

## **S/VSP TURNOVER SPEECH: TOUGH DECISIONS FOR A TOUGH JOB**

As we build a Strong Republic, we must strengthen the institutions that provide basic services to the people. President Arroyo said that the energy sector is the key reform area that we must address today. But in any reform, we need to take bold and sometimes tough decisions no matter how unpleasant some of them may be.

Tough decisions were made at DoE. With a new vision and a new mission, DoE reduced its plantilla by 18% yet creating new bureaus and new offices, making it a modern department for a deregulated oil and power sector.

Tough decisions were made at NEA. From 730 employees, NEA has been streamlined down to 313 employees. NEA has made a tremendous turnaround from a loss of P5.6 billion in 2003 to a breakeven in 2004. Congratulations to Father Paking Silva and Administrator Edith Bueno! I urge NEA to continue the progress in reducing systems losses, and meet the President's challenge for single digit system losses before 2010.

Tough decisions were made at TransCo. After 3 catastrophic Luzon-wide black-outs during my first year of office, TransCo has not allowed any similar incident since May 2002, has fast-tracked transmission upgrades in Batangas and is set to complete the critical Leyte Cebu interconnection upgrade by the end of this year. Congratulations on the fine job by Alan Ortiz. I urge TransCo to maintain its reliability during these coming peak months, install the necessary WESM meters, and prepare for privatization.

Tougher decisions were made at Napocor. Operating costs were reduced, capex scaled down, fuel procurement electronically bid out, and manpower reduced by a significant 3,600 personnel, with another realignment underway. Congratulations to Jess Alcorido and Roger Murga for professionally handling probably the toughest assignment among all GOCCs! I have full confidence in President Cyril to prepare Napocor for privatization and in rehabilitating its plants to meet the anticipated demand in the coming years.

Tough decisions were also made at PSALM. Re-negotiations led by Ed del Fonso with more than 20 independent power producers generated \$3 billion in future savings for Napocor. The much-awaited privatization of Napocor was finally jumpstarted last year by PSALM led by Popo Lotilla with 6 power plants sold so far. However, there is yet a lot to be done and President Arroyo has instructed us to fast-track the privatization timetable of TransCo and the remaining Gencos before the end of this year.

Tough decisions were also undertaken at PNOC by Thelmo Cunanan and Ed Manalac. After losing for so many years, PNOC EC has been increasing profitable since 2002. Congratulations to Boomie Bomasang! PNOC-EDC also reported a remarkable profitability in 2004, thanks partly to a strict implementation of A.O. 103 by Paul Aquino. Good luck with your privatization Paul!

We also made tough decisions involving the takeover of Akelco, the mediation of the Pandacan scale-down, and the VECO franchise by NEC. We also had to make tough decisions in ensuring that qualified professionals like you were appointed to key energy positions.

But probably the toughest decisions were made by the ERC. Difficult regulatory power reforms such as unbundling of rates and PBR for TransCo were introduced. Under Chairman Rudy Albano, ERC introduced PBR for private distribution utilities, new systems loss guidelines, removal of cross subsidies, and the gradual removal of power rate subsidies. These were difficult but pioneering regulatory decisions, and we must support the capacity building of a strong, independent ERC.

As early as January 2003, we raised attention that we must act fast to meet the additional power requirements of our growing economy. The first attention was focused on Visayas, and thanks to the efforts of Usec Cyril and Asec Lasse, private power producers added new capacity in Panay, and soon in Cebu and Negros. The first transferred turbines from Pinamucan have started operating in Iloilo.

However, we need additional capacity in Mindanao and Luzon, and we need them promptly. Cepalco last month took the lead among private utilities to call for a competitive tender for additional capacity. I call on other distribution utilities such as Meralco to follow the lead of Cepalco in taking responsibility for providing competitive adequate supply of electricity to their franchise customers. I hope the ERC would soon release its guidelines on approving contracts for new capacity.

The Wholesale Electricity Spot Market is also on schedule for operations in Luzon by January 2006, and we wish PEMC President Lasse success in this complex initiative.

With rising oil prices, we must strive for energy independence and savings if we are to become less dependent on expensive imported energy.

First, we need to continue promoting oil and gas exploration. Since 2004, the DOE has signed 8 new service contracts, more than in the last 6 years combined. I congratulate Ed Manalac for reviving interest in exploration, building on the groundwork of the late Usec Ben-Hur Salcedo and Asec Boboc Bausa. The momentum is growing and we should sustain it.

Second, we need to aggressively develop our renewable energy potential such as geothermal, hydro, wind, solar and biomass resources. Last week, the first megawatt of wind turbine in Southeast Asia was raised in Bangui Bay. With the launch of the first wind power contracting round, we must pursue our vision of becoming the region's leading wind power producer.

Third, we need to increase the use of alternative fuels. At current oil prices, it is cheaper to replace oil with alternative fuels than to buy oil. We can significantly reduce our dependence on oil imports by making natural gas our fuel of choice for public transport.

The DoE must sit down with the Malampaya Consortium to accelerate the rollout of thousands of CNG buses. For our private motorists, we must push for the mandatory blend of ethanol in our gasoline.

To our retiring Napocor President Roger Murga: thank you for your professionalism and personal sacrifice in managing the reorganization and financial turnaround of Napocor. Your country owes you for your unselfish national service.

In closing, these are the four Energy Imperatives for the rest of the decade:

1. Privatize TransCo and Napocor Gencos to improve our fiscal situation,
2. Continue our power reforms to create a competitive power sector that allows electric consumers the power of choice,
3. Attract additional generation capacity as we bring electricity to every barangay,
4. Increase our energy self-sufficiency towards energy independence and savings.

Over the past 4 years, we have laid down the energy framework upon which future leaders can build upon. We must brace for more work ahead of us, and I have confidence in our incoming Energy Secretary Popo Lotilla. The President has made a wise choice of appointing Secretary Popo, and his expertise and experience will come in handy in dealing with pressing energy issues.

To Secretary Popo, remember this: "Tough times don't last, tough people do!"

I urge all of you to support our incoming Secretary Popo, so that jointly, we can continue our work of building a strong Republic.

More power to Secretary Popo! More power to President Cyril! More power to all of us!

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