

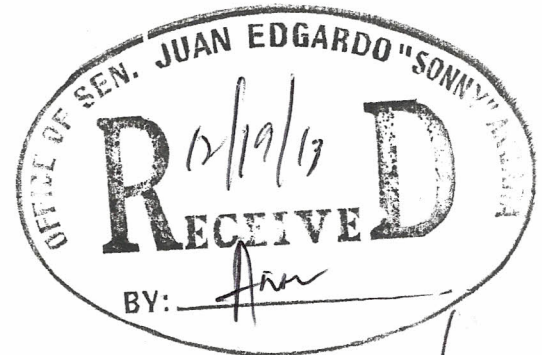


PHILIPPINE INDEPENDENT POWER PRODUCERS ASSOCIATION, INC.
Ground Floor, Benpres Building, Exchange Road cor. Meralco Avenue
Ortigas Center, Pasig City
Telefax: 451-1907

PIPPA 2013-035

December 12, 2013

SENATOR JUAN EDGARDO ANGARA
Chairman, Committee on Ways & Means
Senate of the Philippines
Rm. 508 5th Fl., GSIS Bldg., Financial Center
Roxas Boulevard., Pasay City



Dear Senator Angara,

Greetings from the Philippine Independent Power Producers Association, Inc. (PIPPA)!

On behalf of the members and officers of the PIPPA, thank you for inviting us to the second public hearing on Senate Bill No. 35 and Senate Bill 987 providing for the harmonization and rationalization of fiscal incentives for business enterprises.

In this regard, we reiterate our position that the incentives granted by the Board of Investment (BOI) to the energy sector, *does in fact lower the cost of electricity*.

For your reference, attached is a simple model we have put together to determine the impact of the Income Tax Holiday (ITH).

Based on our preliminary figures, using as proxy the long run marginal cost (LRMC) of a new 600 MW coal plant, the Generation Price Difference (Generation Price Charge *with ITH* vis-a-vis Generation Price Charge *w/out ITH*) will be **0.27 centavos / kWh**, which would redound to the benefit of the consumers in the form of lower generation cost due to the impact the ITH has on lowering the capital recovery fees caused by the income tax and import duties grace period.

Additionally, the ITH will contribute to:

- a) Get and secure better and eventually cheaper financing for new projects;
- b) Attract quality investors to the country considering the increasing competition for investment in the region, especially those countries with fast growth potential like Vietnam and Indonesia; and
- c) Positively contribute to keep the electricity industry well supplied for the Public Private Partnership (PPP) projects which would require proper infrastructure.



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In absolute amounts, the *PO.27 / Kwh* additional cost redounds to approximately **P1.9M / MW / yr.**

Assuming the additional 2,265 MW coal-fired power plants to be built, the aggregate cost is **P4.2B / yr.** to be charged to consumers.

I hope that this data will help the Committee on Ways and Means in their study to continue granting full incentives to the energy sector.

We will be happy to discuss with you and your staff any question or comment you may have on the foregoing.

Very truly yours,

LUIS MIGUEL O. ABOITIZ
President

cc: Hon. Carlos Jericho L. Petilla
Secretary, Department of Energy
(with enclosure)

