for example, as of May 2010, government royalties on indigenous natural gas was around P 1.46/kWh, which was 5 to 8 times more than the taxes imposed on imported fuels such as coal, oil and liquefied natural gas. 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%.

Thus, instead of enjoying electricity rates, the Filipino is effectively being penalized for utilizing its own energy resources. In addition, because of disparities, the country's energy self-sufficiency is being held

on tight leash of its own making – a regrettable stance in the face of volatile energy prices in the international markets.

These policy anomalies are not present in our Asian neighbors similarly endowed with natural resources such as Thailand, Indonesia, Malaysia and Vietnam. With royalties/taxes on oil and gas in these countries are comparable with those in our country, domestic use of these indigenous natural resources are afforded substantially lower prices unlike in our case.

It's about time that the Filipino people should fully benefit from its energy resources by removing 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, which reduction will 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.

Further, 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. Needless to say, the ordinary Filipino, especially the marginal end-user of electricity, has long been in need of respite from electricity rates.

In consideration of the foregoing, this bill seeks to 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. It is sought to ultimately lower electricity rates to the Filipino consumers in a significant and sustainable manner.

Thus, passage of this bill is earnestly sought.



REP. JOSEPH VICTOR G. EJERCITO

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**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**

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

SECTION 1. This Act shall be known as the "**Electricity Rate Reduction
Act of 2012**".

SECTION 2. **Declaration of Policy.** – It is hereby the policy of the State that, to the end-users of electricity: (i) the 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; (ii) the competitiveness of indigenous sources of energy vis-à-vis imported fuels shall be ensured thereby increasing the country's energy self-sufficiency; and (iii) 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:

- (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 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 such that the Government Share is effectively reduced, as it is hereby 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. 9139 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 Department of Energy, in consultation with the Commission, shall issue the 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 immediately.

For ease of implementation, the Department of Energy 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 Department of Energy 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 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 newspapers of general circulation.

Approved,