

TECHNICAL ASSISTANCE COMPLETION REPORT¹

Division : SEEW

TA No., Country and Name: TA 4557-PHI: Institutional Strengthening of Energy Regulatory Commission and Privatization of National Power Corporation			Amount Approved: US\$1,200,000	
			Revised Amount: N/A	
Executing Agencies: Energy Regulatory Commission (ERC) for Part A and Power Sector Assets & Liabilities Management Corporation (PSALM) for Part B	Source of Funding: JSF	Amount Undisbursed: US\$183,385.14	Amount Utilized: US\$1,016,614.86	
TA Approval Date: 28 Dec 2004	TA Signing Date: 5 Jul 2005	Fielding of First Consultants: 1 Sep 2005	TA Completion Date Original: 28 Feb 2007	Actual: 31 Jan 2009
			Account Closing Date Original: 28 Feb 2007	Actual: 27 Apr 2009
Description				
<p>To address the problems facing the Philippine power sector, the Government decided to restructure and privatize the electric power industry in 2001. The principal objective was to ensure security of supply and financial viability of the power sector. As the power sector is unbundled into generation, transmission and distribution, an independent Energy Regulatory Commission (ERC) was created to set rules of the competitive wholesale electricity spot market and approve tariffs for transmission and distribution business. The Power Sector Assets and Liabilities Management Corporation (PSALM) was established to undertake the privatization of National Power Corporation (NPC)'s generation assets and the concession for National Transmission Corporation (TRANSCO). However, up to 2005, there had been limited success in the privatization due to perceived regulatory uncertainties and lack of experience of PSALM. The Government requested the Asian Development Bank (ADB) to provide advisory technical assistance (TA) to strengthen the institutional capacity of ERC and assist PSALM in the privatization process.</p>				
Expected Impact, Outcome, and Outputs				
<p>The expected impact of the technical assistance was to ensure financially sustainable, efficient, and secure power supply by completing power sector restructuring. The expected outcome of the TA was to enhance ERC's efficiency and independence, and provide the necessary financial and technical advice to PSALM for the privatization of NPC and TRANSCO. The expected main outputs of the TA were (i) ERC's institutional capacity and public confidence in ERC's impartiality and independence reinforced; and (ii) significant progress in the privatization of NPC and TRANSCO achieved. Accordingly, the TA had two parts: Part A provided capacity building for ERC; and Part B provided advisory services to PSALM for the privatization process. In particular, the TA was expected to design a structure to efficiently manage power generation capacity contracted under "take-or-pay" agreement through appointment of independent power producer administrators (IPPAs), which would maximize the power generation output and minimize Government's financial liabilities. The TA formulation was based on extensive stakeholder consultation and its design was relevant as part of the power sector restructuring program.</p>				
Delivery of Inputs and Conduct of Activities				
<p>Two consulting firms were engaged for Part A and Part B of the TA, respectively.</p> <p>For Part A, the Consultant implemented the capacity building for ERC from September 2005 to October 2008. The Consultant team provided its services in accordance with the terms of reference (TOR). Based on the Consultant's recommendations, ERC issued Rules of Practice and Procedure and put in place a computerized case tracking system to ensure efficient hearing and investigative procedures within clear timeframes. Necessary information technology (IT) equipment and associated software were procured under Part A to improve the regulatory work processes and information systems. Relevant staff trainings were also conducted to use the newly installed computer systems. Moreover, due to the institutional developments in ERC over the course of the TA implementation, ERC requested additional tasks from the Consultant to provide support to the Human Resource Development Program which led to the extension of the implementation period using contract contingencies.</p>				

¹ In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

For Part B, the Consultant was recruited in September 2005. In accordance with the TOR, the Consultant completed asset valuation of NPC generation plants and provided advisory services to PSALM for the privatization of NPC and TRANSCO. However, the consultant's services were terminated after submission of the interim report in May 2006.

Based on the findings of the interim report, and in consultation with ADB, PSALM requested additional financial valuation of optional Independent Power Producer Administrator (IPPA) structures and associated risk analysis. Since the profile and expertise of the Consultant team did not match the requirement of these additional tasks, it was amicably agreed that the Consultant's contract be terminated effective 15 April 2008. A World Bank funded consultant took over and completed the remaining work. Overall, the performance of the Consultant was considered satisfactory for the services delivered under the original TOR.

Overall, the productivity and the quality of the Consultant inputs were considered satisfactory by the Executing Agencies and ADB.

The TA was implemented in 39 months from September 2005 to January 2009 compared to the original plan of 24 months. The TA completion date was extended four times due to the (i) delay in the mobilization of Consultants; (ii) additional tasks requested by the ERC and PSALM, and (iii) time needed for the Consultants to file final claims and issue certificate of full payments.

Out of the US\$ 1,200,000 approved TA amount, US\$183,385.14 remained undisbursed due to the pre-termination of Part B Consultant and unutilized contingencies.

The Executing Agencies actively participated in the implementation of the TA, their performance were considered satisfactory. Throughout the implementation of the TA, there was no change in the ADB's project team which regularly consulted the Government and reviewed progress of the Consultant's work. ADB's performance was considered satisfactory.

Evaluation of Outputs and Achievement of Outcome

For Part A, the Consultant submitted the required reports on a timely basis as specified in the contract and effectively transferred key expertise and knowledge to the EA within the contract cost. The EA confirmed that the quality of the reports submitted was satisfactory. Part A achieved the expected outcome as ERC's credibility has been improved and the number of appeals and complaints against ERC's rulings has dropped significantly. This has contributed to the substantial progress of the privatization program.

For Part B, the Consultant provided its services based on the original TOR for the privatization of NPC and TRANSCO. Although the consultant was unable to meet the expanded TOR for the selection of IPPAs, a subsequent consultant funded by the World Bank completed the required work. At the time of TA completion, over 50% of the NPC generation assets were successfully privatized and a private concessionaire for TRANSCO was awarded.

The TA's expected outcome in so far as the selection of the IPPAs is concerned has not been achieved. At the time of this TCR, the bidding for IPPAs is still in progress with the bid opening expected by the end of July 2009.

Overall Assessment and Rating

The TA was relevant at the time of its design and is efficacious in achieving its objective. Overall, the TA is rated as successful.

Major Lessons

The appointment of IPPAs to manage power generation capacity contracted under "take-or-pay" agreement is an unprecedented approach in the DMCs. The original TOR underestimated the complexity of such process which led to the termination of the Part B Consultant. The issue was resolved through close consultation with the EA and effective donor coordination. Future ADB assistance in this area will benefit from this experience.

Recommendations and Follow-Up Actions

As the lead financing agency in the power sector in the Philippines, ADB should continue to review the power sector restructuring process and conduct regular policy dialogue with the Government. With the substantial progress in the privatization of power generation and transmission, the focus of ADB future operations in the power sector should be on promoting the use of renewable energy, demand-side energy efficiency and improving the distribution systems particularly in rural areas.